Tata Consultancy Services Limited

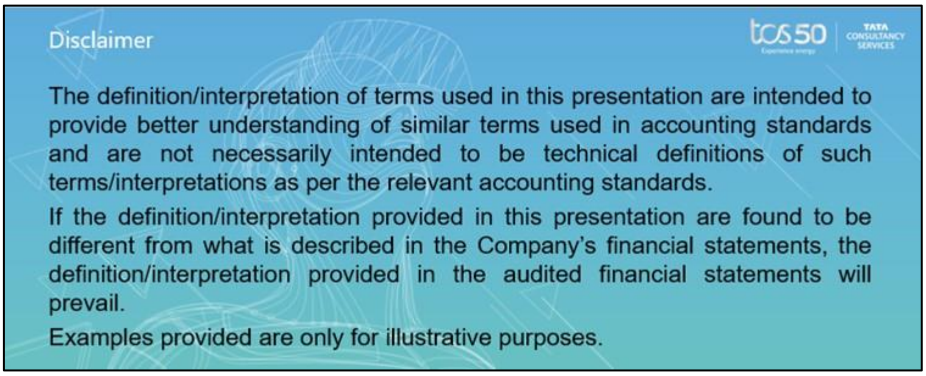
Knowledge Sharing Session on Changes in Lease Accounting
July 15, 2019,15:30 hrs IST

Kedar Shirali: Good afternoon everybody. We had a lot of queries around the new accounting standard and so here we are to talk about all the recent changes in Lease accounting and how those changes manifest themselves in the financial statements and what lies ahead.

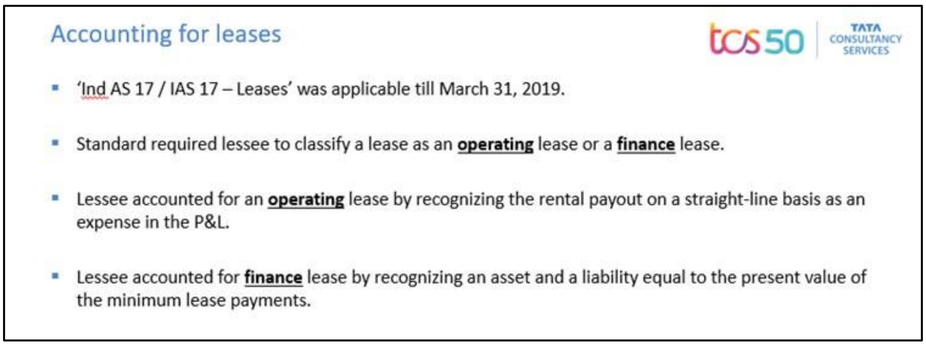
We are fortunate to have with us, Mr. V Ramakrishnan, our CFO, who is a natural born teacher and very, very talented at demystifying very esoteric accounting concepts to us, lay people. I know this from firsthand experience from many, many years, going back 15 years ago when I used to be in sales and he used to head the finance function in the US. So I can vouch for his ability to teach and to demystify. Let’s take advantage of his presence in our midst today.

With that, I will invite Ramki share with us all the exciting developments around IFRS16 and Ind AS 116.

V Ramakrishnan: Okay. Thank you. You have made me more nervous with all that introduction. First of all, welcome to all of you. What I thought we will do, is to go over all these changes which have happened recently. That is the main purpose of this afternoon.



I will start with a small disclaimer. This is a general knowledge type of session. So, anything which I say here, don’t hold me to the small print there. And also, the examples which are given here are only for illustration purposes. They are not to be considered in any way as a forward looking statement.



(Slide 3): Now, the changes in lease accounting have happened in Ind AS 17 and IAS 17, that was a standard till March 31st. So, for simplicity sake, I am going to refer to this as the old standard, instead of calling out these numbers again and again. So, this is the old standard. And the old standard basically covered finance lease as well as operating lease.

Very simply, an operating lease is one where the lessor expects the asset to come back at the end of the lease period. So, if it's a 5-year, 7-year, 10-year period, typically the lessor expects that the asset will come back and they run it as a business of giving it out on lease, typically. In essence, it means that the entire cost of the assets is not expected to have been recovered over the period of the operating lease. So that is one fundamental difference.

In a finance lease, it is essentially that the entire cost of the asset, the lessor is expecting to recover it over the period of the lease itself. So, it is more of a recovering it over a period of time rather than selling it and recovering the money upfront, so that's the basic difference. There may be other nuances, but I don't want to get into it.

On an operating lease, the old standard required that you take the lease's rent or lease charges which you are going to pay over a period of time and then equalize it, or do a straight line, and take a charge year on year. For instance, if your building is taken on lease typically there would be escalation clauses after every year or after two years or three years whatever it is. There could be some rent free period, there could be some other or at the end of the period you need to put it back in broom ready condition, etc. So, there can be lot of conditions within a lease period. You take all of it out and take the total money which you are going to pay over the period of the lease and then equate it over the period. So, it's a straight lining which was there. So, no matter whether in the first 6 months, 9 months, one year, I didn't pay any rent at all. And the rent really started from the 13th month, but I would still have a charge in the P&L, because I would have done a straight lining. So, that's on the operating lease.

Whereas on the finance lease, what as I said earlier it is really to give it on an extended credit period. So, there is a finance element to it, it is basically you do an NPV and take that only, it is not really as a straight line basis. So, the finance lease would be treated more or less like in the new standard what we are going to talk. So, the old standard and new standard on finance lease is not very different, it is the same.

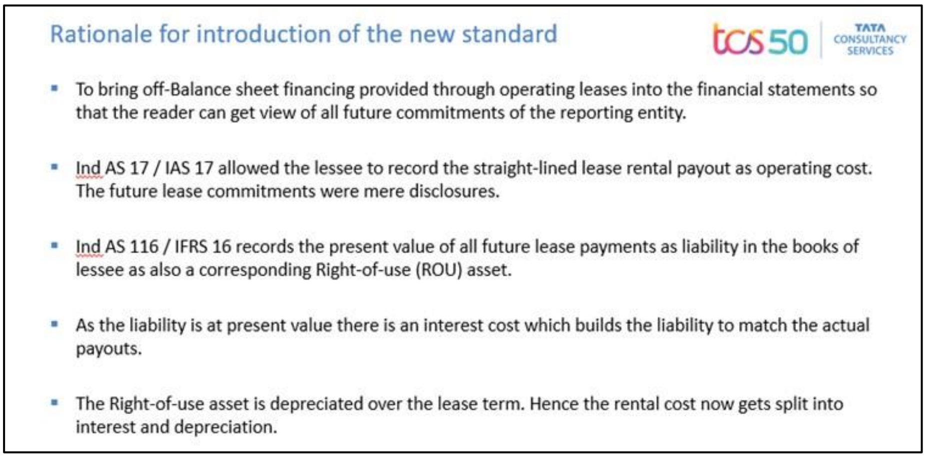
Just to give an example, let's look at the presentation.

Illustration of Ind AS 17 / IAS 17

Ind AS 17 / IAS 17			
Years	**Rent Payout**	**P&L Charge**	**Lease Liability**
1	1,000	1,130	130
2	1,000	1,130	260
3	1,100	1,130	290
4	1,100	1,130	320
5	1,100	1,130	350
6	1,200	1,130	280
7	1,200	1,130	210
8	1,200	1,130	140
9	1,200	1,130	70
10	1,200	1,130	-
	11,300	**11,300**	

(Slide 4): In the second column are all the rent pay outs. And as you see in the first two years its 1,000. Then it goes to 1,100 and then it goes to 1,200 in subsequent years. So, over the period of 10 years it is 11,300. The P&L charge will be an equated number. But the lease liability obviously the first year, I pay a rent of 1,000 but I take a charge of 1,130. So, there is lease liability of 130, which goes in the balance sheet, so on and so forth. There is a year 6 which is 280, which I have highlighted. I will come to why I am doing that.

This is a simple illustration of what happens in an operating lease, which is very straight forward.



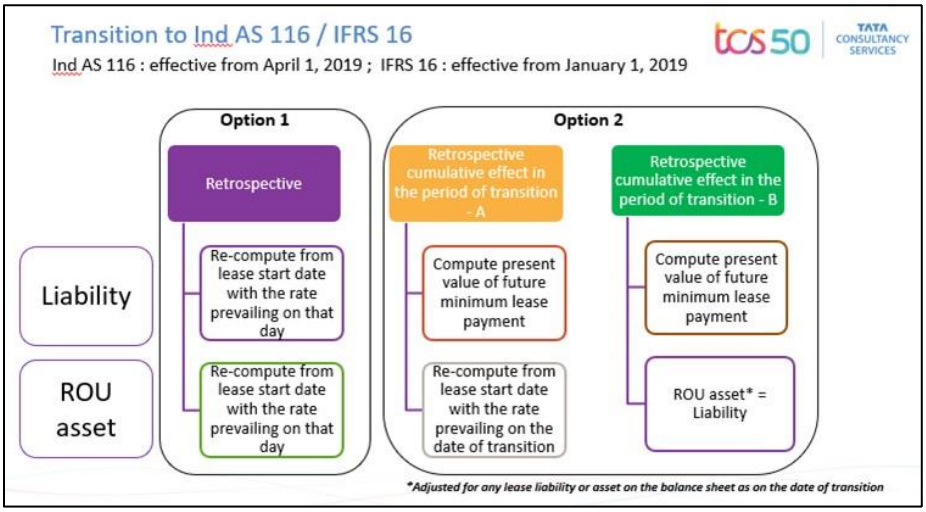
- **(Slide 5:)** Now, the new standard.. why are they doing this? One of the purposes is this operating lease, so, I take a premises on lease and I am going to take a charge year on year. So, in a sense it's a financing which I am taking and they want to bring all these off-balance sheet items back in to the balance sheet. More important, if there are 2 players and one of them has all leases, which means their P&L charge will be only on an operating lease under old standard, would be see the total lease divided by the number of years vis-à-vis somebody else who has more of capital upfront. They would have a depreciation charge etc. So, the EBITDA calculations would be different. So, basically, they are trying to bring everybody on an even keel. So, that's a fundamental reason why these changes have happened.

So, when I now come to Ind AS 17 or IAS 17 and that, and I already talked about the straight lining was what was happening. But there were disclosures, even in the old financial statements, you could see what were your lease commitments over the next several years. So, if there were leases which were going up to 10 years. So, you need to give what is your lease commitment year on year for the next 10 years. So, there was disclosure it is not that people did not know, but it was not flowing into the financial statement, but more of an information.

- Now coming to the new standard, which is IFRS 16 or Ind AS 116. From here onwards, I will refer to this as the new standard, so there's no confusion.

So what the new standard says is that you have to take all those future rental payments, do a net present value and bring it down and create an asset. And the asset is created is a "right of use" asset. I will show it as a capital asset. And then I will take a charge every period against the right of use assets. But there is this intrinsic financing element in this. So, you separate it out and that is called out as an interest.

So, anything which was being accounted typically as a rent for a premise will now split into 2 parts, partly as depreciation and partly as interest. The amounts may be slightly varying, because that depends on what is the discounting factor and stuff like that. Otherwise it may not be apple to apple. It may not be that rent was X, so depreciation is Y, finance cost is Z. Y plus Z will not necessarily equal X, but it should be more or less in the same ballpark. So, that is the change which is coming up.



(Slide 6): Now whenever you come out with a change in the accounting standard, the biggest issue for all – the standard setters as well as for the reporting entities and for the users is, what do you do at the time of transition.

A company like ours will have leases going back several years. There are properties where you have started the lease maybe 5 years back, 6 years back, 10 years back and they are continuing. And suddenly, you tell me today: you were accounting everything as rent, now you will have to break it down as depreciation and interest. What do I do about all those leases which have already been there? So, that is why, when they make a change to any standard, they also have lot of transitioning provisions which define what happens when you shift over.

In the next few slides, I am going to dwell a little bit on how this transition is working. Essentially there are 2 options for the transition, a retrospective option 1 and retrospective option 2. Now when I say retrospective it does not mean that you will go and re-state your past financials or you will do comparable for your past period, etc. So that is not what is intended.

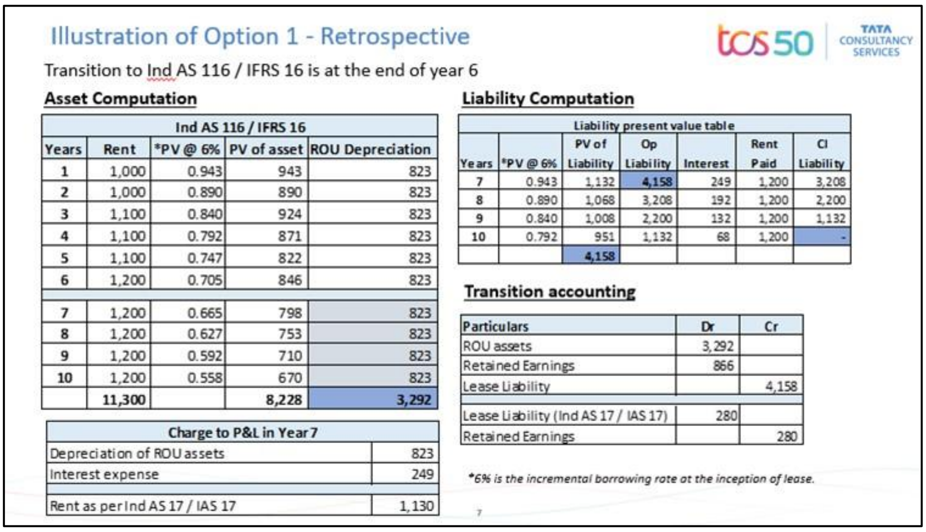


Illustration of Option 1 - Retrospective

Transition to Ind AS 116 / IFRS 16 is at the end of year 6

Asset Computation

Ind AS 116 / IFRS 16				
Years	Rent	*PV @ 6%	PV of asset	ROU Depreciation
1	1,000	0.943	943	823
2	1,000	0.890	890	823
3	1,100	0.840	924	823
4	1,100	0.792	871	823
5	1,100	0.747	822	823
6	1,200	0.705	846	823
7	1,200	0.665	798	823
8	1,200	0.627	753	823
9	1,200	0.592	710	823
10	1,200	0.558	670	823
	11,300		8,228	3,292

Charge to P&L in Year 7	
Depreciation of ROU assets	823
Interest expense	249
Rent as per Ind AS 17 / IAS 17	1,130

Liability Computation

Liability present value table						
Years	*PV @ 6%	PV of Liability	Op Liability	Interest	Rent Paid	Cl Liability
7	0.943	1,132	4,158	249	1,200	3,208
8	0.890	1,068	3,208	192	1,200	2,200
9	0.840	1,008	2,200	132	1,200	1,132
10	0.792	951	1,132	68	1,200	-
		4,158				

Transition accounting

Particulars	Dr	Cr
ROU assets	3,292	
Retained Earnings	866	
Lease Liability		4,158
Lease Liability (Ind AS 17 / IAS 17)	280	
Retained Earnings		280

*6% is the incremental borrowing rate at the inception of lease.

7

(Slide 7 :) But there are subtle differences between these two options. In the next few slides I will go through the examples and then we will come back to the slide to sort of summarize what is being actually talked about. But 2 elements are there, in this one we will have to fix what is the liability and then what is the asset.

So take these leases and really figure it out between liability and asset. And if you look at it here in the 1st option, you will have to help them with nuances the liability, you will have to recompute the asset as well but the key word is the rate prevailing on that date. The rate prevailing on that date, which means the discounting factor which you use is the rate prevailing on the date of the lease. So suppose I have a lease going back 5 years I will have to go and figure out what was the discounting rate which I should apply on that particular date 5 years back.

So take an organization where it has so many leases and also then the next one comes, the discounting factor is also related to that particular economy and stuff like that, like the interest rate prevailing in that country and all that. So if I have assets in multiple geographies, I will have to figure out in each geography, what that rate of interest was, going back to that lease. So it is a very tedious and cumbersome process, so that is option 1.

Option 2, there are two sort of approaches, and it is only a minor tweak in the second approach. The first approach is no different from option 1, but the only difference is instead of going back and saying what is the interest rate or the discounting factor applicable on the date of the lease, it gives you the option to take the discounting factor on the date of transition. So if you are saying April 1 is when the Indian accounting standard has started becoming applicable I will take the rate of interest which is discounting factor on the date of April 1, 2019. So this is much simpler to use than the option 1. The tweak in option 2B, I will come to when I go over the example. So I will, let me move on, so if you or the 1st one, option 1, I will walk through each of these numbers so stay with me, so in the 1st column you have the rent which was the same 11,300 example, right. so 11,300 divided by 10 is that 1,130 which you find here, which is the rent as per the old standard which is 1,130 which you would have accounted. Now this option gives you, it tells you that you go back to the date of the lease. So for this example **(Slide 7)** we are assuming the discounting factor is 6% on the date of the lease. And so if I do a present value discounting based on 6%, I have all these 0.943 etc, and the present value of the asset is 8,228 that's means I am going back to year one. And assuming that I apply all these TD factor it comes to 8,228 which means though the actual rent that I will pay is 11,300, the present value of that is only 8,228. Now the same 8,228 if I do on a straight line basis, every period it will be 823. Now, but you see a figure 3,292. 3,292 is only for the year 7 to 10 because in this example what we are saying is up to year 6 is prior to March 31st, 2019. That means those 6 years have gone. April 1, 2019 is the start of year 7 here, right. So, you are with me so far, right. So this is where it is. So the charge to the P & L, so now we will come to the liability and then we will come back to how the charge comes in. Now coming to the liability, so what you will do here is you will take the 7th year, right, which is 1,200 which you will have to pay and apply the present value because you are staying from 7,8,9,10 is the start, so you take the present value of the remaining lease obligations which is only for the next 4 years so obviously 0.943 is the discounting factor applied there as well. So the present value of the 1st year that means 7th year is 1,132 and so on and so forth. You get a 4,158 is the present value of the future lease liabilities on the date of transition which is the start of year 7. So, this is the opening liability. The 4,158 becomes the opening liability and I apply 6% which is the rate of discounting factor, I get 249. So, but the rent paid is 1,200 for the year so the liability, the closing liability will be 4,158 + 249 – 1,200 which is 3,208. So far so clear. So this part of the liability, etc, is more from a balance sheet what happens etc.

- Now this is where the lease accounting, the transition accounting will come. If you look at it, for the 4 years which are there, the present value is 3,292. It is essentially the depreciation which I have to take is 3,292 that is the asset that I am going to record. But against that 3,292 the liability is 4,158. So 4,158 the difference is what you will take a charge on your retained earnings. So since this is transition, so if I tell you that against the asset which you are going to record, what is the liability that you are going to record, the difference between that you will take it to retained earnings but at the same time you will go and see what is there in your balance sheet. If you look at this slide 4, on the year 6 end, you had 280 which was sitting as the lease liability. So now you will go back and that 280 you will reverse. So you will compute the asset and you will compute the liability, any difference in that you will take it to the retained earnings but you will go and check as to what was the lease liability sitting in the book on that particular day and then reverse it. So in the retained earnings you will have a charge of 866 and a credit of 280, so in the retained earnings you will have that difference. The only thing, which I have not complicated here is there will be a deferred tax impact of that, so this plus the deferred tax will appear in the balance sheet. So the charge now we come back to this portion.

(Slide 7:) So the depreciation which you charge is 823 and the interest you charge is 249. So this is what you will actually take in the books. So if I look at this example, if I had stayed with the old standard I would have had a charge of 1,130. Now I will have a depreciation charge of 823 and interest charge of 249 which is 1,072, which means at a PBT level I will have a credit of 58 because it will be 1,130 minus 1,072 at the PBT level because these are, will be both, but at an operating level you will have the gap of 249. So that is what is the number with this example because this 249 will go down to, in my original example it will be 1,130 minus 823 will be the benefit at the operating level, because at the EBIT level the difference between 1,130 and 823 will be the benefit, at the PBT level it will be 1,130 minus 823 minus 249, so that's the overall how it works.

- Of course in the cash flow this whole thing to the extent I have new assets, will go as part of the investing activities and to the extent I have the payments out it will come as part of the financing activities. So rent would have come as part of the operating activities. Now this will go into the investing and financing activities. So to that extent there will be a change in the – but it's a matter of detail. So if you see in the overall scheme of things as far as we are concerned this is not a big number at all. So there's a whole lot of changes which happens in parts of P&L and parts of the balance sheet. But it is good to know.

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Illustration of Option 2A

Transition to Ind AS 116 / IFRS 16 is at the end of year 6

Asset Computation

Ind AS 116 / IFRS 16				
Years	Rent	*PV @ 5%	PV of asset	ROU Depreciation
1	1,000	0.952	952	865
2	1,000	0.907	907	865
3	1,100	0.864	950	865
4	1,100	0.823	905	865
5	1,100	0.784	862	865
6	1,200	0.746	895	865
7	1,200	0.711	853	865
8	1,200	0.677	812	865
9	1,200	0.645	774	865
10	1,200	0.614	737	865
	11,300		**8,647**	**3,460**

Charge to P&L in Year 7	
Depreciation of ROU assets	865
Interest expense	213
Rent as per Ind AS 17 / IAS 17	1,130

Liability Computation

Years	*PV @ 5%	PV of Liability	Op Liability	Interest	Rent Paid	Cl Liability
7	0.952	1,143	**4,255**	213	1,200	3,268
8	0.907	1,088	3,268	163	1,200	2,231
9	0.864	1,037	2,231	112	1,200	1,143
10	0.823	987	1,143	57	1,200	-
		4,255				

Transition accounting

Particulars	Dr	Cr
ROU assets	3,460	
Retained Earnings	795	
Lease Liability		4,255
Lease Liability (Ind AS 17 / IAS 17)	280	
Retained Earnings		280

**5% is the incremental borrowing rate on the date of transition.*

8

(Slide 8 :) So now we go to option 2A. The only difference here is the rate of discounting factor. For the purpose of this example we have assumed that in option 1 it was 6%, in option 2A it is 5%. Now the interest could be same so if I had taken the same 6%, option 1 and option 2A will be exactly the same. There will be no difference. But here in option 2A we have assumed that the rate of interest discounting factor is 5%. So you have a little difference in the numbers which are there. So option 1 in 2A is the results will be depending on the discounting factor. But operationally administratively option 2A is more easy to do because I don't have to go back and see all the leases for so many years and which geography and all that. Fortunately the standard says that I don't have to go asset by asset. I can do a portfolio of assets. So I can take a group of assets and apply a rate of interest. But administratively 2A is far simpler and that is what we have adopted.

Illustration of Option 2B

Transition to Ind AS 116 / IFRS 16 is at the end of year 6

ROU Asset computation

Asset table			
Years	Op bal	Depreciation	Cl bal
7#	3,975	994	2,981
8	2,981	994	1,988
9	1,988	994	994
10	994	994	-

#ROU – 3975=(4255 – 280)

Charge to P&L in Year 7	
Depreciation of ROU assets	994
Interest expense	213
Rent as per Ind AS 17 / IAS 17	1,130

Liability computation

Years	*PV @ 5%	PV of Liability	Op Liability	Interest	Rent Paid	Cl Liability
7	0.952	1,143	4,255	213	1,200	3,268
8	0.907	1,088	3,268	163	1,200	2,231
9	0.864	1,037	2,231	112	1,200	1,143
10	0.823	987	1,143	57	1,200	-
		4,255				

Transition accounting

Particulars	Dr	Cr
ROU assets	4,255	
Lease Liability		4,255
Lease Liability (Ind AS 17 / IAS 17)	280	
ROU assets		280

**5% is the incremental borrowing rate on the date of transition.*

9

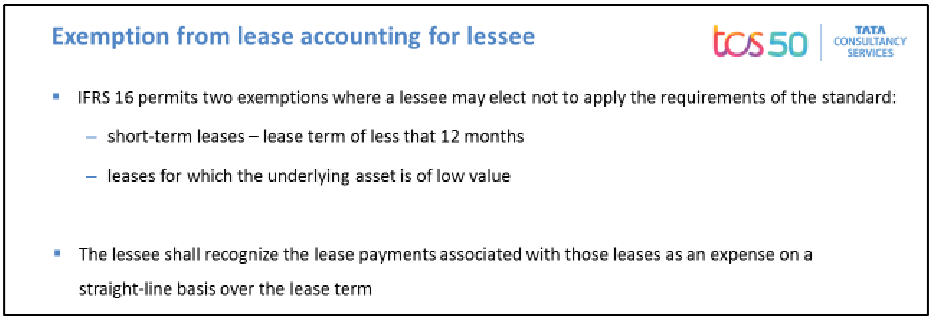
(Slide 9 :) Now coming to 2B, the only tweak here is that 280 which is there in the opening liability, that is actually reduced from 4,255. So when you start you start with 4,255 minus the 280 and the 3,975 is what you depreciate. That means over the 4 years. So essentially the end of this whole thing, the transition accounting, the asset and the liability will be same. That means nothing will go to retained earnings. So that's an essential difference between 2A and 2B. But we have adopted 2A and I think most corporates will adopt 2A. So that's my reading.

Rate to be used for discounting of Lease

Incremental borrowing rate is the rate at which lessee can borrow funds necessary to obtain an asset of a similar value to the right-of-use asset

- ✓ over a similar term,
- ✓ with a similar security
- ✓ in a similar economic environment.

\- **(Slide 10 :)** So how is the rate to be determined? Basically look at how you will actually lease a similar asset over a similar term with a similar security and all that stuff. For our purposes we have a discounting factor of 6.78% which is there in the notes.



(Slide 11 :) And there are some exclusions. They have said that any asset which is going to – the lease is going to end within the next 12 months you can exclude. And any lease which is for assets which are of small value, can be excluded. So there you don't have to churn the ocean for doing this. For those assets you will continue to do under the like the old standard. That means you will continue to treat them like an operating lease and you will do it on a straight line basis. So that is the exclusion which is there. There are other nuances on I think it's too much of a detail. I think quite a few of those disclosures are there in our financials.

So if you take our Q1 the depreciation was about 289 or so and the 118 was the finance cost. The rent was around 379 or so. So essentially what has happened is that the EBITDA level it's around 92 crores and at the PBT there is a small minus. So that is what is the numbers for – so we are talking of somewhere around 92 crores which is roughly around 25 basis points or 20-22 basis points contribution to the topline – so that's how what has happened in the P&L. And while – but going forward it will be depending on new leases. So as and when you take leases those numbers will keep changing. So but this is the fundamental structure of these changes. So I hope this has been useful and I can take any questions if anything specifically on this. Thank you.

Analyst: At a PBT level are you saying it's neutral between IFRS 17 and IFRS 16?

V Ramakrishnan: There will be small changes.

Analyst: Okay and how does that impact at a PAT level? You said there were further complications because of deferred taxes?

V Ramakrishnan: No, no, not necessarily of deferred tax. It will be subject to the regular tax, because you will be able to take the depreciation as a depreciation expense and interest as an interest expense. So whatever you charge so there will be some deferred tax also, there will be a current tax also. But the numbers are so small so they don't make any difference for our purposes. There are companies with huge amount of assets. I don't think in our sector you will find this being a material number at all.

Analyst: In your example what was the eventual PBT impact?

V Ramakrishnan: Minus 27.

Analyst: And PAT would be how much in the same example?

V Ramakrishnan: I don't have that number readily. If you take a minus 27 and I don't think it is going to be anything materially different from that. Take an effective tax rate about 23-24%, and you will arrive at the PAT impact.

Analyst: And over a period of time assuming the level of renting is similar would this be in the same ballpark or would this increase or decrease over time?

V Ramakrishnan: So these numbers will be in the same ballpark. This PBT numbers could change over a period of time. But it will be in the same ball park. Only difference will be as you take new assets then you will recomputed that. So it will depend on new leased assets. But for the existing assets as of this date, that on an ongoing basis will be in the same ballpark.

Analyst: So couple of questions. Firstly does this – I mean I am just trying to understand the difference between operating and finance leases. This would be only applicable for operating leases. Right?

Analyst: Perfect. Finance lease there is no change in the standard except that what used to be called as this one that is also now being clubbed as the right of use assets. That's all. Around disclosure perspective. But treatment of finance lease does not change.

Analyst: Got it. And the second question is do you need to relook at your discounting rate every year or every 2-3 years or something of that sort just to relook at your present value?

V Ramakrishnan: No see for the assets which you have already done you will not relook at the discounting rate. But ongoing new assets you will continue to do that. You will actually relook at that.

Analyst: Yeah so new assets will be discounted at the rate that applies at that point in time. But for what you have done on 1st April for prior that discounting rate remains forever.

V Ramakrishnan: Exactly. But otherwise every time you will have to do a transition.

Analyst: Ramki only one thing, how will you do the treatment in the cash flow? Like you have to create an asset right against this. So what is the entry you are passing through in cash flow and the balance sheet?

V Ramakrishnan: In the balance sheet I told you, there is a separate line item in the balance sheet in the assets as “right of use” assets. So it is not clubbed with the other fixed assets. Not to the other PP (Property and Plant). Actually there is a separate line item. And in the liability side in the IFRS, it goes as current liabilities or non-current liabilities if it is more than one year. But in IND AS it comes as part of the borrowing and lease liabilities. So it is in that line. But these are called out separately. So there is a right of use assets and a this one. Coming to the cash flow as I said the new, the assets which have been created that comes as part of your investing activities. And to the extent that you have paid your lease liabilities there, that goes as part of your financing activities. So it is not part of your operating. So there will be slight differences in those.

Analyst: Also it will impact your book value to some extent because of the charge you have to take on your retained earning plus the entry which you have to show?

V Ramakrishnan: To some extent. I think we have 350 crores or something like that as the charge from the retained earnings. It is a very small number in the overall scheme of things.

Analyst: If at the portfolio level the average escalation on the rent is equivalent to the discounted rate, so technically everything will come in depreciation.

V Ramakrishnan: I don't think those will always match because escalation of rent is other market factors would be there, depending on what you call the marketability of the asset and what the traffic can bear.

Analyst: Mathematically I am asking.

V Ramakrishnan: Mathematically yes. But I don't think, I mean in my experience I don't think rent escalations have a direct correlation with interest rates. For instance I can give you examples of some of the advanced economies where the rate of interest is in 1and 2% but there the escalation is still not 1 and 2%. So I don't think there is a direct correlation.

Analyst: Maybe at the backend calculation it would be complex for you because different interest rate, different escalation. But I am saying if at the portfolio level if the average escalation is what we have computed on an annual rent increase basis, if that is the discounting factor technically everything will come in the depreciation line, and EBIT impact will be zero. Because rent will be equal to depreciation in that case.

V Ramakrishnan: If what you are saying is borne out by facts, because your effective interest rate in India is above 8%. But you don't give 8% escalation year on year. I mean no lessee will get into a lease agreement with an 8% annual increase. Annual increase is not that much. So that is an assumption probably which will not bear out. The financing cost, your discounting fact will be higher than actually the escalation. So you will always have this play. I don't think your depreciation will – that is what I – I mean India example is a very clear one.

Analyst: What is the basis for the 6.78% discount rate that you have used? What should we track to sort of understand how it might move?

V Ramakrishnan: This is our risk free rate of return.

Analyst: Government bond deal. So this would have been as on 31st March or…

V Ramakrishnan: 31st March, April 1.

Analyst: Okay, okay. And secondly just to clarify the balance sheet impact so basically there is a 350 impact in the retained earnings. We have the right to use asset that has been created. And the balance is entirely under non-current liabilities.

V Ramakrishnan: In IFRS.

Analyst: Ramki, just have one question, but before that, on a lighter note, for 22 basis points you have done this session. Please do it for rest of the 3000 basis points.

V Ramakrishnan: [Laughter] I thought all the rest of it is so clear.

Analyst: Because we clearly need help there on how you manage.

V Ramakrishnan: It is so very clear.

Analyst: Just question on maybe not on this particular impact, but in general, how do you decide on leasing versus buying or building a property? And does this impact that decision as well? Thank you.

V Ramakrishnan: This will not influence that. I don't think this is going to make any difference on that. But on a long term basis our idea is to when we create campuses etc., when we create something which we intend to use for a longer period of time, our idea has always been to own the asset and create it. And that is what we have been doing at least in the last few years. But sometimes tactically because you need to immediately create something, you need to have space, we have owned leases. So it's a mix of both. So in most of the cities – I am talking of India, so we have a mix of both owned assets as well as leased assets. So leased assets by and large are smaller in size than the owned assets. But there are some which are large properties, where the developer is not interested in selling. The developer is only interested in doing it on a long term lease basis. So those factors come into play.

Outside India, except for one or two, they are all leases. But they are typically long term leases which are extendable typically 5 years, 7 years etc. which are extendable option of both parties. So typically it works that way. So India where bulk of these – but of course outside India also we have significant assets as we have grown over the years. But with a couple of exceptions all of them are leased assets. But in India we have a good mix.

Analyst: Sir on the entry to the retained earnings if I understand correctly while there will be the difference between the actual rent paid out and the depreciation plus interest expense every year the charge to the retained earnings will only be this year in the transition year right?

V Ramakrishnan: Yes only the transition year.

Analyst: So next year…

V Ramakrishnan: All others will go through P&L.

Analyst: And next year onwards because we have already made the transition there will be no…

V Ramakrishnan: Right from Q1 it has gone through the P&L.

Analyst: Right through?

V Ramakrishnan: It is only for that past period it goes through the retained earnings.

Analyst: And also you said that for an existing lease which has 3 or 5 years left you have chosen a discounting rate today and you don't need to relook at it again till the end of the life of the lease. Let's say if you have a similar property in this….

V Ramakrishnan: I think I will come back on that. I maybe wrong on that. Because it doesn't make sense. I think you will have to relook at the discounting rate- at every reporting period you will need to relook at that for the going forward assets.

Analyst: For the going forward assets.

V Ramakrishnan: Because transition is closed but going forward assets you will have. But I will – I probably want to recheck on that and come back. Through Kedar I will give that clarification.

Analyst: Sure. Thanks a lot.

Analyst: One question on whether this accounting changes any implication on return on capital employed (RoCE).

V Ramakrishnan: I don't think so, because to some extent your capital employed increases. But the numbers for instance on a balance sheet size of close to 100,000 crores you have another charge of, another increase of 6,000 crores. It is not going to materially make a difference. Yes the denominator increases to that extent. But that is one of the objectives, I would believe is the reason for introducing the new standard so that it brings that RoCE etc., capital employed on an even keel for two different players who have two different strategies.

Analyst: In our specific case when we adopted in Q1 let's say no change in accounting standard, what could be RoCE? If you could give some sense to it.

V Ramakrishnan: I think that 6,000 crores would not be shown as an asset. To that extent the capital employed would have been lower.

Analyst: And similarly we have to adjust EBIT also right? To the extent you quantified.

V Ramakrishnan: Whatever that number is. 92 crores yeah.

Analyst: The discounting rate used was 6.78%, and so you know this is slower than the 10 year G-Sec (Government Securities). I think I might be wrong about that…

V Ramakrishnan: In fact 10 year benchmark (G-sec) rate is lower than that right now.

Analyst: Okay. But when you chose it in April 1st…

Analyst: When you took it on April 1st, were you looking at a 5 year benchmark or a 10 year benchmark?

V Ramakrishnan: No you do a 10 year benchmark but there are some adjustments to be made as well. Because it is not exactly the risk free rate of return.

Analyst: Okay. Slightly more than that?

V Ramakrishnan: Yes, slightly more than that.

Analyst: Okay. Sovereign is considered to be better.

V Ramakrishnan: If I am not mistaken I think even for what you call the retirement liabilities and all that you use the same discounting factor.

Analyst: Do you foresee any new accounting changes coming in as well?

V Ramakrishnan: No I think the next accounting standard is IFRS-17 but that doesn't affect our industry. That is more for the insurance industry actually. So IFRS-15 was a large one. IFRS 16 did not make any big impact more than from a number perspective it did not have. But it involved a lot of work. Internally it required a lot of work. Because the principles were the same but you needed to look at every contract - what are the obligations and look at what is the value for those obligations etc. So internally the systems etc. had to be geared up. But IFRS 15 did not have any material impact on, neither did IFRS 16 have. IFRS 16 was in terms of internal work it was not as elaborate as IFRS 15. We couldn't do the changes. But IFRS 15 required a lot of work. In fact over a period of 1.5 years we had to do all the work to get the systems to be compliant. And also a lot of disclosures. I think IFRS 15 required disclosures. 16 also requires a lot of disclosures. So it is more from an accounting perspective there is more work. But both had no material impact on our numbers.

Analyst: Has ignio™ been trained to do this?

V Ramakrishnan: Eventually. ignio is not really for this – if there is judgment involved, then ignio will be very fast doing that. This is more analytics. I would say more analytics in doing detailed calculations.

Kedar Shirali: The subject has been rendered crystal clear now, with no more questions. We can adjourn this session.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.