

CimplyFive's Report on the Companies' Disclosures on the Impact of Covid-19 on their Businesses

1. Context

To repeat a cliché, the impact of Covid-19 on the social and economic spheres of life is unprecedented. India saw a complete lockdown from March 24th to May 14th, with many parts of India still under varying phases of lockdown. Except for a few essential sectors like groceries, medical supplies, and utilities, which included liquidity providing services from banks and stock exchanges, the entire commercial world came to a standstill. Bucking this trend, online digital services emerged unscathed if not stronger, as the need for their services was felt by a larger group of people, who needed it immediately, and on a more regular basis than before.

With stock exchanges functioning uninterrupted, SEBI's LODR for listed entities required these companies to keep their investors informed of the impact of any disruptions on business, performance, and financials.

- For the **equity listed entities**, Item no.6 in para B of Part A of the Schedule III of LODR referred to in Regulation 30(3), required them to keep the stock exchange and investors informed of "Disruption of operations of any one or more units or division of the listed entity due to natural calamity (earthquake, flood, fire etc.), force majeure or events such as strikes, lockouts etc." if their impact was considered material.
- For the **debt listed entities**, Clause 16 of Part B of Schedule III read with Regulation 51(2) of the LODR, required a debt listed entity to promptly inform the stock exchange(s) of any other information having bearing on the operation/performance of the listed entity. Further, Regulation 51(1) required the company to inform the stock exchanges of 'any action that shall affect payment of interest or dividend.'

2. SEBI's Advisory

SEBI's advisory of May 20th on 'material impact of Covid-19 pandemic on listed entities under the SEBI (LODR) Regulations, 2015' was triggered by only a few companies having intimated the stock exchanges of shut down of operations, whereas most of the companies had in fact shut down their operations, if not in full, at least a major part.

This advisory seeks to bridge the information gap between different sections of investors on the impact of Covid-19 on the operations of the company and the schedule for resumption of operations where it was shut down. As illustrations, the notification lists a few items for reporting, like

1. Ability to maintain operations including the factories/units/offices functioning and those closed down
2. Schedule, if any for restarting
3. Steps taken to ensure smooth functioning
4. Estimate of the future impact of Covid-19 on its operations
5. Details of impact on
 - i. Capital and financial resources
 - ii. Profitability
 - iii. Liquidity
 - iv. Ability to service debt and other financial arrangements



- v. Assets
 - vi. Internal financial reporting and controls
 - vii. Supply chain
 - viii. Demand for its products and services
6. Existing contracts /agreements where non-fulfilment of the obligations by any party will have significant impact on listed entity's business.

3. Practices of Select Indian Corporates

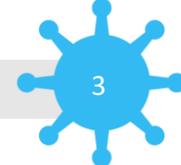
We have studied the disclosures on Covid-19 made by a select list of companies including the top 10 companies¹ in India by market capitalization prior to the issue of SEBI's advisory. Our review of the disclosures include the content available on the company's website or the stock exchange and consists of their fourth quarter/ annual earnings press releases, annual reports where published, investor presentations, earnings call transcripts and Letter of Offer for the Rights Issue to share examples of good disclosures with the intent to provide some guidance to professionals and investors interested in making and studying such disclosures or studying the impact of such disclosures.

4. SimplifyFive's Model Disclosures for Companies on Covid-19 Impact

Where fair disclosures are the desired objective, it must go beyond the limits set in law, which is the bare minimum that companies need to comply with to avoid penalties. Hence SimplifyFive's Model Disclosures for Covid-19 is designed with the objective of providing fair disclosures to all existing and potential investors. The disclosures would cover three distinct sections—the Context, the Impact and Disclosure.

- A. The Context would have two parts –the Covid-19 Environment and the State of Company's operations—factories, facilities, and offices
- B. The Impact would be assessed under four distinct heads—(a) Liquidity and (b) Profitability of the company that can be assessed with some certainty and the other two elements of (c) Solvency and (d) Sustainability on which only an opinion can be expressed at this point of time.
- C. For the Disclosure to be effective, The Impact of Covid-19 on the Business, Operations and Financials should be a single document that documents the company's assessment, which is shared with the stock exchanges and is disclosed under the investors section in the company's website. Considering that the impact is likely to be felt in both the short and medium term and the company's assessment will evolve with time, this document needs to have a version reference and date and should be kept updated whenever any material change occurs. This disclosure would be signed by the CEO and CFO of the company and endorsed by the board of directors.

¹ Reliance, TCS, Hindustan Unilever, HDFC Bank, HDFC, Infosys, Kotak Bank, Bharti Airtel, ITC and ICICI Bank.



A Context for Assessing the Impact of Covid-19

A.1 Environment

This section should capture the key events as viewed by the management, which could include the start of COVID-19 as a global pandemic, the date on which Government of India declared the lockdown and the situation as the management sees it unfold in the near term. HDFC Bank's Notes to Financial Statement provides a comprehensive illustration for this element of disclosure.

HDFC Bank's -Notes to Financial Statement

10. The SARS-CoV-2 virus responsible for COVID-19 continues to spread across the globe and India, which has contributed to a significant decline and volatility in global and Indian financial markets and a significant decrease in global and local economic activities. On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Numerous governments and companies, including the Bank, have introduced a variety of measures to contain the spread of the virus. On March 24, 2020, the Indian government announced a strict 21-day lockdown which was further extended by 19 days across the country to contain the spread of the virus. The extent to which the COVID-19 pandemic will impact the Bank's results will depend on future developments, which are highly uncertain, including, among other things, any new information concerning the severity of the COVID-19 pandemic and any action to contain its spread or mitigate its impact whether government-mandated or elected by the Bank.
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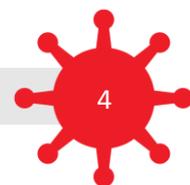
A.2 State of Company's Operations

This section should capture the actions taken by the government in enforcing travel ban, quarantine, social distancing and closure of non-essential services and its resultant impact on the company's supply chain, production and/or service operations and availability of personnel for conducting the operations. Reliance Industries Limited's Note to Accounts crisply captures the impact of COVID-19 and provide a good template for adoption.

Reliance Industries Limited (Notes to Consolidated Financial Statements)

(J)GLOBAL HEALTH PANDEMIC ON COVID 19 AND FALL IN CRUDE PRICE The outbreak of Coronavirus (COVID-19) pandemic globally and in India is causing significant disturbance and slowdown of economic activity. In many countries, businesses are being forced to cease or limit their operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

COVID-19 is significantly impacting business operation of the companies, by way of interruption in production, supply chain disruption, unavailability of personnel, closure / lock down of production facilities etc. On 24th March 2020, the Government of India ordered a nationwide lockdown for 21 days which further got extended till 3rd May 2020 to prevent community spread of COVID-19 in India resulting in significant reduction in



economic activities. Further, during March 2020/April 2020, there has been significant volatility in oil prices, resulting in uncertainty and reduction in oil prices.

In assessing the recoverability of Group assets such as Investments, Loans, intangible assets, Goodwill, Trade receivable etc. the Group has considered internal and external information. The Group has performed sensitivity analysis on the assumptions used basis the internal and external information / indicators of future economic conditions, the Group expects to recover the carrying amount of the assets.

28.2 Exceptional Item: COVID 19 has significant impact on business operations of the Company. Further, there is substantial drop in oil prices accompanied with unprecedented demand destruction. The Company based on its assessment has determined the impact of such exceptional circumstances on its financial statements and the same has been disclosed separately as 'Exceptional Item' of ₹ 4,245 crore, net of taxes of ₹ 899 crore in the Statement of Profit and Loss for the year ended March 31, 2020. (also read with Note C (J) of Critical Accounting Judgements and Key sources of Estimation uncertainty above)

B Impact of Covid-19 on Company's Operations

B.1 Liquidity

This section should have a statement on the factual position of the company's ability to meet its financial obligations in the short run, of say one to two quarter, in the context of the company's operations in the Covid-19 lockdown conditions. Providing any additional details of liquid assets held would go a long way in reinforcing the confidence of the investors—both existing and potential. TCS's Notes forming part of Consolidate Financial Statements provides a good illustration of the content that could be included in this section.

TCS- Notes forming part of Consolidate Financial Statements

Liquidity risk

Liquidity risk refers to the risk that the Group cannot meet its financial obligations. The objective of liquidity risk management is to maintain sufficient liquidity and ensure that funds are available for use as per requirements. The Group consistently generated sufficient cash flows from operations to meet its financial obligations including lease liabilities as and when they fall due. The tables below provide details regarding the contractual maturities of significant financial liabilities as of:

Other risk - Impact of COVID-19

Financial assets carried at fair value as at March 31, 2020 is ₹ 26,581 crore and financial assets are carried at amortised cost as at March 31, 2020 is ₹ 57,264 crore. A significant part of the financial assets are classified as Level 1 having fair value of ₹ 26,336 crore as at March 31, 2020. The fair value of these assets is marked to an active market which factors the uncertainties arising out of COVID-19. The financial assets carried at fair value by the Group are mainly investments in liquid debt securities and accordingly, any material volatility is not expected.

Financial assets of ₹ 10,015 crore as at March 31, 2020 carried at amortised cost is in the form of cash and cash equivalents, bank deposits and earmarked balances with banks where the Group has assessed the counterparty credit risk. Trade receivables of ₹ 30,606 crore as at March 31, 2020 forms a significant part of the financial assets carried at amortised cost which is valued considering provision for allowance using expected credit loss method. In addition to the historical pattern of credit loss, we have considered the likelihood of increased credit risk and consequential default considering emerging situations due to COVID-19. This assessment is not based on any mathematical model but an assessment considering the nature of verticals, impact immediately seen in the demand outlook of these verticals and the financial strength of the customers in respect of whom amounts are receivable. The Group has specifically evaluated the potential impact with respect to customers in Retail, Travel, Transportation and Hospitality, Manufacturing and Energy verticals which could have an immediate impact and the rest which could have an impact with a lag. The Group closely monitors its customers who are going through financial stress and assesses actions such as change in payment terms, discounting of receivables with institutions on no-recourse basis, recognition of revenue on collection basis etc., depending on severity of each case. The same assessment is done in respect of unbilled receivables and contract assets of ₹ 10,545 crore as at March 31, 2020 while arriving at the level of provision that is required. Basis this assessment, the allowance for doubtful trade receivables of ₹ 1,137 crore as at March 31, 2020 is considered adequate.

B.2 Profitability

This section should contain details of any incremental and consequential losses or expenses that need to be booked or incurred to keep or restart the operations of the company. The losses or expenses could be under one or more heads, which need to be quantified. Reliance Industries Limited's Letter of offer for the rights issue contains an extract of the notes to accounts, which provides the basic information that needs to be provided by the company.

Reliance Industries Limited (Rights Issue: Letter of Offer dated May 15, 2020)

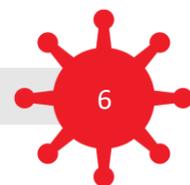
Listed under Internal Risks

- COVID 19 has significant impact on business operations of our Company. Further, there is substantial drop in oil prices accompanied with unprecedented demand destruction. Our Company, based on its assessment, has determined the impact of such exceptional circumstances on its financial statements and the same has been disclosed separately as 'Exceptional Item' of ₹ 4,245 crore, net of taxes of ₹ 899 crore in the statement of profit and loss for the year ended March 31, 2020.²

B.3 Solvency

While this section may not be material for profit making companies, loss making companies and companies in the financial services sector may need to have this section on solvency to provide assurance to their investors on the ability of their company to withstand the impact of Covid-19 not

² Page 23 of the Letter of Offer dated May 15, 2020



only due to their liquidity position but also the consequential impact on them due to the impact of Covid-19 on their borrowers cashflows in the short run and business viability in the longer run. Inputs from the Notes to the Standalone Financial Statements of Bajaj Finance can provide an outline for sharing information on solvency

Bajaj Finance Limited

Notes to the Standalone Financial Statements

15 The Covid-19 pandemic has resulted in a significant decrease in the economic activities across the country, on account of lockdown that started on 24 March 2020. The lockdown also affected the Company's business operations in the last week of March 2020. Further, in accordance with the RBI guidelines retarding to 'Covid-19 Regulatory Package' dated 27 March 2020, the Company offered EMI moratorium to its customers based on requests as well as on a suo-moto basis.

Estimates and associated assumptions applied in preparing these financial results, especially for determining the impairment allowance for the Company's financial assets (Loans), are based on historical experience and other emerging/ forward looking factors on account of the pandemic. The Company believes that the factors considered are reasonable under the current circumstances. The Company has used early indicators of moratorium and delayed payment metrics observed along with an estimation of potential stress on probability of default and exposure at default due to Covid-19 situation in developing the estimates and assumptions to assess the impairment loss allowance on Loans. Accordingly, the Company has recognised an additional impairment on Loans of ₹ 850 crore. Given the dynamic nature of the pandemic situation, these estimates are subject to uncertainty and may be affected by the severity and duration of the pandemic. In the event the impacts are more severe or prolonged than anticipated, this will have a corresponding impact on the carrying value of financial assets, the financial position and performance of the Company.

B.4 Sustainability

While the past performance and current impact of Covid-19 are material elements to be shared with the investors, it is company's business prospects as seen by the management that matters the most. View on the management's expectation of future demand for the industry and its impact on the company's future revenue stream, ability of the company to retain and pay their existing employees and the stability of their supply chain for continuing operations are distinct aspects to be covered in this section. TCS's Notes to Consolidated Financial Statements reproduced here provides a comprehensive draft that covers the sustainability of the business, especially with regard to the company's views on demand from its different customer segments and its views on retention of employees in the face of Covid-19 developments.

TCS -Notes to Consolidated Financial Statements

Impact of COVID-19: While the Group believes strongly that it has a rich portfolio of services to partner with customers, the impact on future revenue streams could come from

- the inability of our customers to continue their businesses due to financial resource constraints or their services no-longer being availed by their customers



- prolonged lock-down situation resulting in its inability to deploy resources at different locations due to restrictions in mobility
- customers not in a position to accept alternate delivery modes using Secured Borderless WorkSpaces
- customers postponing their discretionary spend due to change in priorities

The Group has assessed that customers in Retail, Travel, Transportation and Hospitality, Energy and Manufacturing verticals are more prone to immediate impact due to disruption in supply chain and drop in demand while customers in Banking, Financial Services and Insurance would re-prioritise their discretionary spend in immediate future to conserve resources and assess the impact that they would have due to dependence of revenues from the impacted verticals.

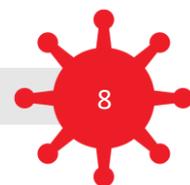
The Group has considered such impact to the extent known and available currently. However, the impact assessment of COVID-19 is a continuing process given the uncertainties associated with its nature and duration. The Group has taken steps to assess the cost budgets required to complete its performance obligations in respect of fixed price contracts and incorporated the impact of likely delays / increased cost in meeting its obligations. Such impact could be in the form of provision for onerous contracts or re-setting of revenue recognition in fixed price contracts where revenue is recognised on percentage-of-completion basis. The Group has also assessed the impact of any delays and inability to meet contractual commitments and has taken actions such as engaging with the customers to agree on revised SLAs in light of current crisis, invoking of force-majeure clause etc., to ensure that revenue recognition in such cases reflect realisable values.

Impact of COVID-19

The Group does not foresee any large-scale contraction in demand which could result in significant down-sizing of its employee base rendering the physical infrastructure redundant. The leases that the Group has entered with lessors towards properties used as delivery centres / sales offices are long term in nature and no changes in terms of those leases are expected due to the COVID-19.

C.1 Disclosures to the Stock Exchange

Information on closing the operations in factories, facilities, and offices, and restarting the same is a critical information that has a bearing on the liquidity and profitability of the company. Hence this information needs to be provided to the stock exchange to ensure that all the investors have a level playing field. ITC's communication to the stock exchanges on May 16, 2020, when they restarted the operations in factories is a practice for emulation.

16th May, 2020

The Manager
Listing Department
National Stock Exchange of
India Ltd.
Exchange Plaza,
Plot No. C-1, G Block
Bandra-Kurla Complex
Bandra (East)
Mumbai 400 051

The General Manager
Dept. of Corporate Services
BSE Ltd.
P. J. Towers
Dalal Street
Mumbai 400 001

The Secretary
The Calcutta Stock
Exchange Ltd.
7, Lyons Range
Kolkata 700 001

Dear Sirs,

Novel Coronavirus (COVID-19)

Further to our letter dated 27th March, 2020 on the captioned subject, we write to advise that, based on the directives received from the Central & State Governments and local bodies, the Company has resumed operations at its factories and plant locations manufacturing non-essential items with limited workforce; the factories and plant locations manufacturing essential items continue to operate, as advised earlier. The Company's hotels, however, continue to remain closed, except for those travellers who were stranded due to lockdown or for accommodating identified persons, based on the directions of the respective State Governments and local bodies.

The Company is taking all recommended precautions and preventive measures to ensure health and safety of its employees, including restricted movement of manpower, complete sanitisation and social distancing norms.

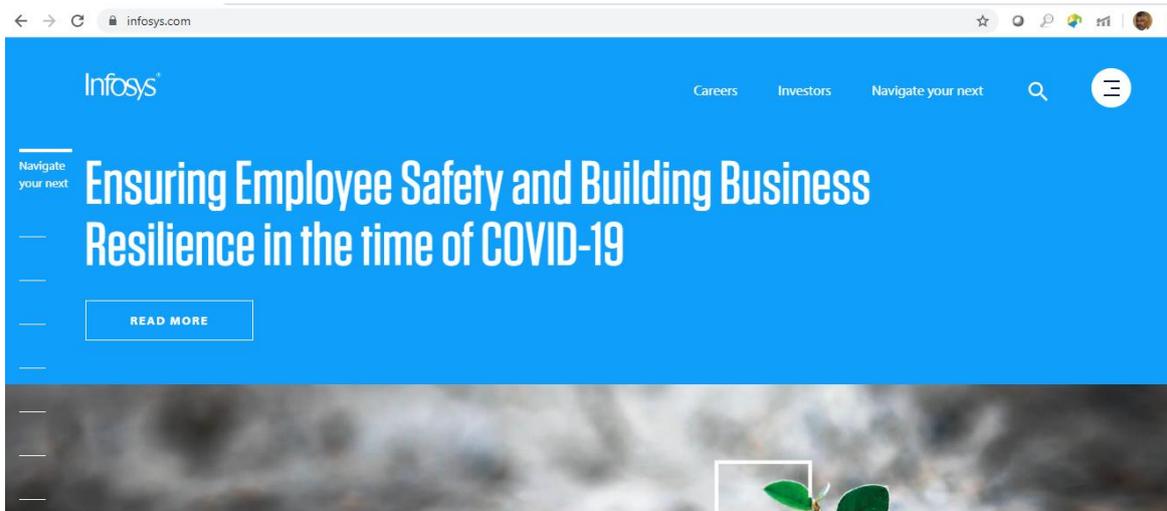
The Company is closely monitoring the situation and will take necessary steps as may be required from time to time basis directives from the regulatory authorities.

Yours faithfully,
ITC Limited

(R. K. Singhi)
Executive Vice President &
Company Secretary

C.2 Disclosures on Website

Covid-19 is dominating all spheres of human life. Given its significance to all members of our society, it is appropriate that companies too give it the central place that it is accorded in all other spheres. At least until the lockdown is lifted in all part of India, the home page of company's website can be the company's response to Covid-19. The best example of this practice is seen in the home page of Infosys, that highlights the company's initiatives in ensuring employee safety and building business resilience in the time of Covid-19.

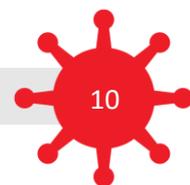


5. Conclusion

To an optimist, every crisis is an opportunity. Not just the business response to Covid-19, but even reporting on the impact of Covid-19 on the company's business can be used as an occasion to make a clear and visible statement of the company's intent on transparency and good governance practices.

Team CimplyFive
May 25, 2020





About CimplifyFive

CimplifyFive Corporate Secretarial Services Private Limited is a pioneer in offering research and technology-based solutions for compliance with the Companies Act, 2013 and LODR, 2015. Our SaaS based product portfolio, Board Leaders Integrated Software Solution (BLISS) and its variants, is designed to eliminate the procedural non-compliance risk for entities regulated under the Indian Companies Act, 2013 and LODR, 2015. More details about CimplifyFive and its product BLISS can be obtained from our website www.cimplifyfive.com.

CimplifyFive also provides a free to use website www.ca2013.com that provides Company Law at your fingertips. This site uses hypertext to integrate rules, notifications, orders and circulars with the Act and provides real-time, online access to the Companies Act, 2013, LODR, 2015 and IB Code, 2016 as it stands on that day.

Disclaimer and Limitations of the Study

General Information: CimplifyFive has prepared this report on the Impact of Covid-19 on the business, operations, and financials of companies, with the intent of disseminating it to all Corporates and Investors in general and the CSs and CAs professionals in particular. This report is not intended to act as a recommendation or condemnation of any practice, company or firm covered in this report.

Risk Warning: CimplifyFive shall not be responsible for any loss or damage arising for anyone using any information contained in this report.

Source of Information: CimplifyFive has used the information contained in the website of the Companies or on the stock exchange's website.

Limitations: Competent professionals with adequate experience have undertaken this study. Further, they have also followed a due process of checks and verifications to ensure accuracy of this report. This should have eliminated almost all errors from this report. If any points in the nature of errors are brought to our notice and we agree with the same, CimplifyFive will rectify the report at the earliest and have the revised report available on its website. CimplifyFive does not accept any loss or damage caused to any individual or institution by use of this report.
