Contents

Foreword p2 / About the report p4 / Ind AS impact analysis p5 / Snapshot of results p6 / Adoption of Ind AS: Changes to reported net income and equity p10 / In-depth analysis p12 / Adoption of Ind AS: Presentation and disclosure matters p32 / In summary p35 / Publications p36

PwC Ind AS impact analysis: Corporate India's transition to Ind AS

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Foreword

In September 2016, PwC India released the Ind AS impact analysis[1] report to evaluate the impact of Ind AS transition on the reported results for the quarter ended 30 June 2015 under Ind AS vis-à-vis previously reported Indian GAAP results. In our analysis, we noted that the impact of Ind AS was not concentrated in one specific sector or industry; instead, it was pervasive and covered companies from sectors such as pharmaceuticals, life sciences and healthcare, industrial manufacturing, automotive, telecom, metals and capital projects and infrastructure. The results provided useful insights on how the adoption of Ind AS impacted corporates and proved to be a testament to corporate India's readiness to adopt a significant change in financial reporting.

This report now aims to build on the earlier analysis and understand the impact of Ind AS adoption on annual financial results for the year ended 31 March 2016 under Ind AS vis-à-vis previously reported Indian GAAP results. This report also provides useful insights into the changes in the equity of the companies as at 31 March 2016. Finally, the report looks at the impact of transition to Ind AS from previous Indian GAAP by evaluating various transition provisions applied by corporate India in preparing their first Ind AS balance sheet.

For the purposes of this report, we have evaluated financial information for the year ended 31 March 2016 released by 76 companies until 31 May 2017. We have used a benchmark that is consistent with that used for the evaluation of companies in our previous report—i.e. companies which are listed on the National Stock Exchange (NSE) of India and included in NIFTY 50 and NIFTY NEXT 50 benchmark indices. In our analysis of NIFTY 50 and NIFTY NEXT 50 companies, we have excluded 18 companies that are either banks or non-banking financial companies (NBFCs) or insurance companies to whom Ind AS is not yet applicable and 6 companies that did not file their results for the year ended 31 March 2016 under Ind AS[2].

Since our report is based on published annual financial results which do not have detailed disclosures otherwise presented in annual financial statements, we may have made certain assumptions and generalisations for the purpose of aggregating the results and analysis.

We hope you find this publication informative and that it helps us remain connected with you in a meaningful way.

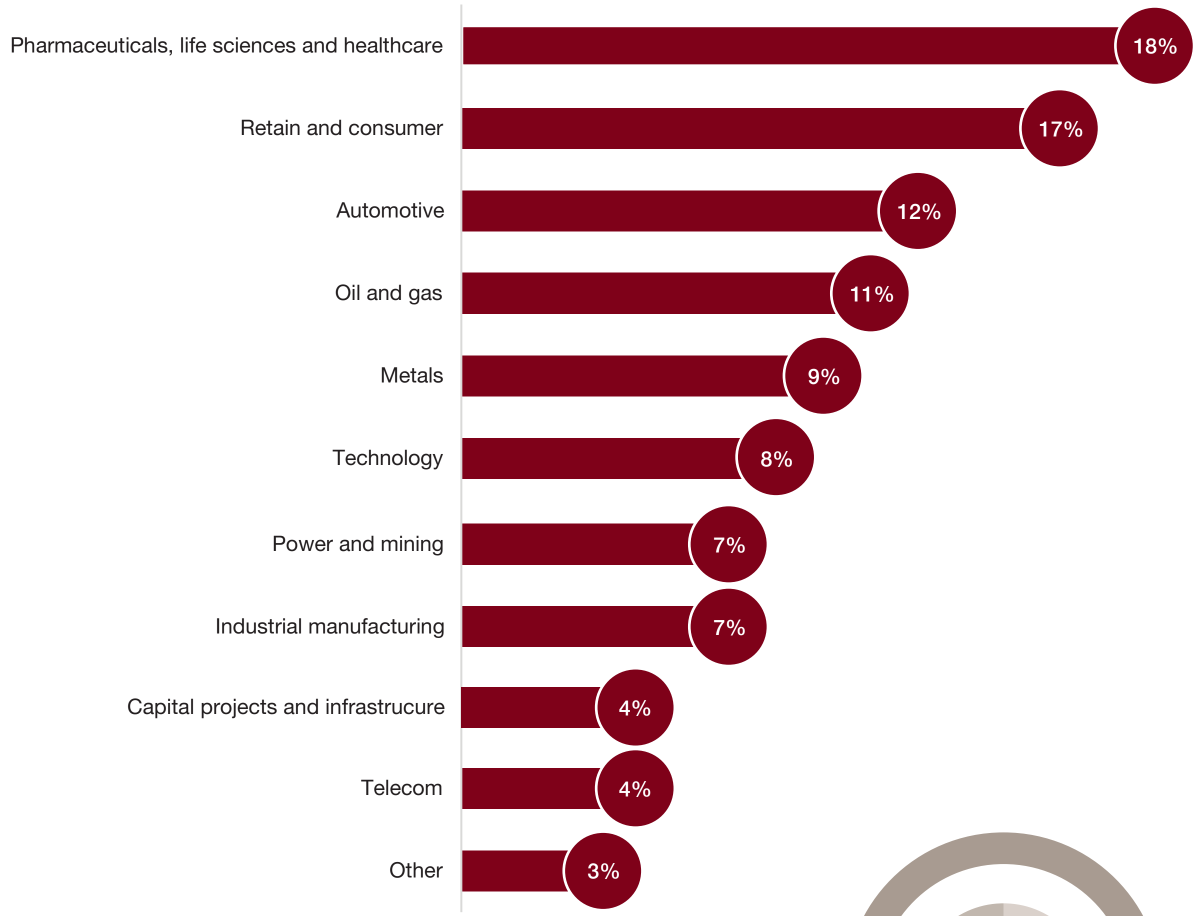
For a variety of additional resources offering more in-depth perspectives on the impact and other aspects of Ind AS, please visit our website at www.pwc.in

1 PwC Ind AS impact analysis was released on 21 September 2016. The results are also available on the PwC India website at www.pwc.in
2 Ind AS is not applicable to these companies due to the year end being other than March 31.

About the report

During approximately 9 weeks beginning from 1 April 2017, various companies released their Ind AS annual financial results. We gathered the results of NIFTY 50 and NIFTY NEXT 50 companies for the purpose of this report. Out of the 76 companies that have reported their results, 14 companies (18%) are from the pharmaceuticals, life sciences and healthcare sectors, 12 companies (17%) are from the retail and consumer sector and 9 companies (12%) are from the automotive sector. The profiles of all companies by industry sector included in our report are summarised below:

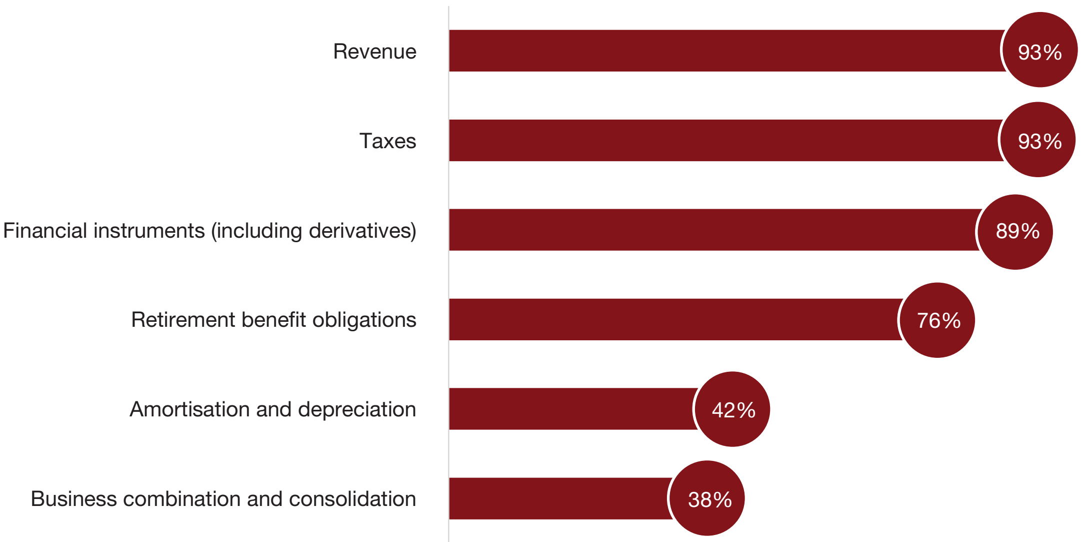
Profile of companies by industry sector

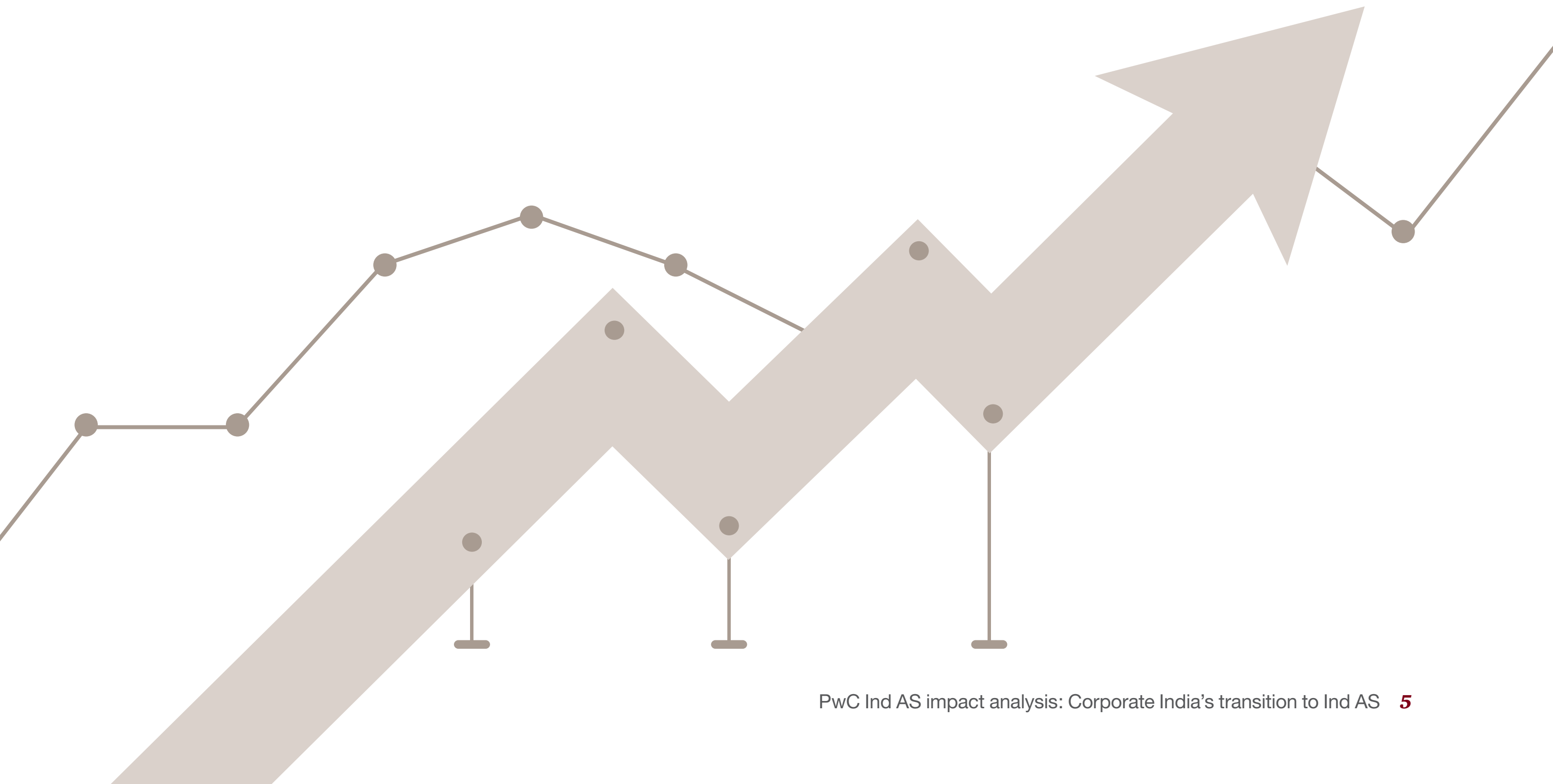


Ind AS impact analysis

When we analysed the reported annual financial results of 76 companies for the year ended 31 March 2016, we noted that consistent with our earlier analysis of the June 2015 financial results, a majority of the Ind AS adjustments are on account of revenue recognition, taxes, financial instruments, retirement benefit obligations and business combination and consolidation. Additionally, amortisation impact on indefinite lived intangible assets and depreciation impact on fair valued property, plant and equipment were also identified to be common Ind AS adjustments across companies.

Accounting areas with a significant impact on reported net income (% of companies impacted)

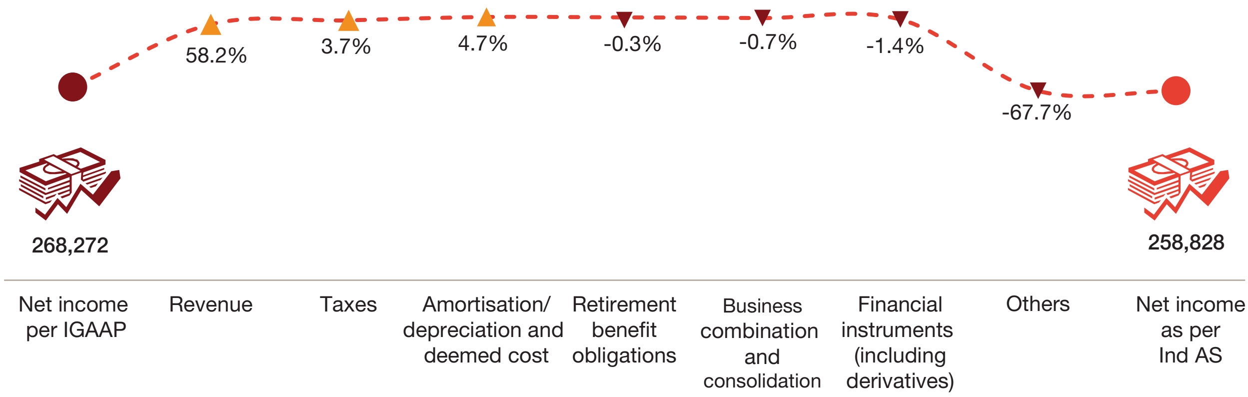




Snapshot of results

Impact on reported income for the year ended 31 March 2016

The impact of Ind AS adoption was observed across different accounting areas. Presented below is the snapshot of the impact on reported net income for the year ended 31 March 2016 and equity as at 31 March 2016 under Ind AS vis-à-vis previous GAAP.



(Amounts in crore INR)

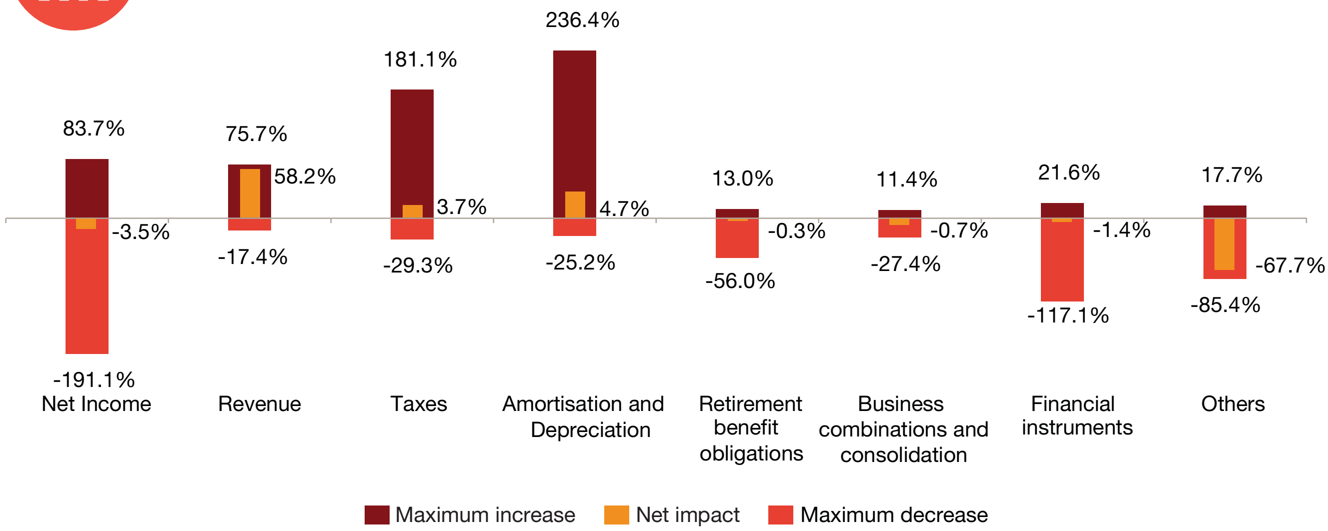
Overall, the Ind AS adjustments has resulted in a decrease in the reported net income of companies for the year ended 31 March 2016 by approximately 9,444 crore INR (3.5%). Presented below is the percentage impact of certain key accounting areas on the reported net income under Ind AS vis-à-vis previous GAAP.

- 58.2% increase in revenues as a percentage of net income (including impact of excise duty gross up of 89.8%)
- Increase in the tax credits: 3.7%
- Depreciation impact on fair valued property, plant and equipment (net of reversal of amortisation expense related to indefinite lived intangible assets): 4.7% increase in net income
- Decrease in reported net income on account of financial instruments (including derivatives): 1.4%
- Business combinations/consolidation: 0.7% decrease in net reported income
- Retirement benefit obligation related adjustments: 0.3% decrease in reported net income
- Others include impact of excise duty and other Ind AS adjustments

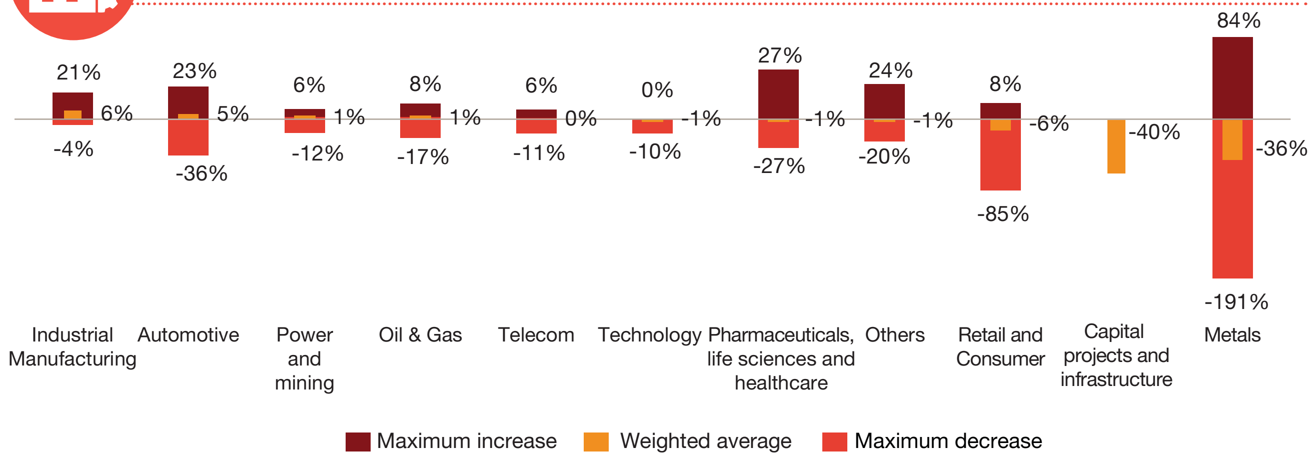
Some companies have reported Ind AS adjustments net of tax.

The change in reported net income shown above is explained in detail for each area of impact in subsequent sections of this report.

Range of impact on net income across accounting areas upon Ind AS adoption

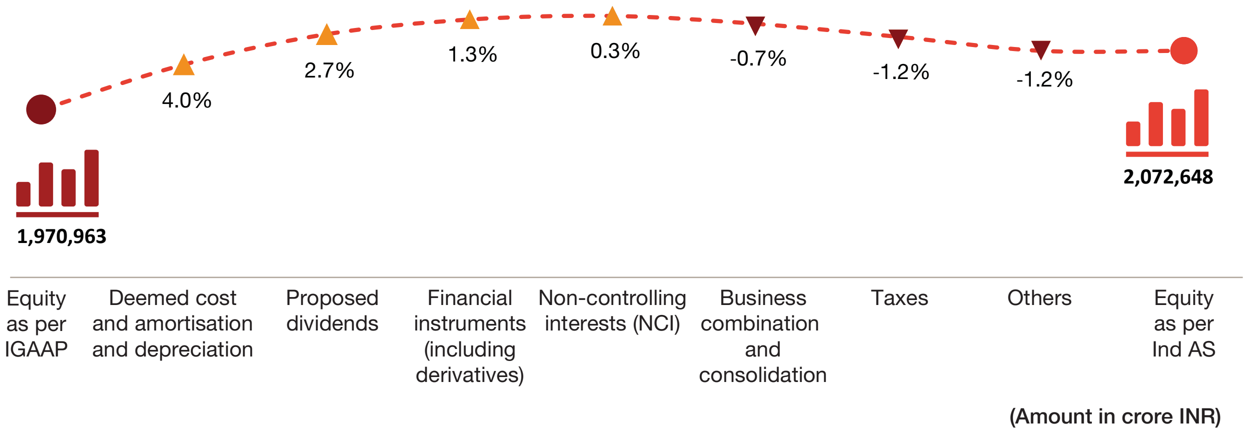


Industry sector: Range of impact on net income upon Ind AS adoption



Industrial manufacturing, automotive and power and mining sectors reported a net increase in reported income. On the other hand, metals, capital projects and infrastructure, and retail and consumer have reported a net decrease in reported income

Impact on reported equity as at 31 March 2016



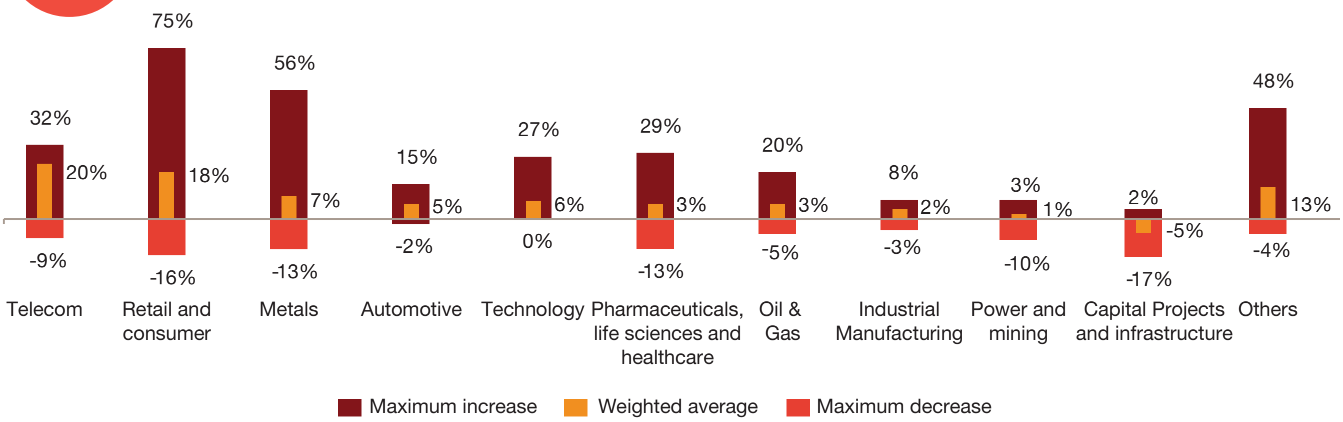
5.2%

increase in reported equity as at 31 March 2016 upon Ind AS adoption

The reasons for changes in equity as at 31 March 2016 under Ind AS vis-à-vis previous GAAP are primarily the same as those for changes in reported net income discussed above. However, we note that the previously reported equity has also undergone a change due to companies electing fair value as the deemed cost for property, plant and equipment and intangible assets on transition date, i.e. 1 April 2015, measurement of financial instruments (other than investments in subsidiaries, associates and joint ventures [JVs]) at fair value and reversal of proposed dividends (i.e. only declared and approved dividends are recorded as liabilities under Ind AS). Additionally, under Ind AS, non-controlling interests in the consolidated balance sheet are presented within equity, which has also resulted in an increase in total equity vis-à-vis previous GAAP. Overall, adoption of Ind AS has resulted in an increase in previously reported equity by approximately 101,685 crore INR—a 5.2% increase in reported equity under Ind AS as at 31 March 2016.

The change in reported equity shown above is explained in detail for each area of impact in subsequent sections of this report.

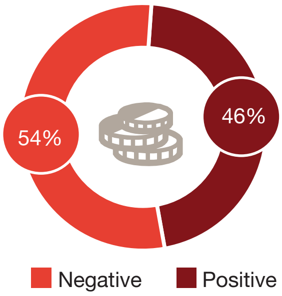
Industry sector: Range of impact on equity upon Ind AS adoption

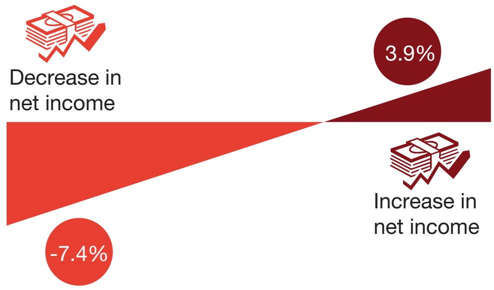


Predominantly, all sectors reported an average net increase in equity as of 31 March 2016, with telecom, retail and consumer and metals reporting the highest average net increase in equity on adoption of Ind AS

Adoption of Ind AS: Changes to reported net income and equity

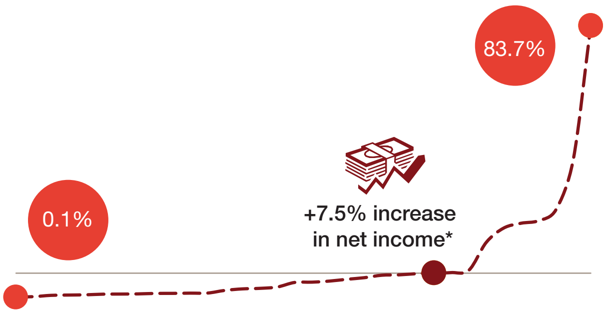
Companies with +/- impact on net income upon Ind AS adoption

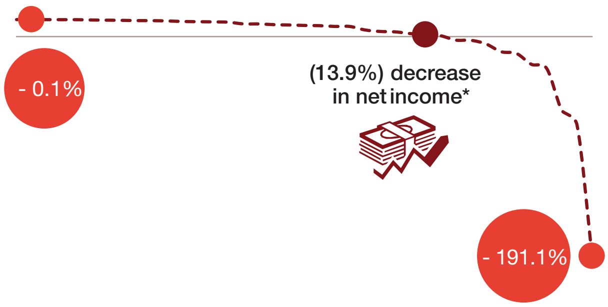




There was a positive impact on the reported net income of 35 companies (46%) under Ind AS for the year ended 31 March 2016. The total increase in Ind AS net income was approximately 10,515 crore INR (3.9%).

There was a negative impact on the reported net income of 41 companies (54%) under Ind AS. The total decrease in net income was approximately 19,959 crore INR (7.4%), resulting in an overall net decrease in net income of approximately 9,444 crore INR (3.5%).



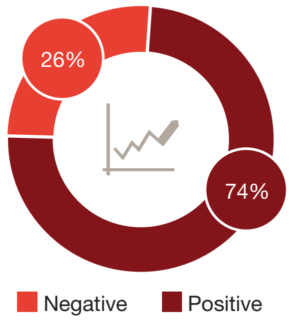


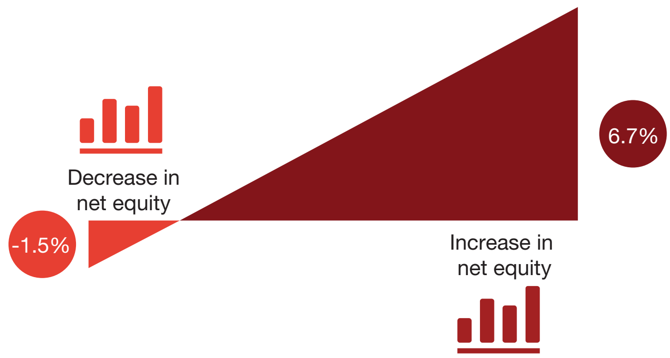
(*Weighted average)

For the 35 companies, the positive impact on their reported net income ranged from 0.1% to 83.7% of the previously reported net income under Indian GAAP. On a weighted average basis, the increase in net income has been 7.5%.

For the 41 companies, the negative impact on their reported net income ranged from 0.1% to 191.1% of the previously reported net income under Indian GAAP, resulting in a 13.9% weighted average decrease in net income.

Companies with +/- impact on total equity as at 31 March 2016 upon Ind AS adoption

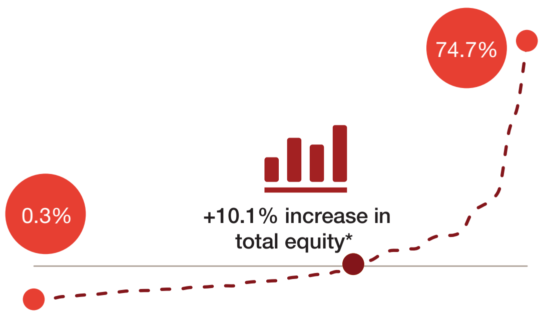


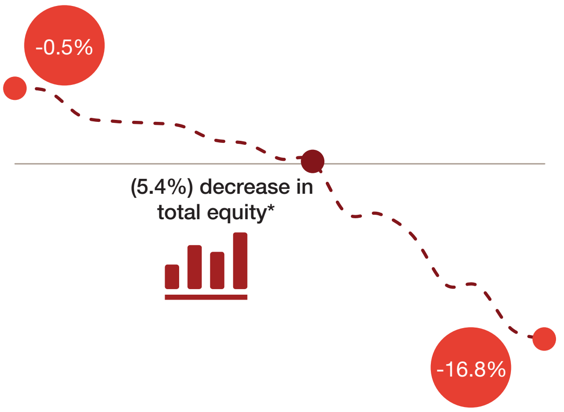


There was a positive impact on the reported total equity of 55 companies (74%) under Ind AS at 31 March 2016. The total increase in Ind AS total equity was approximately 132,297 crore INR (6.7%).

There was a negative impact on the reported total equity of 19 companies (26%) under Ind AS. The total decrease in total equity was approximately 30,612 crore INR (1.5%), resulting in an overall net increase of approximately 101,685 crore INR (5.2%).

Of the population, 2 companies did not present reconciliation of equity as at 31 March 2016 as part of their financial results.





(*Weighted average)

For the 55 companies, the positive impact on their reported equity ranged from 0.3% to 74.7% of the previously reported equity under Indian GAAP. On a weighted average basis, the increase in equity has been 10.1%.

For the 19 companies, the negative impact on their reported equity ranged from 0.5% to 16.8% of the previously reported equity under Indian GAAP, resulting in a 5.4% weighted average decrease in equity.

In-depth analysis

Impact on reported net income and equity

We analysed the 31 March 2016 annual financial results to understand both the positive and negative impacts of key accounting areas on the reported net income and equity, including impact on various industry sectors.

Our analysis reflects the changes in reported net income for the year ended 31 March 2016 and equity as at 31 March 2016 under Indian GAAP vis-à-vis Ind AS, except revenue, which has been analysed at the respective line item level.

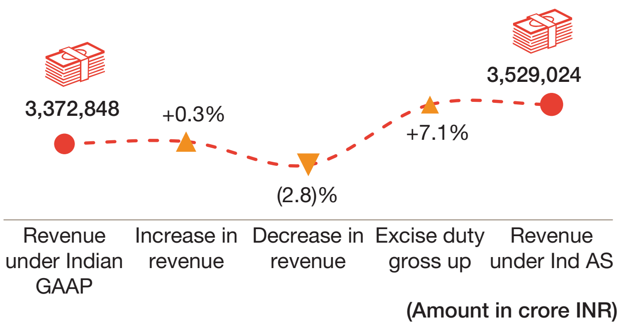
Revenue

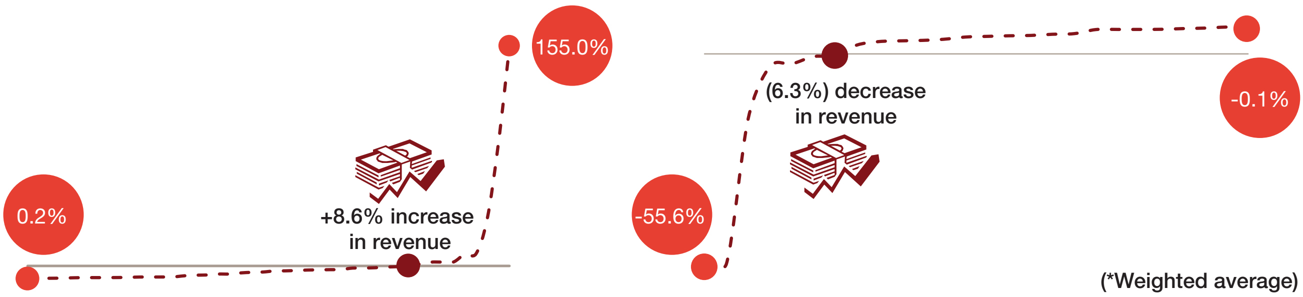
Of the population, 71 (93%) companies had an adjustment on reported revenue, including adjustments due to excise duty gross up. Forty-five companies (63%) have reported an increase and 26 companies (37%) have reported a decrease in revenue.

There was an overall increase in reported revenues of around 156,176 crore INR (4.6%) under Ind AS.

Excluding the impact of revenue gross up due to excise duty presentation of approximately 241,033 crore INR (7.1%), reported revenues decreased by approximately 84,857 crore INR (2.5%) on account of Ind AS adjustments. The total increase and decrease in revenue (other than excise duty) has been approximately 8,522 crore INR (0.3%) and 93,379 crore INR (2.8%), respectively.

Percentage impact on reported revenue





Companies have reported an increase in reported revenue ranging from 0.2% to 155%, resulting in a weighted average increase in reported revenue of 8.6%.

The decrease in reported revenue ranges from 0.1% to 55.6%, resulting in a weighted average decrease in reported revenue of 6.3%.

Key adjustments

- Deferral of revenue on customer contracts where revenue recognition criteria has not been met—service arrangements, maintenance contracts, upfront fees
- Linked arrangements—sale and subsequent repurchase agreements
- Fair value of consideration in case of long-term construction contracts/extended payment terms
- Determination of principal vs agent relationships in an arrangement
- Awards and incentives to customers, promotional expenses/customer reimbursements, cash discounts, etc., being netted from revenue
- Specific accounting treatment of service concession arrangements under Ind AS
- Provision for rebates/expected sales returns
- Adjustments related to retention money

Under Ind AS, revenue arising from the sale of goods is recognised when an entity transfers the significant risks and rewards of ownership and gives up managerial involvement, usually associated with ownership or control, if economic benefits are likely to flow to the entity and the amount of revenue and costs can be measured reliably.

Revenue from the rendering of services is recognised when the outcome of the transaction can be estimated reliably. This is done by reference to the stage of completion of the transaction at the balance sheet date, using requirements similar to those for construction contracts. The outcome of a transaction can be estimated reliably when the amount of revenue can be measured reliably; it is probable that economic benefits will flow to the entity; the stage of completion can be measured reliably; and the costs incurred and costs to complete can be reliably measured.

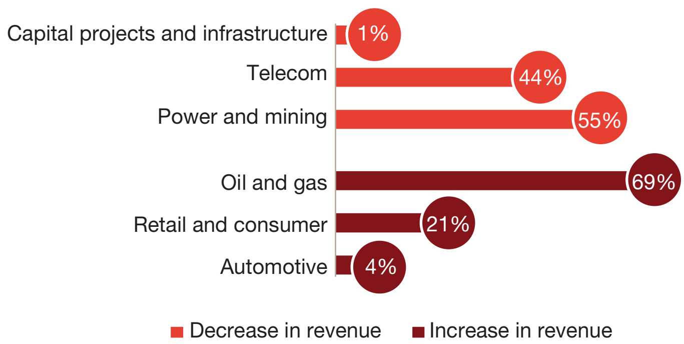
Ind AS 18 requires accounting to reflect the economic substance of transactions and not merely their legal form. As a result, when two or more transactions are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole, then the two or more transactions are linked and treated as a single transaction. Ind AS 18 gives the example of a situation where an entity sells goods but, at the same time, enters into an agreement to repurchase the goods at a later date, thus negating the substantive effect of the original sale. It states that, in such a situation, the two transactions should be dealt with together as a single transaction.

When such a sale and repurchase agreement is entered into, the agreement's terms need to be carefully analysed to ascertain whether, in substance, the seller has transferred the significant risks and rewards of ownership to the buyer and whether revenue should, therefore, be recognised. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue. This results in deferral of revenue, with the inventory continuing to be recognised on the balance sheet.

There are also other areas which have resulted in adjustment to revenue, such as gross vs net presentation of revenue based on whether the entity is acting in the capacity of a principal or agent, consideration paid to customers being netted from revenue, extended payment terms, adjustments related to retention money and service concession arrangements. Absence of comprehensive guidance under Indian GAAP in respect of some of these areas has resulted in diversity in practice as compared to Ind AS, which provides detailed principles for recognising revenue in respect of such transactions.

By industry sector, oil and gas had the highest increase in revenue of approximately 118,768 crore INR (69% of the total increase in revenue across industries), followed by retail and consumer and automotive with approximately 35,804 crore INR (21%) and 6,295 crore INR (4%) respectively.

The power and mining sector reported the highest decrease in revenue of approximately 8,682 crore INR (55% of the total decrease in revenue across industries), followed by telecom and capital projects and infrastructure with approximately 6,869 crore INR (44%) and 138 crore INR (1%) respectively.

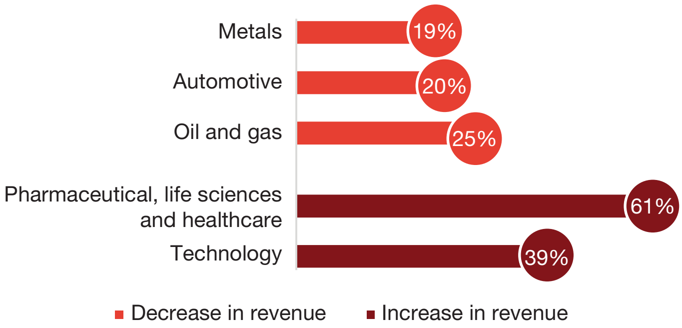


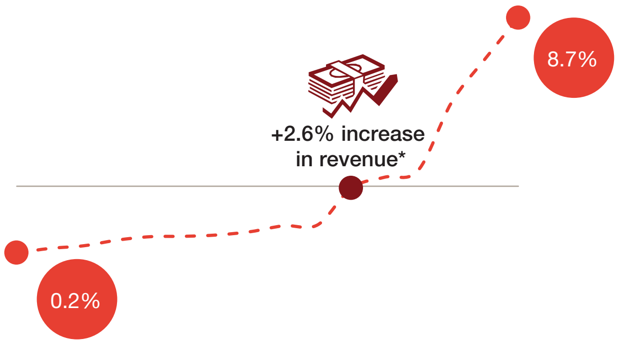
The oil and gas and retail and consumer sectors reported the maximum increase in revenue on Ind AS adoption

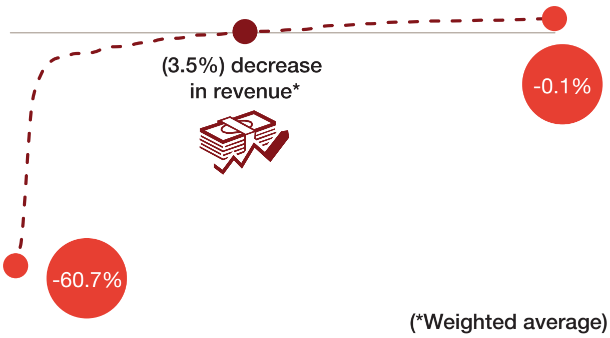
Percentage impact excluding excise duty on reported revenue

By industry sector, pharmaceuticals, life sciences and healthcare had the highest increase in revenue of approximately 618 crore INR (61% of the total increase in revenue across industries), followed by technology at approximately 394 crore INR (39%).

Oil and gas had the highest decrease in revenue of approximately 21,273 crore INR (25%), followed by automotive and metals at approximately 17,256 crore INR (20%) and 16,152 crore INR (19%), respectively.







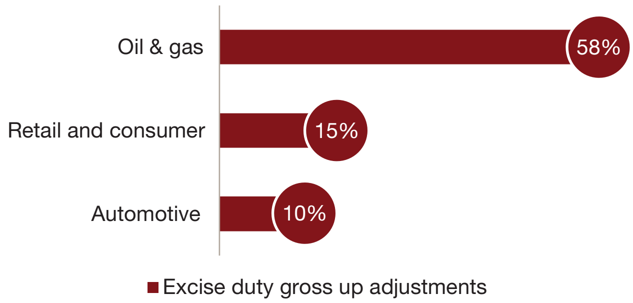
(*Weighted average)

Companies have reported an increase in reported revenue ranging from 0.2% to 8.7%, resulting in a weighted average increase in reported revenue of 2.6%.

The decrease in reported revenue ranges from 0.1% to 60.7%, resulting in a weighted average decrease in reported revenue of 3.5%.

Impact of excise duty gross up adjustment on reported revenue

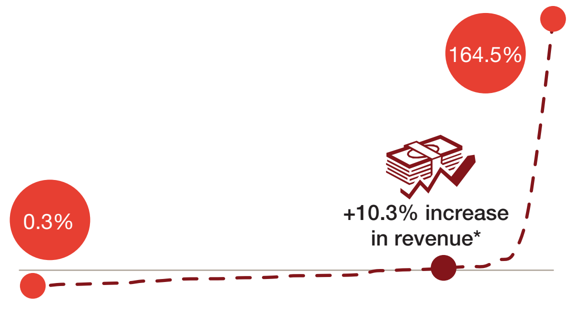
By industry sector, oil and gas had the highest increase in revenue on account of excise duty gross up of approximately 140,041 crore INR (58% of the total increase in revenue across industries on account of excise duty adjustments). Retail and consumer and automotive had an increase in revenue of approximately 41,578 crore INR (17%) and 23,551 crore INR (10%) respectively.



Companies have reported an increase in reported revenue due to excise duty ranging from 0.3% to 164.5%, resulting in a weighted average increase in reported revenue of 10.3%.

There were no significant adjustments to reported total equity as a result of revenue adjustments.

Further, with the implementation of the Goods and Services Tax ('GST') from 1 July 2017, the companies in India will again see an adjustment in their top line as GST will replace the existing excise-duty tax in India. GST is likely to be reported by companies net of revenue.



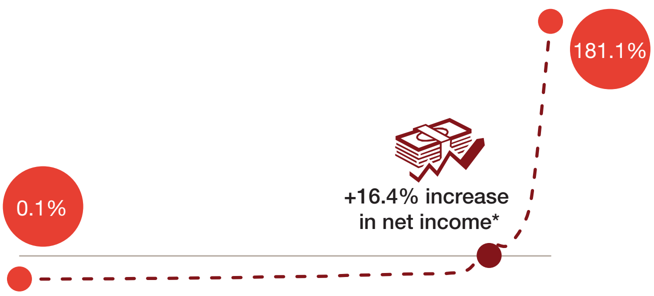
58%
of the total increase in revenues across industries on account of excise duty adjustment is contributed by Oil and gas sector

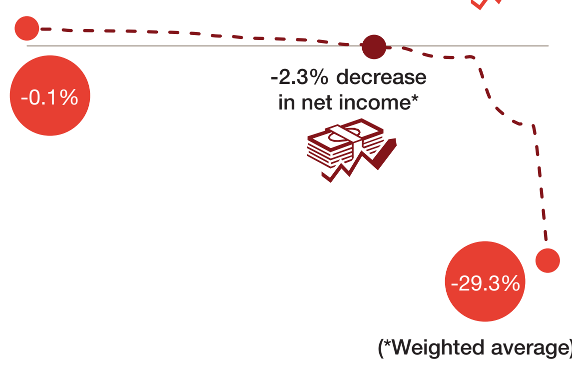
Taxes

There was an overall increase in reported net income of 9,979 crore INR (3.7%) on account of taxes.

Of the population,[3] 31 companies (44%) reported an increase in net income of 13,796 crore INR (5.1%). Further, 40 companies (56%) reported a decrease in net income of 3,817 crore INR (1.4%) as a result of Ind AS adoption.

Percentage impact on reported net income





(*Weighted average)

Companies have reported an increase in net income on account of taxes ranging from 0.1% to 181.1%, resulting in a weighted average increase in net income of 16.4%. The decrease in net income ranges from 0.1% to 29.3%, resulting in a weighted average decrease in net income of 2.3%.

Under Ind AS, deferred taxes are recorded based on the temporary difference (as opposed to timing differences under Indian GAAP). This approach under Ind AS is broader and results in deferred taxes on more items, and also additional deferred taxes on some items. Additionally, the lower recognition threshold under Ind AS compared to the higher threshold of virtual certainty supported by convincing evidence presently required to recognise deferred tax assets on carried forward losses under Indian GAAP has also resulted in the recognition of increased deferred tax assets/tax credits under Ind AS.

Under Ind AS, the measurement of the deferred tax asset in each period in the case of share-based payment arrangements is based on an estimate of the future tax deduction, if any, for the award measured at the end of each reporting period (based on the current stock price if the tax deduction is based on the future stock price). When the expected tax benefits from equity awards exceed the recorded cumulative recognised expense multiplied by the tax rate, the tax benefit up to the amount of the tax effect of the cumulative book compensation expense is recorded in the income statement; the excess is recorded in equity. When the expected tax benefit is less than the tax effect of the cumulative amount of recognised expense, the entire tax benefit is recorded in the income statement. Under Indian GAAP, there is no such specific guidance on expected tax benefits on share-based payment arrangements and this approach has resulted in the recognition of additional deferred taxes under Ind AS.

Under Ind AS, deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that the parent, investor, JV or joint operator is able to control the timing of the reversal of the temporary difference (including the temporary difference arising not only from undistributed earnings but also from any foreign exchange translation differences), and it is probable that the temporary difference will not reverse in the foreseeable future.

Key adjustments

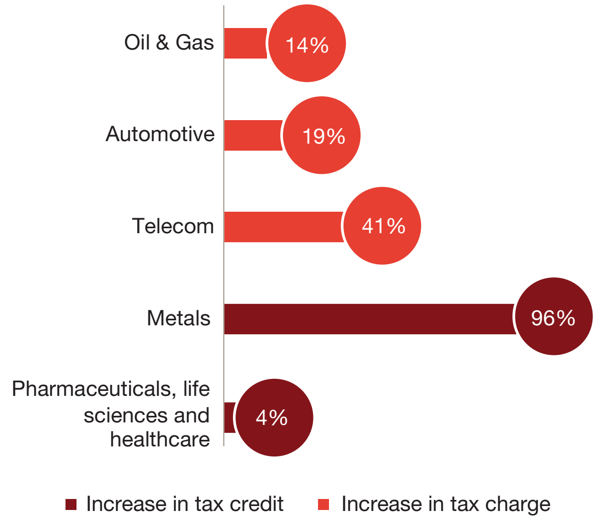
- Deferred tax liability on undistributed earnings from subsidiaries and JVs
- Deferred tax asset on carried forward business and long-term capital losses
- Deferred taxes on unrealised profits on intra-group transactions
- Income tax effects on share-based payment arrangements

3 Some companies have reported Ind AS adjustments net of tax and are excluded in our analysis above.

By industry sector, metals had the highest increase in tax credits of approximately 12,279 crore INR (96% of the total increase in tax credits across industries), increasing net income. The pharmaceuticals, life sciences and healthcare sector reported an increase in tax credits of approximately 485 crore INR (4%).

Telecom had the highest increase in tax charge of approximately 1,131 crore INR (41% of the total increase in tax charge across industries), followed by automotive and oil and gas at approximately 524 crore INR (19%) and 380 crore INR (14%) respectively.

The main reasons for the change in the reported taxes in the above industry sectors are recognition of deferred taxes on undistributed profits from subsidiaries and JVs, unrealised profits on purchase of inventory from group companies and deferred tax impact on other Ind AS adjustments.



Impact on reported equity as at 31 March 2016

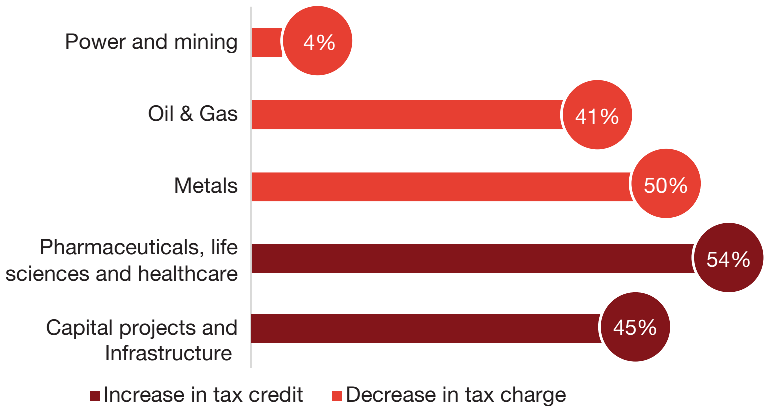
There was an overall decrease in reported total equity of approximately 22,575 crore INR (1.2%) on account of tax adjustments.

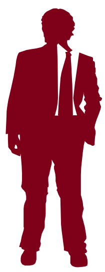
Of these,[4] 28 (42%) companies reported an increase in total equity of approximately 6,602 crore INR (0.3%) and 39 (58%) companies reported a decrease in total equity of approximately 29,177 crore INR (1.5%) resulting from Ind AS adoption.

Percentage impact on total equity

By industry sector, pharmaceuticals, life sciences and healthcare reported an increase in total equity on account of tax adjustments of approximately 2,313 crore INR (54% of the total increase in reported equity across industries), followed by capital projects and infrastructure at approximately 1,900 crore INR (45%).

Metals had the highest reduction in total equity on account of tax adjustments of approximately 13,285 crore INR (50% of the total decrease in equity across industries). Oil and gas and power and mining had a decrease of approximately 11,023 crore INR (41%), and 973 crore INR (4%) respectively.





3.7%

increase in reported income resulting from recognition of net tax credits on adoption of Ind AS

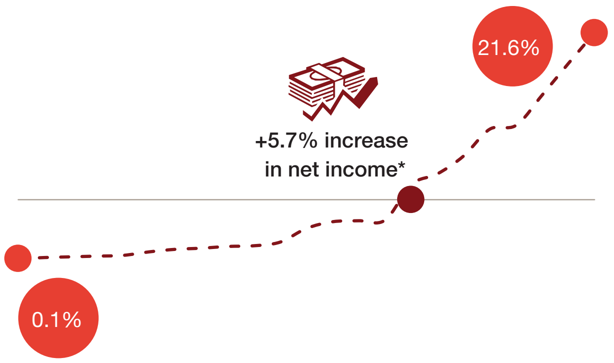
4 Out of population of 71 companies whose reported net income was impacted due to taxes, 5 companies have either disclosed adjustments to equity net of tax or have not disclosed the impact of tax on total equity separately. One company disclosed only the impact of tax on its equity as opposed to reported net income.

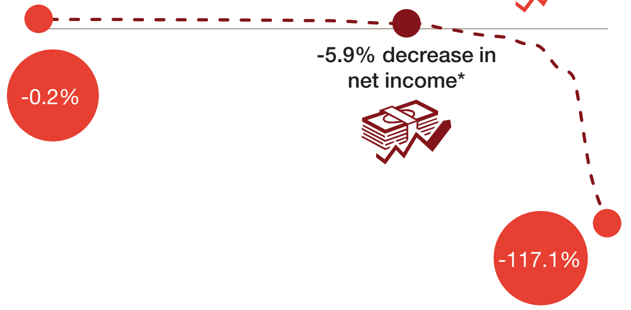
Financial instruments

Of the population, 89% (68) of the companies were impacted due to fair valuation of financial instruments (including derivatives). There was an overall decrease in reported net income of 3,818 crore INR (1.4%) on account of financial instruments.

Of these, 27 companies (40%) reported an increase in net income of approximately 4,390 crore INR (1.7%) and 41 companies (60%) reported a decrease in net income of approximately 8,208 crore INR (3.1%) resulting from Ind AS adoption.

Percentage impact on reported net income





(*Weighted average)

Companies have reported an increase in net income ranging from 0.1% to 21.6%, resulting in a weighted average increase in net income of 5.7%. The decrease in net income ranges from 0.2% to 117.1%, resulting in a weighted average decrease in net income of 5.9%.

Key adjustments

- Measurement of financial assets such as investments in equity instruments/mutual funds at fair value through profit and loss (FVPL)
- Use of amortised cost, fair value through other comprehensive income (FVOCI) and FVPL for debt instruments
- Recognition of impairment losses—expected credit losses (ECL)
- Discounting of long-term financial assets and financial liabilities
- Changes in fair value of derivatives
- Fair value of compound instruments such as convertible debentures and preference shares
- Use of effective interest rate (EIR) method—transaction costs related to borrowing, redemption premium on debentures, preference dividend
- Long-term interest-free security deposits and employee loans measured at fair value
- Notional income from corporate guarantees given to subsidiaries

Under Indian GAAP, investments are classified as current or long-term. Current investments are carried at lower of cost and fair value, whereas long-term investments are carried at cost less impairment, if any. Ind AS significantly changes this, where except for certain debt instruments, financial assets are recorded at fair value. Under Ind AS, investments in equity instruments held for trading will always be measured at FVPL. For all other equities, the management has the ability to make an irrevocable election on the initial recognition, on an instrument-by-instrument basis, to present the changes in fair value in other comprehensive income (OCI) rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. There will be no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements. However, the entity might transfer the cumulative gain or loss within equity.

Overall, the fair valuation of financial assets through profit and loss has resulted in an increase in the reported net income. The automotive sector recorded the largest increase in net income mainly on account of this change. Metals had the highest decrease in reported net income due mainly to recognition of gain on sale of investment in equity (classified as fair value through OCI) directly in reserves instead of in the income statement under previous GAAP.

Ind AS 109 also introduces a new model for the recognition of impairment losses, i.e. the 'expected credit loss' (ECL) model as compared to the 'incurred loss' model under Indian GAAP. The ECL model seeks to address the criticisms of the incurred loss model which arose during the global economic crisis. The standard contains a 'three-stage' approach which is based on the change in credit quality of financial assets since initial recognition.

The adoption of the ECL model has resulted in a decrease in net income on an overall basis. The metals and automotive sectors have shown the highest decrease in reported net income on account of the adoption of the ECL model. For some companies, adoption of the ECL model resulted in a lower provision as compared to the incurred loss model under previous Indian GAAP. The industrial manufacturing sector had the highest increase in reported net income due to adoption of the ECL model.

Under Indian GAAP, financial liabilities are generally recorded at face value and classified on the basis of legal form. Under Ind AS, an entity will have to determine the appropriate classification of an instrument as a liability or equity based on the substance of the contractual arrangement, rather than its legal form. As an overriding principle, Ind AS requires a financial instrument to be classified as a financial liability if the issuer is required to settle the obligation in cash or another financial asset. For example, mandatory redeemable preference shares, which were shown as part of equity under Indian GAAP, are classified as a liability under Ind AS. Also, the dividend and dividend distribution tax on such capital gets recorded through the income statement

as a borrowing expense using the effective interest method instead of equity. This also includes items such as premium on redemption of debentures. Further, Ind AS requires certain compound financial instruments such as optionally convertible debentures/preference shares to be separated into their liability and equity components. All of this has resulted in higher interest expense and lower net income and equity under Ind AS. In this regard, the largest impact recorded was noted in media and entertainment (classified as other industry for the purpose of this report). Further, adoption of Ind AS has also resulted in a decrease in the reported equity of companies due to re-characterisation of certain financial instruments as either equity/liability/compound financial instruments. On the other hand, there has been an increase in equity primarily due to perpetual instruments, which are economically similar to equity instruments, and are reported as equity under Ind AS.

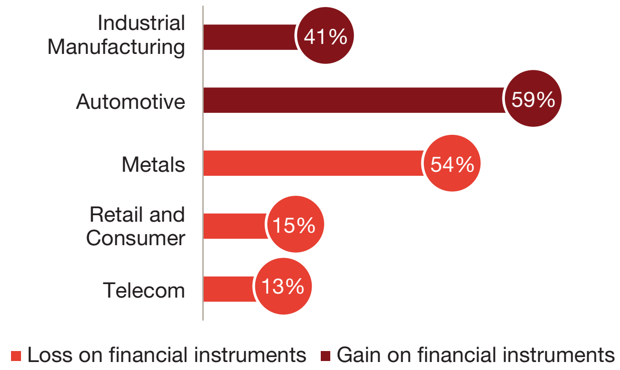
Under Ind AS, all derivatives are recorded at fair value with recognition of both gains and losses, whereas under Indian GAAP, fair value losses were recognised but not gains (except when hedge accounting was applied). The fair valuation of derivatives has resulted in an increase of reported net income. The largest fair value gain was reported in the oil and gas sector, whereas the largest fair value loss was reported by the automotive sector.

Also, we note that in separate financial statements where a parent has issued a guarantee for a loan taken by its group company, this has resulted in recognition of a financial liability and subsequent income amortisation by the parent company under Ind AS vis-à-vis generally only a disclosure under previous Indian GAAP.

Finally, long-term financial assets such as interest-free deposits, long term receivables and employee loans are also recorded at fair value with corresponding adjustment to costs/employee benefit expense as applicable. The highest decrease in net income due to such adjustments was reported in the industrial manufacturing sector.

By industry sector, metals had the highest net loss of approximately 3,198 crore INR (54% of the total reduction in net income across industries). The retail and consumer sector had a net loss of approximately 872 crore INR (15%), and the telecom sector had a net loss of approximately 742 crore INR (13%).

Automotive had the highest net gain of approximately 1,202 crore INR (59% of the total increase in net income across industries), followed by industrial manufacturing at approximately 852 crore INR (41%).

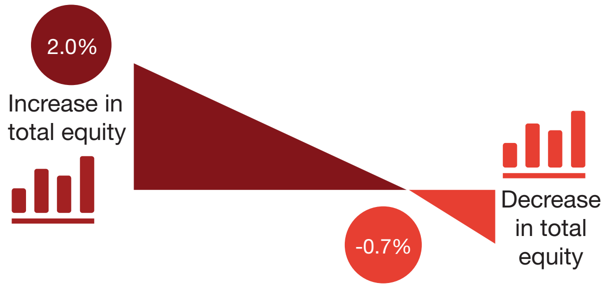


Impact on reported equity as at 31 March 2016

There was an overall increase in reported total equity of approximately 25,316 crore INR (1.3%) on account of financial instruments (including derivatives).

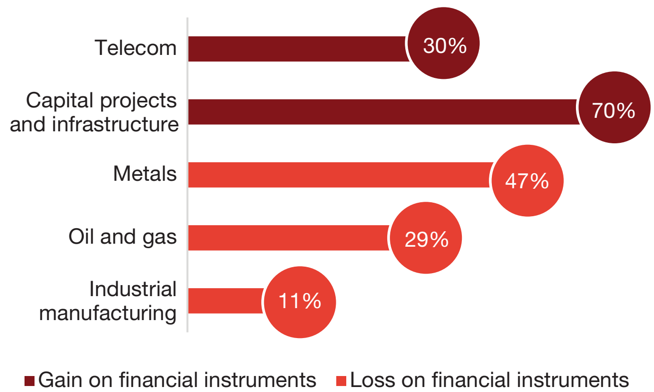
Of the population,[5] 46 companies (72%) reported an increase in total equity of approximately 37,554 crore INR (2.0%) and 18 companies (28%) reported a decrease in total equity of approximately 12,238 crore INR (0.7%) resulting from Ind AS adoption.

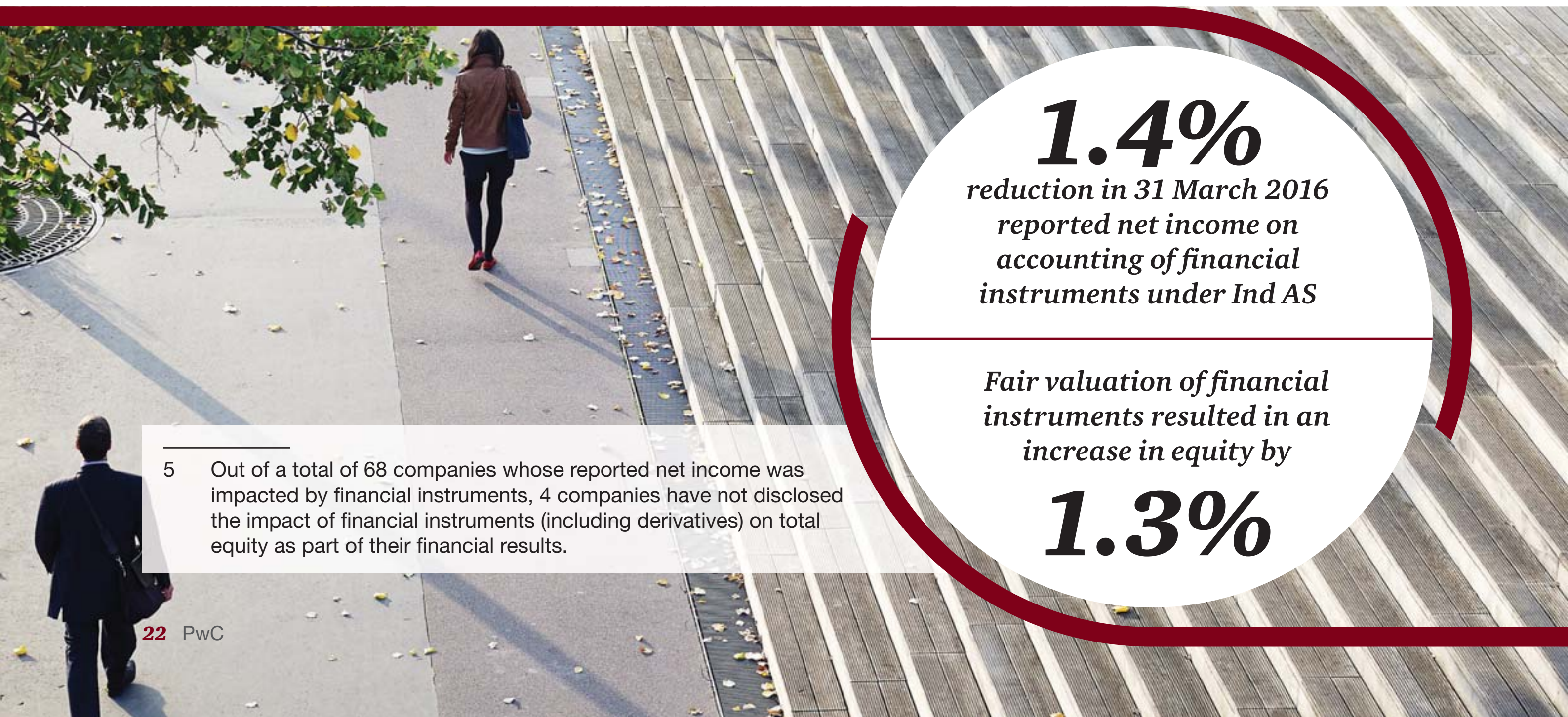
Percentage impact on total equity



By industry sector, metals had the highest increase in total equity on account of financial instruments of approximately 13,170 crore INR (47% of the total increase in equity across industries). The oil and gas and industrial manufacturing sectors had an increase of approximately 8,260 crore INR (29%) and 3,062 crore INR (11%) respectively.

Capital projects and infrastructure had the highest reduction in total equity on account of financial instruments of approximately 1,965 crore INR (70% of the total decrease in equity across industries), followed by telecom with a loss of approximately 842 crore INR (30%).





1.4%
reduction in 31 March 2016 reported net income on accounting of financial instruments under Ind AS

Fair valuation of financial instruments resulted in an increase in equity by
1.3%

5 Out of a total of 68 companies whose reported net income was impacted by financial instruments, 4 companies have not disclosed the impact of financial instruments (including derivatives) on total equity as part of their financial results.

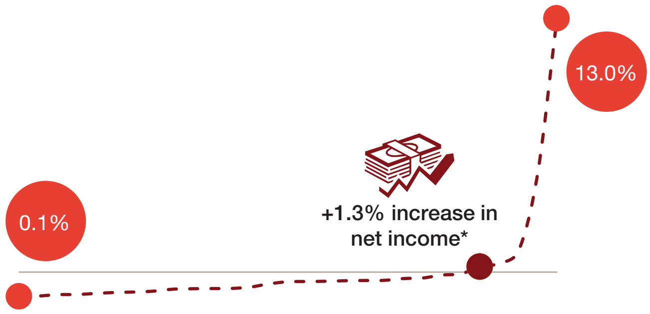
Retirement benefit obligations

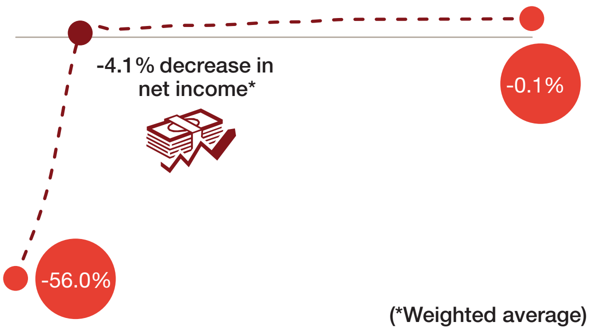
There was an overall decrease in reported net income of 935 crore INR (0.3%) on account of actuarial gain and losses being reclassified to OCI under Ind AS, compared to the profit and loss account under Indian GAAP. Further, Indian GAAP required an independent calculation of interest cost (based on the application of a discount rate to the projected employee benefit obligation) and expected return on assets (based on the application of an expected rate of return on assets to the calculated asset value), while Ind AS applies the discount rate to the net benefit obligation to calculate a single net interest cost or income. The requirement to calculate cost by applying a single discount rate has also resulted in a change in reported net income under Ind AS.

Of the population of 58 companies, 39 companies (67%) reported an increase in net income of approximately 1,512 crore INR (0.6%).

Percentage impact on net income

Further, 19 companies (33%) reported a decrease in income of approximately 2,449 crore INR (0.9%) resulting from Ind AS adoption in this area.





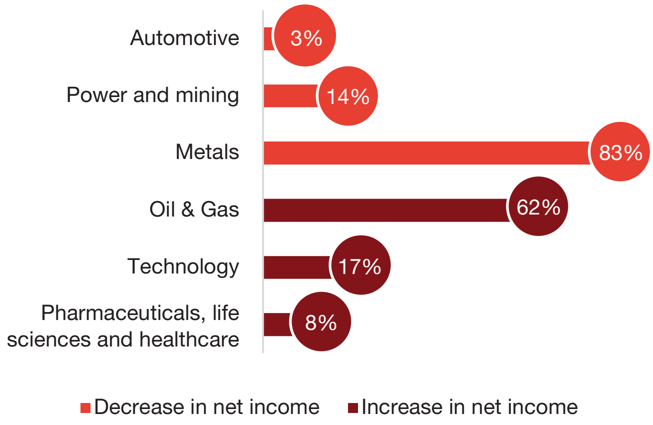
(*Weighted average)

Companies have reported an increase in net income ranging from 0.1% to 13.0%, resulting in a weighted average increase in net income of 1.3%.

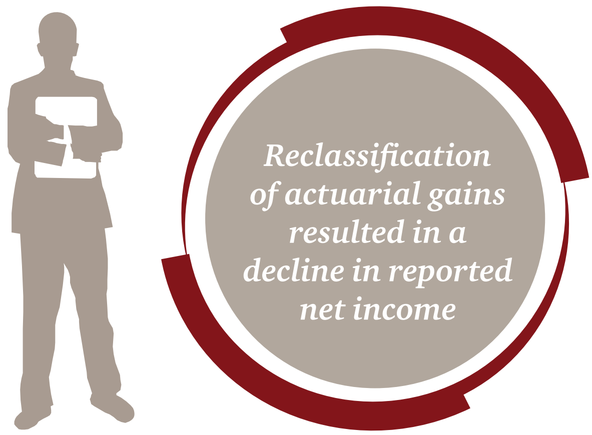
The decrease in net income ranges from 0.1% to 56.0%, resulting in a weighted average decrease in net income of 4.1%.

By industry sector, oil and gas had the highest increase in net income of approximately 768 crore INR (62% of the total increase in net income across industries). Technology had an increase in net income of approximately 215 crore INR (17%) and pharmaceuticals, life sciences and healthcare had an increase of approximately 102 crore INR (8%).

Metals had the highest decrease in net income of approximately 1,811 crore INR (83% of the total decrease in net income across industries), followed by power and mining and automotive at approximately 301 crore INR and 63 crore INR (14% and 3%, respectively).



In India, the rate used to discount the retirement benefit obligation is determined by reference to market yields on government bonds. However, subsidiaries, associates, JVs and branches domiciled outside India shall discount retirement benefit obligations using the rate determined by reference to market yields on high-quality corporate bonds. As a result, one company has recorded an increase in equity due to the use of corporate bond rates to discount the defined benefit liability.

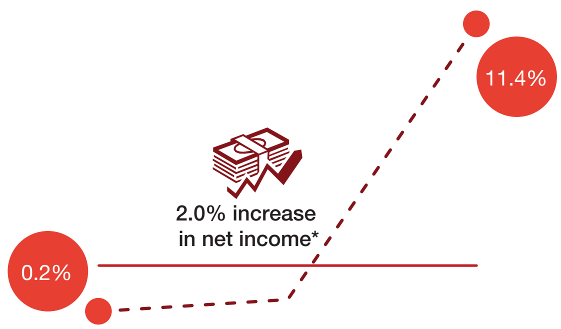


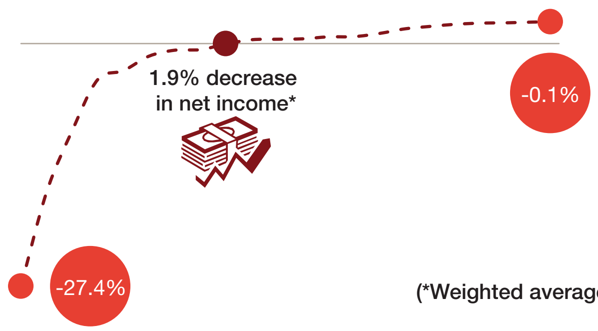
Business combination and consolidation

There was an overall decrease in reported net income of approximately 1,842 crore INR (0.7%).

Of the population of 24 companies (32%), 3 companies (13%) reported an increase in net income of approximately 154 crore INR (0.1%). Further, 21 companies (87%) reported a decrease in income of approximately 1,996 crore INR (0.8%) as a result of Ind AS adoption.

Percentage impact on net income





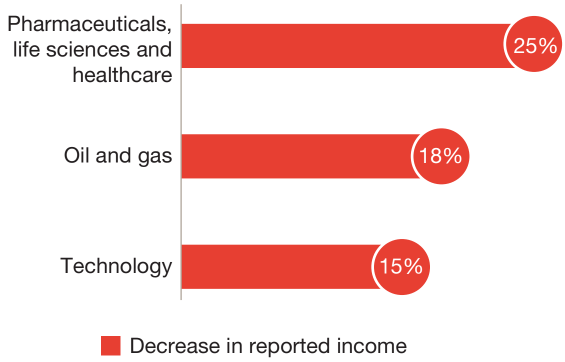
(*Weighted average)

Companies have reported an increase in net income ranging from 0.2% to 11.4%, resulting in a weighted average increase in net income of 2.0%. The decrease in net income ranges from 0.1% to 27.4%, resulting in a weighted average decrease in net income of 1.9%.

Key adjustments

- Retrospective application of business combination principles under Ind AS 103 resulted in increased amounts of tangible/intangible assets due to fair valuation and a consequential impact on subsequent depreciation/amortisation
- Consolidation of results of certain entities now being classified as subsidiaries, including ESOP trusts and equity accounting of other investments as associates and JVs which were previously consolidated under Indian GAAP (i.e. de-consolidation)
- Under Indian GAAP, JVs were proportionately consolidated, whereas under Ind AS, such investments have been accounted using the equity method
- Presentation of non-controlling interest as part of equity in the consolidated balance sheet
- Fair valuation of deferred and contingent consideration in business combinations, including options issued to non-controlling shareholders
- Recognition of business acquisition related costs in the income statement under Ind AS vis-à-vis cost of investment/goodwill under Indian GAAP
- Accounting of common control business combinations using the pooling of interest method. Goodwill is not recognised on such transactions. Under previous GAAP, goodwill was recognised in common control transactions. We noted that companies have reversed goodwill previously recognised on such transactions
- Fair valuation of retained ownership in case of disposal of interest in subsidiary. The fair value gain or loss is recognised in profit and loss under Ind AS

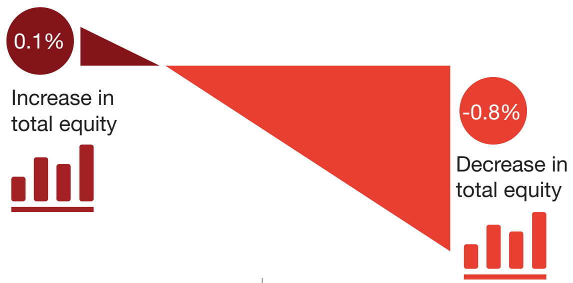
By industry sector, pharmaceuticals, life sciences and healthcare had the highest reduction in net income on account of business combination and consolidation adjustments of approximately 466 crore INR (25% of the total decrease in reported income). The key reason for reduction in net income is amortisation of intangibles recognised due to retrospective application of Ind AS on business combinations. Under the new standard, additional intangible assets may be recognised as compared to previous GAAP. Further, the change in definition of control under Ind AS has resulted in some of the investments being considered as subsidiaries and their losses being consolidated, resulting in reduction of net income on a consolidated level. Oil and gas and technology had a decrease of approximately 330 crore INR (18%) and 274 crore (15%) INR, respectively.



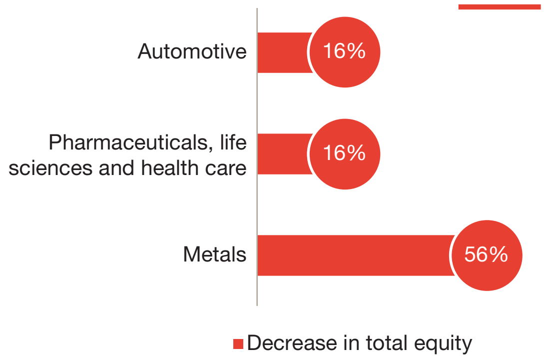
Impact on total reported equity

There was an overall decrease in reported total equity of approximately 13,451 crore INR (0.7%) reported by 29 companies on account of business combination and consolidation adjustments. Of these, 12 companies (41%) reported an increase in total equity of approximately 2,852 crore INR (0.1%) and 17 companies (59%) reported a decrease in total equity of approximately 16,304 crore INR (0.8%) as a result of Ind AS adoption.

Percentage impact on total equity



Metals had the highest reduction in total equity on account of business combination and consolidation adjustments of approximately 7,555 crore INR (56% of the total decrease in reported equity across industries). Pharmaceuticals, life sciences and healthcare and automotive had a decrease of approximately 2,198 crore INR (16%) and 2,092 crore (16%), respectively.

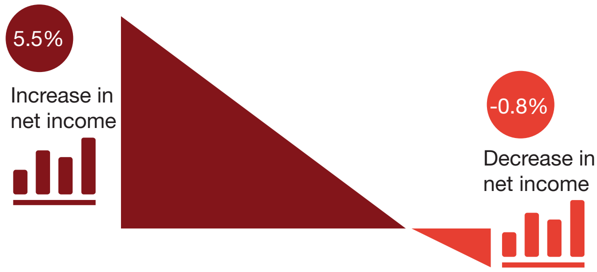


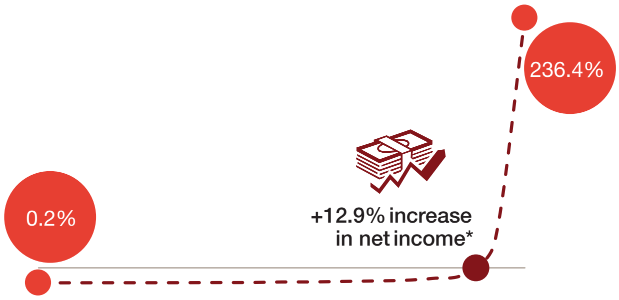
Amortisation and depreciation

There was an overall increase in the reported net income of 12,673 crore INR (4.7%) on account of adjustments resulting from amortisation and depreciation.

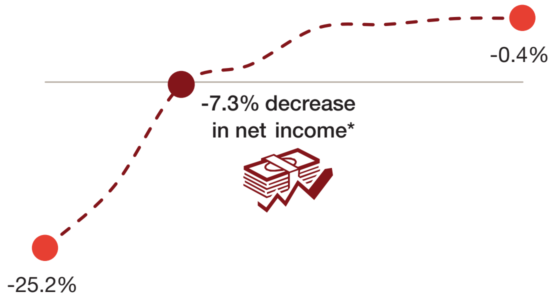
Of the population of 32 companies, 21 companies (66%) reported an increase in net income of approximately 14,806 crore INR (5.5%). Further, 11 companies (34%) reported a decrease in net income of approximately 2,133 crore INR (0.8%) as a result of Ind AS adoption.

Percentage impact on net income





Companies have reported an increase in net income ranging from 0.2% to 236.4%, resulting in a weighted average increase in net income of 12.9%.

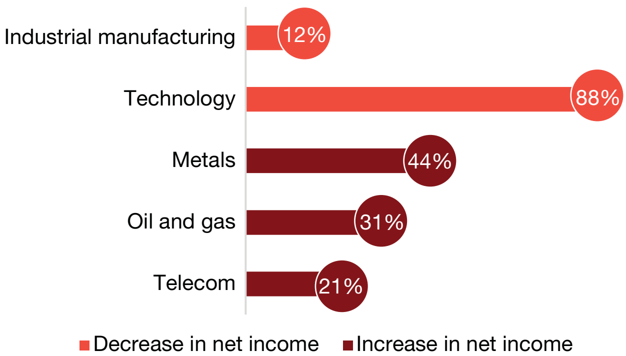


The decrease in net income ranges from 0.4% to 25.2%, resulting in a weighted average decrease in net income of 7.3%.

Key adjustments

- Reversal of previously recognised amortisation on indefinite lived intangible assets/goodwill
- Revision of estimated useful life of tangible and intangible assets
- Use of fair value as the deemed cost of tangible/intangible assets at the transition date
- Reclassification of capital spares from inventory to property, plant and equipment, and consequential depreciation impact
- Change in depreciation/depletion of oil and gas assets (specific to oil and gas industry)
- De-recognition of foreign exchange differences on foreign currency borrowings as part of property, plant and equipment
- Changes in the method of depreciation are applied prospectively under Ind AS (as a change in accounting estimate) as opposed to retrospectively under previous Indian GAAP

By industry sector, metals had the highest increase in net income of approximately 5,637 crore INR (44% of the total increase in net income across industries). Oil and gas and telecom had an increase in net income of approximately 4,004 and 2,719 crore INR (31% and 21%, respectively). The key reason for the increase in net income was reversal of amortisation of indefinitely lived intangible assets and lower depreciation due to the election of fair value of property, plant and equipment as deemed cost as at the transition date (i.e. the fair value was lower than the previous Indian GAAP value at the date of transition).



Technology and industrial manufacturing reported a decrease in net income on account of increased depreciation/amortisation expense of approximately 136 crore INR (88% of the total decrease in net income across industries) and 19 crore INR (12%) respectively. Under previous GAAP, certain intangibles were included in goodwill and amortised over the same period as goodwill. Under Ind AS, these intangibles are separately recognised and amortised over their own estimated useful life. This has resulted in an increased amortisation, thereby reducing the net income.

Impact on reported equity as at 31 March 2016

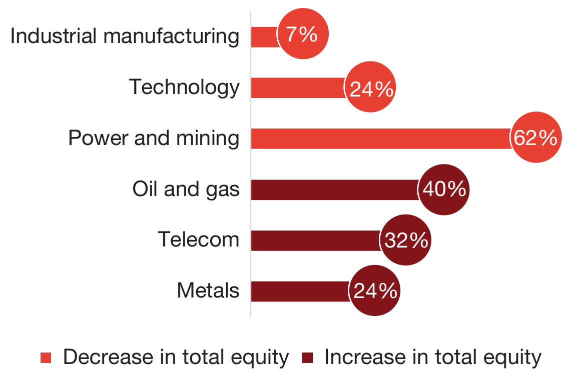
There was an overall increase in reported total equity of approximately 78,036 crore INR (4.0%) reported by 34 companies on account of depreciation and amortisation adjustments and deemed cost (use of fair value as deemed cost on transition date) adjustments.

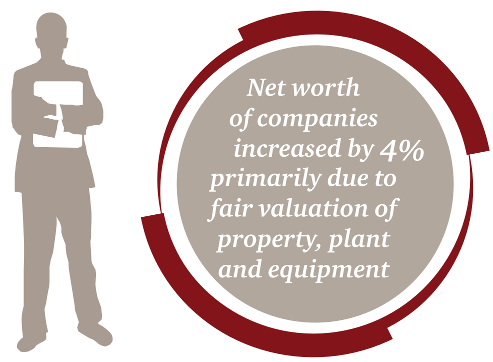
Of these, 20 companies (59%) reported an increase in total equity of approximately 81,678 crore INR (4.2%) and 14 companies (41%) reported a decrease in total equity of approximately 3,642 crore INR (0.2%) as a result of Ind AS adoption.

By industry sector, oil and gas had the highest increase in total equity on account of amortisation and depreciation and deemed cost adjustments of approximately 31,878 crore INR (40% of the total increase in reported equity across industries). This was followed by telecom and metals with an increase in reported equity of approximately 25,507 crore INR (32%) and 19,166 crore INR (24%) respectively. The increase in equity is mainly due to companies using fair value as the carrying value of property, plant and equipment at the transition date.

Power and mining had the highest reduction in total equity on account of amortisation and depreciation and deemed cost adjustments of approximately 715 crore INR (62%). The reduction is on account of de-recognition of foreign exchange losses on foreign currency borrowings as part of property, plant and equipment under Ind AS. Technology and industrial manufacturing also reported a decrease in reported equity of approximately 277 crore INR (24%) and 82 crores (7%) respectively. The adjustment is primarily related to the change in the method of depreciation which is applied prospectively (i.e. change in estimate) under Ind AS as opposed to retrospectively under previous Indian GAAP.

Percentage impact on total equity





Other adjustments

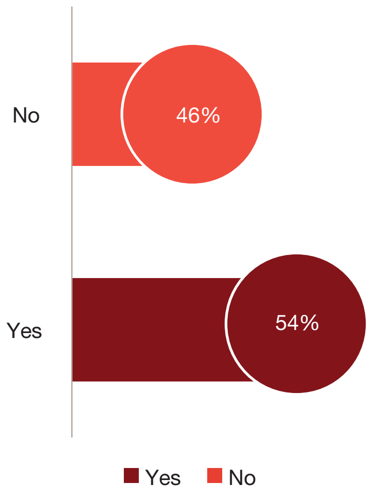
Other adjustments include:

- Discounting of asset retirement obligations, decommissioning and site restoration liabilities and long-term provisions under Ind AS—such provisions are recorded on an undiscounted basis under Indian GAAP.
- Change in the method of capitalisation from full cost method (FCM) to successful efforts method (SEM) (specifically for the oil and gas sector).
- Recognition of government grants on a deferred income basis. Under Indian GAAP, certain grants could have been directly recognised in reserves, which is not permissible under Ind AS. Ind AS requires government grants to be accounted as capital or income grants.
- Exchange differences on translation of foreign operations. Under Indian GAAP, foreign operations are classified as integral or non-integral based on which accounting for foreign currency transactions is determined. Ind AS does not have these concepts; instead, foreign currency accounting is based on the functional currency of operations.
- Under previous GAAP, the foreign exchange differences arising on long-term loans other than those taken for purchase of a depreciable asset were recognised in the foreign currency monetary translation reserve and amortised over the term of the loan. Under Ind AS, the companies have an option to continue the existing accounting under previous GAAP for outstanding long-term loans or to recognise these foreign exchange differences in profit and loss. We note that some companies have adopted the policy to recognise the exchange difference in profit and loss.
- Recognition of provisions related to constructive obligations under Ind AS. Under Indian GAAP, provisions were generally accounted when there was a past legal obligation.
- Under previous GAAP, enabling assets were expensed through profit and loss. Under Ind AS, enabling assets are capitalised and depreciated over the asset's estimated useful life.
- Increase in expense due to gross up of excise duty on revenue was one of the most significant adjustments.
- Under previous GAAP, employee compensation cost for share-based payments was based on the intrinsic value method. Under Ind AS, the share-based payment compensation is recognised on the basis of fair value on grant date over the vesting period using an appropriate method of valuation. In a group scenario, where the parent entity grants share-based payments to the employees of other group companies, the compensation cost is treated as capital contribution in the subsidiary entity's financial statements.
- Accelerated vs straight-line method of expense attribution in respect of graded vesting of share-based awards under Ind AS.
- Under Ind AS, escalation of operating lease rentals, which is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost, is not recognised as an expense on a straight-line basis. This is also a key carveout from IFRS.
- Recognition of arrangements that may not have been legally termed as leases but in substance are right to use underlying assets have been accounted as embedded leases under Ind AS. Indian GAAP does not include such guidance.

Adoption of Ind AS: Presentation and disclosure matters

Was an analysis of OCI presented?

Of the population, only 41 companies (54%) presented an analysis of items in OCI in the results.



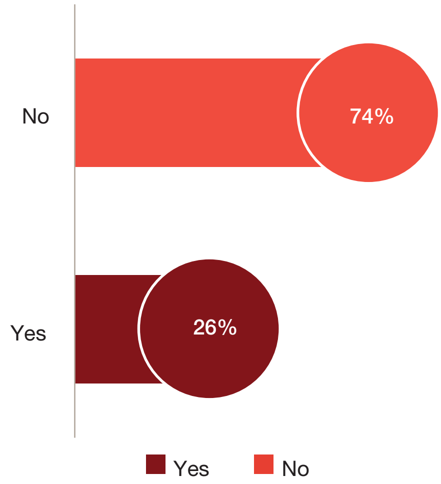
Key adjustments

- Reclassification of actuarial gains or losses from profit and loss to OCI
- Foreign currency translation differences of foreign operations
- Effective portion of derivative instruments—cash flow hedge
- Fair valuation of equity and debt instruments through OCI
- Deferred tax adjustments

Segment and other disclosures

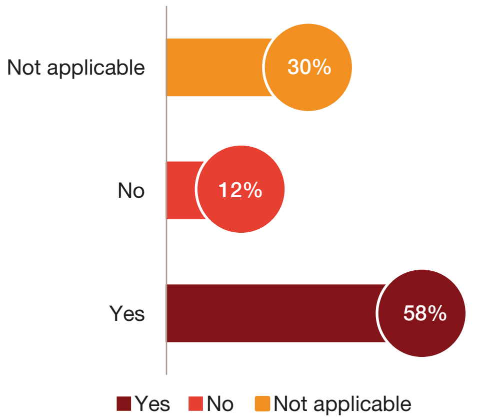
Did segment disclosures change on Ind AS adoption?

Twenty-six percent of the companies changed their segment reporting disclosures. This was mainly from the geographical segment to business segment, and identification of additional segments. A majority of them disclosed no change in segment reporting on Ind AS adoption.



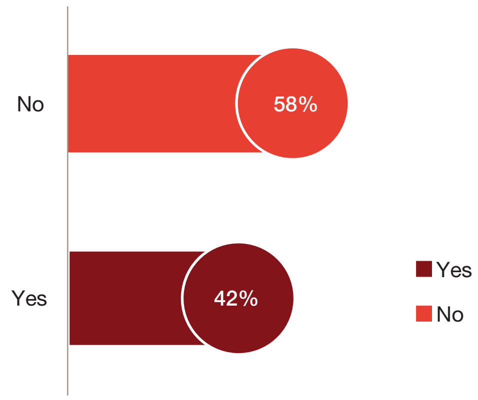
Were segment assets and liabilities presented?

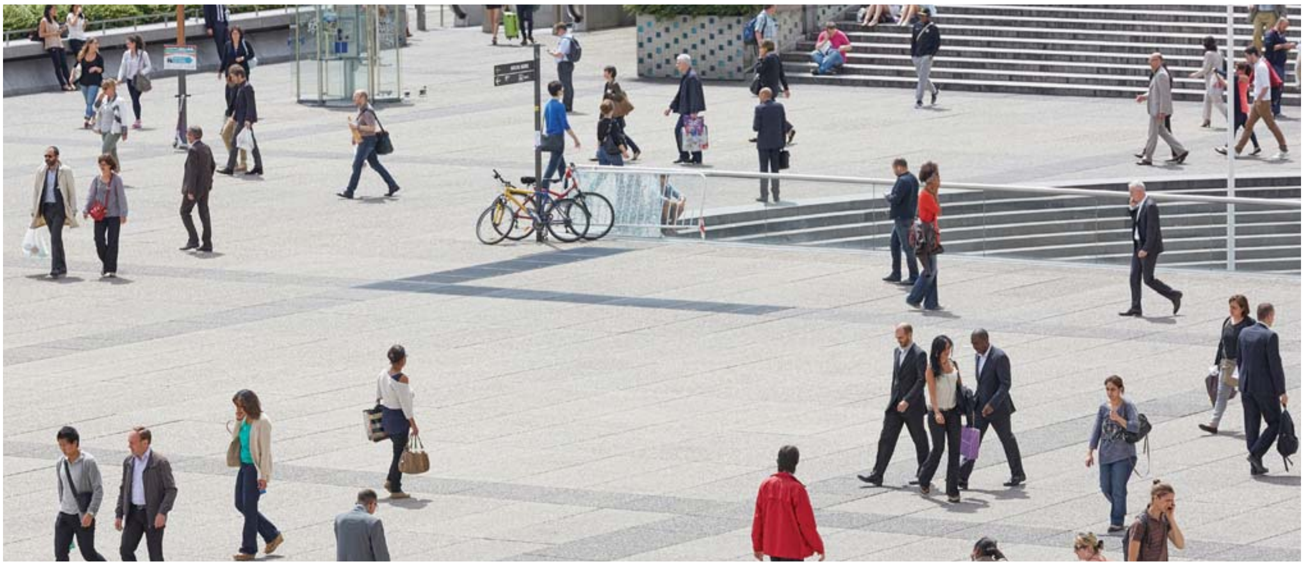
Of the population, 58% of the companies published their segment assets and liabilities, whereas 12% did not. This was not applicable to 30% of the companies.



Were exceptional items disclosed?

In all, 42% of the companies reported exceptional items. The nature of exceptional items included adjustments such as impairment of property, plant and equipment and intangible assets, impairment in joint venture, gain on disposal of interest in subsidiaries, provisions related to demand/claims/levies and restructuring costs.





In summary: A year of adoption

Adoption of Ind AS has been one of the most widely discussed topics across boardrooms in India for a while, and corporates have invested significant efforts and resources to ensure compliance with Ind AS. Reporting of annual financial results under Ind AS within the regulatory timeline has proved to be a testament to India's readiness and ability to successfully embrace such a significant change in financial reporting.

As is evident from the Ind AS results reported by various companies, the impact of adoption has been pervasive and not restricted to only one sector or industry. This is mainly due to a fundamental change in the financial reporting framework, a general shift from the historical cost convention to increased use of fair value and increased focus over substance rather than the legal form of the underlying transaction, thereby impacting every company and industry sector.

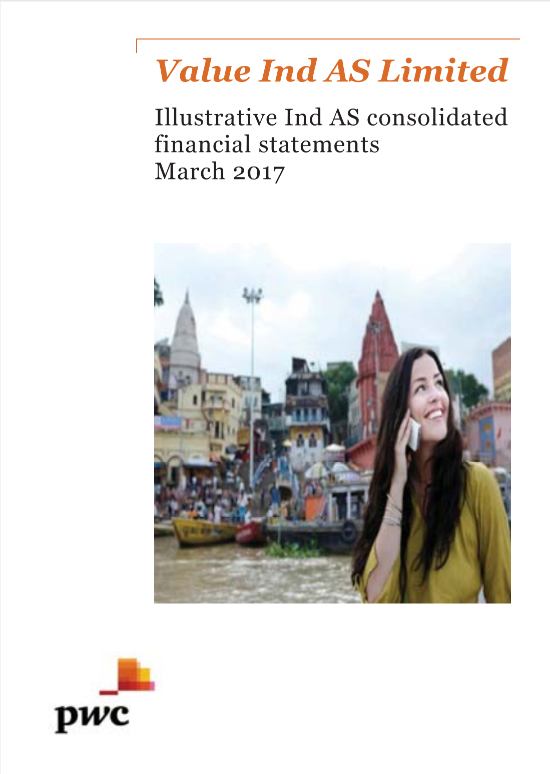
Net income of sectors such as industrial manufacturing, automotive, metals and capital projects and infrastructure were impacted the most. On the other hand revenue, taxes and financial instruments (including derivatives) were the top 3 areas of adjustment arising from Ind AS adoption.

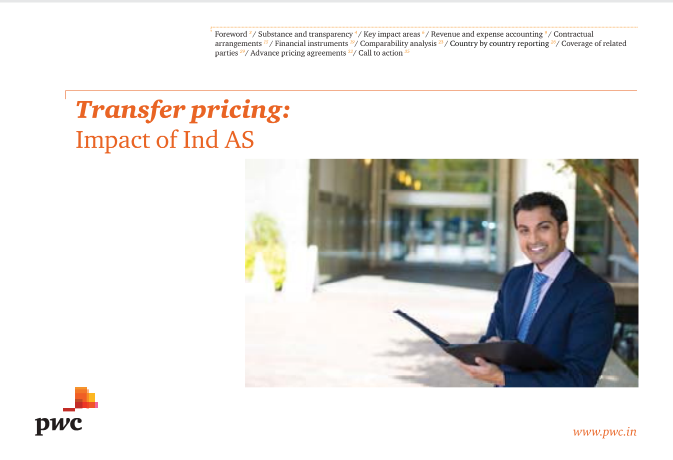
Investors, stakeholders and other users will see additional disclosures of financial information in the annual reports of companies, which will help better understand the company's business story, performance and financial position.

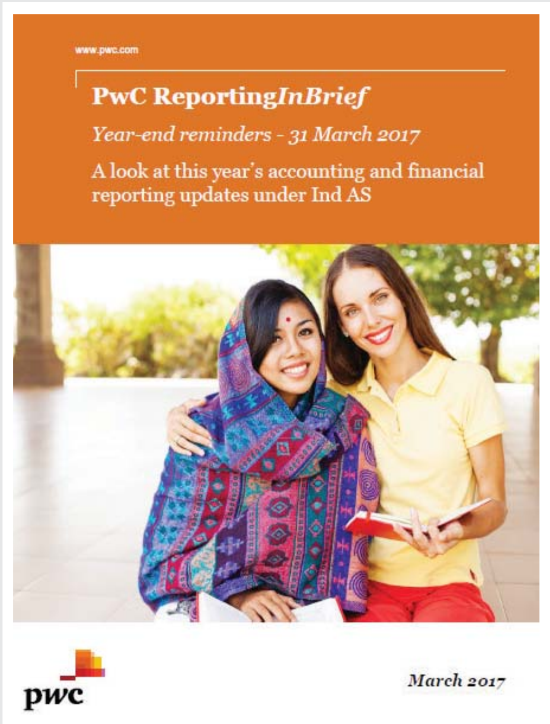
Finally, based on our experience, the impact of Ind AS adoption has been beyond accounting, cutting across organisation and various functions/areas such as direct and indirect taxes, contractual arrangements with customers, suppliers, lenders, HR and incentive policies, IT systems and controls, and requiring timely communication with various stakeholders.

This phased Ind AS transition process has been helpful especially for Phase II companies, including banks, NBFCs and insurance companies, as they can benefit from the transition experience and journey of Phase I companies.

Publications







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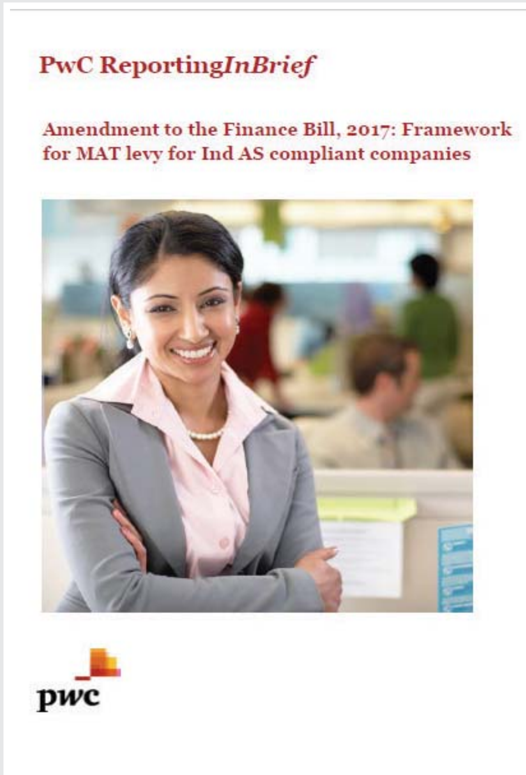

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Contents
Foreword p2 / About the report p3 / Ind AS impact analysis p4 / Snapshot of results p5 / Adoption of Ind AS: Changes to reported net income p6 / In-depth: Top impact areas p7 / Adoption of Ind AS: Presentation and disclosure matters p17 / In summary p20 / Publications p22
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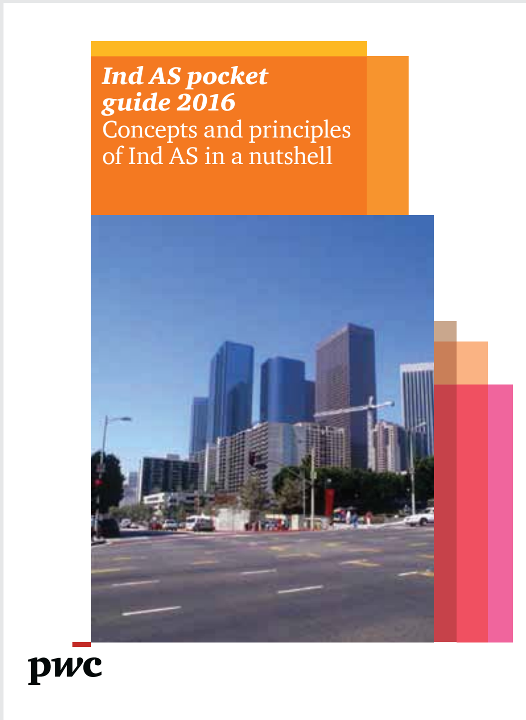

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