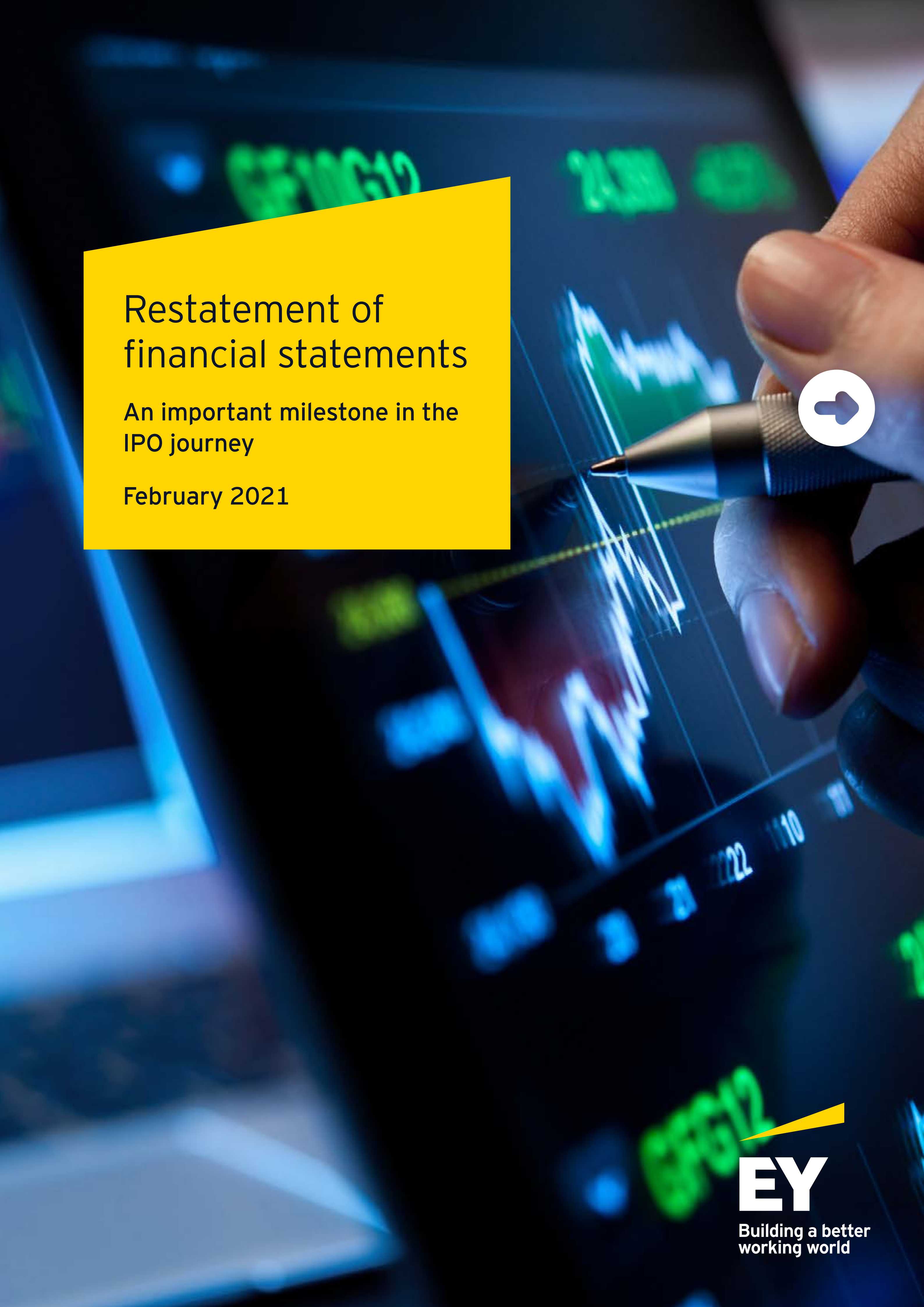


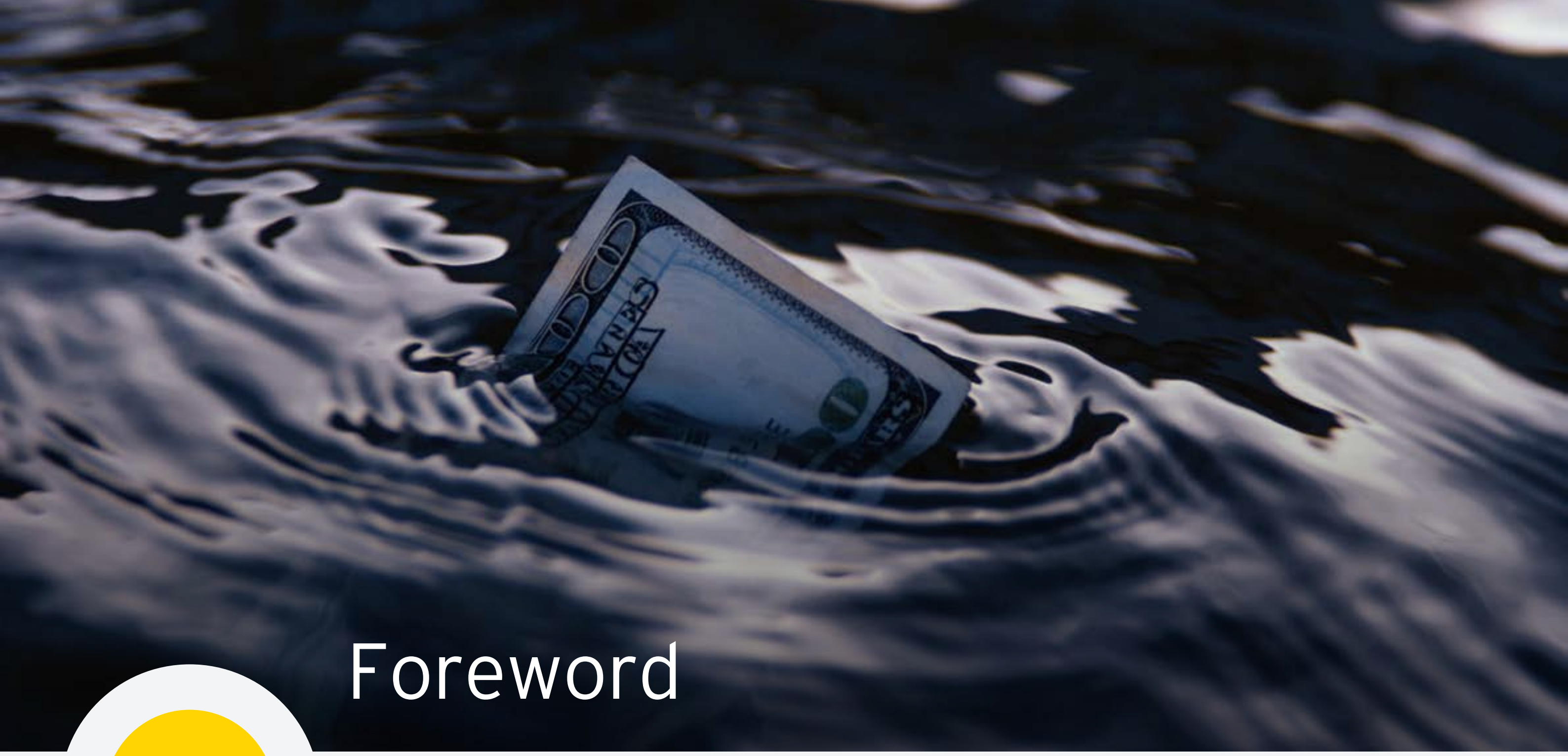
Restatement of financial statements

An important milestone in the IPO journey

February 2021

Building a better working world

Contents



Foreword

Every company planning to do an initial public offer (IPO) is required to spend a significant amount of time and resources to come out with a successful IPO. An IPO is a once-in-a-lifetime event for companies and in our experience, companies typically start their preparation about 12 to 18 months in advance and it can be longer for potential listing in a foreign jurisdiction. This requires the company to formulate a holistic and comprehensive roadmap regarding the operational, financial, technological and strategic initiatives necessary to go public.

Financial information is the foundation to communicating the company's equity strategy. Many a time, inadequate preparation can lead to substantial delays in the time-sensitive IPO journey. This may arise due to limited awareness of the rigour required to prepare financial information under the required regulations. The introduction of Ind-AS as a financial reporting framework for all IPO bound companies has also made the task more important than ever before.

We have often experienced IPO timelines being significantly missed due to the quality of financial reporting or not being adequately ready as per the requirement of the Securities and Exchange Board of India (SEBI), which is incremental to the audited financial statement of any company planning to undertake an IPO.

The purpose of this document is to share our practical experiences, key regulatory requirements and considerations for the financial statement restatement process. This document includes a number of practical examples and analysis to provide insights into some of the critical restatement adjustments that are commonly observed.

If you are considering an IPO as the means to build your company's future, we hope you find this guide to be a helpful and easy-to-use reference during the process of restatement of financials in your IPO journey.

Sandip Khetan
EY India IPO Leader

1 Background

IPO opens new funding avenues for the companies and presents them with an opportunity to raise a substantial amount of money from the capital market. The proceeds raised can fuel growth and significantly transform the business trajectory of the issuer company.

While IPO secures access to more, and often deeper, sources of capital, it also diversifies ownership, leads to greater public scrutiny and management responsibilities, exposes the company to stricter regulations and consequently changes how a company goes about doing business.

There are various aspects a company should consider as they embark on an IPO journey. This includes mapping out all the necessary steps such as hiring merchant bankers, advisors, consultants, conducting due diligence, preparing prospectus, marketing and so on. In addition to this, preparation for "being public" is just as important as preparation for "going public".

A company will need to meet additional regulatory requirements and continuing obligations as a public company which will require them to develop new skill sets, acquire the right talent and bring about changes to the current business strategy as well as the corporate culture.

Developing an appropriate plan will ensure that companies are able to succeed at every turn. Organizations looking for access to sources of capital, particularly an IPO should have a deep insight on the regulatory requirements to make the right moves at the right times.

The Securities and Exchange Board of India (SEBI) Issue of Capital and Disclosure Requirements (ICDR) Regulations, 2018 (as amended from time to time) is the regulatory framework which governs the various aspects of public issues, including IPO. It lays down a set of guidelines relating to conditions for various kinds of capital issues. In terms of the SEBI (ICDR) Regulations, 2018, the company is required to submit a Draft Red Herring Prospectus (DRHP or Offer letter).

One of the important processes involved in this activity is the preparation of restated financial statements. Restated financial statements are to be prepared as per the SEBI (ICDR) Regulations, 2018 wherein certain adjustments are made and financial information is presented.

As per the regulations, an issuer company is required to prepare the restated consolidated financial information in accordance with Schedule III to the Companies Act, 2013 for a period of three financials years and stub (interim) period (if applicable) in tabular format. The restated consolidated financial information should be based on audited financial statements and certified by the statutory auditor. Generally, a company would require a minimum six to nine months to complete this process. Considering the time and challenges involved, the restatement process is one of the most critical milestones for a company preparing for an IPO.

Requirements for restatement of financial information

2

SEBI Regulation for preparation of restated financial statement

As per SEBI ICDR Regulations, 2018, an issuer is required to prepare the restated consolidated financial statements as part of the financial information section of the Draft Red Herring Prospectus (DRHP), Red Herring Prospectus (RHP) and Prospectus. The issuer will have to prepare the restated consolidated financial statements for each of the three financial years immediately preceding the filing of the offer document and stub period (if applicable). Where the company has been in existence for a period less than three years, the financial statements are to be given for the actual period of existence.

The restated financial information shall be audited and certified by the statutory auditors who holds a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India (ICAI).

The restated financial information in the offer document shall not be more than six months old from the date of filing DRHP/RHP/Prospectus, as applicable. In a situation where the financial statements for latest full financial year included in the offer document are older than six months from the date of filing of the draft offer document, the issuer company will be required to present a restated consolidated financial information for the stub period in accordance with Ind AS 34 or AS 25 as applicable and other accounting principles generally accepted in India for the stub period.

The stub period should not end up to a date earlier than six months of the date of filing of the draft offer document/ offer document. For example, for a Company with a March year end, if the company is filing DRHP after September 30, the company will be required to present financial information for the stub period. The financial statements for stub period should include all those disclosures required to be presented for annual financial statements to the extent applicable. However, the regulations exempt the issuer company from presenting the comparatives for the stub period in the restated financial statements.

Rule 144A offerings

Rule 144A of the US Securities Act 1933 allows companies to access the US capital market without having to register the securities with the U.S. Securities Exchange Commission ("SEC"). Under section 5 of The Securities Act of 1933, it is mandatory for all the securities issued by a company to be registered with the Securities and Exchange Commission before any public offering or sale. Rule 144A pertains to private resale of securities and provides 'safe harbor' exemption to sellers. This exemption can be availed where securities are resold to Qualified Institutional Buyers ("QIBs"). In relation to the stub period as a preference companies may include comparatives at DRHP stage.

A 144A offering would require the involvement of international legal counsels to ensure appropriate disclosures are made to protect the company against potential U.S. securities litigation.

The independent auditor involved in a Rule 144A transaction is also typically required to furnish a U.S. comfort letter to the underwriters, broker-dealer or other financial intermediary, acting as principal or agent in an offering or a placement of securities depending on the representation provided by them regarding their due diligence process.

Applicability of Ind AS for restated financial information

An issuer company should be mindful of the fact that the road map on Ind AS is applicable to all listed companies or any company which is in the process of listing inside or outside India.

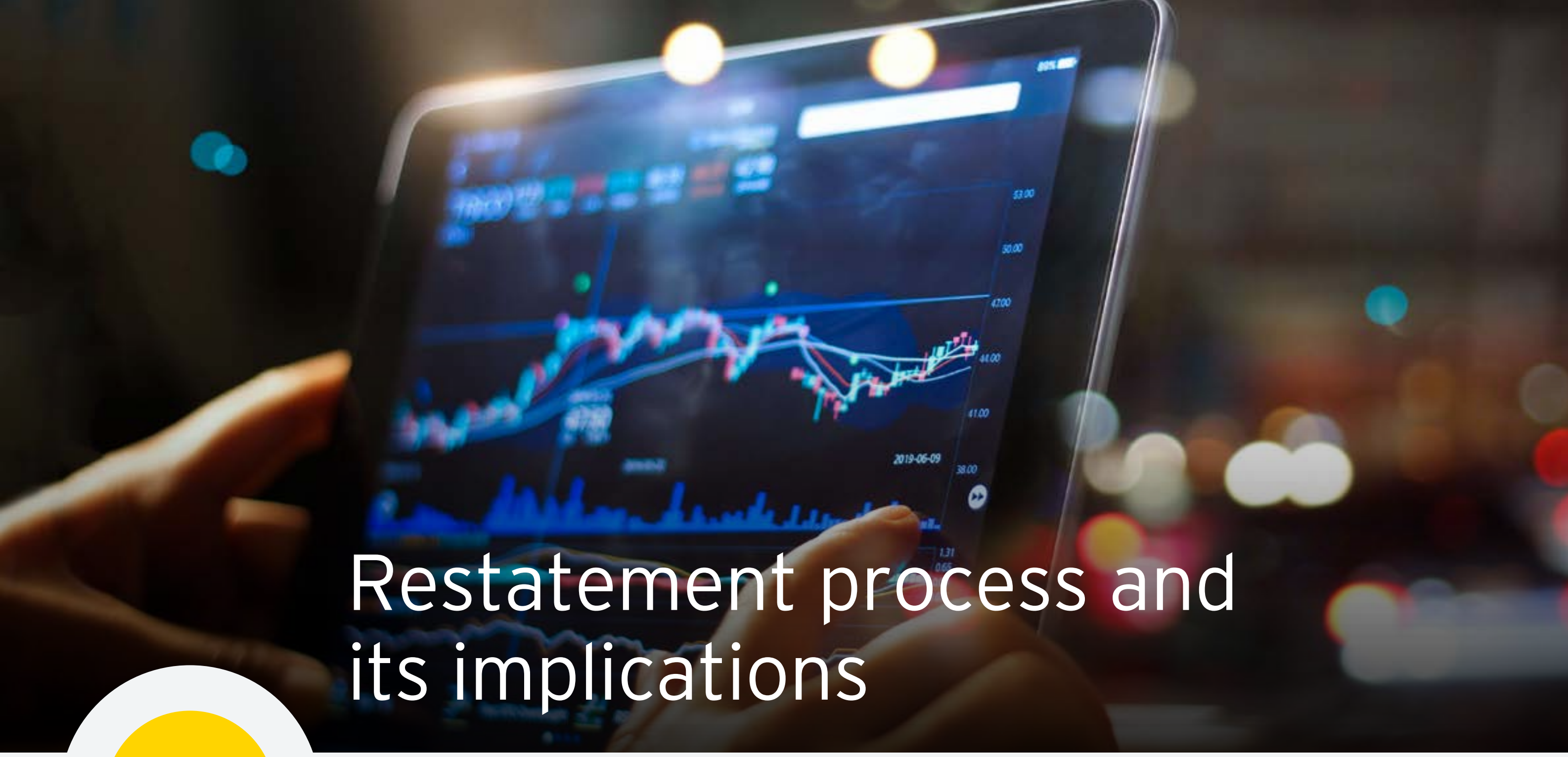
Identifying the trigger point for process of listing needs to be considered when the issuer prepares restated financial statements. From a practical perspective all issuer companies other than banking and insurance companies shall present the financial statements for the three years and stub period under Ind AS.

This would be considered as per the roadmap issued by the Ministry of Corporate Affairs (MCA) issued under notification dated February 16, 2015 and March 30, 2016.

Generally, companies considering an IPO adopt Ind AS voluntarily and prepare restated financials to ease out financial reporting challenges post listing. Out of the 63 issuers that has filed for IPO post 2018, around 10 issuers had prepared the restated financial information as per IGAAP. Companies under Indian GAAP need to carefully plan their transition to Ind AS considering the potential wide-ranging effects of the transition, the implementation effort would impact functions outside the finance department, including IT, legal, sales, marketing, human resources, investor relations and senior management. Multiple work streams should be considered in this effort, including:

- Accounting and financial reporting
- Tax
- Business processes and systems
- Change management, communication and training

In addition, it is critical to manage the transition and coordinate the roles of the various business functions for enabling smooth transition.



Restatement process and its implications

3

1 Process of restatement

Scenario I - Restated financial statements under Ind AS

Ind AS financials » Restatement adjustments* » Restated Ind AS financials

An issuer who is already preparing Ind AS compliant financial statements at the time of filing of DRHP is required to make only restatement adjustments as given in the ICDR regulations.

*Illustrative examples of various types of restatement adjustments that an issuer is required to make at the time of filing the DRHP are discussed in the subsequent section.

Scenario II - Transition to Ind AS and restated financial statements

IGAAP financials » Ind AS adjustments » Ind AS financials » Restatement adjustments » Restated Ind AS financials

SEBI Regulations allows an issuer to file restated financial statement as per Indian GAAP, but the issuer will be covered under the Ind AS roadmap once the process of listing is started. Given the requirements of Ind AS on first time adoption, companies are required to present a three-year balance sheet. It would be worthwhile for an issuer company to voluntarily adopt Ind AS well in advance and prepare restated financial statements accordingly. Some of the benefits of early adoption include:

- Informing the stakeholders on the impact areas well in advance
- Identifying the right skillset team
- Minimal changes on IT systems and processes

- Evaluate impact on valuation
- Better visibility on projections
- Enhances credibility for foreign investors
- Facilitate benchmarking with peer players

2 Restatement adjustments

As per SEBI (ICDR) Regulations, 2018, the financial statements are required to be restated for the below stipulated areas:

- Change in accounting policy
- Prior-period error
- Non-provisioning, regrouping, other adjustments
- Audit qualifications
- Change in estimates

1 Change in accounting policies:

If there is a change in the accounting policy, the profits or losses of the earlier years forming part of restated financial information and of the year in which the change in accounting policy has taken place should be recomputed to reflect the profits or losses of those years that would have been, if a uniform accounting policy was followed in each of these years. It is likely that the company would have changed accounting policies to comply with several of the Accounting Standards or amendments that have become mandatory in the recent past.

The standards or amendments become applicable from a particular date specified in the standards or amendments and some standards or amendments have transitional provisions as well. In this regard, the date when the standards or amendments became applicable would not be relevant since same would tantamount to change in accounting policy and this would have to be applied throughout the period covered for the preparation of restated financial information.

Certain transactions are accounted prospectively as retrospective accounting is not allowed (E.g. Hedge accounting). In such cases the financial information should not be restated retrospectively, if the transaction accounting is followed from a specific date.

Example 1

An entity is in the process of listing and it plans to file the offer document in the FY 2020-21. The new standard on leases, Ind AS 116 is applicable from April 01, 2019 and has been accounted in the FY 2019-20 using the modified retrospective transition approach. The entity is evaluating the impact of the new standard in its restated financial statement?

Analysis

Since adoption of Ind AS 116 is an accounting policy change, the entity will have to present the impact of Ind AS 116 in all the periods for which the financial statements are being restated (i.e. from the FY 2017-18). For the purpose of preparation of restated financial information, the entity will have to recalculate the impact by considering the date of transition as April 01, 2017.

If the company plans to file the offer document in the FY 2021-22, the company will have to restate the financial statements from FY 2018-19 onwards. In such case the company will have to consider the impact of change in the date of transition as on April 01, 2018.

In this situation, there may be a possibility where restated equity balance as at the balance sheet date immediately prior to the date of adoption of new accounting standards or amendments compared to the opening equity balance of the annual statutory financial statements may be different due to applying transition provisions at different dates. In such case, the closing equity balance as per restated financial information will be different and hence should not be carried forward to opening equity balance as at transition date under Ind AS 116 for annual statutory financial statements reporting purpose. However, issuer company should provide appropriate disclosures in the offer document to explain the differences between the two.

Some common restatement adjustments observed with respect to changes in accounting policy are around:

- Changes in the **method of inventory valuation** from weighted average cost to FIFO based valuation would result in adjustments to be carried out from the earliest period in the restated financial statement.
- Change in the **method (policy) of revenue recognition** from over the period of time to at a point of time, contract cost amortization etc.
- **Amortization of cost** incurred on long term projects over the period of the project where the cost incurred previously was amortized over a different term.
- **Impact of the new standard** on leases Ind AS 116 and new standard on revenue Ind AS 115 will have to be given effect from the earliest period presented.
- **Improvements in accounting standards** – as part of the annual improvement process globally (e.g. FASB or IASB agenda) and in India there may be amendments to existing accounting standards which need to be considered.
- **Changes in regulatory requirements**- Many times regulatory amendments also trigger an accounting impact and depending on the regulatory requirements, restatement adjustments needs to be considered.

2 Prior period error

As per ICDR Regulations, significant errors relating to previous years should be adjusted in corresponding period while arriving at the profits or losses for the years to which they relate. Correction of errors should be disclosed in accordance with the requirements of Ind AS 8 or AS 5. If there is any prior period error in any of the years restated, the impact of the error needs to be reflected in the year it belongs to or the earliest period restated, whichever is later.

Example 2

In the financial year 2019-20, it was detected that the revenue to the tune of INR 50 Million was over booked in the financial year 2017-18. Cost of goods sold amounting to INR 35 Million was also overbooked. This impact was given effect in the financial year 2018-19. The Company is in the process of filing the DRHP in September 2020. Tax rate is 30%?

Analysis

The issuer company has to restate its financial statements for the FY 2017-18. Revenue will be reduced to the extent of INR 50 Million with a corresponding adjustment to debtors. The effect of 35 Million on cost of goods sold will be reflected with an increase in inventory and a corresponding adjustment to cost of goods sold. Deferred tax asset amounting to INR 4.5 Million will be recognized.

The entries passed in FY 2018-19 will be reversed with a negative impact adjusted to retained earnings and deferred tax.

Some common restatement adjustments observed with respect to prior period errors are:

- Incorrect computation of **current and deferred tax and tax provision** thereon for the previous years would result in adjustment to the restated financial statement
- Incorrect recognition of **ESOP expense** in the previous years would need to be reversed in the restated financial statements
- **Prepaid expense** incorrectly accounted in the previous years would require adjustment to restated financial statement
- Unaccounted provision for **employee benefits** like gratuity, leave encashment and other term benefits would result in adjustment to the restated financial statement
- **ROU Assets to be amortized** incorrectly shown in the capital work in progress in the previous years would be adjusted restated financial statement
- An error in **inventory valuation** relating to calculation of net realizable value would result in restatement adjustment for previous year
- **Revenue** accounted incorrectly in different accounting period due to transfer of control evaluation can lead to restatement adjustments from the earliest period which they relate too.
- Expenses wrongly classified as **capital or operating** in nature will result in restatement of financial statements. This will also have an impact on retained earnings, depreciation, income statement and asset capitalization.
- Incorrect **accrual of expenses** of the previous years accounted in the current year would be treated as a prior period error

Additionally, as per the requirement of Ind AS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", any error as discovered in the current period which belongs to the previous period is required to be corrected and presented by appropriately restating the previous period financial statements. Companies needs to carefully assess the impact of any such prior period error and do the appropriate correction in the IPO bound financial statements.

3 Non-provisions, regrouping, other adjustment

Instances of non-provisioning, regrouping, other adjustments, if any, relating to previous years should be adjusted in the corresponding period while arriving at the profits or losses for the years to which they relate. The issuer may have accounted for any provision for expense relating to a particular item of earlier years in the current year. Such transaction needs to be accounted in the restated financial information of the previous year.

Example 3

An issuer is in the process of filing its offer document during the financial year 2020-21. The entity voluntarily adopted Ind AS from financial year beginning 2019-20, transition date to Ind AS being 1 April 2018. As a part of the transition the entity has re-measured the gains or losses on post-employment defined benefit plans in its Ind AS financial statements for the financial year ended 31st March 2020 and 2019.

Analysis

The issuer is required to present the restated financial information for 3 preceding financial year in the DRHP. The issuer will have to re-measure gains/(losses) on post-employment defined benefit plans from profit and loss accounts to other comprehensive income account while presenting in DRHP for all the period ending 31 March 2018, 2019 and 2020.

Example 4

An issuer is preparing the restated financial information for the purpose of filing DRHP in the FY 2020 -21. The entity had written off certain amounts relating to trade receivables against the provision created for doubtful debts in financial year 2017-18. The write off was attributed to condition that the company, no more expected a realization from the account. During the financial year 2019-20 the company received the amount in full for such written off account.

Analysis

As the company is planning to file DRHP in the FY 2020-21, it is required to present restated financial statements for the years 2017-18, 2018-19 and 2019-20 as part of the restated financial information. For the purpose of restatement, the regulation requires that any adjustments which relates to the earlier years should be accounted for in those years (or earliest period presented whichever is later) for the purpose of preparing restated financial information. Accordingly, debts which were considered doubtful and written off in the past and which have been subsequently recovered should be adjusted back in the year in which such debts were originally written off. Therefore, the company needs to give effect to the impact in the FY 2017-18 and reverse the income accounted in FY 2019-20. There is no specific guidance related to the present scenario in SEBI ICDR Regulations, 2018 or the Guidance note issued by ICAI for Company Prospectuses and hence we do experience some diversity in practice.

Some common identified restatement adjustments observed with respect to Non-provisions, regrouping and other adjustment are:

- **Provision for employee benefits** like leave encashment and gratuity not provided during the previous year
- **Excess provision** for expenses of the previous year written back in the current year would require adjustment in the restated financial statement
- **Items of other income** like receipt of Insurance claim to be adjusted to the previous years to which the event relates
- **Royalty payments** based on customer demand and negotiations pertaining to the previous year result in an adjustment to the previous years to which the event relates
- Adjustments relating to the **incremental provision** debtors based on the credit risk and recovered amounts for which provision was created
- **Restatements of provisions**, prior period items by the JV/associates would be adjusted in the share in profit of JV/associates in the restated financial statements
- **Mark to market adjustments** on financial instruments as per Ind AS 113 not considered in the previous year would be shown as restatement adjustment
- Incorrect recognition of the **borrowing cost** as expense to be capitalized and amortised in the restated financials.
- **Capital Subsidy** received subsequently on items capitalized in the previous years will need to be adjusted for the amount of capitalization and depreciation charge in the restated financial statements
- Adjustments by way of **write off on intangibles assets** capitalized in the three previous years needs to be adjusted in the restated financial statements.

4 Audit qualifications

All the audit qualifications that can be quantified or estimated needs to be accounted or given effect to the year it pertains to or the earliest period restated, whichever is later. If the qualification cannot be quantified or estimated, appropriate disclosure should be made in the notes to the restated financial information, explaining why the qualification cannot be quantified or estimated. For eg. The auditor of the issuer could have made a qualification in the audit report during the previous year on impairment of its investment in subsidiary. The issuer is required to restate the financial information of the previous year to give effect for the impairment provision.

The Companies need to be mindful of the fact that SEBI ICDR regulations require the restated financial statements to incorporate adjustments with respect to all the errors and misstatements that was identified to the maximum extent possible. Even when the incorrect practices or errors are non-quantifiable, companies are required to appropriately disclose the same in the notes.

Example 5

In the financial year 2018-19 the audit report included an audit qualification that the provision for warranty was understated by INR 45 Million. This impact along with the current year estimation was given effect in the financial year 2019-20. The Company is in the process of filing the DRHP during 2020-21.

Analysis

The ICDR Regulations requires restatement adjustment in respect of non-provisions to be given effect in the respective presented previous financial years. In line of the above, for the purpose of restated financial statements, the issuer company will be required to recognize expense in the financial year 2018-19 with a credit given to the provision for expense.

In the financial year 2019-20 the previous year's provision will be reversed with retained earnings. The impact on tax expense will also have to be adjusted.

Some of the commonly identified items of audit qualifications are:

- Auditors qualification on **remuneration paid to directors** which is not in accordance with the provisions of the Companies Act will result in adjustments in restated financial statements
- Auditors qualification on **adequacy of provision** created for expenses and other indirect taxes will result in restated financial statements

5 Changes in estimates

The ICDR regulations has clarified that changes in estimates, if any, need not be restated, as they are events of that corresponding year. For e.g., if there is a change in the estimate for asset retirement obligation during the current year, the issuer is not required to restate the financial information of previous years since the change in the obligation is considered as a change in accounting estimate.

Example 6

An entity had adopted Ind AS in Phase 1 of Ind AS roadmap issued by MCA. The significant accounting policies adopted by the entity states that the useful life of the plant and machinery installed at the entity's factory premises is 15 years. However, for the period ended 31 March 2020, the management of the entity estimated useful life of plant and machinery to be 10 years and obtained a technical estimate in this regard. The entity is currently in the process of filing the DRHP in 2020-21.

Analysis

As per the requirements of ICDR regulations the entity is required to present restated financial statements for three previous years, i.e. 2017-18, 2018-19 & 2019-20. As per Ind AS, change in useful life of fixed assets is treated as change in estimate and not change in accounting policy. In the given case there will be no restatement adjustment in the books of the entity for change in useful life of plant and machinery.

Example 7

While preparing the financial statements for the period ending 31 March 2019, A Ltd assumed a decommissioning expense of INR 50 Million for one of its sites in India. However, for the year ended 31 March 2020, the decommissioning liability was estimated at INR 80 Million. The entity is in the process of filing the DRHP in the FY 2020-21.

Analysis

As per requirements of ICDR regulations the entity is required to present restated financial statements for three previous years, i.e. 2017-18, 2018-19 & 2019-20. Increase in decommissioning expense by INR 30 Million for the period ended 31 March 2020 is due to a change in estimate which could attributed to various factors such as inflation. These changes would not result in adjustments in the restated financial statement presented for year ending 31 March 2019 would not require adjustment in restated financials retrospectively.

Some commonly identified items of changes in estimates are:

- Change in **expected sales return** in the previous years presented will not require any adjustment in the restated financial statements
- Change in **credit risk of the borrowers** and measurement of expected credit losses is a change in estimate and will not result in change in the restated financial statements
- Change in **useful life of an asset** is only a change in estimate and does not result in change in the restated financial statement
- Change in the **estimation of long-term incentive** for the purpose of actuarial valuation are considered to be change in estimate and does not result in change in the restated financial statements
- However, it is important to differentiate between change in estimate and an accounting error in making the estimate. If it is established that estimate was made in error, then the Company may be required to adjust the change in estimate in the respective accounting period even through the error is discovered in the subsequent period financial statements.

3 Other disclosure in restated financial statements

A A reconciliation explaining the differences between the audited CFS and the restated CFS should be presented in a columnar format with respect to changes in (i) equity and (ii) profit/ (loss) after tax or total comprehensive income.

B List of the related parties and all related party transactions of the consolidated entities (whether eliminated on consolidation or not), which require disclosure under the applicable accounting standard and/ or covered under section 188(2) of the Companies Act, 2013 (as amended), as disclosed in the separate financial statement of the consolidated entities, should be disclosed in the restated financial information.

This shall include all funding arrangements including inter-se guarantees among the entities consolidated, except contribution to equity share capital, shall be disclosed. Additionally, ICDR Regulations require companies to include transactions which are eliminated at the time of consolidation and not disclosed in the related party disclosures as additional disclosure in the restated financial information.

4 Proforma financial statements

Proforma Consolidated Financial Statements (PFS) have to be prepared if the issuer has made a material acquisition or divestment, including deemed disposal, after the latest period for which financial information is disclosed in the offer document but before the date of filing of the offer document. The Proforma financial statements shall be prepared for the period covering last completed financial year and the stub period (if any). In case of one or more acquisitions or divestments, one combined set of PFS should be presented.

For this purpose, the acquisition/divestment will be considered as material if acquired/divested business or subsidiary in aggregate contributes 20% or more to the pre-acquisition/pre-divestment total income (would mean all items of income including other income and other items of revenue) or total assets (would mean 'total assets' and not 'net assets') on consolidated basis. The issuer Company may voluntarily choose to provide proforma financial statements of acquisitions even when they are below the above materiality threshold.

The following must, at a minimum, form part of the PFS:

- **Proforma Balance Sheet (PBS)** is prepared as if the transaction/s occurred at the balance sheet date (i.e. as at annual year-end and stub period or only annual year-end, as the case may be). Eg: If acquisition/divestment occurred on July 20, 2020, then PBS need to be prepared as on March 31, 2020 and June 30, 2020.
- **Proforma Statement of Profit and Loss (PP&L)** is prepared as if the transaction/s occurred immediately before the start of the period. Eg: If acquisition/divestment occurred on July 20, 2020, then PP&L shall be prepared for the entire financial year 2019-20 i.e. April 01, 2019 till 31st March 2020 and also for the stub period i.e. April 01, 2020 till June 30, 2020.
- **Notes to the PBS and PP&L should consist of:**
  - Basis of preparation;
  - Explanation of basis, nature and effect of each proforma adjustments made to the PBS and PP&L; and
  - Assumptions involved in calculations

PFS shall be prepared using consistent accounting policies for the acquirer for the last completed financial year and the stub period (if any).

PBS is not required to be presented, if actual consolidated balance sheet as at the end of stub period gives effect of such acquisition/divestment.

Example 8

An entity is in the process of preparing its 3-year restated financial statement wherein a scheme of amalgamation or merger has been sanctioned by a court with an appointed date that falls in an earlier accounting year in which the scheme was not given effect to, whether the financial information should be restated from such earlier period onwards?

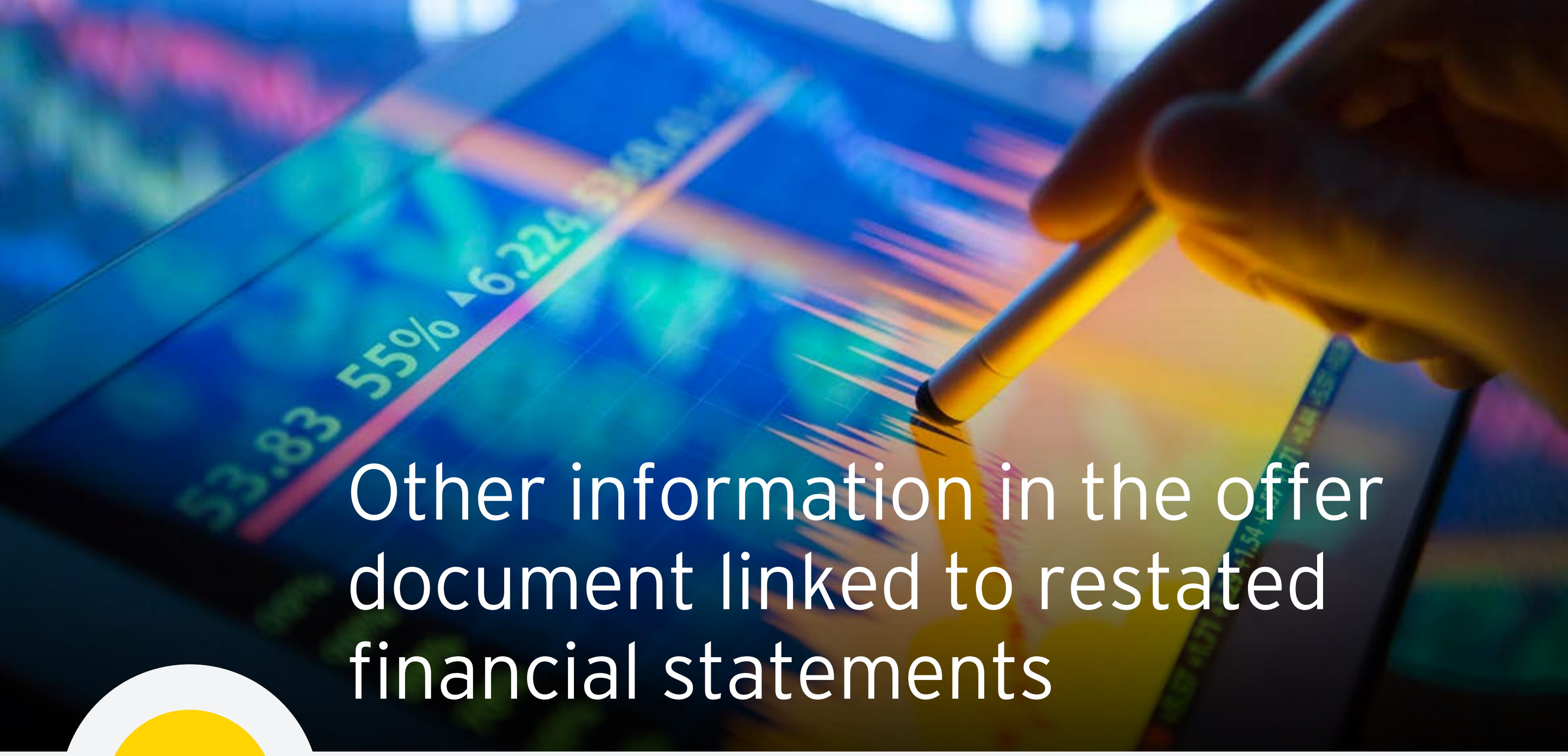
For e.g. company ABC is preparing its 3-year restated financial statement. By way of court order issued during the financial year 2020-21, Company X has merged with Company ABC with an appointed date of 1 April 2019. The financial statements of 2019-20 have already been issued much before the receipt of Court Order and ABC has therefore not given effect to the merger scheme in its financial statements for the financial year 2019-20. Does ABC need to restate the financial information included in the offer document for 2019-20 and 2020-21?

Analysis

The ICAI Guidance Note on Reports in Company Prospectuses states that in case of merger or similar transactions, the issuer company should continue to account for such transactions in the restated financial information as accounted in the annual statutory financial statements. Taking the guidance into account, Company ABC should account for merger with Company X as it would account in its annual statutory financial statements i.e., in the financial year 2020-21.

Question:
Company A while preparing Ind AS financial statements has availed some voluntary exemptions given In Ind AS 101 which includes setting the amount appearing under foreign currency translation reserve (‘FCTR’) account as zero. As part of restated financials, companies are mandated to prepare restated Proforma financials to meet requirement of SEBI ICDR. While preparing such financials, should the company avail the same exemptions as taken while implementing Ind AS for its general-purpose financials?

Response:
As per the circular, the Company should adopt the same accounting policy choice for preparing Proforma Ind AS financial statements as adopted initially at transition date and accordingly set the amount appearing under FCTR account as zero. However, where the company has not availed Ind AS 101 exemption at transition date and has applied Ind AS 21 principles retrospectively, it is assumed that the company would have necessary information to be able to apply the accounting requirements retrospectively and hence it will not pose any challenge



Other information in the offer document linked to restated financial statements

5

In addition to the restated financial statements (on which an examination report is issued by the auditors), many critical financial information forms part of the offer document in various sections.

1 Section: Offer document summary

Following details form part of "other financial information" in the offer document for past 3 years and the stub period:

A. Details:

- Share capital
- Net Worth
- Revenue
- Profit after tax
- Earnings per share
- Net Asset Value per equity share
- Total borrowings (as per balance sheet)

B. Information regarding auditor qualifications which have not been given effect to in the restated financial statements.

2 Section: Management's discussion and analysis

Management's discussion and analysis shall largely be based on the amounts derived from restated financial information for the last three years and the stub period.

3 Section: Capitalization statement

Capitalization Statement showing total borrowings, total equity, and the borrowing/equity ratios before and after the issue is made shall be incorporated. It shall be prepared on the basis of amounts derived from the restated CFS for the latest financial year or when applicable at the end of the stub period.

Supporting you in the IPO journey

6

We are the global leader in the number of companies we advise on going public. This includes advising companies on their readiness plan, establish tax structures, compensation plans, business processes and controls, corporate governance structures and much more. This gives us tremendous perspective for guiding companies through the IPO journey and beyond.

We can provide deep insights in the path to public for an organization including Ind AS conversion and assistance on restatement of financial information. Some of the benefits include:

- Better governance structure in the entire process
- Valued sectoral insights
- Reduced instances of regulators comment on the restated financials statement included in DRHP
- Navigating through auditor's review process for filing DRHP
- Ready access to vast talent pool with prior experience on IPO process
- As members of regulatory committees, we have early access to changing requirements, which can be incorporated at an early stage for IPO journey of the company.

At EY, we have resources with extensive experience to provide IPO readiness assessment services and assistance in the entire IPO journey. All our work on IPOs and secondary listings shows us that the most critical success factors are:

- Approaching the IPO as a transformational process rather than just the transaction
- Behaving and operating as a public company at least one year before the IPO

End to end support

EY has a dedicated team of cross functional specialists to help you throughout your IPO journey

IPO readiness assessment

- Understand current state and the IPO plan
- Perform diagnostics and gap analysis
- Providing support in development of plans to address gaps
- Provide illustrate IPO road-map (12-24 months)

Benchmark and sustainability

- Benchmarking accounting policies disclosures, processes and KPI in relation industry peers
- Recommendations to improve processes based on market and peer comparison

Governance, risk and controls

- Review Board governance guidelines, committee charters, code of conduct, etc.
- Policies and processes
- Training (e.g. Prevention of Insider Trading Regulations, etc.)
- End to end corporate secretarial support

Financial reporting procedures

- Technical guidance, observations and leading practices related to public company reporting
- Observations on Ind AS conversion, financial information
- Preparation of Restated Financial information
- Assistance on Accounting close and reporting for quick reporting

Tax planning and restructuring

- Observations on tax structure, review of documents
- Review ESOP scheme for SEBI compliance
- Recommendation and finalization of proposed option

Merchant banking services

- SEBI registered capital market evaluation services
- Strong capital markets and private equity practice
- Pre-IPO placement

Fraud Investigation and Dispute Services (FIDS)

- Anti-bribery and Anti-corruption Compliance Services
- Investigation Whistle-blowing Services
- Third-party Due Diligence
- Background Research

Investor relations support

- Sell-side coverage
- Investor targeting
- Better management presentations
- Flexible support options

*All services provided by EY will be subject to Independence considerations

Project Management

- Data room management
- Staff augmentation
- Milestone monitoring/ dashboards
- Coordination amongst all internal and external stakeholders

*All services provided by EY will be subject to Independence considerations

EY offices

Ahmedabad
22nd Floor, B Wing, Privilon,
Ambli BRT Road, Behind Iskcon
Temple, Off SG Highway,
Ahmedabad - 380 015
Tel: + 91 79 6608 3800

Bengaluru
6th, 12th & 13th floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground Floor, 'A' wing
Divyasree Chambers
11, O'Shaughnessy Road
Langford Gardens
Bengaluru - 560 025
Tel: + 91 80 6727 5000

Chandigarh
Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A,
Industrial & Business Park, Phase-I,
Chandigarh - 160002
Tel +91 172 6717800

Chennai
Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR
Golf View Corporate Tower B
Sector 42, Sector Road
Gurgaon - 122 002
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Noida - 201 304
Gautam Budh Nagar, U.P.
Tel: + 91 120 671 7000

Hyderabad
THE SKYVIEW 10
18th Floor, "Zone A"
Survey No 83/1, Raidurgam
Hyderabad - 500032
Tel: + 91 40 6736 2000

Jamshedpur
1st Floor, Shantiniketan Building
Holding No. 1, SB Shop Area
Bistupur, Jamshedpur – 831 001
Tel: + 91 657 663 1000

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune
C-401, 4th floor
Panchshil Tech Park
Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

Ernst & Young Associates LLP

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EYIN2101-024
ED None

JS1

Sandip Khetan
Partner and National Leader
Financial Accounting Advisory Services (FAAS), EY India
sandip.khetan@in.ey.com

Jigar Parikh
Partner
Financial Accounting Advisory Services (FAAS), EY India
jigar.parikh@in.ey.com

Veenit Surana
Director
Financial Accounting Advisory Services (FAAS), EY India
veenit.surana@in.ey.com

Ajith Thambi
Director
Financial Accounting Advisory Services (FAAS), EY India
ajith.thambi@in.ey.com

Sandeep Agarwal
Manager
Financial Accounting Advisory Services (FAAS), EY India
sandeep.agarwal1@in.ey.com

Chithra Gopinath
Manager
Financial Accounting Advisory Services (FAAS), EY India
chithra.gopinath@in.ey.com