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Financial Reporting Quality Review Report (FRQRR)

Company: ISGEC Heavy Engineering Limited
CIN: L23423HR1933PLC000097
Financial Reporting for the Financial Year: 2019-20
Financial Reporting Framework: Indian Accounting Standards (Ind AS)
Report No: NF- 20011/12/2021
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राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण

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Contents

A. Executive Summary 3
1. The Legal Framework of Financial Reporting Quality Review (FRQR) 3
2. Executive Summary of Observations in the FRQR 4
B. DETAILED OBSERVATIONS 7
3. Observations on the Annual Financial Statements Classified as High Impact 7
4. Observations on the Annual Financial Statements Classified as Moderate Impact 20
5. Observations on the Annual Financial Statements a Classified as Low Impact 26

A. Executive Summary

1.1. The Legal Framework of Financial Reporting Quality Review (FRQR)

As mandated under Section 132(2)(b) of the Companies Act, 2013, the National Financial Reporting Authority (NFRA) shall inter alia, monitor and enforce compliance with accounting standards in such manner as may be prescribed. Rule 7 of the NFRA Rules, 2018, provides that for monitoring and enforcing compliance with accounting standards under the Act, NFRA may–
(a) review the financial statements of the company;

(b) direct such company or its auditor by written notice to provide further information or explanation or any relevant documents relating to such company; and

(c) require the personal presence of the officers of the company and its auditor for seeking additional information or explanation in connection with the review of financial statements of such company.

This FRQR focuses on the role of preparers, i.e., those responsible for the preparation of Financial Statements and Annual Reports. The primary goal of the FRQR is to assess and evaluate how well the information needs of users of the Financial Statements and the Annual Report have been met. The FRQR also has the objective of assessing the Financial Reporting Quality Control System of the Company and the extent to which the same has been complied with in the preparation and presentation of the Financial Statements.
Accordingly, NFRA has made this Financial Reporting Quality Review Report (FRQRR) of the M/s ISGEC Heavy Engineering Ltd. (ISGEC/the Company) for the Financial Year 2019-20. ISGEC is a Company listed on the Bombay Stock Exchange (BSE) and is engaged in manufacturing project businesses & Engineering Procurement & Construction (EPC) activities.

1.2 Review Approach

Under the above mandate, NFRA has reviewed the said financial statements of ISGEC Heavy Engineering Ltd., which was selected for review on the basis of NFRA's statistical sampling approach. The review is made according to the Companies Act, 2013, and the NFRA Rules, 2018. The observations in this FRQRR are based on an examination of the Annual report of the Company and additional information sought from the Company from time to time, an examination of the financial statements, and the responses submitted by the Company to NFRA's Questionnaire and during the in-person presentation made by the Company on 5th July 2022.

The observations in this FRQRR are divided into three parts categorised as High Impact, Moderate Impact and Low Impact. Each category has two kinds of observations - observations in the Annual Financial Statements and observations in the other parts of the Annual Report. These divisions detail the observations, and conclusions made during the FRQR process. The final observations and conclusions were made after the in-person presentation by the Company. Wherever the Company has provided satisfactory responses to the questions of the questionnaires or has pointed out inaccuracies, those issues have been removed from the respective sections.

The FRQRRs of NFRA are designed to identify and highlight non-compliance with the requirements of the applicable Accounting Standards and the Companies Act 2013, and to bring out insufficiencies in the Quality Control System of the companies with regard to the preparation and presentation of financial statements and Annual Reports. The observations in the FRQRR are made based on a high-level review of the annual reports and the replies to queries furnished by the company. The queries are limited to the specific areas selected from the annual reports, and do not cover the entire gamut of financial reporting by the company. The FRQRR is, therefore, not to be treated as an overall rating tool. The observations in this FRQR set out NFRA's view of the specific reporting issues discussed in this report. Though there are areas of good quality reporting, many of the NFRA queries were a result of apparent inconsistencies in the information reported in the financial statements and the annual report, viewed from a user's perspective.

The Chronology of the events regarding this FRQRR

NFRA's FRQR started with seeking documents from the Company ISGEC, vide NFRA letter dated 15th April 2021, information/certified copies of documents from the Company pertaining to the financial statements. The Company provided the required information vide its email dated 14th July 2021 (attaching letter dated 13th July 2021). After a preliminary examination of the financial statements of the Company for the financial year 2019-20, NFRA sent a questionnaire dated 14th October 2021, containing the prima facie observations on the financial statements. The Company vide its email dated 29th November 2021 and 21st December 2021 provided its response to the questionnaire. The Company made an in-person presentation on the 5th of July 2022 and then submitted a written reply on 8th of July 2022 to certain additional queries made by NFRA. This FRQRR has been finalised based on all such responses by the Company.

1.3 Executive Summary of Observations in the FRQR

1.3.1 Key observations categorized as 'High' Impact.:

(a) NFRA observes deficiencies in implementing the provisions of Ind AS 109 *Financial Instruments* relating to impairment loss allowance (provisioning) for some of the financial assets viz. Trade Receivables and other financial assets. (Para 2.1)

(b) The company did not evaluate impairment loss allowance on 'Unbilled Revenue[1]' (under Other Current Asset) despite it being a contract asset[2] for which the company was required to evaluate impairment loss in accordance with the requirements of Ind AS 109. (Para 2.2)

(c) The Company did not make the required disclosure for Employee Benefits-Pensions in accordance with Para 135 of Ind AS 19[3] regarding defined contribution plans. The note provided by the Company lacks clarity on whether the employee benefit of Pension is a defined benefit plan or a defined

[1] Unbilled Revenue: these refer to the costs already incurred for execution of contracts for customers but not yet billed to them because specified milestones as per contract agreements have not been achieved yet.

[2] Para 107 of Ind AS 115 *Revenue from contracts with customers* refers to contract assets as : "*A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer.* ***An entity shall assess a contract asset for impairment in accordance with Ind AS 109***.*"*

[3] Para 135 of Ind AS 19 *Employee Benefits* states "*An entity shall disclose information that:*
(a) explains the characteristics of its defined benefit plans and risks associated with them. (b) identifies and explains the amounts in its financial Ind AS 19, Employee Benefits statements arising from its defined benefit plans; and (c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

contribution plan. Such disclosure is important to enable the users of financial statements to understand the characteristics of the benefit plans, the consequential liabilities of the Company and the risks associated with them. (Para 2.3)

(d) ISGEC has given corporate guarantees to the banks to secure the credit facilities granted by the banks to three of its subsidiaries. These corporate guarantees should have been accounted for as financial guarantees in accordance with Para 4.2.1 of Ind AS 109[4]. But the Company has not done the same, resulting in non-compliance with the requirements of Ind AS 109. (Para 2.4)

(e) ISGEC acquired another overseas company through one of its wholly owned subsidiaries during the year but did not disclose this transaction in the consolidated financial statements of ISGEC in accordance with the requirements[5] of Ind AS 103 *Business Combinations*. The Company has not made adequate disclosures in this regard. (Para 2.5)

(f) The overseas company so acquired was in distress due to financial difficulties, but ISGEC did not evaluate impairment loss on its investment value in its subsidiary in accordance with Ind AS 109[6]. Though the amount involved is not material, this shows weakness in the internal controls with respect to impairment evaluation by the company. Also, ISGEC has earlier provided a loan to the same wholly owned subsidiary but did not evaluate the increase in credit risk on this loan as per the requirements of Ind AS 109[7]. (Para 2.6)

(g) ISGEC has given loans to two of its foreign subsidiaries namely, ISGEC Investments Pte Ltd., Singapore and Eagle Press & Equipment Co. Ltd, Canada but did not disclose the purpose of giving loans to its foreign subsidiaries in its Board Report in accordance with the provisions of section 186[8] of the Companies Act, 2013. (Para 2.7)

1.3.2 Key observations categorized as 'Moderate' Impact.:

(a) NFRA has observed that certain information regarding 'significant payment terms' (e.g. when a payment is due) as required[9] by Ind AS 115 *Revenue from contracts with customers* is not disclosed in the notes to the financial statement of the Company. Also, disclosure regarding 'obligations for returns, refunds, and other similar obligations'[10] has not been made by the Company. This disclosure is mandatory as per Ind AS 115. (Para 3.1)

[4] As per Para 4.2.1 of Ind AS 109 - *An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:*

c) ***financial guarantee contracts****. After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:*

(i) the amount of the loss allowance determined in accordance with Section 5.5 and

(ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS 115

[5] Para B64 of Ind AS 103 Clauses (c), (d), (f), (g), (h), (j), (n), (p) and (q)and Para B67 Clause (a)(i) and (ii)

[6] Para B5.2.3 of Ind AS 109

[7] Para B 5.2.5 of Ind AS 109

[8] *Sec. 186(4): "The company shall disclose to the members in the financial statement the full particulars of the loans given, investment made or guarantee given or security provided and* ***the purpose for which the loan*** *or guarantee or security is proposed to be utilised by the recipient of the loan or guarantee or security"*

[9] Para 119 of Ind AS 115

[10] Para 119 of Ind AS 115

(b) According to Ind AS 115 *Revenue from contracts with customers,* an entity is required to disclose its method used to recognise revenue and why this method provides a faithful depiction of transfer of goods and services. The company's disclosures fall short of the above requirement insofar as the explanations why the method used provides a faithful depiction of the transfer of goods and services[11] is concerned. (Detailed observation in Para 3.2)

(c) The Company has not clarified in the financial statements regarding the bifurcation of leave encashments into long-term and short-term. Ind AS 1[12] specifically requires the companies to inform the users of financial statements of the measurement basis used while categorising a line item as short term or long term. (Detailed observation in Para 3.3)

(e) The Company has not disclosed the nature of the balance sheet item "Others" under Other Non-Current Assets as required by Schedule III of the Companies Act. (Para 3.5)

(g) The Company has taken a loan under a government scheme in which a part of the interest shall be borne by the government in the form of interest subvention. Ind AS 20 *Government Grants* specifically requires certain disclosures[13] but ISGEC has not complied with these disclosures (Para 3.7)

1.3.3. The Company in its submissions to NFRA has stated that it has taken measures to rectify the deficiencies and other issues observed by NFRA. The Company also submitted that it has taken measures to implement these recommendations for the subsequent financial years and also taken measures to ensure no such errors/omissions occur in future financial statements.

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[11] Para 124 of Ind AS 115

[12] Para 65 of Ind AS 1 that "*the **i**nformation on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as noncurrent.*"

[13] Para 39 of Ind AS 20

B. DETAILED OBSERVATIONS

2. Observations on the Annual Financial Statements and the Annual Report Classified as High Impact

Observations on Annual Financial Statements

2.1 Notes to Financial Statements

Note 7: Non-current financial assets – Loans
Note 9: Non-current financial assets – Others
Note 16: Current financial assets – Loans
Note 17: Current financial assets – Others

The Issue

The company has reported outstanding balances of certain material financial assets in the Stand-alone Financial Statements (SFS) as follows:
Note 7: Non-current financial assets – Loans ₹ 3,081.40 lakhs
Note 9: Non-current financial assets – Others ₹1,523.08 lakhs
Note 16: Current financial assets – Loans ₹1,894.76 lakhs
Note 17: Current financial assets – Others ₹1,405.24 lakhs

This is also observed in Consolidated Financial Statements.

According to chapter 5 of Ind AS 109, *the entity shall measure the loss allowance as follows:*
i) at an amount equal to 12-month expected credit losses where the credit risk for financial instruments has not increased significantly since initial recognition.
ii) at an amount equal to lifetime expected credit losses where the credit risk for financial instruments has increased significantly since initial recognition.

NFRA's Observation

There is no impairment loss allowance/expected credit loss (ECL) reported against any of these outstanding amounts of financial assets as per Ind AS 109.

ISGEC Response

Note 7: Non-current financial assets - Loans: It consists of secured and unsecured loans to employees, security deposits and loans to subsidiary companies. Each of these items are discussed below: -

- *Security deposits primarily represent earnest money deposits for:*
- *bids submitted with customers for securing new orders*
- *deposits for various utilities such as electricity, power, gas etc. for company's premises, factories, project sites and work locations*
- *lease/rental deposits for various offices and other locations taken by the company*
- *amount deposited to obtain various licenses and permissions which are refundable.*

All these amounts are recoverable in full and based on past experience, the company expects no default therein. Hence no impairment is required.

- *Loan to subsidiaries include loans given to Eagle Press & Equipment Co Ltd. (Rs. 797.85 lacs) and to ISGEC Investment Pte Ltd. (Rs.1112.79 lacs). The loans are interest bearing and interest is being collected. The principal is not yet due. These loans have been given to meet the capital expenditure in case of Eagle Press & Equipment Co Ltd & to meet the operational expenses in case of ISGEC Investment Pte Ltd. Based on projections & cash flows of these subsidiaries wholly under the control of the parent, the recoverability from these entities are expected to be as per agreed terms. It may be noted that no impairment has been recognized with respect to these entities. Hence in view of the Company, no ECL provision was required with respect to these loans.*

Note 9: Non-current financial assets – Others

- *This comprises fixed deposits with banks having maturity for more than 12 months including interest accrued but not due thereon. In the opinion of the company, no impairment loss is required to be recognized on term deposits with the banks. It may be added that such deposits have no history of defaults.*

Note 16: Current financial assets – Loans - *This comprises of loans and advances to employees, security deposits, interest accrued on security deposits, other loans and interest accrued on loans to subsidiary companies. It has been discussed above, why no impairment is required in such cases including loans to subsidiary companies. The same reason is extended to interest accrued on security deposits as well as interest accrued on loans to subsidiary companies. Other loans represents amounts with Life Insurance Corporation of India under a gratuity trust. The trust meets the payment of gratuity to the employees of the Company on their termination, resignation and retirement. LIC is the largest player in its sector in the Country with exemplary financial highlights requiring no ECL provision. Hence no provision for impairment is required to be made on items included in Note 16.*

Note 17: Current financial assets – others

- *This includes foreign exchange forward contracts receivables, which is measured at fair value through profit and loss account on which ECL provisions are not applicable. The other item included in this Note, is interest accrued on fixed deposits with banks which are being received on due dates, hence no provision is required.*

The Company during its in-person presentation has submitted that "*there has not been any single instance of non-collection or any requirement to write-off any of the above assets.*"

The Company has also explained that it has made certain procedural changes for the evaluation of Expected Credit Loss calculation from FY 2020-21 onwards on a quarterly basis.

Conclusions/Recommendations

Para 5.5.1 of Ind AS 109 makes it mandatory to recognise a loss allowance for expected credit losses on a financial asset specified in the said para. Similarly, para 5.5.3 makes it mandatory at each reporting date, to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

Para 5.5.4 stipulates that the entity shall consider all reasonable and supportable information, including that which is forward-looking, while assessing credit risk. This forward-looking information consists of an estimate of expected recovery patterns, probability of default, time of recovery, the amount expected to be recovered from collaterals, credit rating reports, economic factors and so on. If reasonable and supportable forward-looking information is available without undue cost or effort, an entity cannot rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. To determine whether there has been a significant increase in credit risk, Ind AS 109 requires a comparison of the risk of default estimated on initial recognition with the risk of default estimated at the reporting date, using the change in the risk of a default occurring over the expected life.

Para 5.5.5 makes it mandatory that if the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. Para 5.5.15 mandates that despite paragraphs 5.5.3 and 5.5.5, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables.

Para 5.5.17 stipulates the conditions to be satisfied in the measurement of expected credit losses. It requires that an entity shall measure expected credit losses of a financial instrument in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(b) the time value of money; and

(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

On the basis of the replies submitted by the company, it is observed that the company has not examined the credit risk and has not calculated the expected credit loss as required by Ind AS 109 for FY 2019-20. As the provisions of Ind AS 109 are mandatory in nature, it is important to measure the loss allowance for expected credit losses even if there has been no default in past periods. The fact that there is no instance of default in the subsequent financial years cannot be considered as a reason for not having appropriate internal control measures in 2019-20 for proper evaluation of the ECL.

NFRA takes note of the submission by the Company that the control procedures regarding ECL evaluation have been implemented in subsequent periods.

2.2 Note 18: Other Current Assets – Unbilled Revenue

The Issue

An amount of ₹ 23,270.87 lakhs has been reported under the sub-heading 'Unbilled revenue' under Note 18 - Other Current Assets.

In the company's accounting policy no. 2.4. B- Revenue from Construction Contracts, this outstanding balance is stated as a contract asset.

Contract Asset is defined in Ind AS 115-Revenue from Contracts with Customers as "*An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when* *that right is conditioned on something other than the passage of time (for example, the entity's future performance)."*

Also, according to Para 107 of Ind AS 115, an entity shall assess a contract asset for impairment in accordance with para 5.5.1 read with para 5.5.15 of Ind AS 109. An impairment of a contract asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of Ind AS 109.

Para 5.5.1 of Ind AS 109 states -*An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, **a contract asset** or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).*

Para 5.5.15 states- *Despite paragraphs 5.5.3 and 5.5.5, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:*

(a) trade receivables or contract asset that result from transactions that are within the scope of Ind AS 115, and that:

(i) do not contain a significant financing component in accordance with Ind AS 115 (or when the entity applies the practical expedient in accordance with paragraph 63 of Ind AS 115); or

(ii) contain a significant financing component in accordance with Ind AS 115, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all such trade receivables or contract assets but may be applied separately to trade receivables and contract assets.

NFRA's Observation

NFRA observed that in Note No. 48 of notes to financial statements – b. Trade Receivables and Contract Customers, the company has mentioned ***"Trade Receivables and unbilled revenue are presented net of impairment in the Balance Sheet."***

On perusal of the company's financial statements, NFRA found that there is no impairment loss allowance reported against the outstanding amounts of these contract assets (unbilled revenue).

ISGEC Response

Please refer to para 95 of Ind AS 115, which specifically states that an entity is required to recognize an asset from the costs incurred to fulfill a contract, if such costs relate directly to a contract, the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future and the costs are expected to be recovered.

Para 97 of same standard gives examples of costs which are required to be classified as Assets, such as direct labour, direct materials, allocation of costs that directly relates to contract activities and costs that are explicitly chargeable to the customer under the contract.

Para 98 also gives examples of costs, which are to be chargeable as expense and not to be classified as assets. While following revenue recognition over a period of time method, we relied on above paras of Ind AS 115 to classify such specific costs, which are under a specific contract and incurred to satisfy performance obligations under the contract etc. as assets and shown as unbilled revenue. In brief, these are costs incurred for execution of specific contracts for customers, but yet are to be billed to customers as specified milestones as per contract agreements with the customers are yet to be achieved/completed.

Para 11 of Ind AS 32, explains where an asset is to be classified as Financial Asset. As per definition set out in para 11, the unbilled revenue is not cash, not an equity instrument of another entity, not yet fulfilled a contractual right to receive cash or another financial asset from another entity (as the milestones as per contract agreement with the customers, are yet to be achieved) or to exchange financial *assets or financial liabilities etc. However, once the specific milestone is achieved, the company will be able to invoice the agreed amount to customers as per milestones specified in the contracts, then it will be classified as Financial Asset.*

Ind AS 115 requires measurement of assets by recognizing impairment loss in profit and loss account in two ways:-

a) *As per para 101 of Ind AS 115, an entity shall recognize an impairment loss if the carrying amount of such assets exceeds the remaining amount of consideration that the entity expects to receive in exchange for goods or services etc. Impairment loss for unbilled revenue, being a non-financial asset, is being governed under this para. We hereby confirm that we on regular basis, performs this test and wherever it is known or expected to be known that conditions specified in Para 101 meets, we immediately recognize the impairment loss on unbilled revenue. The same is disclosed in Significant Accounting Policies as well, please refer Note 2.4B of SFS.*

b) *As per para 107 of Ind AS 115, if an entity performs by transferring goods or services to a customer before the customer pays consideration or payment is due, the entity shall present the contract as a contract asset etc. Further it states that entity shall assess the contract asset for impairment in accordance with Ind AS 109. In our case, the goods or services under the contract are transferred to customer on achieving the related milestones and on achieving the milestones, we immediately invoice such goods and services to the customer. In such cases these assets become Financial Assets and we provide for impairment losses satisfying the requirement of Ind AS 109, which deals with impairment of Financial Assets only. For this matter, we invite your kind attention to Note no. 13 of SFS, where we have recognized impairment loss of Rs. 1709.05 lac as expected credit losses meeting requirement of Ind AS 109.*

Conclusions/Recommendations

On an examination of various notes in the financial statements and the response given by the company, NFRA believes that the company lacks clarity on the provision of expected credit loss on Unbilled Revenue. The replies of the Company quoted above make it clear that the Company has not recognised expected credit loss (ECL) as required by paras 5.5.1 read with para 5.5.15 of Ind AS 109. The contract assets that are within the scope of Ind AS 115 must be treated as per these provisions of Ind AS 109 and the ECL (which requires consideration of forward-looking macro-economic factors also to arrive at a proper expected credit loss rate) must be measured irrespective of the impairment loss stipulated in para 107 of Ind AS 115.

Therefore, it is advised the Company may go through para 107 of Ind AS 115 and paras 5.5.1 read with para 5.5.15 of Ind AS 109 and report the figures of ECL on Unbilled Revenue, if any, in future financial statements.

2.3 Note 2.11: Employee Benefits - Pension

The Issue

Note 2.11 (v) states- *Liability on account of pension payable to employees covered under Company's erstwhile Pension scheme (since discontinued) has been accounted for on accrual basis.*

In the above note, it is not clear whether the employee benefit in the form of a Pension is a defined benefit plan or a defined contribution plan.

NFRA's Observations

Para 135 of Ind AS 19 states-

An entity shall disclose information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them;

(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans; and

(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows

NFRA observes that there is no disclosure made in the notes to accounts to explain the nature of 'Employee Benefits - Pension', the absence of which results in inadequate information to users of the financial statement and is in non-compliance with Para 135 of Ind AS 19.

ISGEC Response

The pension scheme, since discontinued, is a definitive liability. The aggregated amount is payable in the form of annuity post retirement. The annuity which is payable in next twelve months period is disclosed as current liability and the balance amount payable is treated as Non-current Liability.

Conclusions/Recommendations

NFRA advises the company to comply with the disclosure requirement of paragraph 135 of Ind AS 19.

2.4 Note 44: Corporate Guarantees

The Issue

The Company has disclosed an amount of ₹ 25,367.74 Lakhs as corporate guarantees given to banks to secure credit facilities to three of its subsidiary companies. The company has not accounted for these corporate guarantees as financial guarantees in accordance with the requirements of Ind AS 109.

NFRA's Observations

NFRA observes that the company has not provided any clarification in the financial statements as to how the amounts in these corporate guarantees have been disclosed and whether these are accounted for as required by Paragraph 4.2.1 or 4.2.2 of Ind AS 109. NFRA had asked the company to provide clarification and the details of these corporate guarantees.

As per Para 4.2.1 of Ind AS 109 - *An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:*

(a) ..

(b) ..

(c) ***financial guarantee contracts****. After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:*

(i) the amount of the loss allowance determined in accordance with Section 5.5 and

(ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS 115.

Para 5.5.3 of Ind AS 109 states- *"Subject to paragraphs 5.5.13–5.5.16, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition."*

ISGEC Response

Paragraph 4.2.2 of Ind AS 109 gives an option to the entity to measure a financial liability at fair value under certain conditions. It is not mandatory for the entity to apply paragraph 4.2.2. The Company has chosen not to apply paragraph 4.2.2 of Ind AS 109 for these corporate guarantees.
Details of the Corporate Guarantees are :

NOTE 44: CORPORATE GUARANTEES

Particulars		*As at March 31,2020*	*As at March 31,2019*
a)	*Corporate guarantees given to bank to secure credit facilities given to Isgec Hitachi Zosen Limited*	*21,962.65*	*18,748.48*
b)	*Corporate guarantees given to bank to secure credit facilities given to Isgec Titan Metal Fabricators Private Limited*	*2,830.44*	*1,501.48*
c)	*Corporate guarantees given to bank to secure credit facilities given to Isgec Redecam Enviro Solutions Private Limited*	*574.65*	*436.50*

Conclusions/Recommendations

The company's understanding that para 4.2.2 of Ind AS 109 is optional and hence the company has decided not to opt for the same is incorrect as Para 3.1.1 specifically states that a financial liability should be classified in accordance with Para 4.2.1 and 4.2.2 and measured in accordance with Para 5.1.1.

In this case, Para 4.2.1 is not optional and part (c) of para 4.2.1 specifically deals with financial guarantee contracts. Hence, the company should have followed the classification mentioned in this para and should have measured these corporate guarantees in accordance with para 5.1.1.

Therefore, NFRA advises the company to follow the requirements of para 4.2.1 and 5.5.3 of Ind AS 109 in the disclosure of Corporate Guarantees in its future financial statements.

2.5 Note 8 of Standalone Financial Statements: Non-Current Financial Assets – Trade Receivables

The Issue

In the above-mentioned head, it is observed that there exists no allowance for credit loss for non-current trade receivables.

NFRA's Observation

The fact that there is no allowance for credit loss is contradictory to the expected credit loss disclosed under 'More than 12 months' category in ageing schedule given under Note no. 51. In Note 51, ECL reported is ₹ 1,656.92 Lakhs.

ISGEC Response

There is no contradiction in the financial statements.
As on 31st March 2020, the total trade receivables were as under:

Particulars	***Amounts (Rs. In lakhs)***
Non – current trade receivables as per Note 8	*9,199.76*
Current trade receivables as per Note 13	*2,00,752.59*
Total	*2,09,752.59*
Less : Allowance for expected credit loss	*1,709.05*
Net trade receivables	*208, 243.30*

The extract from Note 51 and our explanation is as under:

Particulars	*All amounts in Rs. Lakhs*		
	Gross Amount	*ECL*	*Net*
Not Due			
`- Non – current	*9,199.76*	*Nil*	*9,199.76*
`- current	*1,09,196.07*		*1,09,196.07*
	1,18,395.83		*1,18,395.83*
Less than 6 months	*43,140.66*	*Nil*	*43,140.66*
6 – 12 months	*6,005.20*	*52.13*	*5,953.07*
More than 12 months	*42,410.66*	*1,656.92*	*40,753.74*
Total	***2,09,952.35***	***1,709.05***	***2,08,243.30***

It may be noted from the above that non – current trade receivables are included in 'not due' category as they were not due as at the balance sheet date (& will be due only after 12 months from the balance sheet date) instead of 'more than 12 months' category as per you. All trade receivables that are (a) overdue, (b) due or (c) will be due within next 12 months are part of current trade receivables.

The Company during its in-person presentation has explained that it has made certain procedural changes for the evaluation of Expected Credit Loss calculation from FY 2020-21 onwards on a quarterly basis.

Conclusions/Recommendations

Para 5.5.1 of Ind AS 109 makes it mandatory to recognise a loss allowance for expected credit losses on a financial asset specified in the said para. As already pointed out in detail in Para 2.1 of this FRQR, the company is advised to evaluate loss allowance for expected credit loss in Trade Receivable.

2.6 Note 53 of CFS: Business Combinations (Disclosure according to Ind AS 103)

The Issue

During the reporting period, the company has acquired a business and made the following disclosures in this regard in Note 53 of the Consolidated Financial Statements:

Disclosures pursuant to Ind AS 103 "Business Combinations":

a. Acquisition of Cavite Biofuels Producers Inc., Philippines

b. On October 3, 2019, The Group through its wholly owned subsidiary company, namely Isgec Investment Pte. Ltd., Singapore incorporated in Singapore acquired the business of Cavite Biofuels Producers Inc., Philippines with all its assets and liabilities and group companies. The following group entities were acquired by Isgec Investment Pte. Ltd.

- *Bioeq Energy Holdings One, Cayman Islands*
- *Bioeq Energy Pte Ltd., Singapore*
- *Bioeq Energy B.V.,Netherlands*
- *Bioeq Energy Holding Corp., Philippines*
- *Bioeq Shared services ROHQ*
- *Bukid Verde Inc., Philippines*
- *Penwood Project Land Corp., Philippines*
- *Cavite Biofuels Producers Inc., Philippines"*

The effective closing was on October 3, 2019, for a purchase consideration of ₹ 7,111.25 ($100) The Group accounted for the acquisition by following the purchase method of accounting wherein the total purchase consideration was allocated to all acquired assets and assumed liabilities. The purchase price allocation ('PPA') was undertaken to assess the valuation of assets and liabilities acquired in the acquisition.

Particulars	*Amount (₹ In Lakhs)*
Purchase consideration	
Cash and cash equivalents	*0.07*
Total	***0.07***
Assets acquired and liabilities recognised on the date of acquisition are as follows:	
ASSETS	
Non - current assets:	
Property, plant and equipment	*3,035.03*
Right-of-use assets (net)	*1,473.94*
Capital work - in - progress	*44,305.53*
Other intangible assets	*22.22*
Biological assets	*418.78*
Investments in associates	*934.43*
Input value added tax	*553.65*
Security deposit	*0.75*

Other non - current assets	*308.16*
Total non - current assets	***51,052.49***
Current assets:	
Inventories	*60.67*
Trade and other receivables	*148.91*
Cash and bank balances	*38.58*
Due from related parties	*384.97*
Prepayments and other assets	*132.85*
Total current assets	***765.98***
Total assets	***51,818.47***
LI ABILITIES	
Non - current liabilities	
Loans and Notes payable	*25,110.36*
Lease liability	*1,633.79*
Deferred tax liability	*359.79*
Other liability	*26.46*
Total non - current liabilities	***27,130.40***
Current liabilities	
Trade and other payables	*3,132.40*
Loans and notes payable	*64.55*
Lease liability	*12.23*
Value added tax payable	*1.92*
Due to related parties	*140.22*
Total current liabilities	***3,351.32***
Total liabilities	***30,481.72***
Non controlling interest acquired	***(2,032.81)***
Total net identifiable assets acquired	*23,369.56*
Consideration paid	*0.07*
Capital reserve arising from the acquisition	*23,369.49*

Initial accounting for acquisition of Cavite Biofuels Producers Inc., Philippines to be done as per fair value prescribed under Ind AS 103 "Business Combinations" is under progress and therefore, as permitted by para 45 of Ind AS 103, book value of assets and liabilities has been considered for accounting in the financial year ended March 31, 2020.

Relevant prescriptions of Ind AS 103 in this connection are reproduced below:
Measurement principle

Para 18 - The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.
Measurement period
Para 45 - If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the

acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.
Disclosures

Paragraphs B64 to B67 has detailed prescriptions of the disclosures to be made by the acquirer.

NFRA's Observation
NFRA observes that the company has accounted for the assets acquired and liabilities assumed at book value instead of fair value as required by Ind AS 103.

Also, the company has not made the disclosures as prescribed in
- Para B64 of Ind AS 103 Clauses (c), (d), (f), (g), (h), (j), (n), (p) and (q).
- Para B67 Clause (a)(i) and (ii)

ISGEC Response

The company responded to the query by mentioning the details of the acquisition and the relevant timelines for the same. But the company did not explain the incomplete disclosures made in the financial statements.

Conclusions/Recommendations
Based on the above observation and the company's response, NFRA observes that the company did not provide the necessary disclosure as required by Ind AS 103 and did not comply with para 18 and 45 of Ind AS 103 for the relevant year. The Company is advised to make necessary compliance in future.

2.7 Note 49: Disclosures as required by Ind AS 24, Related Party Disclosures

The Issue
The company acquired a Bio-Refinery Project M/s Cavite Biofuels Producers Inc., Philippines, (CBPI) on 3rd October 2019 through its wholly-owned subsidiary Isgec Investments Pte. Ltd., Singapore (Having an Investment value of ₹5,19,600/- in Equity, Loan given to this subsidiary amounting ₹1,089.72 Lakhs).

NFRA's Observation

NFRA observes that CBPI was a company in distress and the acquisition was made for a nominal consideration of USD100/- only.

Para B5.2.3 of Ind AS 109 states- *All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is* *available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.*

Para B 5.2.5- *An entity shall use all information about the performance and operations of the investee that becomes available after the date of initial recognition. To the extent that any such relevant factors exist, they may indicate that cost might not be representative of fair value. In such cases, the entity must measure fair value.*

ISGEC Response

Initially, the purpose of the acquisition of CBPI was to recover the outstanding from CBPI by selling the acquired business. CBPI overall net asset position as on the date of acquisition was positive. Acquisition by Isgec of CBPI was in Isgec's interest as this was an opportunity to recover its outstanding dues from CBPI. Post acquisition Isgec was in talk with few potential buyers.

The loan amount was given to Isgec Investment Pte. Ltd in September 2019 and March, 2020 in two instalments to meet routine expenses. As per the discussions for sale going on with potential buyers at that time, we were fully confident to recover more than the combined investment of outstanding dues from CBPI, investment and loan amount given.

However due to changed circumstances primarily arising out of worsening covid 19 situation, the loan amount given to Isgec Investments Pte Ltd was impaired in financial year 2020-21 by Rs. 289 Lakh. No impairment was recognized in the token investment of USD 100 (Approx. Rs. 7000) being extremely insignificant value.

Conclusions/Recommendations

The company should have evaluated the impairment loss on its investment in the subsidiary company. In the present case, though the amount involved is not material, this shows a weakness in the internal controls in so far as ECL evaluation is concerned. Further, ISGEC should have re-measured credit risk in the amount of loan given to the investee company as the Business acquired by the company's wholly owned subsidiary was a Business in distress.

NFRA takes note of the submission by the Company that the control procedures regarding ECL evaluation are implemented in subsequent periods.

Observations on Other Parts of Annual Report (High Impact)

2.8 Board Report

Annexure -2 (Particulars of Loans, Guarantees and Investment under Section 186 of the Companies Act, 2013 as at 31.03.2020)

The Issue

As per Section 186(4) of the Companies Act 2013, the Company shall disclose to the members in the financial statement the full particulars of the loans given, investments made, or guarantee given or security provided and the purpose for which the loan or guarantee or security is proposed to be utilized by the recipient of the loan or guarantee or security.

NFRA's Observation

The Company has given loans to Foreign Subsidiaries namely ISGEC Investments Pte Ltd, Singapore and Eagle Press & Equipment Co. Ltd, Canada. However, the Company has not disclosed the purpose for which the loan is provided to these foreign subsidiaries.

This was in contravention of Section 186 of the Companies Act 2013.

ISGEC Response

With reference to this query, it is submitted that sub-section (4) of Section 186 of the Companies Act is to be read along with sub-section (3) of Section 186 of the Companies Act. In order to explain the matter, sub-section (3) of Section 186 is reproduced below:-

"(3) Where the aggregate of the loans and investment so far made, the amount for which guarantee or security so far provided to or in all other bodies corporate along with the investment, loan, guarantee or security proposed to be made or given by the Board, exceed the limits specified under sub-section (2), no investment or loan shall be made or guarantee shall be given or security shall be provided unless previously authorized by a special resolution passed in a general meeting:

***Provided** that where a loan or guarantee is given or where a security has been provided by a company to its wholly owned subsidiary company or a joint venture company or acquisition is made by a holding company, by way of subscription, purchase or otherwise of, the securities of its wholly owned subsidiary company, the requirement of this sub-section shall not apply:*

***Provided** further that the company shall disclose the details of such loans or guarantee or security or acquisition in the financial statement as provided under sub-section (4)."*

The first proviso to sub-section (3) provides that loans or guarantee given to wholly owned subsidiary is not covered by this sub-section. ***This would mean that loans to wholly owned subsidiary are not "such loans or guarantee" referred to in second proviso to sub-section (3) of Section 186.***

Accordingly, sub-section (4) of Section 186 is not applicable to loans or guarantee given to wholly owned subsidiary of a Company. (Emphasis added)

Conclusions/Recommendations

ISGEC's interpretation regarding the disclosure requirements under section 186 is erroneous. The reason stated by the company (the emphasised portion in the above para) is not a proper interpretation since the proviso to sub-section 3 qualifies only to that section, not the next sub-section 4. The second proviso to sub-section (3) of section 186 clearly stipulates that the disclosures shall be made in accordance with subsection (4).

The requirements of sub-section 4 of section 186 apply to all loans given and investments made by the Company.

The Company during its in-person presentation has submitted that they have made the required disclosure FY 2021-22 onwards.

3. Observations on the Annual Financial Statements and the Annual Report Classified as Moderate Impact

Observations on Annual Financial Statements

3.1 Note 48: Disclosure under Ind AS 115 "Revenue from Contracts with Customer"

The Issue

The Company has not disclosed information related to refunds, returns and other similar obligations, types of warranties and related obligations regarding revenue generation activities.

NFRA's Observation

NFRA observes that the company has disclosed warranty related disclosures in different notes. Accounting policy for warranty is disclosed in in Note 2.2 (d) of Significant Accounting Policies whereas the movement of warranty provisions is disclosed in Note 23 but Note 48 pertains to 'Disclosure under Ind AS 115 "Revenue from Contracts with Customer" where the disclosures relating to warranties should have been made.

ISGEC Response

The company is largely catering to businesses where goods or services are supplied based on customized/specific/tailor made requirements of customers. So as such, we do not have returns, refunds or other similar obligations as we do not deal into ready made products or off the shelf products or consumer products.

The accounting policy for warranty is disclosed, please refer to note no. 2.2 d of the Significant Accounting Policies, SFS. The movement of warranty provisions is also disclosed in Note. No. 23 of SFS.

The company has also disclosed all applicable information required by IndAS 115 in note no. 48 of SFS.

Conclusions/Recommendations

Para 119 of Ind AS 115 makes it mandatory for an entity to disclose information about its performance obligations in contracts with customers, including a description of all of the following:

(a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement;

(b) ***the significant payment terms*** *(for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58);*

(c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e., if the entity is acting as an agent);

(d) ***obligations for returns, refunds and other similar obligations;*** *and*

(e) types of warranties and related obligations

The company in its response has said that all applicable information required by Ind AS 115 is disclosed in Note 48.

NFRA observes that certain information regarding 'significant payment terms' (e.g. when payment is due) as required by Ind AS 115 is not disclosed in Note 48 of the notes to the financial statement of the company. Also, disclosure regarding 'obligations for returns, refunds, and other similar obligations' has not been made.

Information regarding 'types of warranties and related obligations' is not disclosed in Note 48 but is scattered in various other notes.

The company in its response has stated that it 'do not have returns, refunds or other similar obligations.' It is important to note that the disclosure requirement in Para 119 of Ind AS 115 is mandatory and hence the company is advised to disclose in future that the company does not have any obligations towards any returns or refunds.

3.2 Note 48: Disclosure under Ind AS 115 "Revenue from Contracts with Customer" (significant accounting policy note 3.5B of CFS)

The Issue

About the disclosure requirement of Ind AS 115, the company has disclosed in its accounting policy that the input method has been used to recognise revenue. But the company has not explained why the input method provides a faithful depiction of the transfer of goods or services.

NFRA's Observation

With regard to the disclosure requirement of Ind AS 115, Para 124 states as below:

For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied); and

(b) ***an explanation of why the methods used provide a faithful depiction of the transfer of goods or services.***

The company has disclosed in its accounting policy that the input method has been used. But the company has not explained why the input method provides a faithful depiction of the transfer of goods or services.

ISGEC Response

We reproduce here below the extract from the accounting policy (refer significant accounting policy 3.5B of consolidated financial statements:

'Revenues are recognized over time under percentage of completion method. The percentage of completion method has been determined using input method WHICH RECOGNIZED REVENUE ON THE BASIS OF COSTS INCURRED TO DATE COMPARED TO TOTAL ESTIMATED COSTS'

We believe above emphasized phrase adequately meets the requirements of Ind AS 115. We have however, noted your suggestion and going forward will include a more elaborate explanation in this respect.

Conclusions/Recommendations

The response given by the company explains how the Input method is determined. But the requirement under para 124 of Ind AS 115 also requires the company to disclose **why the method used** provides a faithful depiction of the transfer of goods or services (*emphasis added*).

The Company during its in-person presentation has submitted that they have incorporated the required disclosure in the financial statement of the company during FY 2021-22.

3.3 Note 2.11: Employee Benefits – Leave Encashment

The Issue

The company's accounting policy states as follows-

"*The expected cost of accumulated leaves is determined by actuarial valuation performed by an independent actuary at each balance sheet date using projected unit credit method on the amount expected to be paid/ availed as a result of the unused entitlement that has accumulated at the balance sheet date. The Company treats the accumulated leave as short- term employee benefits and accordingly, any gains and losses on actuarial valuation are recognised as expense in the statement of profit and loss*."

NFRA's Observation

NFRA observed that the company has treated the accumulated leave as short-term employee benefits. Also, the company has reported an amount of ₹ 2,144.03 lakhs under the heading 'Provision for employee benefits- Leave Encashment' in Note 23: Long term Provisions.

- There is no clarity in the financial statements regarding the bifurcation of leave encashments into long term and short term.

- In the case of short-term employee benefits, there is expected to be less complexity in the recognition and measurement, hence actuarial valuations are not generally needed, but the company has employed actuarial valuation even in this case.

Para 65 of Ind AS 1 states inter alia that *the information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as noncurrent.*

Para 118 states that *it is important for an entity to inform users of the measurement basis or bases used in the financial statements.*

ISGEC Response

The Company has following Leave Policy:

All employees are entitled for 30 days privilege leave in a year. Unutilised privilege leave upto maximum of 24 days are accumulated and carried over to next year.

An employee can accumulate maximum of 90 days leaves. Accumulated leave over and above 90 days are encashed and paid every year.
As per above, leave accumulation consist of two component
1) Accumulated leave upto 90 days which is payable to employees on separation from service shown as non-current liability.
2) Leave over and above 90 days which is payable immediately after completion of calendar year is shown as current liability. This is as per para 9(b) of IndAS 19.
The accounting treatment in SFS is correct, however, in the accounting policy, this should have been made clear. We have noted your suggestion and will modify the accounting policy disclosure from next Annual Report.
b) Actuarial valuation is conducted to determine non-current liability of leave accumulation.

Conclusions/Recommendations

NFRA observes that the disclosures fall short of the requirements of IndAS1.

The Company during its in-person presentation has submitted that they have incorporated the required disclosures from FY 2021-22 onwards.

3.4 Note 2.19 Cash and cash equivalents

The Issue

Note 2.19 describes the company's accounting policy on components of cash and cash equivalents. At the bottom of the Statement of Cash Flows the company discloses various components of cash and cash equivalents.
Further, Note 14: 'Current financial assets - Cash and cash equivalents' gives the details of components of cash and cash equivalents reported in the balance sheet. While the amounts disclosed are the same in Note 14 and at the bottom of the Statement of Cash Flows, the title/descriptions of the components disclosed are not the same.

NFRA's Observation

In Note 14 of the financial statements, it is mentioned –
Cash on Hand - ₹ 11.19 lakhs
Balance with banks in current accounts - ₹ 12724.67 lakhs

In the statement of cash flows, it is mentioned-
Cash, Cheques and Drafts on hand - ₹ 11.19 lakhs
Balance with scheduled banks - ₹ 12724.67 lakhs

NFRA has observed that while the amounts disclosed are the same in Note 14 and at the bottom of the Statement of Cash Flows but the title/descriptions of the components in these two places are not the same.

ISGEC Response

As mentioned by you above, there are no differences in cash and cash equivalents amounts in the statement of cash flows and Note 14. Both reconciles.

The reconciliation between opening cash and cash equivalents with closing cash and cash equivalents is also given in the cash flow statement. Moreover, the opening and closing cash and cash equivalents matches with the Note 14 of SFS.

The company also disclosed that cash flow statement is prepared under Indirect method set out in IndAS 7 at the bottom notes of Cash Flow Statement in SFS.

However, we have noted your observation and will improve the presentation in future financial statements.

Conclusions/Recommendations

NFRA observes that the company shall maintain consistency in presentation.

The Company during its in-person presentation has submitted that the presentation has been improved during FY 2021-22.

3.5 Notes to Consolidated Financial Statements – Note 11: Other Non-current Assets

The Issue

In Note No. 11: Other Non-current Assets, ISGEC has disclosed "Others" of Rs. 922.82 lakhs (PY 2018-19 Rs. 0.2 lakhs)

In this regard, Clause VI (1) of Division II to Schedule III of the Companies Act, 2013 states that Advances other than capital advances shall be classified as

(a) Security Deposit;

(b) Advances to related parties (giving details thereof);

(c) Other advances **(specify nature)**

NFRA's Observation

NFRA observes that ISGEC has disclosed "Others" under other non-current assets (Advances recoverable other than in cash) without disclosing the nature of the same as per the requirement of Clause VI(1) of Division II to Schedule III of Companies Act, 2013.

ISGEC Response

The break-up of other advances is as under:-

Particulars	***Rs./Lac***
Advance to suppliers	*300*
Input Value added tax from Philippines authorities	*622*
Total	***922***

We have noted your suggestions regarding more disclosure of "Others". We will make improvements in the subsequent financial statements.

Conclusions/Recommendations

NFRA observes that the company's presentation falls short of the requirements of Schedule II in this case.

The Company during its in-person presentation has submitted that the presentation has been improved during FY 2021-22.

3.6 Board Report – Annexure 7 (Form AOC-1)

The Issue

In AOC-1, ISGEC Investments Pte Limited is shown under FY 2018-19 as "Subsidiary" but the same is not shown in FY 2019-20. This is contrary to the fact that the Company held 10,000 shares of SGD 1 in ISGEC Investments Pte Ltd, Singapore as disclosed in Note no 6 of Standalone Financial Statement i.e 'Non-Current Financial Assets- Investments', in the FY 2020 and not in previous FY 2019.

NFRA's Observation

NFRA observed that in AOC-1, ISGEC Investments Pte Limited is shown as "Subsidiary" for FY 2018-19 but the same is not shown in FY 2019-20. Whereas the date on which the subsidiary was acquired is mentioned as 27.08.2019 (FY 19-20).

ISGEC Response

With regard to this query, it is submitted that the information provided for ISGEC Investments Pte. Ltd is for year ending 31.03.2020. The confusion is caused because of a printing error while dividing the statement in two parts. FY 18-19 information should have begun from ISGEC Covema Ltd, as ISGEC Investments Pte Ltd did not exist in FY 18-19. There was a proof-reading error that the line divided FY 19-20 and FY 18-19 was put after Eagle Press whereas it was to be put after ISGEC Investments Pte. Ltd. Hence, there is no variation.

Conclusions/Recommendations

The Company is advised to rectify the error in future financial statements.

3.7 Note 27: Current Financial Liabilities – Borrowings (Government Grant)

The Issue

In the above-referred note, ISGEC has disclosed ₹ 228.58 Lakhs as a soft loan from the bank. It is further disclosed that the soft loan was disbursed under the Central Government Scheme of Soft Loan to sugar mills to facilitate payment of cane dues for sugar season 2018-19.

NFRA's Observation

NFRA observed that the disclosures made by the company, in this case, are not in accordance with the requirements of para 39 of Ind AS 20. Para 39 of Ind AS 20 states-

The following matters shall be disclosed:

*(a) the accounting policy adopted for government grants**, including the methods of presentation adopted in the financial statements;***

*(b**) the nature and extent of government grants recognised in the financial statements** and an indication of other forms of government assistance from which the entity has directly benefited; and*

*(c) **unfulfilled conditions and other contingencies attaching to government assistance that has been***

recognised.

ISGEC Response

The following disclosures were made in note 27.1:

i) Soft Loan was disbursed by Punjab National Bank @10.75% p.a. under Central Government Scheme of Soft Loan to sugar mills to facilitate payment of cane dues for the sugar season 2018-19. Tenure of the soft loan is one year. Repayment is due on 30th June, 2020.

ii) Soft Loan was carved out by the Bank within the sanctioned Cash Credit limit.

iii) The Government will bear interest burden up to 7% simple interest or actual rate of interest charge by the bank whichever is less for maximum period of one year by way of interest subvention.

The aforesaid disclosure mentions that it is a soft loan, it is a government grant (the word "interest subvention" has been used) and the extent of grant is 7% or actual interest whichever is lower.

Read with the accounting policy on Government Grant, the Company submits that the disclosure requirement of para 39 of Ind AS 20 are met.

Conclusions/Recommendations

The disclosure made by the company in the financial statements does not provide the relevant information and it is nowhere mentioned that the interest subvention provided by the government is in the nature of the grant. Also, the company did not disclose the method of presentation and the nature and extent of grants recognised in the financial statement.

Therefore, the Company is advised to comply with the disclosure requirements of para 39 of IND AS 20.

4. Observations on the Annual Financial Statements and the Annual Report Classified as Low Impact

Observations on Annual Financial Statements

4.1 Note 46: Leases

The Issue

The company has disclosed details of Right-of-Use assets and Lease liabilities in a table with the title 'year ended…'. However, these are balances are outstanding at year-end.

NFRA's Observation

Use of incorrect accounting period description to Notes relating to line items of Balance Sheet will be misleading to the users of the Financial Statements.

ISGEC Response

The company accepted the observations vide its letter dated 29th Nov 2021.

Conclusions/Recommendations

NFRA observes that the company's presentation requires improvement.

The Company during its in-person presentation has submitted that the error has been corrected during FY 2020-21

4.2 Note 2.18: Financial Instruments – subsequent measurement

The Issue

Note 2.18 of significant accounting policies states-

***For the purpose of subsequent measurement financial assets are classified in three broad categories**:*

A. Non-derivative financial instruments

(i) Debt instrument carried at amortized cost

A debt instrument is subsequently measured at amortized cost if it is held within a business model whose objective is to hold the asset in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Financial assets at fair value through other comprehensive income

A financial asset is subsequently measured at fair value through other comprehensive income if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(iii) Financial assets at fair value through profit or loss

A financial asset which is not classified in any of the above categories are subsequently fair valued through profit or loss.

(iv) ***Financial liabilities***

Financial liabilities are subsequently carried at amortized cost using the effective interest method. For trade and other payables maturing within one year from the balance sheet date, the carrying amounts approximate fair value due to the short maturity of these instruments.

B. Derivative financial instruments

(i) Initial recognition and subsequent measurement

The Company uses derivative financial instruments, such as forward currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit and loss. For the purpose of hedge accounting, hedges are classified as Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit and loss. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the Effective Interest Rate. Effective interest rate amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

The first sentence of the accounting policy states that "for subsequent measurement **financial assets** are classified in three broad categories". The policy thereafter includes an accounting policy on financial liabilities also.

NFRA's Observation

NFRA observed that in the accounting policy in note 2.18 – Financial Statements; the company has not included 'financial liabilities' in the starting sentence and afterwards it has included financial liabilities in the policy.

ISGEC Response

The word financial liabilities should also have been mentioned. However, financial liabilities are included/covered in accounting policies, please refer 2.18A(iv) of significant accounting policies in SFS and the same is also disclosed in para 2.18B.

Conclusions/Recommendations

The purpose of a significant accounting policy is to ensure a proper understanding of the financial statements. The disclosure should be effective, and clear and should not be redundant or confusing in any manner.

The Company during its in-person presentation has submitted that they have incorporated 'Financial Liabilities' in the above note FY 2021-22.

4.3 Balance Sheet – Current Liabilities - Trade Payables

The Issue

ISGEC has presented the following two sub-line items within Trade Payables
- Total outstanding dues of micro enterprises and small enterprises ((₹ 1,574.61 lakhs)
- Total outstanding dues of creditors other micro enterprises and small enterprises (₹ 1,20,910.77 lakhs)

NFRA's Observation

NFRA observed that there appears to be a typographical error in the description of the item i.e. the word 'than' is missing after the word 'other'. This conveys misleading information to a common user of the financial statements.

ISGEC Response

The word 'than' is duly mentioned in Note 27 of standalone financial statements. You may kindly refer the same. In consolidated financial statements, the same has been mentioned on the face of the Balance Sheet. We also reviewed the signed standalone financials also. The word 'than' is mentioned therein. However, the error inadvertently cropped up in printed version of the annual report. The balance sheet page of signed financials is enclosed herewith for reference.

We will take care to improve proof reading at the time of printing of balance sheet in future.

Conclusions/Recommendations

NFRA observes that the company's presentation needs to be improved in this case.

The Company during its in-person presentation has submitted that the error has been corrected during FY 2020-21

4.4 Statement of Cash Flows – Reconciliation of Liabilities arising from financing activities

The Issue

The company has given a reconciliation of the opening and closing balance of liabilities arising from financing activities. This disclosure is intended to meet the following requirement of Ind AS7.

Paragraph 44A of Ind AS 7

An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

It may be relevant to note the following additional guidance of Ind AS 7.

Paragraph 44D

One way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities, including the changes identified in paragraph 44B. ***Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the balance sheet and the statement of cash flows.***

NFRA's Observation

NFRA observed that the disclosure requirement of para 44D of Ind AS 7 has not been complied with by the company as there is an absence of the link between the items included in the Balance Sheet and the Statement of Cash Flows relating to financial activities.

NFRA observes that there is a difference between the amount (₹26,625.53 Lakhs) of cash flows from financing activities reported in the reconciliation and the amount (₹26,505.56 Lakhs) of cash flows from financing activities reported in the statement of cash flows.

ISGEC Response

Our understanding was that this requirement is to provide reconciliation between opening and closing financial liabilities with the movement of cash flow during the year as per para 44A of IndAS7. For users of financial statements as defined by Ind AS, we feel an informed user can prepare the reconciliation of Financial Borrowings (both current and non-current) for opening balance as well as for closing balance. He just has to add balances appearing against note 21 & note 26.

The movement of cash flows comes by adding 3 items:

- Proceeds from long term borrowings: Rs. 132.46 lakh;

- Repayment of long- term borrowings : (Rs. 12.49 lakh);and

- Proceeds/(repayment) from short term borrowings (net): (Rs. 26,505.56 lac).

(Please refer section C of Cash Flow Statement in Standalone Financial Statements.

However, we have noted your observation and will improve the presentation in future financial statements.

Conclusions/Recommendations

NFRA observes that the company's disclosure needs to be improved in this case.

The Company during its in-person presentation has submitted that they have disclosed the necessary information from FY 2021-22 onwards.

4.5 Statement of Cash Flows

The Issue

General instructions for the preparation of Financial Statements of a Company require compliance with Ind AS

Division II of Schedule III to the Companies Act 2013 requires that the cash flow statement shall be prepared in accordance with the requirement of the relevant Indian Accounting Standard.

Para 1 of Ind AS 7 requires that "*An entity shall prepare a **Statement of cash flows** in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented*." ***[Emphasis added]***

NFRA's Observation

NFRA observes that Ind AS 7 requires preparing the "Statement of Cash Flows", however ISGEC has mentioned the word "Cash Flow Statement". This is in non-compliance with the requirement of Paragraph 1 of Ind AS 7. Cash Flow Statement is a title used in AS 3, Cash Flow Statements in Accounting Standards Rules 2006 and this AS does not apply to ISGEC anymore.

ISGEC Response

Ind AS 7 requires ' Statement of Cash Flows' to be prepared. As per Section 2(40) of Companies Act, 2013 and Division II of Schedule III in general instructions under notes requires a 'Cash Flow Statement' to be prepared. In the same note it mentions that 'the term 'Statement of Profit and Loss' has the same meaning as 'Profit and Loss Account'.

In view of the above, the Company is in compliance of law. The term 'Statement of Cash Flows' and 'Cash Flow Statements' conveys the same meaning. It's a matter of substance over form. As per Ind AS, substance prevails over form.

However, the Company has noted your suggestions. Necessary improvements shall be made in subsequent financial statements.

We also reviewed financial statements of few other Companies & observed that both practices are prevalent. A clarification in this respect will help.

Conclusions/Recommendations

The response provided and the presentation made does not strictly follow the requirements of General Instructions of Division II of Schedule III.

Note no. 2 of 'General Instructions for preparation of Financial Statement' of Division II of Schedule III states as below:

Where compliance with the requirements of the Act including Indian Accounting Standards (except the option of presenting assets and liabilities in the order of liquidity as provided by the relevant Ind AS) as *applicable to the companies **require any change in treatment or disclosure including addition, amendment substitution or deletion in the head or sub-head or any changes inter se, in the financial statements or statements forming part thereof, the same shall be made and the requirements under this Schedule shall stand modified accordingly.***

From the above, it is clear that where requirements of Division II of Schedule III and requirements of any Ind AS contradict, the requirements of Ind AS shall be followed.

ISGEC's contention that the financial statements of some other companies also have the same non-compliance does not relieve the management from its duty to comply with the requirements of the Companies Act while preparing and presenting the financial statements.

The Company during its in-person presentation has submitted that the error has been corrected in FY 2021-22

4.6 Note 30: Other Current Liabilities

The Issue

In Note 30 – Other Current Liabilities, the company has disclosed "Others" of ₹ 2,589.63 Lakhs.

As per Division II Schedule III of Companies Act 2013, III. Other current Liabilities: The amounts shall be classified as-

a) revenue received in advance;

b) other advances (specify nature); and

c) others **(specify nature);**

NFRA's Observation

NFRA observed that the company has not specified the nature of "Other Current Liabilities" as required by Division II Schedule III of Companies Act 2013.

ISGEC Response

Para 7 of 'General Instructions for preparation of financial statements of a company required to comply with Ind AS' of Division II of Schedule III to the Companies Act, 2013 requires financial statements to disclose all material items. Material items are items that could individually or collectively influence the economic decisions that uses make on the basis of the financial statements. Materiality depends on the size or nature of the item or a combination of both, to be judged in the particular circumstances. Similarly, clause (2) of Annexure to Ind AS gazette notification states Ind AS are intended to apply only to items which are materiality. SA 315 issued by the Institute of Chartered Accountants of India deals in depth the materiality concept.

Considering all the above, your Company was of the opinion, that the figure of 'Others : Rs. 2,589.63 lakhs' in note 30 of 'other current liabilities' is below the materiality threshold if the total balance sheet size of Rs. 603,342.46 lakhs is taken. The figure of 'Others' is 0.42% of the total balance sheet size. Generally, 2% of balance sheet size is considered material.

However, we have noted your concern. We will take suitable care in future financial statements.

Conclusions/Recommendations

While it is agreed that the amount in the 'Others' head is immaterial, it is pertinent to note that Division

II Schedule III specifically requires the disclosure to be made by specifying the nature of the amount. As the Company has chosen to disclose this amount irrespective of its materiality, it is imperative that the nature of the amount also need to be disclosed to comply with the Schedule III requirements. In the absence of such specification, the disclosure is incomplete.

4.7 Notes to CFS - Note 22: Other Equity – Foreign Currency Translation Reserve

The Issue

In Note 22 of Consolidated FS, the Company has disclosed an outstanding balance of ₹1,566 lakhs of Foreign Currency Translation Reserve as on 31st March 2020. Schedule III Division II of Companies Act 2013 requires companies to disclose the nature and purpose of each reserve in the Financial Statements.

NFRA's Observation

NFRA observed that the Company did not explain the nature of the Foreign Currency Translation reserve as done for other reserves like Securities Premium, Capital redemption reserve etc.

ISGEC Response

Foreign currency translation reserve represents the reserve created on consolidation of global subsidiaries, having different functional currencies. We have noted your observation and will take care in the future.

Conclusions/Recommendations

NFRA observes that the company's disclosure needs to be improved in this case.

The Company during its in-person presentation has submitted that the presentation has been improved during FY 2021-22 and the required disclosures have been made.

Approved for issue by the Executive Body of NFRA

सचिव / Secretary
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण
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Vidhu Sood

(Vidhu Sood)
Secretary