CHAPTER V

Impact of Implementation of Indian Accounting Standards in Selected Non-Banking Financial Companies

5.1 Introduction

The era of globalisation and liberalisation has led to increased social mobility, cross border movement of finance, capital, and commodities, which in turn has necessitated a single set of high-quality global Accounting Standards. Ministry of Corporate Affairs, Government of India notified (16 February 2015) Indian Accounting Standards (Ind AS), converging the hitherto applicable Indian Generally Accepted Accounting Principles (IGAAP) with global standards, namely, International Financial Reporting Standards (IFRS). The Ind AS have been formulated keeping the Indian economic and legal environment in view and are different from the earlier IGAAP framework mainly in three key aspects i.e. fair valuation, substance over legal form and emphasis on the Balance Sheet. The Ind AS are mandatorily to be adopted by prescribed class of Companies w.e.f., 01 April 2016 in a phased manner. As on 31 March 2020, 39 Ind AS are applicable (***Annexure XXXVII***).

5.2 Implementation of Ind AS

The Companies (Indian Accounting Standards) Rules, 2015 laid down a roadmap for implementation of Ind AS and Non-Banking Financial Companies (NBFCs) came in the third and last phase of implementation, as detailed in Table 5.1.

Table 5.1: Roadmap for implementation of Ind AS

Phase	Financial/ Accounting Year commencing	Category of Companies required to implement Ind AS*
Phase I	01.04.2016	Companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of ₹500 crore or more.
		Companies having net worth of ₹500 crore or more, other than those covered above.
		Holding, subsidiary, joint venture or associate companies of companies covered above.
Phase II	01.04.2017	Companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than ₹500 crore.

Phase	Financial/ Accounting Year commencing	Category of Companies required to implement Ind AS*
		Unlisted Companies other than those covered in Phase I whose net worth is ₹250 crore or more but less than ₹500 crore.
		Holding, subsidiary, joint venture or associate companies of companies covered above.
Phase III	01.04.2018	NBFCs having net worth of ₹500 crore or more.
		Holding, subsidiary, joint venture or associate NBFCs of NBFCs covered above.
	01.04.2019	NBFCs whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than ₹500 Crore.
		Unlisted NBFCs having net worth of ₹250 crore or more but less than ₹500 crore; and
		Holding, subsidiary, joint venture or associate NBFCs of NBFCs covered above.

**Companies/ NBFCs not covered under the above provisions may continue to apply earlier standards (IGAAP) or voluntarily adopt Ind AS. However, once they started reporting as per Ind AS, they cannot revert to IGAAP.*

As per notification dated 30 March 2016 of the Ministry of Corporate Affairs, duly notifying the Companies (Indian Accounting Standards) (Amendment) Rules, 2016, a 'Non-Banking Financial Company' has been defined under Rule 2(1)(g) as follows:

> *A 'Non-Banking Financial Company' means a Non-Banking Financial Company as defined in clause (f) of Section 45-I of the Reserve Bank of India Act, 1934 and includes Housing Finance Companies, Merchant Banking Companies, Micro Finance Companies, Mutual Benefit Companies, Venture Capital Fund Companies, Stock Broker or Sub Broker Companies, Nidhi Companies, Chit Companies, Securitization and Reconstruction Companies, Mortgage Guarantee Companies, Pension Fund Companies, Asset Management Companies and Core Investment Companies.*

The implementation of Ind AS involved the following salient steps:

- In all cases, the date of transition to Ind AS was 1 April of previous year. For example, in the case of NBFCs which adopted Ind AS from 01 April 2018, the date of transition was 01 April 2017. Comparative period for the first Ind AS financial statements was 2017-18.
- The NBFCs were required to prepare three balance sheets viz. the opening Ind AS balance sheet as on 01 April 2017, the Ind AS Balance Sheet as on 31 March 2018 and the Ind AS Balance Sheet as on 31 March 2019.

- Two Profit and Loss Accounts were required to be prepared as per Ind AS i.e. for year ended 31 March 2018 and 31 March 2019.
- Statement of changes in equity was required to be prepared for year ended 31 March 2018 and 31 March 2019.

5.3 Objectives of Audit

The objectives of audit were to study the implementation of Ind AS in NBFCs to assess compliance of various provisions of Ind AS by the NBFCs and to assess the impact of implementation of Ind AS in the financial statements of NBFCs.

5.4 Scope of Audit

The study covered NBFCs in public sector under the administrative control of various Central Government ministries/ departments which were required to adopt Ind AS or voluntarily adopted Ind AS during 2018-19 and 2019-20. Out of 35 NBFCs which have adopted Ind AS, an audit sample of 19 NBFCs was selected across different sectors based on net worth, Profit After Tax (PAT) and turnover duly considering sector representation (***Annexure XXXVIII***).

Study of Phase I and Phase II of Ind AS implementation was undertaken by Audit in previous years and a Chapter on implementation of Ind AS was included in CAG Report No. 18 of 2018 and CAG Report No. 18 of 2019 (General Purpose Financial Report) respectively.

5.5 Audit Methodology

The correctness in application of Ind AS by the NBFCs was verified during the Supplementary Audit of the accounts of the NBFCs at the time of first year of adoption of Ind AS and subsequent years. In this Chapter, we have reported the impact of the changes brought out by the adoption of Ind AS on the financial statements of the selected NBFCs.

The standalone financial statements of 19 NBFCs in the audit sample, which have adopted Ind AS in Phase III for preparation of their financial statements either mandatorily or voluntarily have been reviewed in audit. Impact of implementation of Ind AS in these NBFCs on their PAT, revenues, net worth and total assets was analysed. The analysis was with reference to changes as a result of adoption of Ind AS in revenue recognition, valuation of financial instruments and Property, Plant and Equipment (PPE), calculation of employee benefits, accounting of business combinations and impairment of financial assets. Compliance of directions issued by Regulators for implementation of Ind AS, by the NBFCs was also examined.

5.6 Adoption of Ind AS after CAG's comment

One of the NBFCs in the audit sample, SBI Pension Fund (P) Limited did not adopt Ind AS in the preparation of financial statements for 2018-19, though it was required to do so w.e.f. 01 April 2018 in Phase III, as per the implementation roadmap. However, after CAG's comment was issued (08 July 2019) at the time of certification of accounts pointing out the omission, Board of Directors decided to revise the financial statements as per Ind AS and the NBFC thereafter prepared the accounts as per Ind AS.

5.7 Exemption on first time adoption of Ind AS

The underlying principle of Ind AS 101 is that a first-time adopter should prepare the financial statements as if it had always applied Ind AS. However, it permitted mandatory as well as optional exemptions to the principle of retrospective application of Ind AS. The mandatory exemptions are related to retrospective application of some aspects of Ind AS 10 – Events after the Reporting Period, Ind AS 109 – Financial Instruments and Ind AS 110 – Consolidated Financial Statements.

Particulars regarding the optional exemptions and the number of NBFCs which availed them are given in Table 5.2

Table 5.2: Details of optional exemptions availed by NBFCs

Sl. No.	Ind AS optional exemption	No. of NBFCs which availed the exemption
1	**Ind AS 16 – Property, Plant and Equipment (PPE)** Ind AS permits a first-time adopter to elect to measure its PPE at the date of transition to Ind AS at its fair value or continue with the carrying value of its PPE as per the earlier IGAAP and use that as its deemed cost at the date of transition, after making necessary adjustments for decommissioning liabilities. These exemptions are also applicable to intangible assets under Ind AS 38 and Investment property under Ind AS 40.	13 NBFCs [72]
2	**Ind AS 27 – Separate Financial Statements** Ind AS 27 requires an entity to account for its investments in subsidiaries, jointly controlled entities and associates either at cost or in accordance with Ind AS 39 Financial Instruments.	6 NBFCs[73]
3	**Ind AS 109 – Financial Instruments** As per Ind AS 109, a company may designate a financial asset as measured at fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI), on the basis of facts and circumstances that exist at the date of transition to Ind AS.	5 NBFCs[74]
4	**Ind AS 103-Past business combination** A company may choose not to apply Ind AS 103 retrospectively to past business combinations that occurred before the transition date.	1 NBFC[75]

[72]13 NBFCs - ASREC(India)Limited, MUDRA, SBI Capital Markets Limited, STCI Finance Limited, SBI Funds Management Private Limited, SBI DFHI Limited, STCI Primary Dealers Limited, SBI Global Factor Limited, IFIN Securities Limited, Eastern Investments Limited, India Infrastructure Finance Company Limited, REC Limited, Industrial Finance Corporation of India Limited
[73]6 NBFCs - SBI Capital Markets Limited, STCI Finance Limited, SBI Funds Management Private Limited, Housing and Urban Development Corporation Limited, Power Finance Corporation Limited, Industrial Finance Corporation of India Limited
[74]5 NBFCs – SBI Capital Markets Limited, PNB Gilts Limited, India Infrastructure Finance Company Limited, Power Finance Corporation Limited and Housing and Urban Development Corporation Limited
[75]Power Finance Corporation Limited

5.8 Impact of implementation of Ind AS on selected key areas

The implementation of Ind AS impacted PAT, revenues, total assets, and net worth of NBFCs in the audit sample. The values increased or decreased due to difference in accounting treatment of various items and also depending on the exemptions availed by the NBFC at the time of adoption of Ind AS. The impact of implementation of Ind AS in respect of 19 NBFCs selected for review is discussed below:

5.8.1 Impact on Profit After Tax (PAT)

The impact on PAT on the 19 NBFCs is given in ***Annexure XXXIX***. Out of 19 NBFCs in the audit sample;

- Seven NBFCs recorded increase in PAT.
- 10 NBFCs recorded decrease in PAT.
- There was no impact on PAT in respect of two NBFCs.
- In respect of seven NBFCs, there was a material impact of more than 50 *per cent* on PAT.
- In two NBFCs, profit increased by more than 100 *per cent* and in one NBFC loss turned into profit.

The factors contributing to changes in PAT in respect of 19 NBFCs reviewed in Audit are discussed in the subsequent paragraphs.

5.8.1.1 Factors contributing to change in PAT

The main items which contributed to change in PAT were:

a. **Valuation of liabilities towards post-employment benefits**

Under IGAAP, differences accruing due to measurement of liabilities towards post-employment benefits formed part of the Profit and Loss Account. However, under Ind AS, such differences i.e., actuarial gains or losses were recognised under 'Other Comprehensive Income' and taken directly to Retained Earnings instead of recognizing them in Profit and Loss Account. While gains/ losses are taken to 'other comprehensive income', it affects profit/ loss earlier recognized in Profit and Loss Account under IGAAP by way of increase or decrease in profit in new Profit and Loss Account. Change in profit/ loss due to this treatment was noticed in seven out of 19 NBFCs viz.:

Increase in profit in one NBFC

- SBI DFHI Limited (₹0.44 crore)

Decrease in profit in six NBFCs

- SBI Capital Markets Limited (₹0.05 crore)
- STCI Finance Limited (₹0.07 crore)
- SBI Funds Management (P) Limited (₹0.61 crore)

- SBI Global Factors Limited (₹0.01 crore)
- ASREC (India) Limited (₹0.02 crore)
- Industrial Finance Corporation of India Limited (₹2.97 crore)

b. **Recognition/ reversal of deferred taxes**

Ind AS 12 – Income Taxes, required recognition of deferred tax on new temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. This was not a requirement under IGAAP. If the NBFC was already having deferred tax asset as per IGAAP, any further increase as a result of fair valuation under Ind AS would increase its profit and vice versa. Change in profit/ loss due to this treatment was noticed in 13 out of 19 NBFCs as detailed below:

Increase in Profit in six NBFCs

- Power Finance Corporation Limited (₹1,025.67 crore)
- REC Limited (₹740.83 crore)
- SBI DFHI Limited (₹7.09 crore)
- SBI Capital Markets Limited (₹4.48 crore)
- STCI Primary Dealers Limited (₹2.68 crore)
- SBI Global Factors Limited(₹1.51crore)

Decrease in Profit in seven NBFCs

- Industrial Finance Corporation of India Limited (₹780.23 crore)
- Housing and Urban Development Corporation Limited (₹107.01 crore)
- PNB Gilts Limited (₹18.80 crore)
- MUDRA Limited (₹4.06 crore)
- ASREC (India) Limited (₹3.58 crore)
- SBI Funds Management (P) Limited (₹2.51 crore)
- STCI Finance Limited (₹2.25 crore)

c. **Measurement of investments/ assets at fair value through profit and loss**

All financial assets[76] and financial liabilities are carried at cost under IGAAP whereas under Ind AS, certain financial assets and financial liabilities are subsequently measured at amortised cost by applying effective interest rate (EIR)[77]. Fair valuation may result in either increase or decrease of value of investments in assets which will further result in

[76]Financial instruments that give rise to either assets or liability through a contract.

[77] EIR - Effective Interest Rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial instrument.

either increase or decrease of profit. Change in profit/ loss due to this treatment was noticed in 15 out of 19 NBFCs as detailed below:

Increase in Profit in 10 NBFCs

- Industrial Finance Corporation of India Limited (₹328.62 crore)
- PNB Gilts Limited (₹57.05 crore)
- REC Limited (₹37.70 crore)
- Housing and Urban Development Corporation Limited (₹22.19 crore)
- India Infrastructure Finance Company Limited (₹15.83 crore)
- ASREC (India) Limited (₹12.89 crore)
- SBI Funds Management (P) Limited (₹7.51 crore)
- STCI Primary Dealers Limited (₹4.85 crore)
- IFIN Securities Finance Limited (₹0.06 crore)
- MUDRA Limited (₹0.26 crore)

Decrease in Profit in five NBFCs

- Power Finance Corporation Limited (₹64.27 crore)
- SBI Capital Markets Limited (₹14.76 crore)
- SBI DFHI Limited (₹20.93 crore)
- STCI Finance Limited (₹0.79 crore)
- Eastern Investments Limited (₹0.31 crore)

d. **Provision for impairment allowance and bad and doubtful debts**

Under IGAAP, provision for impairment of loans to customers was made as per the guidelines specified by the regulator viz. Reserve Bank of India, National Housing Bank etc. Under Ind AS 109, impairment loss on loans as well as provision against trade receivables are to be determined based on Expected Credit Loss (ECL)[78] method.

The ECL model adopted by the NBFCs under Ind AS framework may increase provision thereby reducing profit or decrease provision thereby increasing the profit. Due to recognition of provisions of bad and doubtful debts based on ECL method, change in profit/ loss was noticed in respect of eight out of 19 NBFCs as detailed below:

Increase in Profit in five NBFCs

- Industrial Finance Corporation of India Limited (₹1,458.07 crore)

[78] ***Expected Credit Loss (ECL)- ECL is the difference between all contractual cash flows that are due to the entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate (EIR).***

- STCI Finance Limited (₹6.63 crore)
- MUDRA Limited (₹6.42 crore)
- SBI Global Factors Limited (₹5.07 crore)
- IFIN Securities Finance Limited (₹0.62 crore)

Decrease in Profit in three NBFCs

- India Infrastructure Finance Company Limited (₹387.52 crore)
- Power Finance Corporation Limited (₹1,824.94 crore)
- REC Limited (₹875.38 crore)

e. **Recognition of upfront fees and income from loans**

Under IGAAP, upfront fees from customers are recognised in Profit and Loss Account at the point of transaction while under Ind AS such costs are included in the initial recognition amount of financial asset and recognized as interest income using EIR method. Further, as per Ind AS, income on loans and financial assets/ liabilities/ borrowing costs were classified/ measured at amortised cost using EIR. Change in profit/ loss due to this treatment was noticed in five out of 19 NBFCs viz.

Increase in Profit in two NBFCs

- Industrial Finance Corporation of India Limited (₹595.83 crore)
- MUDRA Limited (₹1.46 crore)

Decrease in Profit in three NBFCs

- Power Finance Corporation Limited (₹543.84 crore)
- REC Limited (₹84.16 crore)
- STCI Primary Dealers Limited (₹1.18 crore)

f. **Other reasons for change in PAT**

- Option regarding reclassification of income on Asset held at Fair Value through Other Comprehensive Income was exercised by NBFCs on fair valuation. Change in profit due to this treatment was noticed in STCI Finance Limited {(-)₹5.07 crore}.
- Ind AS contains detailed requirements on measurement of financial assets and liabilities and classification from one category to another. Change in profit due to this was noticed in Housing and Urban Development Corporation Limited (₹326.89 crore) and REC Limited {(-)₹59.06 crore}.

5.8.2 Impact on Revenue

The definition of 'revenue' under Ind AS 18 covers all economic benefits that arise in the ordinary course of activities of an entity which results in increase in net worth, other than increases relating to contributions from net worth participants. Revenue, as per IGAAP (AS 9 – Revenue recognition) is defined as gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services and from the use by others of the enterprise resources yielding interest, royalties and dividends.

The details of impact of revenue in 19 NBFCs are given in ***Annexure XL***. Adoption of Ind AS by the 19 NBFCs in the audit sample resulted in

- Increase in revenue in 10 NBFCs;
- Decrease in revenue in six NBFCs;
- No change in the revenue of three NBFCs; and
- Material impact of more than 10 *per cent* in respect of four NBFCs.

The impact in revenue in respect of 19 NBFCs reviewed in Audit was mainly due to:

a. Net Gain/ Loss on fair value changes in case of ASREC (India) Limited (₹5.77 crore), IFIN Securities Finance Limited (₹0.07 crore), Eastern Investments Limited {(-)₹0.31 crore} and Industrial Finance Corporation of India Limited (₹329.52 crore).

b. Increase in interest income due to EIR as per Ind AS 109 in case of IFIN Securities Finance Limited (₹0.20 crore), Power Finance Corporation Limited {(-)₹588.92 crore}, REC Limited (₹50.30 crore) and Industrial Finance Corporation of India Limited (₹747.11 crore).

c. Provisions written back pertaining to ECL in case of IFIN Securities Finance Limited (₹0.62 crore).

5.8.3 Impact on Total Assets

Total value of assets is impacted upon implementation of Ind AS due to difference in methods of accounting prescribed under Ind AS as compared to IGAAP *viz.* Ind AS 16 – Property, Plant and Equipment (PPE), Ind AS 38 – Intangible Assets, Ind AS 32 – Financial Instruments: Presentation, Ind AS 109 – Financial Instruments and Ind AS 40 – Investment Property.

Ind AS 101 permitted the first-time adopter to elect to continue with the carrying value for all its PPE as recognized in the Financial Statements prepared under IGAAP as at the date of transition to Ind AS. The carrying value is recognised as its deemed cost on the date of transition after making necessary adjustments for de-commissioning liabilities. This exemption could also be used for valuation of intangible assets under Ind AS 38 – Intangible assets and Ind AS 40 – Investment Property.

The details of impact of Assets in 19 NBFCs are given in ***Annexure XLI***. Out of 19 NBFCs covered in the study:

- Eight NBFCs recorded increase in assets;
- Nine NBFCs recorded decrease in assets;

- There was no change in the assets of two NBFCs; and
- In respect of two NBFCs, the impact was more than five *per cent.*

5.8.3.1 Factors contributing to change in Assets

The change in value of total assets in respect of 19 NBFCs reviewed in Audit (***Annexure XLI***) was mainly due to:

a. Fair valuation of investments in respect of SBI Capital Markets Limited (₹663.78 crore), STCI Primary Dealers Limited {(-)₹20.28 crore}, SBI Fund Management (P) Limited (₹48.92 crore), Power Finance Corporation Limited (₹459.87 crore), REC Limited (₹239.71 crore) and Industrial Finance Corporation of India Limited (₹810.29 crore).

b. Increase in trade receivables in the case of SBI Capital Markets Limited (₹13.29 crore).

c. Impairment Provision as per ECL model and inclusion of upfront fees in the initial recognition amount of financial asset with recognition of interest income using EIR method in respect of MUDRA Limited {(-)₹30.36 crore}, Industrial Finance Corporation of India Limited {(-)₹1,500.36 crore} and SBI Cards & Payments Services Limited {(-)₹172.34 crore}.

d. Writing off of Preliminary Expenses in the case of MUDRA Limited {(-)₹1.51 crore}.

e. Change in Deferred Tax Assets, reversal of earlier Deferred Tax Liability and/ or recognition of Net Deferred Tax Asset in respect of MUDRA Limited {(-)₹10.87 crore}, STCI Primary Dealers Limited (₹8.65 crore), SBI Global Factors Limited (₹3.52 crore), STCI Finance Limited {(-)₹21.53 crore}, PNB Gilts Limited (₹12.99 crore), Power Finance Corporation Limited (₹4,848.17 crore), REC Limited (₹2,971.06 crore) and SBI Cards and Payments Services Limited {(-)₹115.60 crore}.

f. Change in method of valuation of investment from Held to Maturity to Mark to Market in the case of PNB Gilts Limited {(-)₹36.76 crore}.

g. Change in valuation of investments held for trading as per Ind AS 109 in case of SBI DFHI Limited (₹110.29 crore).

h. Unrealized fair value gains booked due to investment measured at fair value through other comprehensive income in case of STCI Finance Limited (₹325.20 crore).

i. Measurement of loan assets at amortized cost using EIR method in case of Power Finance Corporation Limited {(-)₹8,504.81 crore} and REC Limited {(-)₹6,467.37 crore}.

j. Amortization of Card Acquisition Cost under Ind AS 115 in case of SBI Cards & Payments Services Limited (₹371.44 crore).

5.8.4 Impact on Net worth

Net worth is the difference between the value of assets and liabilities of a company. Net worth is arrived at by reducing from the aggregate value of the paid-up share capital, free reserves and securities premium account, the aggregate value of accumulated losses, deferred expenditure and miscellaneous expenditure not written off. Free reserves do not include reserves created out of revaluation of assets, write back of depreciation and amalgamation.

As per Ind AS 101 - First time adoption of Ind AS, an opening Ind AS balance sheet is to be prepared at the date of transition to Ind AS. Any differences between carrying amounts of assets and liabilities as at the transition date, as compared to the carrying amount under IGAAP, are to be recognised in net worth under retained earnings in the Ind AS balance sheet.

The details of impact on net worth in 19 NBFCs are given in ***Annexure XLII***. Out of 19 NBFCs in the audit sample:

- Eight NBFCs recorded increase in net worth;
- Nine NBFCs recorded decrease in net worth;
- There was no change in net worth in the case of two NBFCs; and
- In respect of five NBFCs, the impact was more than 10 *per cent.*

5.8.4.1 Factors contributing to change in net worth:

The main factors that contributed to changes in net worth in respect of 19 NBFCs reviewed (***Annexure XLII***) in Audit were:

a. Fair Valuation/ change in valuation method of investments and gains/ loss thereon in cases of SBI Capital Markets Limited (₹663.78 crore), SBI Funds Management (P) Limited (₹48.92 crore), MUDRA Limited (₹1.09 crore), SBI DFHI Limited (₹17.49 crore), STCI Primary Dealers Limited {(-)₹19.51 crore}, STCI Finance Limited (₹325.20 crore), PNB Gilts Limited {(-)₹24.44 crore}, Power Finance Corporation Limited (₹236.77 crore), REC Limited (₹239.71 crore) and ASREC (India) Limited (₹6.75 crore).

b. Increase/ decrease in Trade Receivables due to change in Provisioning Policy as per Ind AS 109/ adoption of ECL model in cases of SBI Capital Market Limited (₹13.29 crore), India Infrastructure Finance Company Limited {(-)₹1,808.06 crore}, Power Finance Corporation Limited {(-)₹8,393.91 crore} and REC Limited {(-)₹6,405.99 crore}.

c. Amortization of Borrowing Cost using EIR method in case of SBI Global Factors Limited {(-)₹0.08 crore}.

d. Recognition/ Reversal of Deferred Tax Assets/ Deferred Tax Liabilities in respect of STCI Finance Limited (₹-70.32 crore), SBI Funds Management (P) Limited {(-)₹5.55 crore}, SBI DFHI Limited {(-)₹21.07 crore}, SBI Capital Market Limited {(-)₹234.17 crore}, Power Finance Corporation Limited (₹4,843.91 crore), REC Limited

(₹2,979.61 crore), SBI Cards and Payments Services Limited {(-)₹115.60 crore} and Industrial Finance Corporation of India Limited {(-)₹628.43 crore}.

5.8.5 Impact on Borrowings

The impact of adoption of Ind AS on borrowings in respect of 19 NBFCs reviewed in Audit was marginal at 0.63 *per cent*, which was mainly due to reclassification and change in valuation/ measurement of borrowings in the case of eight NBFCs[79].

5.8.6 Other impact

Implementation of Ind AS has impacted financial indicators and efficiency parameters of the NBFCs in the Audit sample, which is discussed below:

5.8.6.1 Change in financial ratios

Operating and financial ratios provide insight into a company's liquidity, operational efficiency and profitability. The NBFCs in the audit sample where key ratios were changed due to adoption of Ind AS are as detailed in Table 5.3.

Table 5.3: Impact of adoption of Ind AS on ratios

Ratio	NBFCs where ratio increased	NBFCs where ratio decreased	NBFCs where there was no change	NBFCs where ratio changed >50 *per cent*	NBFCs where ratio increased/ decreased by> 50 *per cent*
Net Profit Ratio[80]	8	8	3	7	SBI Global Factors Limited ASREC (India) Limited IFIN Securities Finance Limited Eastern Investments Limited SBI Cards and Payments Services Limited PNB Gilts Limited Industrial Finance Corporation of India Limited
Return on Net Worth[81]	9	8	2	6	STCI Primary Dealers Limited SBI Global Factors Limited ASREC (India) Limited IFIN Securities Finance Limited India Infrastructure Finance Co Limited

[79] ***STCI Finance Limited, STCI Primary Dealers Limited, SBI Global Factors Limited, SBI Cards and Payments Services (P) Limited, Power Finance Corporation Limited, REC Limited, Housing and Urban Development Corporation Limited and Industrial Finance Corporation of India Limited***

[80] ***Proportion of Net profit to Revenue.***

[81] ***Profit to Net worth.***

Ratio	NBFCs where ratio increased	NBFCs where ratio decreased	NBFCs where there was no change	NBFCs where ratio changed >50 *per cent*	NBFCs where ratio increased/ decreased by> 50 *per cent*
					Industrial Finance Corporation of India Limited
Debt Equity Ratio[82]	9	7	3	1	Eastern Investments Limited
Earnings Per Share (EPS)	7	10	2	7	SBI Global Factors Limited ASREC (India) Limited IFIN Securities Finance Limited Eastern Investments Limited SBI Cards and Payments Services Limited PNB Gilts Limited Industrial Finance Corporation of India Limited
Interest Coverage Ratio	6	7	6	3	SBI Global Factors Limited ASREC (India) Limited IFIN Securities Finance Limited

The ratios changed due to changes in PAT and net worth as discussed in Para 5.8.1 and 5.8.4 above.

5.8.6.2 Ratings of NBFCs by credit rating agencies

NBFCs rate their products like Deposits, Commercial Paper, Debenture etc., through credit rating agencies. Different parameters like Capital and Leverage, Asset quality, Profitability, Liquidity, Management and Systems, Resource Profiles etc., are taken into consideration by the credit rating agencies. Audit noticed that rating was changed in respect of two[83] NBFCs after transition to Ind AS. The change was, however, not due to Ind AS adjustments. Hence implementation of Ind AS did not have a negative impact on rating of these NBFCs.

5.9 Conclusion

Adoption of Ind AS resulted in changes in the financial reporting framework. Audit analysis of selected 19 NBFCs indicated that adoption of Ind AS by the NBFCs impacted Profit After Tax, revenue, total assets and net worth of the selected NBFCs. The impact was noticed across the financial statements of all the selected NBFCs.

[82] *Debt of the Company to owned funds.*
[83] *ASREC (India) Limited and Industrial Finance Corporation of India Limited*

It was noticed that adoption of Ind AS by the NBFCs had the cumulative impact of decrease in profit after tax (₹201.62 crore), increase in revenue (₹672.90 crore), decrease in total assets (₹6,252.04 crore) and decrease in net worth (₹7,921.73 crore). Major changes carried out pertained to fair valuation of financial instruments, accounting of deferred tax, application of Expected Credit Loss method and accounting of employee benefits through valuation of liabilities towards post-employment benefits. Adoption of Ind AS also impacted key operating and financial ratios which provide insight into a company's liquidity, operational efficiency and profitability.

Department of Public Enterprises stated (August 2021) that they have no comments to offer on this Chapter.

(R. G. Viswanathan)
Deputy Comptroller and Auditor General
and Chairman, Audit Board

New Delhi
Dated: 26.11.2021

Countersigned

(Girish Chandra Murmu)
Comptroller and Auditor General of India

New Delhi
Dated: 29.11.2021