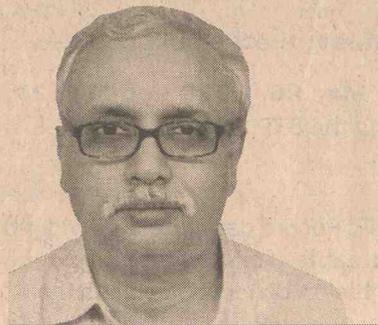


Covid-related disclosures by Indian companies

While filing their financial results for FY20, corporations should adequately address the Covid-19 related concern and its impact on asset quality



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Several listed Indian majors filed their quarterly and annual financial results for the financial year 2020 (FY20) with the stock exchanges in April 2020. The Covid-19 lockdown was announced by the government on March 24. Naturally, the impact of the Covid pandemic on the financial results would be immaterial for FY20. However, it is such an important event after the balance sheet date that companies cannot ignore mentioning it. Investors expect companies to disclose the possible impact of the pandemic on their financial health. The full financial implications of Covid-19 will only be reflected in the ongoing financial year and possibly thereafter. One may mention that the news about Covid-19 and its pandemic nature was all over the media since February 2020 and Indian companies, particularly those that have a substantial number of European and US customers, were already alarmed about the huge impact of the disease. Hence it is imperative that firms identify the sources of pandemic risk and highlight their preparedness in this regard in their annual filings.

The common concerns in Covid-related disclosure include its potential impact on future business and on the asset

HOW THEY STACK UP

Company	Total assets	S/T investments	Receivables	Cash and bank	Final dividend
Infosys	81,041	4,006	15,459	13,562	4,046
TCS	104,975	25,686	33,423	3,852	2,250
Tech Mahindra	37,353	5,612	7,577	3,148	483
Wipro	65,306	18,963	11,053	10,444	NIL

(figures in ₹ crore)

quality. Covid has caused unprecedented damage to the oil and gas sector with the contraction of demand and crude prices plummeting to a level unheard of in recent history. The major private sector oil company, Reliance Industries, has recognised the impact of the pandemic and made a provision of ₹4,245 crore of extraordinary loss in FY20.

Another sector that has already started experiencing disruptions is information technology as the Indian software companies generate most of their revenue overseas and the bulk of it comes from clients in financial services, manufacturing and communications sectors. However, the IT majors did not make any extraordinary provisions for possible under-recoveries. Though a handful of IT companies have filed their financial results so far, the level of Covid-related disclosure varies widely. For example, while one may find a mention of Covid in several pages in the Infosys annual filing (in 46 of a 395-page annual filing), the same is not the case with its competitor TCS.

Covid-19 may have significant impact on the asset quality of the Indian IT companies in the following ways: (a) slow recovery of carrying amount of trade receivables; (b) impairment of unbilled receivables; and (c) impairment of short-term investments. Though the impact of

the pandemic on these balance-sheet items could not be ascertained in FY20, the first two quarters of the present financial year (FY21) would show how much of the current assets of the IT companies are recoverable. The four IT companies that have filed their financial results have an average of 41 per cent of the total assets as receivables and current investments (see table "How they stack up").

Obviously, one would expect that these companies would at least make some provisions for possible shortfall in recoveries. But none has done so. On the contrary, barring Wipro, the other three IT companies have recommended a final dividend of close to ₹6,800 crore. Perhaps the decision to declare final dividend was to provide some relief to the investors and to bring cheer to the stock market. Incidentally, these companies have already paid a handsome interim dividend — TCS had paid an interim dividend of ₹67 per share and has further recommended a final dividend of ₹6 a share. When India and the entire world is struggling to find resources to feed the poor and help the business enterprises survive, it would have been a good gesture on part of these companies to resist from declaring dividend now. Was there any pressure from institutional investors or business group?

Banks in India, on the other hand,

have walked with caution — partly due to prudence and also due to regulatory oversight. The RBI did not allow banks to declare any further dividend for the FY20. The central bank has advised all banks to conserve liquidity in this period of crisis. It was mentioned that the restriction on dividend payments would be reviewed after September 2020. Unlike the IT companies, banks in India have made provisions for potential impact of Covid-19. They have disclosed Covid impact on (a) other income (includes, card fees and third-party distribution income); (b) asset quality. The impact of Covid-19 pandemic on other income was severe for a few banks. HDFC Bank has reported a lower other income to the tune of ₹450 crore in the fourth quarter FY20. Banks have also mentioned the impact of the three-month moratorium on payment of all term loans. For example, IndusInd Bank has made a provision of ₹23 crore towards impact of moratorium. Other banks (which have filed their financial results with the stock exchanges) have noted that the floating provision would take care of impact of loan moratorium, if any. However, the overall Covid-related provisions made by the four leading private sector banks (Axis bank, HDFC Bank, ICICI Bank and IndusInd Bank) were to the tune of ₹7,558 crore.

It is expected that Indian companies while filing their financial results for FY20 would adequately address the Covid-19 related concerns and its impact on the asset quality. It would be better if corporate India refrains from distributing largesse to shareholders at this moment. The long-term investors can afford to survive without dividend for at least six months.

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