



Ind AS: Practical perspectives (NBFCs)

An analysis of published quarterly
results of NBFC listed companies for
the quarter ending 30 June 2018

September 2018

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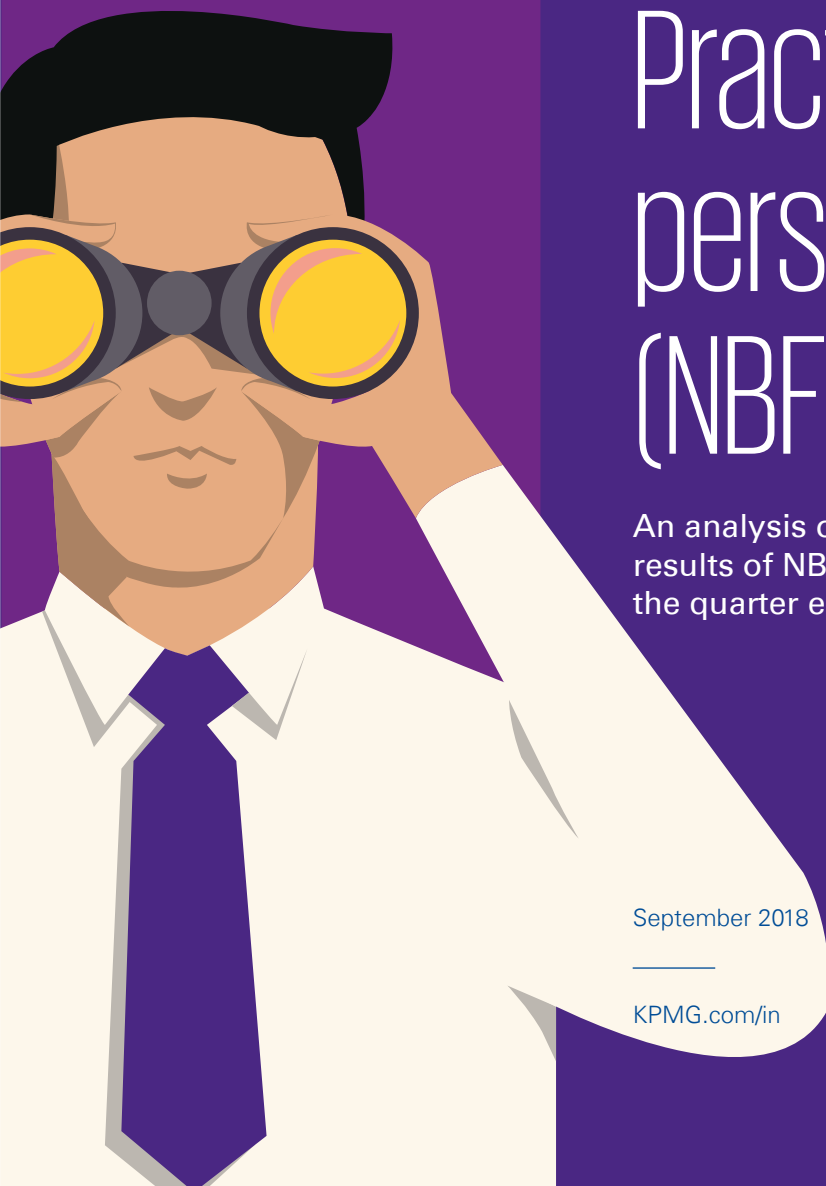


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Foreword

- The three month period ended 30 June 2018 marks the first quarter of financial results published by Non-Banking Financial Companies (NBFCs) under Indian Accounting Standards (Ind AS). The adoption of Ind AS is a significant change in the financial reporting framework used by NBFCs to report their financial results. The Ind AS standards apply not only to the company which fulfils the net worth criterion but also to its holding, subsidiary, associate and joint ventures.
- As NBFCs embrace Ind AS, KPMG in India, through its publication, 'Ind AS: Practical perspectives (NBFCs)' aims to capture emerging trends and practices.
- In this publication, we analyse the results of 28 NBFCs that are part of the BSE 500, 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 2017 under the erstwhile Indian GAAP with the restated results for the same quarter under Ind AS, that have been published as comparatives for the ended 30 June 2018.
- The implementation and disclosures relating to the application of Ind AS in the first quarter have been substantially impacted by the financial reporting relaxations provided by Securities and Exchange Board of India (SEBI) for first-time adoption of Ind AS. This has brought in diversity in results presented by companies. Most of the 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 are not always evident in the published results thus far. Further, close to 68 per cent of these NBFCs have reported only separate financial results instead of consolidated financial results. Due to these reasons, the financial results do not fully showcase the extent of qualitative differences between erstwhile Indian GAAP and Ind AS.
- The transition to Ind AS is expected to have an organisation-wide impact, and not just accounting. There is a need to be proactive in understanding the implications of the standards so that they can be implemented properly and enhance the reliability and relevance of the financial statements.
- We hope you will find this publication useful in enhancing your understanding of NBFCs' 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

With the beginning of accounting year 2018, the Non-Banking Financial Companies (NBFCs) adopted Indian Accounting Standard (Ind AS) for the first time. As per the Ind AS implementation road map issued by the Ministry of Corporate Affairs (MCA) on 30 March 2016, NBFCs are required to adopt Ind AS in a phased manner from accounting periods beginning on or after 1 April 2018 (with comparatives for the periods ending on or after 31 March 2018).

Ind AS comprises 39¹ accounting standards', that are largely converged with International Financial Reporting Standards (IFRS) which have been issued by the MCA. Additionally, each year MCA issues annual amendments to Ind AS to maintain convergence with IFRS by incorporating amendments issued by International Accounting Standards Board (IASB).

The implementation of Ind AS is expected to have a pervasive impact on the financial services sector, not only in terms of accounting changes, but also on several

aspects of their business. The largest impact is expected on accounting for financial instruments, on application of Ind AS 109, *Financial Instruments* (which is based on IFRS 9, *Financial Instruments*), Ind AS 32, *Financial Instruments: Presentation* (based on IAS 32, *Financial Instruments: Presentation*) and Ind AS 107, *Financial Instruments: Disclosures* (based on IFRS 7, *Financial Instruments: Disclosures*). The implementation of these financial instruments standards is expected to affect almost all line-items in the financial statements of the NBFCs.

Implementation road map

The initial plan of MCA was to implement Ind AS for banks, insurance companies and NBFCs from 1 April 2018 onwards. Earlier this year, the Ind AS implementation date has been deferred for banks by one year and for insurance entities by two years. Certain NBFCs are required to implement Ind AS in phase I from 1 April 2018 and others in phase II from 1 April 2019.

01. April 2018

As explained below, the MCA's notification covers all NBFCs as defined in clause (f) of Section 45-I of the Reserve Bank of India Act, 1934, and includes Housing Finance Companies (HFCs), Merchant Banking Companies, Micro Finance Companies, Mutual Benefit Companies, Venture Capital Fund Companies, Stock Broker or Sub-Broker Companies, Nidhi Companies, Chit Companies, Securitisation and Reconstruction Companies, Mortgage Guarantee Companies, Pension Fund Companies, Asset Management Companies and Core Investment Companies.

NBFCs would be required to prepare both consolidated and separate financial statements based on Ind AS.

Phase I

For accounting periods beginning from 1 April 2018 onwards, with comparatives for the periods ending on or after 31 March 2018:

- I. NBFCs with having net worth of INR500 crore or more, and
- II. Their holding, subsidiary, joint venture or associate companies, other than those companies already covered under the road map for companies issued by MCA in February 2015.

Phase II

For accounting periods beginning from 1 April 2019 onwards with comparatives for the periods ending on or after 31 March 2019:

- I. NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of less than INR500 crore.
- II. NBFCs that are unlisted companies, having net worth of INR250 crore or more but less than INR500 crore.
- III. Holding, subsidiary, joint venture or associate companies of the above class of companies, other than those already covered under the road map for companies issued by MCA in February 2015.

NBFCs with a net worth below INR 250 crore and not covered in Phase I or II will continue to comply with the existing accounting standards in the Indian GAAP.

Reference date for computing net worth

In order to determine if an NBFC is covered by the notification, the net worth is to be calculated in accordance with the separate financial statements of the NBFC as on 31 March 2016 or the first audited financial statements ending after that date.



SEBI relaxation

The regulator for listed entities, the Securities and Exchange Board of India (SEBI) on 5 July 2016 issued certain relaxations to enable a smooth transition to Ind AS reporting in the initial three quarters in relation to submissions made by listed companies. The disclosure requirements and relaxations provided by SEBI are outlined below:

• Timelines extended

The SEBI provided relaxation to equity listed companies to submit financial results for the quarter ended 30 June 2018 upto 14 September 2018 (earlier upto 14 August 2018).

Relaxation in timelines for 30 June 2018 (Q1) results availed



Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018

• New formats for financial results

The listed companies are required to comply with Schedule III of the Companies Act, 2013 (2013 Act) (excluding notes) for the submission of Ind AS compliant quarterly financial results.

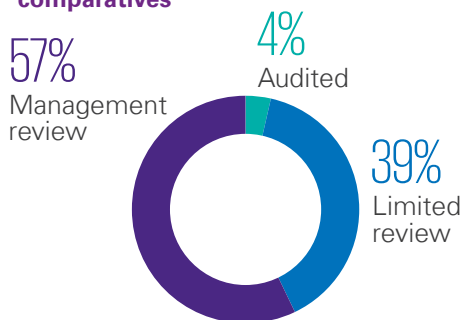
Further, SEBI has revised the formats of the financial results to be published in the newspapers and has prescribed that the comparatives filed along with the

quarterly/annual financial results should be Ind AS compliant.

Level of assurance for 30 June 2017 results

For the comparative quarter ended 30 June 2017, audit/limited review of the financial results is not mandatory. Companies may voluntarily provide Ind AS financial results for the comparative quarter and should disclose that fact. However, management has to exercise necessary due diligence to ensure that the financial results provide a true and fair view of its affairs.

Level of assurance for June 2017 comparatives



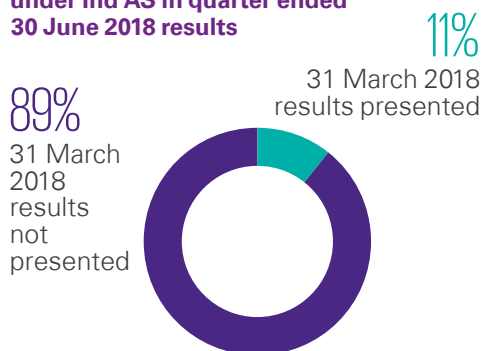
Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018

• Financial results for 31 March 2018

For the quarter ended 30 June 2018, submission of Ind AS compliant financial results for the preceding quarter and year ended 31 March 2018 is not mandatory. Additionally, for the quarter ending 30 September 2018, submission of Ind AS compliant financial results and balance sheet for the previous year ended 31 March 2018 is not mandatory.

However, if NBFCs opt to provide Ind AS comparatives for the year ended 31 March 2018, then such comparatives would not be required to be audited or limited reviewed. However, companies are required to disclose the fact that the financial results had not been audited / reviewed.

Presentation of quarter and year ended 31 March 2018 results under Ind AS in quarter ended 30 June 2018 results



Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018

- Consolidated financial results**

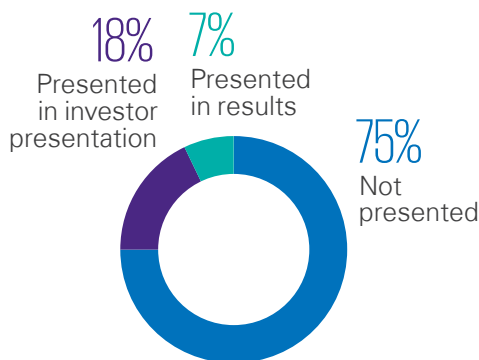
The equity listed companies could opt to present quarterly/Year-To-Date (YTD) consolidated financial results from the second quarter instead of the first quarter.

- Equity reconciliation as at 31 March 2017**

The SEBI has also provided relaxation to companies to not to provide an equity reconciliation as of the date of transition to Ind AS (i.e. 1 April 2017 for phase I companies with the financial results of the quarters in the financial year 2018-19. The equity reconciliation for 31 March

2017 would be provided while submitting the audited yearly balance sheet for the period ended 31 March 2018).

Equity reconciliation at 1 April 2017



Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018

Basis of our analysis

Profile of companies covered

In this edition of Ind AS: Practical perspectives (NBFCs), we have analysed the first quarter results announced by the 28 NBFCs forming part of BSE 500 and highlight the impact of adoption of Ind AS on the profits of BSE 500 and identify some of the key areas that contribute to the impact on results of the NBFCs. Of the 28 companies analysed in this publication, 10 companies are Housing Finance Companies (HFCs) while 18 companies are other NBFCs. In certain areas we have identified differences in the impact of Ind AS on HFCs and other NBFCs specifically.

A detailed summary of the companies covered in this publication is presented in Appendix 1.

Basis of analysis

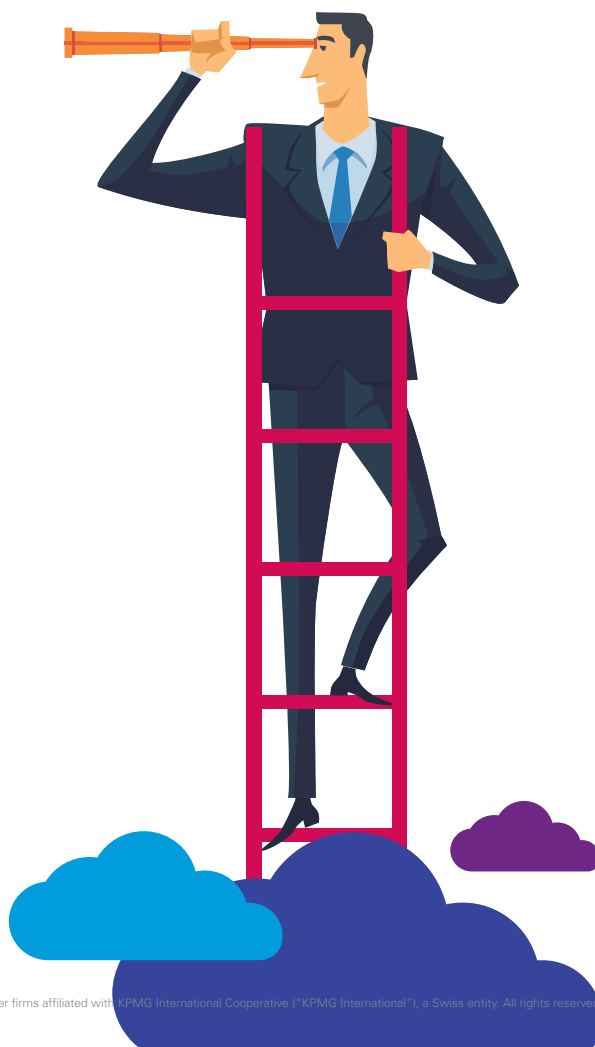
The impact of the transition to Ind AS has been analysed by comparing the reported results for the quarter ended 30 June 2017 under the erstwhile Indian GAAP with the restated results for the same quarter under Ind AS that have been published as comparatives for the period ended 30 June 2018.

As necessary explanations/notes to the profit reconciliations have not been provided in narrative form by all the covered companies, we have determined the nature of adjustments to profit to a particular Ind AS on the basis of the 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/adjustment-wise Ind AS impact analysis on profitability is based on absolute values of adjustments disclosed in the reconciliations.

Availability and comparability of information

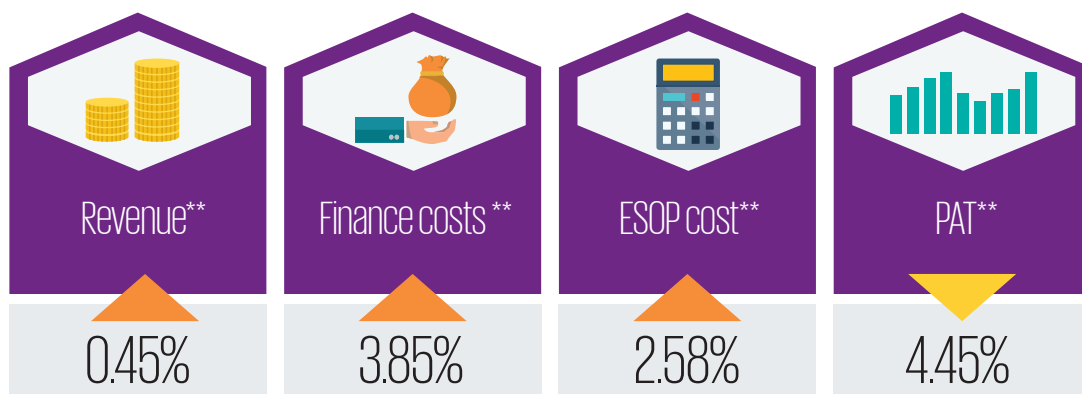
In view of certain relaxations offered by SEBI (detailed analysis provided earlier in this publication) majority of the covered companies in their published financial results have presented only the minimum mandatory reconciliations explaining the variation between the profit reported under erstwhile Indian GAAP for the quarter ended 30 June 2017 and the profits reported under Ind AS for the same period (as comparatives

to the results for the quarter ended 30 June 2018). Of the covered companies, 19 have provided separate financial results for the quarter ending 30 June 2018 while nine have provided consolidated financial results for the quarter ending 30 June 2018. 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.

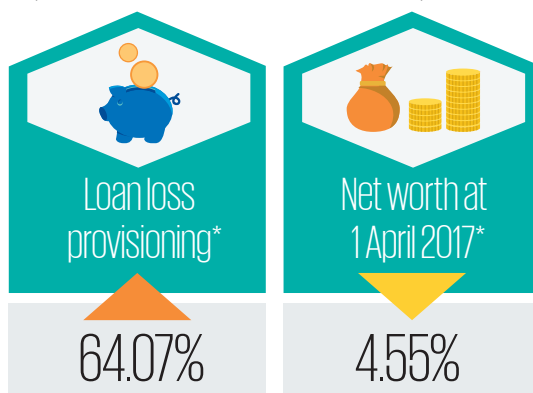




Impact on key metrics of NBFCs for the 30 June 2017 quarter under erstwhile Indian GAAP and Ind AS



** Increase/decrease in the measure presented from erstwhile Indian GAAP for the quarter ended 30 June 2017



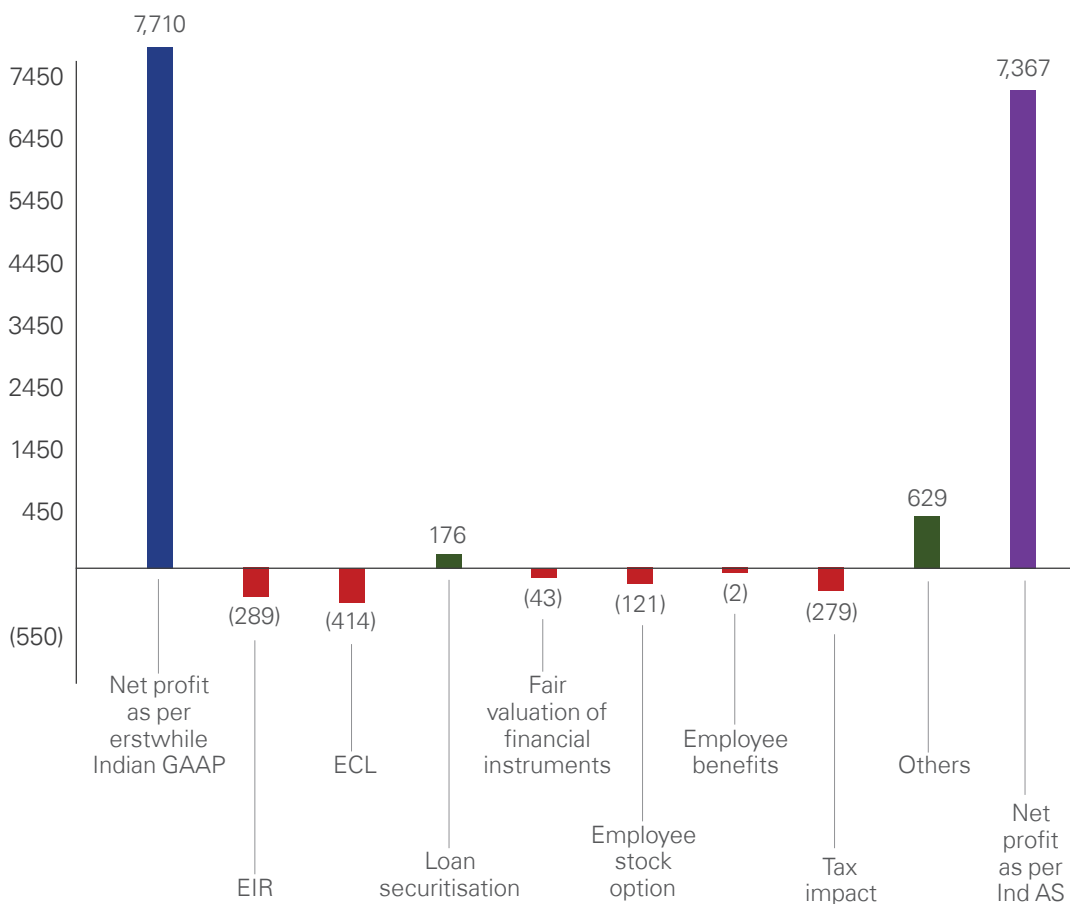
* Increase/decrease in the measure presented from position under erstwhile Indian GAAP as at 31 March 2017

Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018

On an aggregation of the results of all the 28 companies covered in the analysis, the net profit under Ind AS for the quarter ended 30 June 2017 has decreased as compared to that under the erstwhile Indian GAAP

primarily driven by the impact of EIR², loan loss provision (ECL)³ and employee benefit costs. This is partly offset by the increase in reversal of the deferred tax liability on special reserves by certain HFCs.

Ind AS profit reconciliation for quarter ended 30 June 2017



Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018

02. EIR - Effective Interest Rate

03. ECL - Expected Credit Loss

Analysis of impact of key standards



The following section of this publication highlights some of the key impacts of adoption of Ind AS that have been reported as part of the profit reconciliation for the quarter ended 30 June 2017.

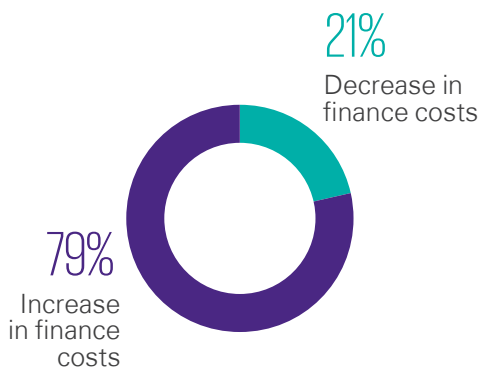
Recognition of interest income and expense using EIR method

Interest income and expenses are required to be recognised using the EIR, accordingly, directly attributable and incremental

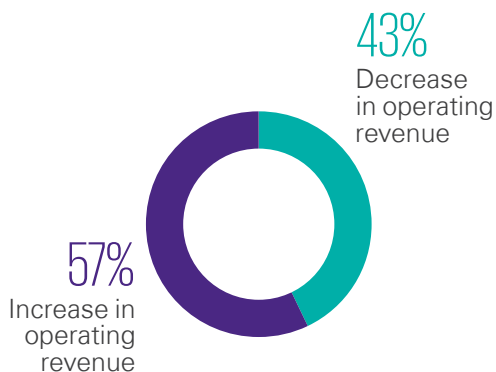
fees and costs in respect of loans and borrowings are not to be recognised upfront under Ind AS.

On an aggregate, the revenue from operations of all the 28 companies, the revenue recognised under Ind AS was greater than that under erstwhile Indian GAAP by 0.45 per cent and the finance cost recognised under Ind AS was also greater than that recognised under the erstwhile Indian GAAP by 3.85 per cent.

Trends in finance cost



Trends in operating revenue



Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018

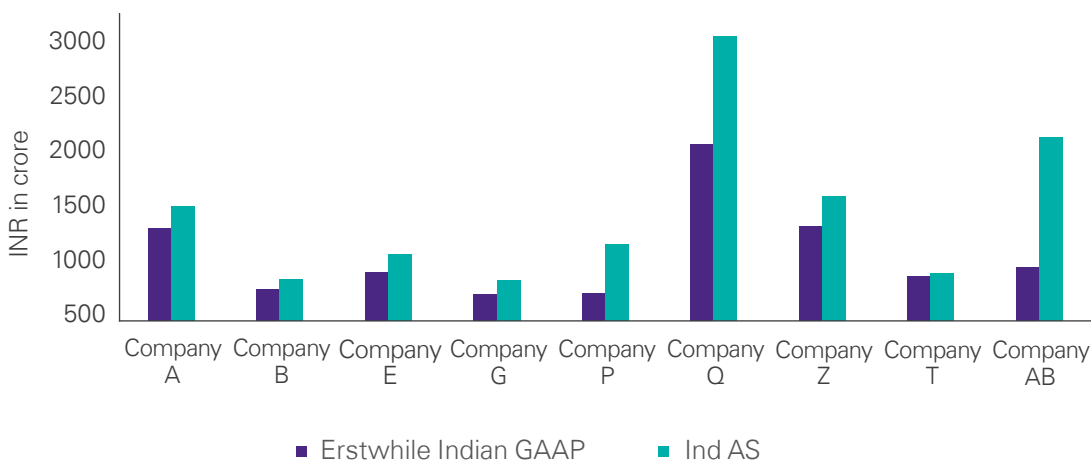
Expected Credit Loss (ECL)

A. Overall impact on net worth and erstwhile Indian GAAP loan loss provisions

Out of 28 companies, only nine companies have provided an equity reconciliation on 31 March 2017. An analysis of this equity reconciliation highlights that for these nine companies

the loan loss provision (ECL) has increased by 64 per cent in comparison to the erstwhile Indian GAAP. The chart below highlights the comparison of loan loss provision (ECL) required under Ind AS in comparison to the erstwhile Indian GAAP.

Comparison of ECL at 1 April 2017

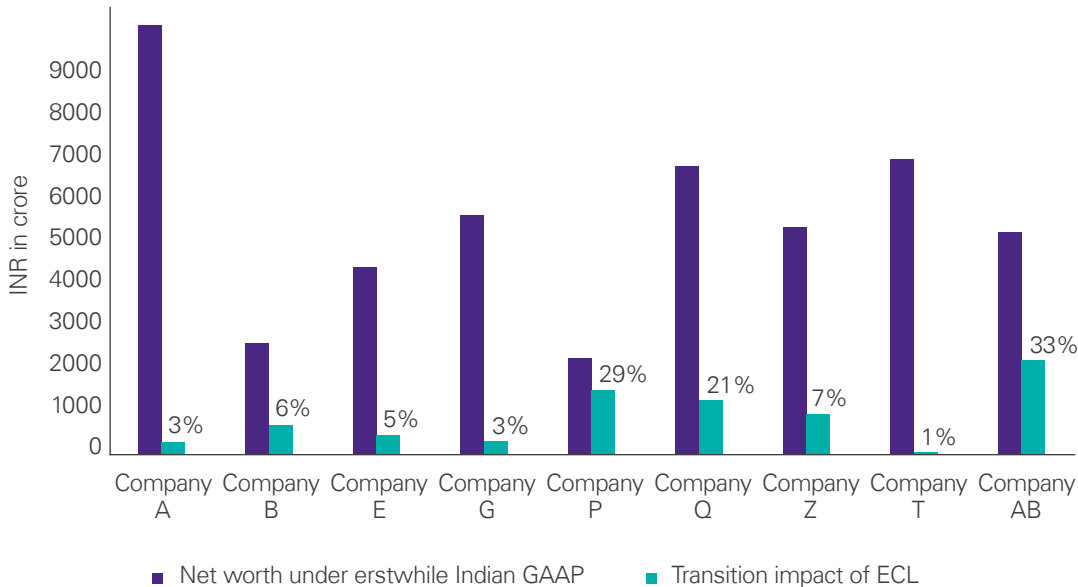


Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018)

Additionally, for those nine companies, we have found that there is a 10 per cent erosion in erstwhile Indian GAAP net worth as at 1 April 2017 is due to loan loss

provision (ECL). The chart below highlights a company wise impact of loan loss provision (ECL) required as compared to net worth in erstwhile Indian GAAP as on 1 April 2017.

Net worth at 1 April 2017 and additional ECL as a percentage of net worth



Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018

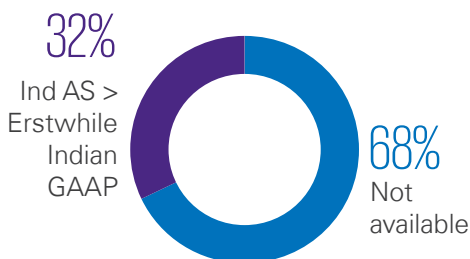


Impact of ECL on 1 April 2017

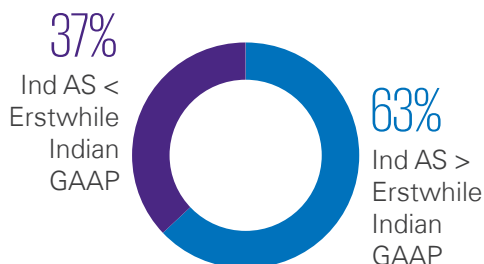
On an aggregation of the results of all the 28 companies covered in the analysis, the net profit under Ind AS for the quarter ended 30 June 2017 has decreased as compared

to that under the erstwhile Indian GAAP primarily driven by the impact of EIR, loan loss provision (ECL) and employee benefit costs. This is partly offset by the increase in reversal of the deferred tax liability on special reserves by certain HFCs.

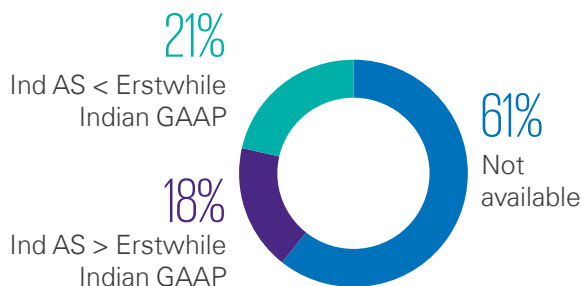
Impact of ECL on 1 April 2017



Impact of ECL on Q1 June 2017



Impact of ECL on Q1 June 2018



Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018

As mentioned above, it appears that the nine companies that presented the opening equity reconciliation as at 1 April 2017, four companies reported a release of the loan loss provision (ECL) under Ind AS either for the quarters ended 30 June 2017 or

30 June 2018. It seems that for these four companies, a more secular trend of whether loan loss provision (ECL) under Ind AS would be greater or lower than erstwhile Indian GAAP would be established in the current year.

B. Staging analysis

Rebuttal of Days Past Due (DPD) criteria

Ind AS 109 requires staging assessment for retail loans based on DPD criterion. Most companies have used staging criterion in line with the standard (stage 1 – current-30 DPD, stage 2 – 30-90 DPD and stage 3 - > 90 DPD) with an exception of two NBFCs wherein these criteria have been rebutted and stage 3 is considered at > 60 days and in the other case stage 1 is considered upto 60 days and stage 2 as 60-90 days. These two NBFCs have not provided a detailed rationale in their investor presentations for the rebuttal of the 30 days past due and 90 days past due thresholds provided in the standard. We may expect to see this justification in their year-end financial statements.

Split of loan outstanding by stages

A total of 10 companies (including some HFCs) have disclosed information on composition of loan outstanding by stages.

On the basis of our analysis as at 30 June 2018, on an overall basis, 3.86 per cent of the loans outstanding is classified as stage 3 category. For NBFCs other than HFCs, this ranges from 0.3 - 9.5 per cent of total loan outstanding and for HFCs this ranges from 0.4 - 3.7 per cent of the total loan outstanding.

Loan loss provision (ECL) coverage

The erstwhile Indian GAAP required standard asset provision to be recognised at a specific rate ranging from 0.25 per cent to 0.40 per cent on performing loans depending on whether the company was an NBFC or a HFC. Under Ind AS 109, loan loss provision is required to be recorded at 12-month expected loss for stage 1 loans (good loans) and lifetime losses for stage 2 loans, i.e. loans which have witnessed significant increase in credit risk since inception.

Based on the analysis of disclosures made by four NBFCs for quarter ended 30 June 2018, the loss rates under Ind AS ranged from 0.1 - 0.98 per cent of the exposure at default for stage 1 loans and 0.2 – 2.7 per cent of the exposure at default for stage 1 and 2 loans considered together for 10 NBFCs.

Stage 3 loans have been considered as impaired loans for non-performing assets and provision coverage reporting purposes. 10 NBFCs have reported their provision coverage on stage 3 loans which ranges from 24 - 70 per cent, indicating that depending on the loan outstanding, the NBFCs are able to recover approximately 30 to 76 per cent of the exposure at default.

On an overall basis, loan loss provision (ECL) coverage for stage 1 and stage 2 is 0.8 per cent and for stage 3 is 34 per cent.

Use of conservative approach for loan loss provisioning under Ind AS by certain HFCs

On the basis of our analysis, few companies (mainly HFCs) have continued to retain loan loss provisions held under erstwhile Indian GAAP over and above the loan loss provision (ECL) requirements under Ind AS, based on their articulation of a 'prudence' driven approach. This fact has been highlighted by such companies.

Derecognition of financial assets

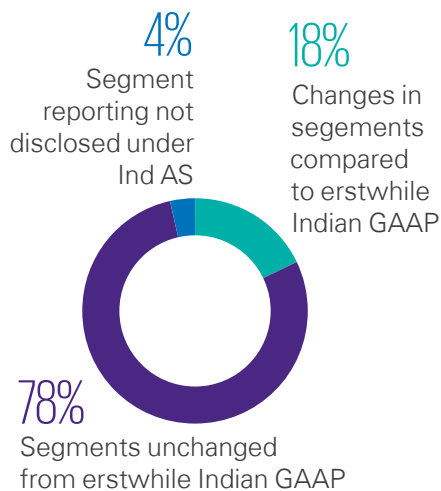
Generally, under Ind AS, securitisation structures that are most commonly used in India would not qualify the derecognition criteria. However, RBI compliant assignment transactions are likely to meet Ind AS derecognition criteria. As a result, companies would need to bring back the securitised assets in their books and record them as collateralised borrowings. On assignment transactions, the excess interest spread retained by the companies would be recorded as gains upfront rather than on a deferred basis as is done currently under erstwhile Indian GAAP.

Out of the eight companies for which equity reconciliation was available at 1 April 2017, four companies have reported gain on the past securitised/assigned portfolios. The impact ranged from 1 - 4 per cent of the previously reported net worth under erstwhile Indian GAAP at 1 April 2017.

Segment reporting

Ind AS requires segment disclosures to be based on the components of the company that the management monitors while making decisions about operating matters, i.e. it requires looking at the company 'through the eyes of the management'. This approach is different from that followed under erstwhile Indian GAAP and is likely to lead to identification to different operating segments. The trends in segment reporting indicate that for a majority of companies, the operating segments have remained unchanged.

Trends in segment reporting



Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018

Deferred tax on special reserves

Ind AS requires companies to recognise deferred tax assets or liabilities using a balance sheet approach, i.e. comparing the Ind AS carrying value of the asset or liability to its tax base. In the recent past regulators like the Reserve Bank of India (RBI) and the National Housing Bank (NHB) have mandated banks and HFCs to create a Deferred Tax Liability (DTL) on the special reserve in line with an opinion from the Expert Advisory Committee (EAC)⁰⁴.

Considering the nature and intent of transferring a certain amount to the special reserve for claiming tax deduction on such transfer and supporting the intent of non-withdrawal or utilisation in future (for example through a board resolution), one could consider this as sufficient evidence to classify such a difference as a permanent difference. Accordingly, no DTL may need to be created in respect of such special reserves under Ind AS. The entities should exercise judgement in evaluating whether to create a DTL on a special reserve based on the facts and circumstances in each case. As a good practise, an entity should also provide a detailed disclosure of its position and explain the accounting rationale for the approach adopted.

Of the 10 HFCs covered in the analysis, four HFCs have reversed the DTL recognised in respect of the special reserves upon transition to Ind AS.

Employee Stock Option (ESOP) accounting

Share based payments are required to be measured with reference to their fair value unlike in erstwhile Indian GAAP where companies had an accounting policy choice to measure the same at intrinsic value or fair value.

13 out of 28 companies covered in the analysis indicated that the charge under Ind AS on account of ESOP was different from that under erstwhile Indian GAAP. Of these 13 companies, one company presented a reversal of expenses under Ind AS as compared to the erstwhile Indian GAAP. For the other 12 companies, the increase in the ESOP cost as compared to the profit before taxes under erstwhile Indian GAAP for the quarter ended 30 June 2017 was in the range of 0.2 - 6.3 per cent. In the case of one NBFC that reported a reversal of expenses on account of ESOP, the reversal for the quarter was approximately 7.2 per cent of the profit before taxes under erstwhile Indian GAAP for the quarter ended 30 June 2017.

04. Note - EAC opinion Volume - XXVI – Query No. 18 - Creation of a deferred tax liability on a special reserve created under Section 36(1)(viii) of the Income-tax Act, 1961 finalised on 15 May 2006. EAC opinion Volume - XXVII – Query 18 - Creation of a deferred tax liability on a special reserve created under Section 36(1)(viii) of the Income tax Act, 1961 finalised on 9 August 2007.

Earnings per Share (EPS)

Of the 28 covered companies, two companies that had reported a loss under erstwhile Indian GAAP have reported a profit under Ind AS. While one company that had reported a profit under erstwhile Indian GAAP, reported a loss under Ind AS. Of the remaining 25 companies, the EPS of companies reported under erstwhile Indian GAAP for the quarter ended 30 June 2017 with the EPS reported by the same company under Ind AS for the quarter ended 30 June 2017, 12 companies presented an increase in basic EPS and 13 companies presented a decrease in EPS. The same trend was observed on a comparison of the diluted EPS.

In case of companies which reported a reduction of basic EPS under Ind AS as compared to erstwhile Indian GAAP for the quarter ended 30 June 2017, the reduction in EPS ranged from 2 - 80 per cent. While in case of companies that reported an increase in basic EPS, the increase ranged from 2 – 324 per cent. Similar trend was also observed in the diluted EPS.

First-time adoption choices

The companies have not provided specific disclosures on choices availed by them under Ind AS 101, First-time Adoption of Indian Accounting Standards barring one instance where past securitisation transactions, which otherwise do not qualify

for derecognition have been grandfathered and gain has been recognised. As a result, we expect to see a narrative explanations for the first time exemptions and exceptions adopted by the companies in the annual financial statements for the year ending 31 March 2019.

Specific disclosures/comments provided by companies

A common theme arising from the reading of the financial results and the investor presentations of the 28 companies is that a number of companies have provided specific comment on the possibility that the financial results of the current and previous periods (under Ind AS) may require adjustments if additional clarifications are provided by the regulator on specific accounting matters. There could be a change in the use of one or more optional exemptions on application of Ind AS to the financial statements for the year ending 31 March 2019.

Further, certain companies have also indicated that the specific provisions created under erstwhile Indian GAAP were continued to be recognised under Ind AS as a matter of prudence/conservatism although the requirement under the ECL model was lower.

This area will need a close watch at the year-end once published financial statements are available.

Key impact areas



The following section summarises the key differences between erstwhile Indian GAAP and Ind AS that are expected to impact the NBFCs.

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Credit loss

Ind AS 109 introduces a requirement to compute Expected Credit Loss (ECL), on all financial assets, at the time of origination and at every reporting date. This requirement replaces the current rule based provisioning norms, as prescribed by the Reserve Bank of India (RBI). The new framework provides a forward looking expected credit loss framework unlike the current regime which recognises losses based only on set of past and current information. The ECL norms are likely to result in enhanced loan loss provisions as they also apply to off balance sheet items such as loan commitments/financial guarantees.

The objective of the impairment requirements under the general approach is to recognise lifetime ECL for all financial instruments for which there has been a significant increase in credit risk since origination. The assets which have not undergone any significant deterioration would be recognised with only 12 month ECL.

The standard also requires companies to segment their loan outstanding based on the risk profiles.

The standard also has a rebuttable presumption to recognise lifetime ECL for assets where payments are due for more than 30 days and a default occurs no later than when the payments are due for more than 90 days. Generally in case of a corporate portfolio (loan outstanding), rating downgrades play a significant role in defining deterioration in credit quality.

Equity, regulatory capital and Key Performance Indicators (KPIs) may be significantly affected as they will reflect ECLs as well as incurred credit losses. External data, such as ratings, credit spreads and predictions about future conditions, will be assessed in the calculation of ECLs.

Effective interest rate method for interest income and expense recognition

Ind AS requires that interest income and expense in respect of financial instruments classified and subsequently measured at amortised cost are based on the effective interest rate method, i.e. a method of calculating the amortised cost of a financial asset or financial liability and allocating the interest income or expense over the relevant period. It differs from the straight-line method as amortisation under the effective interest method reflects a constant periodic return on the carrying amount of the asset or liability.

Companies must include the directly attributable and incremental transaction costs such as upfront fees or processing fees or commission/incentives paid to acquire loans that are incurred in the origination or acquisition of a financial asset or issue of a financial liability. Under the erstwhile Indian GAAP, in the absence of any specific guidance, these were either accounted upfront or amortised over the contractual term of the instrument.

In certain situations, under the erstwhile Indian GAAP, premium payable on the redemption of preference shares was recognised in reserves/adjusted against securities premium while under Ind AS it would be recognised as an interest expense in the statement of profit and loss.

Derecognition of financial assets

Under the erstwhile Indian GAAP, the derecognition of assets was largely driven by the 'true sale' criteria. The guidance on derecognition of assets under Ind AS is significantly different and focusses on whether significantly all the risks and rewards related to the asset have been transferred. This may result into some of the existing structures not being eligible for derecognition under Ind AS resulting into a grossing up of the balance sheet of NBFCs.

Upon transition, entities are permitted to grandfather the assets that were derecognised under erstwhile Indian GAAP although they would not meet the derecognition criteria under Ind AS. NBFCs would, however, assess if the special purpose entities to which these assets were transferred would be required to be consolidated in the NBFCs financial statements.



Classification of financial assets	<p>Financial instruments are classified based on the business model in which they are held and in accordance with the characteristics of the contractual cash flows of the instrument.</p> <p>Contractual cash flows that meet the Sole Payments of Principal and Interest (SPPI) criterion are consistent with a basic lending arrangement, i.e. the most significant elements of interest are consideration of time value of money and credit risk.</p> <p>Business model assessment refers to the way an entity manages its financial assets in order to generate cash flows. Financial assets that are originated to collect contractual cash flows thereon, while these may periodically be sold in order to re-deploy its funds towards new assets would indicate that both, collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model within which the loans are held. Consequently, on transition to Ind AS, such a portfolio would be required to be fair valued through Other Comprehensive Income. In instances where the objective of business model is to hold assets to collect contractual cash flows and the level of sales are the lowest in frequency and volume are measured at amortised cost.</p> <p>Assets that are held for trading or where the contractual cash flows do not represent SPPI are classified as fair valued through profit and loss account.</p>
Hedge accounting	<p>Under Ind AS hedge accounting is more closely aligned with risk management and is available for a broader range of hedging strategies.</p> <p>Ind AS 109 allows an entity to switch to a new hedge accounting model that is aligned more closely with risk management. The new model may allow additional hedging strategies; however, some current hedging strategies may be restricted.</p> <p>The new model is more principles-based and a more judgemental approach is required in the assessment of qualifying, rebalancing and discontinuing hedge accounting.</p>
Disclosures relating to financial instruments	<p>Extensive new disclosures are required including new qualitative disclosures are required to explain how judgement is exercised as well as quantitative disclosures about financial assets.</p> <p>Extensive new disclosures are also required for impairment and hedge accounting. Sourcing the additional information could be complex and time-consuming. Hence, system and control changes will be necessary to capture required data.</p>

Employee benefits and share-based payments	<p>Remeasurements (including actuarial gains/losses) to be recognised in Other Comprehensive Income (OCI) under Ind AS compared to the requirements of erstwhile Indian GAAP where the entire impact of the actuarial valuation was to be recognised in the statement of profit and loss.</p> <p>Share-based payments are required to be measured with reference to their fair value unlike in erstwhile Indian GAAP where companies had an accounting policy choice to measure the same at either intrinsic value or fair value.</p> <p>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.</p>
Income taxes	<p>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 erstwhile Indian GAAP. Especially the change in financial instruments accounting could impact tax reporting and the related financial reporting for taxes. It could also impact regulatory capital and covenants.</p>
Operating segments	<p>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 erstwhile Indian GAAP requirement of disclosure of business and geographical segments and while the aggregating criteria specified in Ind AS 108, <i>Operating Segments</i> is similar to the definition of business segments per AS 17, <i>Segment Reporting</i>, it is expected that segment reporting is likely to undergo significant changes for a number of companies.</p>



Appendix 1- Snapshot of companies covered in our analysis



Company name	Company type	Whether the company reported the Q1* results within 45 days?	Whether 31 March 2018 results have been provided in the results	What is the level of assurance for Q1 June 2017	Where is equity under erstwhile Indian GAAP (INR)?	Where is equity reconciliation at 1 April 2017 published?	Is the ECL under Ind AS greater than loan loss provision under erstwhile Indian GAAP on 1 Apr 2017	Is there a reversal of provision in Q1 June 2017?	Is there a reversal of provision in Q1 June 2018?	Is there a rebuttal of 30/90 days threshold?	Is there a change in reportable segments
Company A	NBFC	Yes	Yes	Limited review	>7500 crore	Investor presentation	Yes	No	No	No	No
Company B	NBFC	Yes	Yes	Audited	Upto 2,500 crore	Presented with Q1 financial results	Yes	Yes	No	Yes, Default set at >60DPD	No
Company C	HFC	Yes	Not disclosed	Management review	Not presented	Not presented	NA	NA	NA	No	No
Company D	NBFC	Yes	Not disclosed	Management review	Not presented	Not presented	NA	NA	NA	No	No
Company E	NBFC	Yes	Not disclosed	Management review	2,500 to 5,000 crore	Investor presentation	Yes	Yes	Yes	No	Yes
Company F	HFC	Yes	Not disclosed	Limited review	Not presented	Not presented	NA	NA	NA	No	No
Company G	NBFC	Yes	Not disclosed	Management review	5,000 to 7,500 crore	Investor presentation	Yes	No	No	No	No
Company H	HFC	No	Not disclosed	Limited review	Not presented	Not presented	NA	NA	NA	No	No
Company I	HFC	Yes	Not disclosed	Limited review	Not presented	Not presented	NA	NA	NA	No	No
Company J	HFC	No	Not disclosed	Limited review	Not presented	Not presented	NA	NA	NA	No	No
Company K	HFC	Yes	Not disclosed	Limited review	Not presented	Not presented	NA	NA	NA	No	No
Company L	NBFC	No	Not disclosed	Management review	Not presented	Not presented	NA	NA	NA	No	No
Company M	HFC	Yes	Not disclosed	Limited review	Not presented	Not presented	NA	NA	NA	No	Not available
Company N	NBFC	Yes	Not disclosed	Limited review	Not presented	Not presented	NA	NA	NA	No	Yes
Company O	HFC	No	Not disclosed	Limited review	Not presented	Not presented	NA	NA	NA	No	No
Company P	NBFC	No	Yes	Management review	Upto 2,500 crore	Investor presentation	Yes	No	NA	No	Yes
Company Q	NBFC	Yes	Not disclosed	Management review	5,000 to 7,500 crore	Investor presentation	Yes	Yes	Yes	No	No
Company R	NBFC	Yes	Not disclosed	Management review	Not presented	Not presented	NA	NA	NA	No	Yes
Company S	NBFC	No	Not disclosed	Management review	Not presented	Not presented	NA	NA	NA	No	No
Company T	NBFC	No	Not disclosed	Management review	5,000 to 7,500 crore	Investor presentation	Yes	No	NA	No	No
Company U	HFC	Yes	Not disclosed	Management review	Not presented	Not presented	NA	NA	NA	No	No
Company V	NBFC	No	Not disclosed	Management review	Not presented	Not presented	NA	NA	NA	No	No
Company W	NBFC	No	Not disclosed	Limited review	Not presented	Not presented	NA	NA	NA	No	No
Company X	HFC	No	Not disclosed	Management review	Not presented	Presented with Q1 financial results	NA	NA	NA	No	Yes
Company Y	NBFC	Yes	Not disclosed	Limited review	Not presented	Not presented	NA	NA	NA	No	No
Company Z	NBFC	No	Not disclosed	Management review	5,000 to 7,500 crore	Investor presentation	Yes	No	Yes	No	No
Company AA	NBFC	No	Not disclosed	Management review	Not presented	Not presented	NA	NA	NA	No	No
Company AB	NBFC	No	Not disclosed	Management review	2,500 to 5,000 crore	Presented with Q1 financial results	Yes	No	NA	Yes, Stage 2 set at >60DPD	No

Source: KPMG in India analysis based on the primary data gathered from BSE 500 companies upto 14 September 2018

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