

Query No. 23

Subject: Consolidation of accounts of a joint venture company under Ind AS framework.¹

A. Facts of the Case

1. A company (hereinafter referred to as ‘the Company’), a Navaratna listed Central Public Sector Enterprise (CPSE) under the aegis of Ministry of Housing and Urban Affairs, had entered into Joint Venture (JV) Agreement with various companies:

“to promote, establish, monitor, collaborate, provide consultancy, construct, either through public and/or private participation, and to act as a special purpose vehicle (SPV) for entering into understanding and joint ventures with various Central and State Governments, their corporations, technology and domain experts, for infrastructural development such as creation, expansion and modernization of housing, commercial, social and urban development facilities to generate additional fees based income on advisory and consultancy services and other assignments”.

The details of joint ventures formed are as below:

Name of the Company	Contribution towards equity (₹ in crores)	Proportion of the Company ownership	Year of formation
S Urban Infrastructure Development Ltd.	2.00	40%	20 th June 2005
P Social Infrastructure & Development Ltd.	0.13	26%	06 th April 2005
Si Infrastructure India Ltd.	0.01	26%	18 th August 2006
I Bank Housing Ltd.	2.50	25%	28 th January 1991

2. The Board of Directors of the Company has decided to exit from above joint ventures but is not able to do so due to the reason that the above companies are not profitable and not having any operational income. In terms of Indian Accounting Standard (Ind AS) 28, ‘Investments in Associates and Joint Ventures’, every company is required to consolidate the accounts of joint ventures/associates w.e.f. financial year (F.Y.) 2016-2017.

The Company is presently consolidating the accounts with only one joint venture namely “S Urban Infrastructure Development Ltd. (SUIDL)” and not with other 2 joint ventures namely “P Social Infrastructure Development Ltd.” and “Si Infrastructure India Ltd.” and one associate company “I bank Housing Ltd.” due to following reasons:

- (a) P Social Infrastructure Development Ltd. (PSIDL) - The Company is not providing any financial information for the purpose of valuation of shares due to Court injunction. Further, the Company has also filed petition under sections 397 and 398 of the Companies Act pertaining to oppression and mismanagement before National Company Law Tribunal (NCLT). Accordingly, the Company has provided for full diminution in value of investments.

¹ Opinion finalised by the Committee on 4.10.2024.

- (b) I Bank Housing Ltd. - Due to erosion of net worth, the Company has provided for full diminution in value of investment.
- (c) Si Infrastructure India Ltd. - Due to erosion of net worth, the Company has provided for full diminution in value of investment.

3. Brief details of S Urban Infrastructure Development Ltd. (SUIDL) (being JV Company with another Company, A Ltd., having ownership of 60%), whose accounts are currently being consolidated with accounts of the Company, are as follows:

Name of the JV Company	Year of Incorporation	Total Equity Capital	The Company's Contribution towards equity	Proportion of the Company ownership	Turnover for F.Y. 2023-2024 (Prov.)
S Urban Infrastructure Development Ltd. (SUIDL)	20 th June 2005	Rs. 5 Crore	Rs. 2 Crore	40%	NIL

The JV Company is not having any revenue from operations for past several years and has accumulated losses of Rs. 433.16 lakhs against equity capital of Rs. 500 lakhs as on 31st March 2024.

Basic intent of the formation of the JV Company is a special purpose vehicle (SPV) namely "S Hotels and Resorts Pvt. Ltd." formed in the year 2007, for "Development and Construction of Mall and Multiplex". The SPV Company was formed with an equity capital of Rs. 4.95 crore out of which Rs. 3 crore have been contributed by SUIDL (JV Company) and Rs. 1.95 crore by A Ltd., the parent of JV Company. The Company has not made any direct equity contribution in the SPV.

4. *The Company's policy on accounts consolidation*

The Company has been consolidating the accounts of SUIDL with itself, as per equity methodology in line with Ind AS 28, 'Investments in Associates and Joint Ventures'. The basis of preparation, consolidation and principles of consolidation are enumerated below:

a) **Basis of preparation**

The consolidated financial statements have been prepared based on the Division III of Schedule III for Non-Banking Financial Companies as per Notification G.S.R. 1022 (E) issued by the Ministry of Corporates Affairs on 11.10.2018.

b) **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its associates. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

c) Principles of consolidation

The consolidated financial statements consist of the Company and its associate company. The consolidated financial statements are prepared on the following basis:

- a. Investments in associates where the Company holds more than 20% of equity are accounted for using *Equity Method* as per Indian Accounting Standard (Ind AS) 28, 'Investments in Associates and Joint Ventures'.
- b. The consolidated financial statements are prepared using uniform accounting policies and are presented to the extent possible in the same manner as the Company's separate financial statements except where adjustments for the differences are immaterial/ impractical.

5. *Impact on the Company's financials on consolidation*

S Urban Infrastructure Development Corporation Ltd. (SUIDL) is not carrying out any activities for past several years and the turnover during past several years is nil or negligible. The JV Company is deriving its value/strength from the landholding in Hotel, Mall cum Multiplex project by its SPV, S Hotels and Resorts Pvt. Ltd. Besides, S Hotels and Resorts Pvt. Ltd. is non-functional and the project of Hotel, Mall cum Multiplex is also stalled. The SPV is not preparing profit and loss account since the project expenditure is being shown under the head 'Capital Work in Progress (CWIP)' amounting to Rs. 33.85 crore.

6. Further during F.Y. 2023-24, the SPV has filed petition under section 10 of the Insolvency and Bankruptcy Code (IBC), 2016, so as to commence corporate insolvency resolution process (CIRP); the same is underway and only after the outcome and settlement of dues of creditors, the value accruing to the JV Company can be ascertained though the same is expected to be negligible.

As per consolidated profit and loss account of the Company, the impact on financials for the year ended 31st March 2024 can be summarised as follows:

		(Rs. in crore)
Profit/(loss) before tax and before share of Associate		2843.44
Share in profit/(loss) of Associate		(0.05)
Profit/(loss) for the Period/Year		2843.39

(Rs. in crore)								
Name of the Entity	Net Assets i.e., total assets minus total liabilities		Share in profit or loss		Share in other comprehensive income		Share in total comprehensive income	
	As a % of Consolidated Net Assets	Amount	As a % of Consolidated Profit/Loss (%)	Amount	As a % of Consolidated OCI (%)	Amount	As % of total comprehensive income	Amount
The Company	99.99 %	16612.30	100.008 %	2,843.44	100%	19.78	100.01%	2136.52

Investment as per Equity method in Associate i.e. S Urban Infrastructure Development Ltd. (SUIDL)	0.01%	0.26	(0.008%)	(0.05)	0%	0.00	(0.01) %	(0.05)
Total	100 %	16612.56	100 %	2843.39	100%	19.78	100%	2136.47

The JV Company had no operational income during financial year (F.Y.) 2023-24 and had incurred loss of Rs. 0.12 crore. The Company has accumulated losses of Rs. 4.33 crore against equity base of Rs. 5.00 crore as on 31st March 2024 and the net worth is expected to turn negative after some time.

7. *The Company's reason for considering non-consolidation of SUIDL's accounts with the Company:*

- (i) The JV Company is dormant and not carrying out any operations for past several years. The JV Company's main underlying asset is in its SPV-S Hotels and Resorts Pvt. Ltd., which has filed petition under section 10 of IBC 2016 and the same is underway. Since the claims of creditors far exceed the realisable value of assets, the shareholder value is not expected to be improved.
- (ii) The impact on the Company's financials is negligible, the share in profit and loss as a % of consolidated profit and loss is only 0.008% and as a percentage of consolidated net assets, 0.01% and share in OCI is nil. Thus, even if the accounts are not consolidated, it would be immaterial from investor's point of view.
- (iii) The Company intends to provide provision on the investment in full and value it at Re. 1.00.
- (iv) The Company has only one nominee director on Board of JV Company and SPV. The SPV is under Corporate Insolvency Resolution Proceedings (CIRP) and its Board is placed under suspension. Thus, the Company does not exercise material influence.
- (v) The Company's Board has decided to exit from the joint venture.
- (vi) There is delay in obtaining financials from S Urban Infrastructure Development Ltd. (SUIDL), JV Company, since its subsidiary, S Hotels and Resorts Ltd. (SPV Company) is under Corporate Insolvency Resolution Proceedings (CIRP) and there is substantial delay in receipt of consolidated accounts, and it results in delay in compilation of the Company's financial results.
- (vii) In view of the financial status of JV Company and the facts that its SPV is under CIRP; they are not operational; and there is nil revenue from operations, the Company is proposing to discontinue consolidation of its accounts with its joint venture (associate) company with itself from F.Y. 2024-25.

B. Query

8. On the basis of the above, the querist has sought the opinion of the Expert Advisory Committee as to whether the Company can discontinue consolidation of accounts with its joint venture (associate) company with itself from F.Y. 2024-25, in terms of MCA Regulations, requirements of Indian Accounting Standards, SEBI Listing Agreements, RBI Regulations etc. keeping in view the facts enumerated above and immateriality of consolidation from investors point of view.

C. Points considered by the Committee

9. The Committee notes that the basic issue raised in the query relates to whether the Company can discontinue consolidation of accounts with SUIDL (joint venture/associate) from F.Y. 2024-25 in the extant case. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, manner of consolidation, accounting in financial statements of the joint ventures/associates and other investors/joint venturers (such as A Ltd.), appropriateness of classification of investment in various investee companies (including SUIDL) as joint venture or associate and appropriateness of non-consolidation of joint ventures/associates other than SUIDL, accounting for investment made in SPV Company by SUIDL (including consolidation), whether any significant influence or control by the Company exists due to any shareholding or directorship in SPV, appropriateness of non-preparation of Statement of Profit and Loss by SPV, accounting in separate financial statements of the Company, detailed classification and disclosure requirements as per Schedule III to the Companies Act, 2013, application of Ind AS 24, 'Related Party Disclosures' and Ind AS 112, 'Disclosure of Interests in Other Entities', providing for impairment of the net investment in the associate or joint venture as per Ind AS 28, impairment of investment, detailed application of requirements of Ind AS 105, 'Non-current Assets Held for Sale and Discontinued Operations', Disclosures and other presentation requirements as per Ind AS 1, 'Presentation of Financial Statements', etc. The Committee wishes to point out that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time. Further, the opinion expressed hereinafter is purely from accounting perspective and not from the perspective of legal interpretation of various legal enactments, such as, SEBI Listing agreements, RBI Regulations, Insolvency Bankruptcy Code 2016, etc.

10. The Committee notes from the Facts of the Case that the Company in the extant case holds 40 percent shareholding of SUIDL and has been consolidating the accounts of SUIDL with its financial statements as per equity method in line with Ind AS 28, 'Investments in Associates and Joint Ventures'. In this regard, the Committee notes that the Company is using the term 'joint venture' and 'associate' for its investment in SUIDL interchangeably. However, since the issue of classification of investment in SUIDL as joint venture/associate has not been raised by the querist and in the absence of relevant facts and information to examine the classification, the Committee has not examined this issue (as mentioned in paragraph 9 above). Further, the Committee notes that Ind AS 28 (paragraph 16) requires to account for the investment in both an associate and a joint venture using the equity method. Thus, the requirements of consolidation for both associate and joint venture are similar. Also, the Committee notes that the querist has stated in the Facts of the Case that there are certain challenges/ delay in obtaining financials from SUIDL (JV/associate). In this regard, the Committee wishes to mention that in such a scenario, it may raise a doubt about the existence of control/significant influence of the Company over its JV/associate and therefore, considering

the requirements of relevant Ind ASs, it should be re-examined as to whether there exists control/significant influence over the JV/associate. However, as this is not the issue raised, as mentioned earlier, the Committee has not examined this aspect.

11. The Committee notes that one of main contentions of the querist for non-consolidation of SUIDL is the immateriality of impact of consolidation from investor’s point of view. In this regard, the Committee notes the following requirements of the Companies Act, 2013 and Companies (Accounts) Rules, 2014, issued by the Ministry of Corporate Affairs (MCA):

Companies Act, 2013

“129. Financial statement. – ...

(3) Where a company has one or more subsidiaries or associate companies, it shall, in addition to financial statements provided under sub-section (2), *prepare a consolidated financial statement of the company and of all the subsidiaries and associate companies in the same form and manner as that of its own and in accordance with applicable accounting standards*, which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (2):

...

Provided further that the Central Government may provide for the consolidation of accounts of companies in such manner as may be prescribed.

...

(6) The Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of this section or the rules made thereunder, if it is considered necessary to grant such exemption in the public interest and any such exemption may be granted either unconditionally or subject to such conditions as may be specified in the notification.”

SCHEDULE III

FINANCIAL STATEMENTS FOR A NBFC

PART III

“GENERAL INSTRUCTIONS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Where a Non-Banking Financial Company (NBFC) is required to prepare Consolidated Financial Statements, *i.e.*, consolidated balance sheet, consolidated statement of changes in equity and consolidated statement of profit and loss, the NBFC shall *mutatis mutandis* follow the requirements of this Schedule as applicable to an NBFC in the preparation of balance sheet, statement of changes in equity and statement of profit and loss. ... In addition, *the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules, 2015, including the following namely:-*

(i) ...

...

(iii) Investments accounted for using the equity method.

(2) In Consolidated Financial Statements, the following shall be disclosed by way of additional information:

Name of the entity in the Group	Net Assets i.e., total assets minus total liabilities		Share in profit or loss		Share in other comprehensive income		Share in total comprehensive income	
	As % of Consolidated net assets	Amount	As % of Consolidated profit or loss	Amount	As % of consolidated other comprehensive income	Amount	As % of total comprehensive income	Amount
...								
Non-controlling Interests in all subsidiaries Associates (Investment as per the equity method)								
Indian								
1								
2								
...								
Joint Ventures (as per the equity method)								
Indian								
1								
2								
...								

(3) All subsidiaries, associates and joint ventures (whether Indian or foreign) will be covered under consolidated financial statements.

(4) An entity shall disclose the list of subsidiaries or associates or joint ventures which have not been consolidated in the consolidated financial statements along with the reasons of not consolidating.”

Companies (Accounts) Rules, 2014, issued by the Ministry of Corporate Affairs (MCA):

“Forms and items contained in financial statements.

4A. The financial statements shall be in the form specified in Schedule III to the Act and comply with Accounting Standards or Indian Accounting Standards as applicable:

Provided that the *items contained in the financial statements shall be prepared in accordance with the definitions and other requirements specified in the Accounting Standards or the Indian Accounting Standards, as the case may be.*”

“Manner of consolidation of accounts.

6. The *consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III of the Act and the applicable accounting standards:*

Provided that in case of a company covered under sub-section (3) of section 129 which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with provisions on consolidated financial statements provided in Schedule III of the Act:

Provided further that nothing in this rule shall apply in respect of preparation of consolidated financial statements by a company if it meets the following conditions:-

- (i) it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;
- (ii) it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; and
- (iii) its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards:

Provided also that nothing contained in this rule shall, subject to any other law or regulation, apply for the financial year commencing from the 1st day of April, 2014 and ending on the 31st March, 2015, in case of a company which does not have a subsidiary or subsidiaries but has one or more associate companies or joint ventures or both, for the consolidation of financial statement in respect of associate companies or joint ventures or both, as the case may be:

...”

(Emphasis supplied by the Committee.)

From the above, the Committee notes that Companies Act, 2013 specifically requires that where a company has one or more subsidiaries or associate companies, it shall *prepare a consolidated financial statement of the company and of all the subsidiaries and associate companies*. Further, it is noted that financial statements shall comply with applicable Accounting Standards and the items contained in the financial statements; and manner of consolidation shall be in accordance with the requirements of the applicable accounting standards (Ind AS in the extant case). Hence, it can be inferred that a Company is required to prepare consolidated financial statements for its associates and joint ventures *unless* it is exempt from that requirement under the Companies Act/Rules/law or Accounting Standards.

12. In this context, the Committee notes that Preface to the Statements of Accounting Standards (paragraph 4.3), issued by Institute of Chartered Accountants of India (ICAI) states that “the Accounting Standards are intended to apply only to items which are material ...”.

Thus, the principle of materiality is applicable to all items of financial statements. Further, with regard to ‘materiality’, the Committee notes that the Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS), issued by ICAI states as follows:

“2.11 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports (see paragraph 1.5) make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity’s financial report. Consequently, the ICAI cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.”

The Committee further notes the following requirements of Ind AS 1, ‘Presentation of Financial Statements’:

“Material:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. ...

...

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity’s general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity’s own circumstances.

...”

From the above, the Committee notes that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions of primary users of financial statements. Determination of what is ‘material’ involves significant judgement considering the nature and/or magnitude of the information, assessed not only individually, but also in combination with other information in the context of financial statements of the entity as a whole. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the information in the context of an entity’s financial statements and considering the influence of the information on the decisions of the users of the financial statements. Consequently, consideration of materiality is not only quantitative but also qualitative and to determine what could be material in a particular situation requires significant judgement in the specific facts and circumstances, as per the requirements of Ind AS 1.

Accordingly, the Committee is of the view that whether the consolidation of financials of SUIDL (JV/associate) in the extant case is ‘material’ as per the requirements of Ind AS 1 or not should be determined in the specific facts and circumstances of the Company, considering various factors, including significant developments or changes taken place from last reporting period that makes consolidation immaterial in the current reporting period. However, mere factors, such as accumulated losses of JV/associate or having nil revenue from operations for past several years do not make such JV/associate immaterial.

13. With regard to exemption from consolidation, the Committee further notes the following requirements from Ind AS 111, ‘Joint Arrangements’ and Ind AS 28:

Ind AS 111

“24 A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with Ind AS 28, *Investments in Associates and Joint Ventures*, unless the entity is exempted from applying the equity method as specified in that standard.

25 A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with Ind AS 109, *Financial Instruments*, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with Ind AS 28.”

Ind AS 28

“16 An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 17–19.

Exemptions from applying the equity method

17 An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a parent that is exempt from preparing consolidated financial statements by the scope exception in paragraph 4(a) of Ind AS 110 or if all the following apply:

- (a) The entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.
- (b) The entity’s debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
- (c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.
- (d) The ultimate or any intermediate parent of the entity produces financial statements available for public use that comply with Ind ASs, in which

subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with Ind AS 110.

- 18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Ind AS 109. ... An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. ...
- 19 When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with Ind AS 109 regardless of whether the venture capital organisation has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation.

Classification as held for sale

- 20 An entity shall apply Ind AS 105 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with Ind AS 109 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.”

From the above, the Committee notes that an entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture in its consolidated financial statements using the equity method except when that investment qualifies for exemption in accordance with paragraphs 17–19 of Ind AS 28. Further, paragraph 17 of Ind AS 28 exempts an entity from applying equity method to its investment in an associate or a joint venture if the entity is a parent that is exempt from preparing consolidated financial statements by scope exception in paragraph 4(a) of Ind AS 110, ‘Consolidated Financial Statements’. In this regard, the Committee notes paragraph 4(a) of Ind AS 110 as follows:

- “4 An entity that is a parent shall present consolidated financial statements. This Ind AS applies to all entities, except as follows:
- (a) A parent need not present consolidated financial statements if it meets all the following conditions:
 - (i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise

entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

- (ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- (iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- (iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with Ind ASs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this Ind AS.

...”

Since in the extant case, the Company’s debt and equity instruments are listed on BSE Ltd. and NSE Ltd. (as mentioned in the annual report of the Company for the F.Y. 2022-23), the exemptions available under Ind AS 110 and paragraph 17 of Ind AS 28 are not applicable to it. Further, due to this reason, the exemption available under Rule 6 of Companies (Accounts) Rules, 2014 (as reproduced in paragraph 11 above) is also not available to the Company. Furthermore, the Committee notes that the exemptions available under paragraphs 18-19 of Ind AS 28 are also apparently not applicable to the Company.

14. Now, the Committee notes that one of the querist’s contentions for non-consolidation is that the Board of Directors of the Company has decided to exit from the joint venture/associate. In this regard, the Committee notes from the above-reproduced requirements of paragraph 20 of Ind AS 28 that an entity shall apply the requirements of Ind AS 105, ‘Non-current Assets Held for Sale and Discontinued Operations’ to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Thus, in such cases, the entity need not follow equity method of accounting in the consolidated financial statements as per Ind AS 28. However, in this context, the Committee wishes to point out that the Company can apply the requirements of Ind AS 105 and not Ind AS 28, when and only when, the investment or portion thereof meets the criteria to be classified as held for sale as per the requirements of Ind AS 105 and not merely on the basis of the intention or decision to exit. In this regard, the Committee further notes the following requirements of Ind AS 105:

“6 An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

7 For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be *highly probable*. Thus, an asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a distant future.

8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme

to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.”

Accordingly, the Committee is of the view that in the extant case, the Company should examine in its own facts and circumstances that whether the above-reproduced classification and recognition criteria of ‘non-current assets held for sale’ as per Ind AS 105 to classify and recognise the investment in SUIDL as ‘held for sale’ are satisfied or not. Only when such criteria are satisfied, the same should be accounted for as per the requirements of Ind AS 105.

15. The Committee also wishes to point out that apart from the above considerations of consolidation, the Company should also comply with the relevant disclosure requirements contained in Schedule III to the Companies Act (as discussed in paragraph 11 above) including the requirement to disclose the list of subsidiaries or associates or joint ventures which have not been consolidated in the consolidated financial statements along with the reasons of not consolidating in case SUIDL is not consolidated on the basis of above discussion. In any case, this will not be considered as compliance of Ind AS.

D. Opinion

16. On the basis of the above, the Committee is of the opinion on the issue raised in paragraph 8 that the Company should examine whether the consolidation of financials of SUIDL (JV/associate) in the extant case is ‘material’ as per the requirements of Ind AS 1 in its specific facts and circumstances, considering various factors, including significant developments or changes taken place from last reporting period that makes consolidation immaterial in the current reporting period. However, as discussed in paragraph 12 above, mere factors, such as, accumulated losses of JV/associate or having nil revenue from operations for past several years may not make consolidation of such JV/associate immaterial, as qualitative factors also needs to be considered for materiality. Further, since in the extant case, the Company’s debt and equity instruments are listed on BSE Ltd. and NSE Ltd., the exemptions available under paragraph 17 of Ind AS 28 and Rule 6 of Companies (Accounts) Rules, 2014 are not available to the Company. Furthermore, the exemptions available under paragraphs 18-19 of Ind AS 28 are also apparently not applicable to the Company, as discussed in paragraph 13 above. As far as exemption due to paragraph 20 of Ind AS 28 is concerned, the Company should examine in its own facts and circumstances that whether the classification and recognition criteria of ‘non-current assets held for sale’ as per Ind AS 105 to classify and recognise the investment in SUIDL as ‘held for sale’ are satisfied or not. Only when such criteria are satisfied, the same should be accounted for as per the requirements of Ind AS 105, as discussed in paragraph 14 above.
