

Query No. 3

Subject: *Accounting treatment under Ind AS framework of:*

- (i) Grant in lieu of Equity received from promoters of the Company for construction of the project;*
- (ii) Grant for technical assistance; and*
- (iii) Interest free Subordinate Debts received from the Government.¹*

A. Facts of the Case

1. In order to enhance connectivity, improve access to citizens, reduce pollution, congestion and promote balanced sustainable growth in National Capital Region (NCR), NCR Planning Board (NCRPB) prepared 'Functional Plan on Transport for National Capital Region-2032', which recommended development of multi-modal transport system with special emphasis on dedicated rail based high-speed, high-frequency Regional Rapid Transit System (RRTS) for connecting major regional centers in NCR.

2. RRTS is a dedicated rail based inter-state high speed, high frequency, high throughput, reliable transit system with a design speed of 180 kmph and an average speed of around 100 kmph. Such high-speed seamless connectivity will not only reduce pollution and congestion in NCR, but will also drive balanced and sustainable urban development in the entire region.

3. The Government of India joined hands with four State Governments, Delhi, Uttar Pradesh, Haryana and Rajasthan to create a joint venture, N Limited (hereinafter referred to as 'the Company'), with 50% shareholding from the Government of India (through Ministry of Housing and Urban Affairs (MoHUA), Ministry of Railways (MoR) and NCRPB) and 12.5% from each participating State Governments of Haryana, NCT of Delhi, Rajasthan, and Uttar Pradesh. The Company has been formed in accordance with the Government of India order dated 30.07.2013 (a copy of the order has been supplied separately by the querist for the perusal of the Committee) and has been mandated for designing, developing, implementing, financing, operating and maintaining RRTS projects in the National Capital Region of India. Unlike metro rail projects, which are promoted by the respective State Governments, RRTS is a multi-state, central-sector project.

4. The first corridor of phase I, i.e., Delhi – Ghaziabad – Meerut RRTS, has been sanctioned for implementation vide Ministry of Housing and Urban Affairs (MoHUA), Government of India Order dated March 07, 2019. The corridor will run between Delhi (Sarai Kale Khan) and Meerut (Modipuram) passing through Ghaziabad and other 24 stations. The corridor has a length of 82.15 Km and will have 24 stations. Construction of the corridor has started in May 2019. The Delhi-Ghaziabad-Meerut RRTS corridor is planned to be fully operationalised by 2025. Once fully operational, it will be the fastest, most comfortable and safest mode of commuter transport in NCR. Two other corridors, viz., Delhi – Gurugram – Alwar and Delhi – Panipat are under various stages of approval with the Government.

5. As per paragraph 3 of Sanction Order dated March 07, 2019, the cost of the Project is financed as per the following funding pattern:

¹ Opinion finalised by the Committee on 8.4.2024.

Project Financing:

	Description		Rs. in Crore	Percentage
Government of India	Grant	In lieu of	1,643	5.83%
	Subordinate Debt	Equity	3,286	11.67%
	Sub-ordinate Debt – Central Taxes (Customs Duty and CGST)		705	2.50%
	Sub-Total		5,634	20.00%
Government of National Capital Territory of Delhi	Grant	In lieu of	265	0.94%
	Sub-ordinate Debt	Equity	530	1.88%
	Sub-ordinate Debt - Central Taxes (Customs Duty and CGST)		113	0.40%
	Sub-Total		908	3.22%
State Government of Uttar Pradesh	Grant	In lieu of	1,378	4.89%
	Sub-ordinate Debt	Equity	2,756	9.79%
	Sub-ordinate Debt - Central Taxes (Customs Duty and CGST)		592	2.10%
	Sub-Total		4,726	16.78%
Financial Assistance	From Multi-Lateral/bi-Lateral agencies		16,904	60.00%
Total Cost Excluding Government Land, State Taxes and Private Sector Participation			28,172	100.00%
Private Sector Participation	In AFC (Automated Fare Collection) and other similar components		270	
Total			28,442	

Contribution towards State Taxes		
Description		Rs. in crores
Government of National Capital Territory of Delhi	Sub-ordinate Debt - State Taxes (SGST)	177
State Government of Uttar Pradesh	Sub-ordinate Debt - State Taxes (SGST)	923
Total		1,100

Contribution towards Government Land		
Description		Rs. in crores
Government of India	Sub-ordinate Debt – Government Land Cost	238
Government of National Capital Territory of Delhi	Sub-ordinate Debt – Government Land Cost	95
State Government of Uttar Pradesh	Sub-ordinate Debt – Government Land Cost	399
Total		732

Description	Rs. in crores
Total Completion Cost (including state taxes and indicative provision for government land)	30,274

6. At present, the Company is under construction phase of the Delhi-Ghaziabad-Meerut RRTS project and the operation of a section of 17 kms has commenced w.e.f. 20th October 2023.

7. The Company has been formed and incorporated on 21.08.2013 in accordance with the Government of India Order dated 30.07.2013 and has been mandated for designing, developing, implementing, financing, operating and maintaining RRTS projects in the National Capital Region of India. Unlike metro rail projects, which are promoted by the respective state governments, RRTS is a multi-state, central-sector project.

8. The capital structure of the Company comprises paid-up equity capital of Rs. 100 crore only, while project cost has been proposed to be met from grant (in lieu of equity) and subordinate debt (in lieu of equity) provided by the central/ state governments and loans from external agencies. This capital structure was proposed to be adopted to maintain the shareholding pattern by the GoI (50%) and the participating state governments (50%) irrespective of the length of RRTS project corridor falling in each state.

9. The Company, although has 50:50 equity participation between central and state governments, however, unlike most metro rail projects, it has more than one state as co-promoters and the Sanction Order dated 30th July 2013 issued by the Government of India has restricted the shareholding of each state to 12.5%. Since the RRTS projects are to be executed in four states with varying investment commitments and completion periods, there are challenges regarding distortion of capital structure of the Company and this has been addressed by making a distinction between the capital structure of the Company and project funding.

10. The Government of India vide Sanction Order dated March 07, 2019 sanctioned the Delhi-Ghaziabad-Meerut RRTS project, with the following funding mechanism:

20% contribution from GoI	40% contribution of governments in the form of grant (in lieu of Equity) and subordinate debt (in lieu of Equity) and small percentage of subordinate debt – Central Taxes (Custom Duty and CGST)
20% contribution from state governments (in the ratio of investments in their respective states)	
Balance 60% through financial assistance by multilateral/ bilateral agencies	--

11. In line with the above funding mechanism, the promoters namely, Government of India (GoI), Government of Delhi (GNCTD) and Government of UP (GoUP) have given the following contribution till 31st March 2023:

(Rs. in Crore)

Years/ Promoters	Grant in lieu of equity				Subordinated Debt in lieu of equity and Taxes			
	GoI	GNCTD	GoUP	Total	GoI	GNCTD	GoUP	Total
2018-19	100.00	86.00	85.00	271.00	-	179.00	175.00	354.00
2019-20	274.25	-	116.00	390.25	550.00	-	284.00	834.00
2020-21	398.40	-	259.00	657.40	916.00	-	641.00	1,557.00
2021-22	188.00	-	91.00	279.00	746.00	-	479.00	1,225.00

2022-23	88.00	-	263.00	351.00	368.00	-	1,043.00	1,411.00
Grand Total	1,048.65	86.00	814.00	1,948.65	2,580.00	179.00	2,622.00	5,381.00

12. The Government of India's (GoI) sanction for the Delhi-Meerut RRTS project envisages 60% of project cost (excluding state taxes, government land and private sector participation) being funded from Multilateral Development Banks (MDBs). The GoI has accordingly tied up funding from AD Bank (USD 1049 million), ND Bank (USD 418 million) and AII Bank (USD 500 million). The loan period of above loans is 25 years including a grace period of 8 years. The loans are repayable semi-annually as per amortisation schedule commencing from 2029. As per fund flow arrangement agreed with the lending agencies, the loan proceeds are passed on to the Company as Pass Through Assistance by the GoI. The rate of interest of loans is linked to SOFR (Secured Overnight Financing Rate) benchmark. Debt servicing is borne by the Company on back-to-back basis.

Grant in lieu of equity received from the promoters of the Company

13. In this regard, the Company had approached the Ministry of Housing and Urban Affairs and Department of Expenditure seeking clarification about the nature of the grant in lieu of equity given by its promoters and applicability of General Financial Rules (GFR) and other Department of Expenditure's (DoE) guidelines on such grants.

14. Department of Expenditure vide its Office Memorandum (OM) date 11th April 2022 and again by OM dated 30th March 2023 (a copy of each of the office Memorandums has been supplied separately by the querist for the perusal of the Committee) has given clarification as follows:

“It is stated that Grants-in-Aid as per the provisions of GFR are to be provided to Autonomous Bodies, NGOs, Educational Institutions, Local Bodies and Societies towards achieving the objective of a Department/ Ministry either through their schemes or otherwise. This is distinct from the fund released by way of Grants in lieu of Equity to the Company which is a Corporate Body. As far as the instant case is concerned, the Company is not required to follow GFR provisions relating to Grant-in-Aid”

“The matter has been examined in this Department. The Company has informed that grant in aid provided to the Company by Ministry of Housing and Urban Affairs under the Delhi Meerut RRTS project is in lieu of equity. It has been decided to exempt such grants in lieu of equity received by the Company from DoE's guidelines dated 9th March, 2022.”

15. As grant received by the Company is in the nature of equity capital contributed by promoters (Central Government, UP Government and Delhi Government) and will not be returned to them, the same is shown under the head of 'Other Equity' in the financial statements.

Sub-ordinate Debts (SDs) in lieu of equity and sub-ordinate debt for taxes and land cost

16. As brought out in paragraph 11 supra, the Company has also received interest free subordinate debt for construction of RRTS under the funding mechanism explained in paragraph 10 above. The following contribution has been made by the Government of India, Government of Delhi and Government of UP towards sub-ordinate debts till 31st March 2023:

(Rs. in Crore)

Subordinated Debt				
Particulars	GoI	GNCTD	GoUP	Total
Subordinated Debt in lieu of equity	1,909	172	1,628	3,709
Subordinated Debt (Central Taxes)	433	3	400	836
Subordinated Debt (State Taxes)		4	550	554
Subordinated Debt (Government Land)	238	-	44	282
Grand Total	2,580	179	2,622	5,381

17. The said 'Interest free Subordinate Debts' are repayable after the repayment of interest-bearing senior debts from AD Bank (ADB), ND Bank (NDB) and AII Bank (AIIB).

18. The Company is accounting for these interest free subordinate debts at the values at which these are received, and fair valuation has not been considered on account of the following:

(i) These SDs are promoters contribution in lieu of equity capital towards project.

(ii) As per the sanction order issued by the GoI, the Company is required to repay the subordinate debt to the GoI and other participating state governments only after the repayment of entire senior debt availed for the Project. The senior debts (loans from ADB etc.) have tenor of 25 years including a grace period of 8 years. The Government has not prescribed any definite tenor of the SDs and their repayment will become due only after the repayment of entire senior debts. Therefore, commencement of repayment date cannot be ascertained at present as the Company will avail further senior debts for construction of the project. Further, interest rates for such ultra long-term debts are non-existent in the Indian Banking System. Hence, due to lack of required information, fair valuation of SDs is considered as not possible.

19. The Company vide Note No. 2.23 (Fair Value Measurement) of Significant Accounting Policy has clearly mentioned that "The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs".

20. Since sufficient information for assessing fair value of such SDs is not available, the Company has accounted for the interest free subordinate loans at the values at which they are received. The Company is following the above practices over the period consistently.

Grant received for technical assistance from ADB

21. Apart from the above referred receipts, AD Bank has also provided a grant to the Company for technical assistance project for strengthening Smart Urban Mass Rapid Transit and Climate Change Resilience in the NCR with the following objectives:

(i) improved climate change resilience and environmental sustainability;

- (ii) urban transport gender mainstreaming and universal accessibility standards in dense urban context of the NCR for safety, affordability and connectivity of the RRTS; and
- (iii) establishing a platform for efficient and sustainable project management using smart technologies especially building information modelling (BIM).

22. For this project, the executing agency is the Ministry of Housing and Urban Affairs, and the implementing agency is the Company.

23. The above other capital grants received from the ADB are also shown as Deferred Income under the head 'Other Equity' by the Company and being amortised and transferred to income as per Ind AS 20, 'Accounting for Government Grants and Disclosure of Government Assistance'.

Treatment of 'Grant in lieu of Equity', 'other technical grant' and 'Interest free Sub-ordinate Debt' in the Company's Balance Sheet, Notes to accounts and significant accounting policy for grant:

24. The Company has notified the treatment given to these grants and subordinate debts in significant accounting policy and notes to accounts as follows:

Significant Accounting Policy

Note - 2.20 Grants (Ind AS 20)

- (i) Grants in lieu of equity from the Government towards Capital Expenditure for creation of assets are initially shown as 'Deferred Income'. These are subsequently recognised as income each year over the life of the relevant assets in proportion to depreciation on those assets.
- (ii) Technical grants from others towards Capital Expenditure for creation of assets are initially shown as 'Deferred Income'. These are subsequently recognised as income each year over the life of the relevant assets in proportion to depreciation on those assets.
- (iii) Grant from others towards revenue expenditure is considered as income to the extent of actual expenditure incurred.

Note - 2.23 Fair Value Measurement

- i. Company measures certain financial instruments at fair value at each reporting date.
- ii. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
 - In the principal market for the asset or liability, or

- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Treatment of Grants

Note 14- Other Equity

Particulars	(₹ in lakhs)	
	As at 31 st March 2023	As at 31 st March 2022
(a). Retained Earnings	1,98,37.19	1,18,66.87
(b). Deferred Income	19,61,89.34	16,10,82.80
Total	21,60,26.53	17,29,49.67

Note 14.2: Deferred Income

Particulars	(₹ in lakhs)	
	As at 31 st March 2023	As at 31 st March 2022
<u>Monetary Grant</u>		
Capital Grant for Construction of Delhi Ghaziabad Meerut RRTS Corridor	19,48,65.00	15,97,65.00
Capital Grant for others	13,24.34	13,17.80
Closing Balance	19,61,89.34	16,10,82.80

Note 14.2.1: Disclosure in respect of Indian Accounting Standard (Ind AS) 20 “Accounting for Government Grants and disclosure of Government Assistance”.

The break-up of capital grants received during financial year (F.Y.) 2022-23 is as under:

Particulars	(₹ in lakhs)					
	Opening Balance	Addition during the year	Total	Transfer to income till 31.03.2022	Transfer to Income during the current year	Closing Balance
For Construction of Delhi Ghaziabad Meerut RRTS Corridor						
Government of India	9,60,65.00	88,00.00	10,48,65.00	-	-	10,48,65.00

20IN04	15-03-2029		10,25,22.50	4,65,50.27
Rate of Interest	(LIBOR + 1.35%) per annum			
Commitment Charges	0.25% per annum			
D. Interest bearing Loans from Government of India arranged from AIIB				
Loan No.	Repayment Start date			
L0352A	15-11-2029		12,39,28.15	-
Rate of Interest	(SOFR + 1.29%) per annum			
Commitment Charges	0.25% per annum			
Total			1,17,39,84.21	71,69,55.77

Explanatory Notes:

(i) The Company has received interest free subordinate debt for construction of RRTS. The debt is repayable after payment of senior debt.

(ii) Interest free subordinate debts from the Government of India, Government of NCT of Delhi and Government of Uttar Pradesh are repayable after the repayment of interest-bearing senior debt from ADB, NDB and AIIB.

(iii) The interest free subordinate loans are accounted for at the values at which they are received, considering the practice followed by the other metro companies consistently and, hence, they are considered to be at fair value.

(iv) The Government of India has entered into loan agreements with ADB, NDB and AIIB for USD 500 Million each to finance Delhi-Meerut RRTS Project. All the loans have tenor of 25 years including a grace period of 8 years. As per fund flow arrangement agreed with the lending agencies, loan proceeds are to be passed on to the Company as Pass Through Assistance on a back-to-back basis. The loans are repayable semi-annually as per amortisation schedule commencing from the year 2029.

Presentation of 'Grant in lieu of Equity' in the Statement of Cash Flows by the Company:

25. As per paragraph 6 of Ind AS 7, 'Statement of Cash Flows', "**Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowing of the entity.**" Since, grant in lieu of equity is being provided by promoters of the Company, the same is being shown by the Company in the Statement of Cash Flows under the 'Financing Activities' over the period consistently in line with the provisions of paragraph 6 of Ind AS 7, referred above. Further, other capital grants received from the AD Bank is also shown under the financing activities. Extract of Statement of Cash flows is given hereunder for ready reference:

Particulars	(₹ in lakhs)	
	For the year ended 31 st March 2023	For the year ended 31 st March 2022
C. Cash Flow from Financing Activities		
Proceeds from grant received	3,53,83.73	2,81,42.55

Advance received from :-		
- Government of India (MOUHA) against Pass Through Assistance*	14,55,81.99	11,39,81.58
- Government of Haryana	18,00.00	82,00.00
Proceeds from Borrowings :		
- Subordinate Debt from Govt. of India, Govt. of NCT of Delhi and Govt. of Uttar Pradesh	14,11,00.00	12,25,00.00
- Loan from Government of India arranged from ADB	10,91,14.19	21,33,99.21
- Loan from Government of India arranged from NDB	5,02,62.35	2,63,78.55
- Loan from Government of India arranged from AIIB	12,22,32.47	-
Security Deposits	26.23	48.55
Lease Payments	(7.96)	(149.79)
Interest paid on lease liability	(1.21)	(12.45)
Interest and Commitment Charges paid on Borrowings	(1,53,00.66)	(18,34.78)
Net Cash generated From Financing Activities	59,01,91.13	51,06,53.42

* Government of India has entered into loan agreements with ADB, NDB and AIIB to finance Delhi-Meerut RRTS Project. As per fund flow arrangement agreed with the lending agencies, loan proceeds are to be passed on to the Company as Pass Through Assistance on a back-to-back basis.

Comptroller and Auditor General of India (C&AG) observations on treatment of Grants and Subordinate Debts

(i) Observation on treatment of Grant in lieu of equity:

26. Comptroller and Auditor General (C&AG) of India, in their supplementary audit of financial statements for financial year 2022-23 has raised concern over treatment of grants by the Company and issued additional provisional comments. As per C&AG views, grant in lieu of equity should be treated as ‘capital grant’ and accordingly be shown under ‘non-current liability’ instead of ‘other equity’. The extract of audit observation is stated hereunder for ready reference:

Audit Observation:

“As per Ind AS 20 on ‘Accounting for Government Grants and Disclosure of Government Assistance’ the Capital Grant shall either be recognized as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset or the grant is deducted in calculating the carrying amount of the asset and the grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense. However, the management has depicted the Capital Grant received under Other Equity which represents ownership interest in the Company instead of depicting the same under non-current liability and thus, the same is not in compliance with Ind AS 20.”

Company's Reply: As grant received by the Company is in the nature of equity capital which is contributed by Shareholders namely Central Govt., UP Govt. and Delhi Govt., the same is shown under the head of 'Other Equity'. Please refer Para 3 of Sanction Order dated 07th March, 2019 issued by Government of India for Project Financing in this regard wherein it is stated that the Grant is provided in lieu of equity. Further, the above practices have been adopted by the Company over the period consistently.

27. As per paragraph 24 of Ind AS 20, following accounting treatment is mentioned:

“Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.”

28. In view of above provision given in Ind AS 20, the Company has shown the grants in the balance sheet as deferred income. However, Ind AS 20 is silent regarding classification/disclosure of deferred income whether to disclose in other equity or other non-current liability. Therefore, opinion of Expert Advisory Committee (EAC) is being sought.

(ii) Observation on 'Grant in lieu of Equity' in Statement of Cash Flows:

29. Comptroller and Auditor General (C&AG) of India, in their supplementary audit of financial statements for financial year 2022-23 has also raised concern over presentation of grants in the Statement of Cash Flows by the Company and issued additional provisional comments. As per C&AG views, classification of amount received as grant related to assets from Government of India as part of cash flows from 'Financing activities' in the Statement of Cash Flows is also not correct and the same should be classified as part of cash flows from 'Investing activities'. An extract of the audit observation and its reply is mentioned hereunder for ready reference:

Audit Observation: As per the Opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India, (published as Query No. 7 of Volume XXXVII of the Compendium of Opinions) the classification of amount received as grant related to assets from Government of India as part of cash flows from 'Financing activities' in the Statement of Cash Flows is not correct and the same should be classified as part of cash flows from 'Investing activities' in the Statement of Cash Flows. Thus, inclusion of grant received for Rs. 35383.73 lakh under 'Cash Flow from Financing Activity' has resulted in overstatement of 'Cash Flow from Financing Activity' and understatement of 'Cash Flow from Investing Activity'. Accordingly, the Statement of Cash Flows is deficient to that extent and has resulted in non-compliance of Ind AS 7 on Statement of Cash Flows.

Company's Reply: From the referred Opinion of the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) on Classification of grant related to assets in the Statement of Cash Flows, it is observed that the facts of the case for which opinion was sought by the querist are slightly different from the facts of the Company. In the referred case, the GoI has given a Capital Grant for the Pipeline Project. However, in case of the Company, the Grant is given in lieu of Equity which is a form of Project Financing of GoI. Further, in referred Opinion also, ICAI has clearly stated vide paragraph No. 13 that "For classification as financing activity, the receipt of the grant should result in change in the size and *composition of contributed equity and borrowings*. Although there

can be equity contribution otherwise than by way of subscription to equity shares, *in the extant case, the receipt of the grant does not represent equity contribution* from the government neither it is borrowing from the government.” As the Capital Grant in the said case did not represent the equity contribution, Expert Advisory Committee of ICAI has given their opinion to show it under ‘Investing Activity’. However, in case of the Company, the Grant in question has been given in lieu of equity and hence, the same is shown as ‘Financing Activity’. (Emphasis supplied by the querist.)

Further, the subject ‘Grant in lieu of Equity’ is not given for a specific asset, rather it has been given by the Company’s promoters as a part of funding pattern for project financing. Please refer Para 3 of sanction order for project financing in this regard.

In view of above, the subject ‘Grant in lieu of Equity’ which is given by the Company’s promoters and as the same is a part of project financing, the same is shown under ‘Financing Activities’.

Further, the above practices have been adopted by the Company over the period consistently.

(iii) Observation on treatment of Sub-ordinate Debts:

Audit Observation: Borrowings (Note No. 15) - ₹ 11,739.84 crore

The above includes borrowings of ₹ 5,381 crore as interest free subordinate loans from Ministry of Housing and Urban Affairs, Government of NCT of Delhi, Government of Uttar Pradesh. Explanatory Note No. (iii) to Note No. 15 on borrowings states that ‘The Interest Free Subordinate Loans are accounted for at the values at which they are received, considering the practice followed by the other metro companies consistently and, hence, they are considered to be at fair value’.

Paragraph 10 A of Ind AS 20 on ‘Accounting for Government Grants and Disclosure of Government Assistance’ states that the benefit of a government loan at a below-market rate of interest is treated as a Government Grant. Also, as per Ind AS 109 on Financial Instruments, the borrowings need to be recognised and measured at fair value.

As the borrowings are made at nil rate of interest, the said borrowings need to be recognised and measured as per Ind AS 109 on Financial Instruments. The Company has neither recognised the borrowings at fair value nor any reasons as regards non recognition of loan at fair value which is non-compliance of Ind AS 109 has been given in the financial statements.

Company’s Reply:

- i. Ind AS 109, ‘Financial Instruments’ provides for fair valuation of financial instruments by using Effective Interest Rate method. Paragraph 5.4.1 of the Standard provides for ascertaining the estimated life of the financial instruments for calculating effective interest rate.
- ii. As per the sanction order issued by the Government of India for the project, provisions have been made for subordinate debt (SD) towards promoters’

contribution in lieu of equity capital, as well as for financing Central/ State Taxes and government land.

- iii. Further, as per the aforesaid sanction order, the Company is required to make the repayment of subordinate debt to its shareholders only after the repayment of entire senior debt availed for the Project. It may be noted that the sanction order has not prescribed any definite tenor for the subordinate debt. Commencement of repayment date cannot be ascertained in view of the fact that the Company has still to tie up loans constituting senior debt for construction of the project. Further, in order to determine fair valuation, interest rate for such ultra long term debts should be available. However, these are non-existent in the Indian Banking System.
- iv. Hence due to non-availability of information related to the determinant variables, fair valuation of subordinate debt is not possible.
- v. The Company vide its Note No. 15 through Explanatory Note no. (i), (ii) & (iii) of the financial statements disclosed the following for valuation of SDs:
 - (i) The Company has received interest free subordinate debt for construction of RRTS. The debt is repayable after payment of senior debt.
 - (ii) Interest free subordinate debts from Government of India, Government of NCT of Delhi and Government of Uttar Pradesh are repayable after the repayment of interest-bearing senior debt from ADB, NDB and AIIB.
 - (iii) The interest free subordinate loans are accounted for at the values at which they are received, considering the practice followed by the other metro companies consistently and, hence, they are considered to be at fair value.
- vi. Further, the Company vide Note No. 2.23 (Fair Value Measurement) of Significant Accounting Policy has also clearly mentioned that “The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.”
- vii. In view of the above, the Company has accounted for the interest free subordinate loans at the values at which they are received. Hence, in the view of the Company, there is no non-compliance of Ind AS 109 and appropriate disclosure has been provided.
- viii. Further, the Company is also following the above treatment consistently. The above practice is being followed by the other metro companies also.
- ix. In view of the foregoing, the Company is of the view that it is doing appropriate treatment of the grant and subordinate debts in the financial statements.
- x. However, in view of the comments of C&AG, the Company has undertaken to review the existing disclosure and to make appropriate additional disclosures in the financial statements from the F.Y. 2023-24 onwards, if considered necessary.

B. Query

30. In light of above facts, the considered opinion of the Expert Advisory Committee of the ICAI is sought on the accounting treatment including amortisation and presentation of the following in the financial statements of the Company during construction phase and operation phase:

- (i) Grant in lieu of equity
 - (a) Whether the grants given by promoters (GoI, GNCTD, GoUP) in the present case being in the nature of equity (Grant in lieu of Equity), will fall under category referred in paragraph 2(c) of Ind AS 20 and thus will not be treated as 'Grant' under Ind AS 20 and instead treated at par with equity for treatment in the Balance Sheet as well as in the Statement of Cash Flows.
 - (b) In case EAC is of opinion that the subject 'Grant in lieu of Equity' does not fall under (a) above, the following may be clarified:
 - (i) Accounting treatment for grants in lieu of equity received from promoters by the Company.
 - (ii) Requirement of amortisation of such grants in lieu of equity including method of amortisation.
 - (iii) Presentation of grant in lieu of equity in the Balance Sheet and in the Statement of Cash flows.
 - (iv) Modification required in disclosures given by the Company, if any.
- (ii) Grant for technical assistance
 - (a) What would be the accounting treatment for grant received from ADB for technical assistance, i.e., whether it is to be classified as deferred income under other equity or non-current liability in the Balance Sheet?
 - (b) Whether it should be classified as cash flow from financing activity or investing activity in the Statement of Cash Flows.
 - (c) Whether any modification is required in the disclosures given by the Company. If yes, the required modification may kindly be suggested.
- (iii) Subordinate Debts
 - (a) The Company has not made the fair valuation of the subordinate debts in absence of the requisite information for fair valuation as explained at paragraphs 16 to 20 above and disclosed at Note 2.23 and Note 15 of the financial statements of the Company. Please clarify if any additional disclosure for non-valuation as per Ind AS 109 and Ind AS 20 is required to be made in the financial statements stating there the reasons therefor.
 - (b) Whether sub-ordinate debts should be classified as cash flow from financing activity or investing activity in Statement of Cash Flows.

- (c) Whether any modification is required in disclosures given by the Company, as per Ind AS 109 and Ind AS 20.

C. Points considered by the Committee

31. The Committee notes that the basic issues raised in the query relate to accounting for grant in lieu of equity received from the promoters (GoI, GNCTD and GoUP) of the Company, accounting for grant for technical assistance received from ADB and subordinate debts received from central and state government, including their presentation in the Statement of Cash Flows. Therefore, the Committee has examined these issues only and has not examined any other issue that may arise from the Facts of the Case such as, accounting for various expenditures incurred on the RRTS project, accounting for initial equity contribution from central and state governments, accounting for senior debts, appropriateness of fair value measurement policy, accounting for sub-ordinate debt received in relation to central taxes (Custom duty and CGST) or Government land, accounting for project cost being funded from Multilateral Development Banks, etc. Further, the Committee has examined the query only from accounting perspective and not from any other perspective, such as, legal interpretation of various legal enactments, for example, orders of Government, communications from ADB, 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.

Accounting for grant in lieu of equity received from the promoters

32. With regard to accounting for grant in lieu of equity received from the promoters, the Committee notes the definition of ‘government grant’ as per Ind AS 20, ‘Accounting for Government Grants and Disclosure of Government Assistance’ as follows:

- “2 This Standard does not deal with:
- (a) ...
 - ...
 - (c) government participation in the ownership of the entity.
 - ...”

“Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.”

From the above, the Committee notes that under Ind AS 20, government grants represent assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Paragraph 2(c) of Ind AS 20 excludes from the scope of the Standard, government participation in the ownership of the entity, or in other words, the transactions with the government acting in the capacity as owner/shareholder. Thus, in the view of the Committee, if any assistance is being provided to the entity by the government acting in its capacity as an owner, such assistance will not be within the scope of Ind AS 20.

33. In this context, the Committee notes that the GoI Order dated July 30, 2013 in connection with the formation of the Company for designing, developing, implementing, financing, operating and maintaining RRTS projects inter alia provides that, “The sanction of the funds for the project will be from the Plan Budget of Ministry of Urban Development under MH-4217, Sub Head 03.01.54 towards equity investment...”. Further, the Office Memorandum from the Department of Expenditure (DoE), Ministry of Finance dated 11th April, 2022 in connection to providing clarification with regard to applicability of provisions of GFRs relating to “Grants-in-aid” to Grant (in lieu of equity), inter alia states that “Grants-in-aid as per the provisions of GFR are to be provided to Autonomous Bodies, NGOs, Educational Institutions, Local Bodies and Societies towards achieving the objective of a Department/Ministry either through their schemes or otherwise. This is distinct from the fund released by way of Grants in lieu of Equity to the Company which is a Corporate Body ...”. The Office Memorandum from the Ministry of Finance dated 30th March, 2023 further exempts such grants in lieu of equity received by the Company from DoE’s guidelines dated 9th March, 2022 applicable for grants in aid.

34. From the above and the Facts of the Case, it appears that in the extant case, to keep the shareholding intact, the model of grant in lieu of equity has been developed for project financing where the central and state governments are to provide funding as owners in proportion of their route kilometres or the length of RRTS corridor falling in their states. Thus, the transfer of funds is a form of government participation in the ownership of the Company, which is excluded from the scope of Ind AS 20. Therefore, the same should not be accounted for as a government grant. Further, with respect to accounting for such funds provided by the Government, the Committee notes that the definition of ‘income’ as per the Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS) provides that “Increases in assets, or decreases in liabilities, that result in increases in equity, *other than those relating to contributions from holders of equity claims.*” Thus, increase in assets relating to contributions from owners/holders of equity claims is not an income of an entity. Further, the Committee notes that Ind AS 1, ‘Presentation of Financial Statements’ states the following:

“Statement of changes in equity

Information to be presented in the statement of changes in equity

106 An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:

...

(d) **for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:**

(i) ...

...

(iii) **transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and ...**

...”

“109 Changes in an entity’s equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity’s own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity’s activities during that period.”

(Emphasis supplied by the Committee.)

From the above, the Committee notes that changes in equity resulting from transactions with owners acting in their capacity as owners (such as equity contributions, and dividends) and transaction costs directly related to such transactions, are not considered for total income/expense presented in the entity’s Statement of Profit and Loss. Accordingly, the Committee is of the view that in the extant case, since the transaction is in the nature of transactions with owners in their capacity as owners of the Company, the same shall not be recognised in the Statement of Profit and Loss; rather the same should be recognised directly as an equity inflow on receipt (and not as deferred income) under an appropriate head and using an appropriate nomenclature in the Statement of Changes in Equity.

35. As far as presentation of such contribution from the Government in the Statement of Cash Flows is concerned, the Committee notes that the term ‘Financing activities’ is defined in paragraph 6 of Indian Accounting Standard (Ind AS) 7, Statement of Cash Flows, as below:

“Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.”

From the above, the Committee notes that for classification as financing activity, the receipt of the funds should result in change in the size and composition of contributed equity and borrowings. Since in the extant case, as discussed above, the transfer of funds is a form of government participation in the ownership of the Company, the receipt of the same represents equity contribution from the Government and therefore, the same should be classified as cash flows from financing activities in the Statement of Cash Flows of the Company.

Grant for technical assistance

36. The Committee notes from the Facts of the Case that ADB has also provided a grant to the Company for technical assistance for strengthening Smart Urban Mass Rapid Transit and Climate Change Resilience in the NCR with following objectives:

- (i) improved climate change resilience and environmental sustainability;
- (ii) urban transport gender mainstreaming and universal accessibility standards in dense urban context of the NCR for safety, affordability and connectivity of the RRTS; and
- (iii) establishing a platform for efficient and sustainable project management using smart technologies especially building information modeling (BIM).

Further, the Committee notes from the Project Proposal Report prepared by the Company while seeking such assistance that the objective of technical assistance from ADB is to aid the Company's efforts to enhance climate change resilience for RRTS project. Support from ADB is sought to (i) develop infrastructure solutions (ii) formulate urban transport access standards (iii) establish a platform for efficient and sustainability project design, implementation and management using green technologies and (iv) community and capacity development.

37. From the above, it appears that these funds have been received from the ADB for investment in the RRTS project with the above objectives; and with a condition to invest these funds specifically in the construction of RRTS project and therefore, these meet the definition of asset related grant as per the requirements of Ind AS 20, as reproduced below:

“Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.”

“24 Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

25 Two methods of presentation in financial statements of grants or the appropriate portions of grants related to assets are regarded as acceptable alternatives.

26 One method recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

27 The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

28 The purchase of assets and the receipt of related grants can cause major movements in the cash flow of an entity. For this reason and in order to show the gross investment in assets, such movements are disclosed as separate items in the statement of cash flows regardless of whether or not the grant is deducted from the related asset for presentation purposes in the balance sheet.”

From the above, the Committee notes that grants that are related to assets (i.e., those whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets) may be presented in the balance sheet by setting up the grant as deferred income, which is recognised as income on a systematic basis over the useful life of the asset. In this context, the Committee notes from the Facts of the Case that such grants have been considered by the Company as other capital grants and shown as ‘Deferred Income’ under the head ‘other equity’ by the Company and being amortised and transferred to income over the life of the relevant assets in proportion to depreciation on those assets. In this regard, the Committee wishes to point out that deferred income represents the portion of grants for which the related conditions of the grant are yet to be fulfilled and therefore, to that extent, it represents unfulfilled obligations on the part of the entity receiving the grant and should be presented as a liability and not as ‘equity’ in the financial statements. Further, as per the requirements of current vs. non-current classification as per Ind AS 1, ‘Presentation of Financial Statements’ and Schedule III to the Companies Act, 2013, portion of grant to be amortised in next 12 months should be classified under ‘current liability’ and the remaining portion under ‘non-current liability’.

38. With regard to presentation in the Statement of Cash Flows, the Committee notes from the definition of the term, ‘Financing activities’, as reproduced in paragraph 35 above that for classification as financing activity, the receipt of the grant should result in change in the size and composition of contributed equity and borrowings. In the extant case, the receipt of the grant from ADB neither represents equity contribution nor it is borrowing, and therefore, the grant from ADB cannot be classified under ‘financing activities’. The Committee further notes the definition of the term ‘Investing activities’ as per Ind AS 7, as below:

“Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.”

The Committee notes from the above that only acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents should be classified as investing activities. Thus, though it may appear that receipt of grant does not meet the definition of investing activities (as the resulting inflow does not arise from disposal of long-term assets and other investments not included in cash equivalents), however, in substance, the cash outflow on the long-term asset, i.e. RRTS project borne by the Company is less to the extent of government grant received for the project and therefore, the Committee is of the view that the inflow of cash due to receipt of grant is related to acquisition of long-term asset and should be classified as investing activity. The Committee is of the view that this view is also supported by paragraph 28 of Ind AS 20, reproduced in paragraph 37 above. Further, as per these requirements, the Company should disclose purchase of assets and the receipt of related grants as separate items in the Statement of Cash Flows.

Subordinate Debts

39. The Committee notes from the Facts of the Case that the Company has also received interest free subordinate debt/loan for construction of RRTS from Government of India and State Government (s), which is repayable after the repayment of interest-bearing senior debt from ADB, NDB and AIIB. As discussed in case of grant in lieu of equity, the Committee notes that in the extant case, as part of project financing, the central and state governments, in their capacity as owners are providing funds for the projects in various forms (such as equity contribution, debts, etc.). Thus, the interest free loan or debt provided by the governments in their capacity as owners is a form of government participation in the ownership of the Company

and therefore, the interest free portion of the loan cannot be considered as government grant under Ind AS 20. Further, the loan received from the governments, being a financial liability, should be recognised and measured as per Ind AS 109, 'Financial Instruments'. In this regard, the Committee notes the following paragraphs of Ind AS 109:

“5.1.1 Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, *transaction costs* that are directly attributable to the acquisition or issue of the financial asset or financial liability.

5.1.1A However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph B5.1.2A.”

“B5.1.1 The fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also paragraph B5.1.2A and Ind AS 113). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.”

“B5.1.2A The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also Ind AS 113). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 5.1.1A, the entity shall account for that instrument at that date as follows:

- (a) at the measurement required by paragraph 5.1.1 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.
- (b) in all other cases, at the measurement required by paragraph 5.1.1, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.”

From the above, the Committee notes that Ind AS 109 requires financial liabilities to be initially recognised at their fair value minus transaction costs (if not classified as subsequently measured at fair value through profit or loss). Therefore, the sub-ordinate loan bearing nil interest rate at

its initial recognition should be measured at its fair value, minus directly attributable transaction costs. Further, based on reading of paragraph B 5.1.1 of Appendix B of Ind AS 109, the fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also paragraph B5.1.2A and Ind AS 113). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument, for example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Further, as per paragraph B4 of Ind AS 113, the transaction price might not represent the fair value of an asset or a liability at initial recognition if the transaction is between related parties.

Since in the present case, the government(s) while providing loan in the form of interest-free funding, in substance, is acting in its capacity of an owner/holder of equity claims, considering the requirements of Conceptual Framework and Ind AS 1, as reproduced and discussed in paragraph 34 above, the Committee is of the view that the difference between the loan amount and its fair value should be recognised in equity by the Company. This is because, in substance, the interest-free element may be construed as a contribution by an owner/ equity holder to the Company. The interest-free element of the loan should, in such a case, be considered as a non-reciprocal capital contribution by government(s), acting in its capacity as an equity holder.

40. As far as determination of fair value of the SD is concerned, the same shall be determined as per the requirements of Ind AS 109 and Ind AS 113, 'Fair Value Measurement'. The Committee notes that Ind AS 113 states as follows:

- “9 This Ind AS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”**
- “11 A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:**
- (a) the condition and location of the asset; and**
 - (b) restrictions, if any, on the sale or use of the asset.”**
- “22 An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.”**
- “40 When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability or has issued the claim on equity.”**

From the above, the Committee is of the view that the fact that the owner/equity holder has given the loan should not be considered while estimating the fair value of the financial liability. In this regard, the Committee also wishes to mention that the fact that tenure is not defined in sub-ordinate debts and long term loans without tenor and without interest are not available in the market do not justify non-determination of fair value of such loans. These can only lead to absence of observable inputs in case of fair value determination. Similarly, the mere fact that repayment of SDs will become due only after repayment of entire senior debt and the repayment of senior debt is difficult to ascertain also do not justify non-determination of fair value. The fair value of a liability should reflect the assumptions that market participants would use while acting in their economic best interest which will include various factors including timing of future cash flows. Therefore, transaction price in the extant case would not represent the fair value and therefore, the Company in the extant case should measure the fair value of the liability using a valuation technique from the perspective of a market participant as per the various techniques and using inputs as per the requirements of Ind AS 113.

41. With regard to presentation of cash flows from interest free subordinate debt in the Statement of Cash Flows, the Committee notes the definition of the term, 'Financing activities', as reproduced in paragraph 35 above and is of the view that since in the extant case, the receipt of sub-ordinate debts would result in change in the size and composition of borrowings and equity of the Company, the same should be classified under 'financing activities'.

D. Opinion

42. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 30 above:

(i) *Grant in lieu of equity*

(a) The funds given by promoters (GoI and State Governments) in the present case being a form of government participation in the ownership of the Company, will fall under paragraph 2(c) of Ind AS 20 and thus will not be treated as 'Grant' under Ind AS 20, as discussed in paragraph 34 above. Further, since the transaction is in the nature of transactions in the capacity of owners of the entity, the same shall not be recognised in the Statement of Profit and Loss; rather the same should be recognised as an equity inflow under an appropriate head and using an appropriate nomenclature in the statement of changes in equity and the same should be classified as cash flows from financing activities in the Statement of Cash Flows of the Company, as discussed in paragraphs 34 and 35 above.

(b) Answers to these do not arise in view of (a) above.

(ii) *Grant for technical assistance*

(a) Since the grants received from ADB for technical assistance are grants related to assets (i.e., those whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets), the same may be presented in the balance sheet by setting up the grant as deferred income, which should be recognised as income on a systematic basis over the useful life of the asset, as discussed in paragraph 37 above. Further, the

deferred income should be presented as 'liability' and not as 'other equity' in the Balance Sheet. Furthermore, as per the requirements of current vs. non-current classification as per Ind AS 1, 'Presentation of Financial Statements' and Schedule III to the Companies Act, 2013, portion of grant to be amortised in next 12 months should be classified under 'current liability' and the remaining portion under 'non-current liability'.

(b) and (c) The inflow of cash due to receipt of grant is related to acquisition of long-term asset and should be classified as investing activity. Further, as per the requirements of paragraph 28 of Ind AS 20, the Company should disclose purchase of assets and the receipt of related grants as separate items in the Statement of Cash Flows.

(iii) *Subordinate Debts*

(a) and (c) The Company in the extant case should measure the fair value of the liability (subordinate debts) using a valuation technique from the perspective of a market participant as per the various techniques and using inputs as per the requirements of Ind AS 113, as discussed in paragraph 40 above. Further, the Company should make the disclosures as required by Ind AS 109 and Ind AS 113.

(b) Since in the extant case, the receipt of sub-ordinate debts would result in change in the size and composition of borrowings of the Company, the same should be classified under 'financing activities', as discussed in paragraph 41 above.
