

GROUP OVERVIEW

Deepak Nitrite Limited ('DNL' or 'the Company') is a prominent chemical manufacturing public limited company incorporated and domiciled in India. Its registered office is located at Aaditya-I Chhani Road, Vadodara- 390 024, Gujarat, India and its manufacturing facilities are located in the states of Gujarat, Maharashtra and Telangana.

The Company with its three subsidiaries namely Deepak Phenolics Limited, Deepak Nitrite Corporation Inc. and Deepak Clean Tech Limited are referred to as the Group here under.

The Group manufactures Basic Chemicals, Fine & Speciality Chemicals, Performance Products, and Phenolics.

The Companies (Indian Accounting Standards) Amendment Rules, 2020 has notified amendments to the following accounting standards. The amendments are effective from April 1, 2020.

1. Ind AS 1 Presentation of Financial Statements
2. Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors
3. Ind AS 10 Events after the Reporting Period
4. Ind AS 34 Interim Financial Reporting
5. Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets
6. Ind AS 103 Business Combination
7. Ind AS 107 & Ind AS 109 Financial Instruments
8. Ind AS 116 Leases

There is no material impact on adoption of these amendments.

1. Significant Accounting Policies

This Note provides a list of the significant Accounting Policies adopted by the Group in the preparation of these Consolidated Financial Statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The Financial Statements are for the Group consisting of the Company and its subsidiary companies.

(a) I. Basis of preparation

(i) Compliance with Ind AS

The Consolidated Financial Statements comply in all material respects with Indian Accounting Standards (Ind AS) notified under Section 133 of the Companies Act, 2013 (the Act) [Companies (Indian Accounting Standards) Rules, 2015] and other relevant provisions of the Act.

The Consolidated Financial Statements have been prepared on a historical cost basis except for the following assets and liabilities which have been measured at fair value or revalued amount:

- (a) Certain financial assets and financial liabilities measured at fair value
- (b) Derivative Financial instruments
- (c) Defined benefit plan – plan assets measured at fair value

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(ii) Functional and Presentation Currency

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('functional currency'). The Financial Statements of the Company are presented in Indian currency (INR), which is also the functional and presentation currency of the Company.

(iii) Use of estimates

Preparation of the Financial Statements requires use of accounting estimates which, by definition, will be equal to the actual results. The estimates and the associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and the underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods affected.

Useful lives and residual value of property, plant and equipment : The Company reviews the useful life and residual value of property, plant and equipment at the end of each reporting period. This reassessment may result in change in depreciation expense in future periods.

Allowance for expected credit losses: The expected credit allowance is based on the ageing of the days receivables which are past due and the rates derived based on past history of defaults in the provision matrix.

Fair value of investments: The Company has invested in the equity instruments of various companies. However, the percentage of shareholding of the Company in such investee companies is very low and hence, it has not been provided with future projections including projected statement of profit and loss by those investee companies. Hence, the valuation exercise carried out by the Company with the help of an independent valuer has estimated fair value at each reporting period based on available historical annual reports and other information in the public domain.

Income taxes : Significant judgements are involved in determining the provision for income taxes, including amount expected to be paid/recovered for uncertain tax positions.

(b) Current versus non-current classification

Assets and liabilities are classified as Current or Non-Current as per the provisions of the Schedule III notified under the Companies Act, and the Company's normal operating cycle.

An asset is treated as current when it is:

- (i) Expected to be realised or intended to be sold or consumed in normal operating cycle;
- (ii) Held primarily for the purpose of trading;
- (iii) Expected to be realised within twelve months after the reporting period, or
- (iv) Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if the market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value measurement and/or disclosure purposes in the financial statements is determined on such a basis except for leasing transactions that are within the scope of Ind AS 116, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in Ind AS 2 or value in use in Ind AS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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Items included in the Consolidated Financial Statements of the Group are measured using the currency of the primary economic environment in which the Group operates ('functional currency'). The Consolidated Financial Statements of the Group are presented in Indian currency (INR), which is also the functional and presentation currency of the Group.

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Income taxes : Significant judgements are involved in determining the provision for income taxes, including amount expected to be paid/recovered for uncertain tax positions.

(a) II. Principles of Consolidation :

The Consolidated Financial Statements (CFS) comprise the Financial Statements of Deepak Nitrite Limited and its subsidiaries as at 31 March 2021. The consolidated financial statements of the Group have been prepared to comply with the Indian Accounting standards ('Ind AS'), including the rules notified under the relevant provisions of the Companies Act, 2013. The basis for preparing the consolidated financial statements is given below:

Subsidiary companies are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Subsidiary companies are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group combines the Financial Statements of the parent and its subsidiary companies line by line adding together like items of assets, liabilities, equity, income and expenses. Intercompany transactions, balances, cashflows and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting Policies of subsidiary companies are consistent with the policies adopted by the Group.

In case of foreign subsidiary revenue items are consolidated at the average rate that approximates the actual rate at the date of transaction. All monetary items are translated into Consolidated financial statements at exchange rate in effect at the balance sheet date. Any exchange difference arising on consolidation is recognised in the Consolidated Statement of Profit and Loss.

Profit or Loss and each component of Other Comprehensive Income are attributed to the owners of the Group and to the non-controlling interests. Total Comprehensive Income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Name of Entity	Ownership in % either directly or through subsidiaries		Nature	Country of Incorporation
	2020-21	2019-20		
Deepak Phenolics Limited	100%	100%	Subsidiary	India
Deepak Clean Tech Limited	100%	-	Subsidiary	India
Deepak Nitrite Corporation, Inc.	100%	100%	Subsidiary	United States of America

Changes in ownership interest

When the Group ceases to consolidate or equity account for an investment because of a loss of significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate company or financial asset.

(b) Current versus non-current classification

Assets and liabilities are classified as Current or Non-Current as per the provisions of the Schedule III notified under the Companies Act, and the Group's normal operating cycle.

An asset is treated as current when it is:

- (i) Expected to be realised or intended to be sold or consumed in normal operating cycle;
- (ii) Held primarily for the purpose of trading;
- (iii) Expected to be realised within twelve months after the reporting period, or
- (iv) Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- (i) It is expected to be settled in normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period, or
- (iv) There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

The operating cycle is the time between the acquisition of assets for processing and their realisation in cash and cash equivalents. Based on the nature of business and its activities, the Group has ascertained its operating cycle as twelve months for the purpose of Current & Non-Current classification of assets and liabilities.

(c) Revenue Recognition

Sale of Goods:

Revenue from the sale of goods is only recognized – net of Goods & Service Tax, cash discounts, discounts and rebates – if the following conditions are met:

- The significant risks and rewards of ownership of the goods have been transferred to the buyer.
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Group.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from Services is recognised in the accounting period in which the services are rendered.

Interest Income:

Interest income from Financial Assets is recognised when it is probable that the economic benefits will flow to the Group and the amount of income is measured reliably. Interest income is accrued on time basis, by reference to the principle outstanding and using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. When calculating the effective interest rate, the Group estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses.

Eligible export incentives are recognised in the year in which the conditions precedent is met and there is no significant uncertainty about the collectability.

Revenue in respect of other income is recognised to the extent that the Group is reasonably certain of its ultimate realisation.

(d) Leasing

As a Lessee

At the date of commencement of the lease, the Group recognizes a right-of-use asset ("ROU") and a corresponding lease liability for all lease arrangements in which it is a lessee, except for leases with a term of twelve months or less (short-term leases) and low value leases. For these short-term and low value leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

The ROU are initially recognized at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or prior to the commencement date of the lease plus any initial direct costs less any lease incentives. They are subsequently measured at cost less accumulated depreciation and impairment losses. ROU assets are depreciated from the commencement date on a straight-line basis over the shorter of the lease term and useful life of the underlying asset.

The lease liability is initially measured at amortized cost at the present value of the future lease payments. The lease payments are discounted using the incremental borrowing rates.

The Group has accounted for concession received in lease rent due to COVID-19 scenario as a lease modification. Accordingly carrying value of lease liability and ROU assets has been reduced and Gain arising out of such reduction has been recognised in Statement of Profit and Loss.

As a Lessor

Leases for which the Group is a lessor is classified as a finance or operating lease. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

For operating leases, rental income is recognized on a straight line basis over the term of the relevant lease.

(e) Foreign Currency Transactions

In preparing the Consolidated Financial Statements of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in Consolidated Statement of profit and loss in the period in which they arise.

Foreign exchange differences regarded as an adjustment to borrowing costs are presented in the Consolidated Statement of Profit and Loss, within finance costs.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, option contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the Consolidated Statement of profit and loss immediately.

(f) Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are recognised in the Consolidated Statement of Profit and Loss in the period in which they are incurred.

(g) Government Grants

- (i) Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.
- (ii) Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited in the Consolidated Statement of profit and loss in proportion to fulfilment of associated export obligations and presented within other income.
- (iii) Government grants relating to income are deferred and recognised in the Consolidated Statement of Profit and Loss over the period necessary to match them with the costs that they are intended to compensate and presented within other income.

(h) Employee Benefits

(i) Retirement Benefit Costs and Termination Benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit plans in respect of an approved gratuity plan, the cost of providing benefits is determined using projected unit credit method, with actuarial valuations being carried out at the end of each reporting period.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding net interest), is reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income is reflected in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and is not reclassified to Consolidated Statement of Profit and Loss.

Past service cost is recognised in Consolidated Statement of Profit and Loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and curtailments and settlements);
- net interest expense or income; and
- remeasurement

The first two components of defined benefit costs are recognised in the Consolidated Statement of Profit and Loss in the line item 'Employee benefits expense'. Gains or losses on the curtailment or settlement of any defined benefit plan are recognised when the curtailment or settlement occurs.

(ii) Short-Term and Other Long-Term Employee Benefits

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the Present value of the estimated future cash outflows expected to be made in respect of services provided by employees up to the reporting date.

(iii) Compensated Absence and Earned Leaves

The Group's current policy permits eligible employees to accumulate compensated absences up to a prescribed limit and receive cash in lieu thereof in accordance with the terms of the policy. The Group measures the expected cost of accumulating compensated absences as the additional amount that the Group expects to pay as a result of unused entitlement that has accumulated as at the reporting date. The expected cost of these benefits is calculated using the projected unit credit method by qualified actuary every year. Actuarial gains and losses arising from experience adjustment and changes in actuarial assumptions are recognised in the Consolidated Statement of Profit and Loss in the period in which they arise.

(i) Income Taxes

The Company and its Subsidiary, Deepak Phenolics Limited, has elected to exercise option available under section 115BAA of the Income Tax Act, 1961.

Deepak Clean Tech Limited, wholly owned subsidiary, incorporated on October 09, 2020 shall be eligible to claim benefit of lower rate of tax under section 115BAB of the Income Tax Act, 1961.

The income tax expense represents the sum of the tax currently payable and deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. The Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in the Consolidated Statement of Profit and Loss, except to the extent that it relates to items recognised in Other Comprehensive Income or directly in equity. In this case, the tax is also recognised in Other Comprehensive Income or directly in equity, respectively.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profits.

However, deferred tax liabilities are not recognised if they arise from the initial recognition of Goodwill. Deferred tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit /(tax loss).

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Balance Sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are classified as non-current assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

The Finance Act 2020 has repealed the Dividend Distribution Tax (DDT). The Group is now required to pay/distribute dividend after deducting applicable taxes. The remittance of dividends outside India is also subject to withholding tax at applicable rates.

(j) Property, Plant and Equipment

Property, plant and equipment held for use in the production or supply of goods or services are stated at cost less accumulated depreciation and accumulated impairment losses if any.

Subsequent costs are included in the carrying amount of asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the Consolidated Statement of Profit and Loss during the period in which they are incurred.

Spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment if they are held for use in the production or supply of goods or services and are expected to be used during more than one period.

Property, plant and equipment which are not ready for intended use as on the date of Consolidated Balance Sheet are disclosed as 'Capital Work-in-Progress'.

Depreciation Methods, Estimated Useful Lives and Residual Value:

Depreciation on all tangible assets is provided at the rates and in the manner prescribed by Schedule II to the Companies Act, 2013 and certain components of plant and equipment such as Reactors, Centrifuge, Cooling towers, Air Compressor etc. which are depreciated over its useful life as technically assessed by Independent/ Internal Technical Personnel after taking into consideration past experience of the group, chemical process & chemical industry norms.

Asset Category	Estimated Useful Life
Building	30 years
Plant and Equipment	3 to 40 years
Furniture & Fixture	5 to 10 years
Vehicle	8 years
Office Equipment	2 to 5 years
Road	2 to 10 years

Freehold land is stated at historical cost and is not depreciated.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Statement of Profit and Loss.

In respect of depreciable assets for which Impairment Loss is recognised, depreciation/amortisation is charged on the revised carrying amount over the remaining useful life of the assets computed on the basis of the life prescribed in schedule II to the Companies Act, 2013.

The residual values, useful lives and method of depreciation of property, plant and equipment is reviewed at each financial year end and adjusted prospectively, if appropriate.

Assets held for disposal are classified as Current Assets at lower of its carrying amount and fair value less costs to sell, difference being recognised in the Consolidated Statement of Profit and Loss.

(k) Intangible Assets

Intangible assets are stated at their original cost of acquisition, less accumulated amortisation and impairment losses, if any. An Intangible Asset is recognised, where it is probable that the future economic benefits attributable to the Asset will flow to the enterprise and where its cost can be reliably measured.

The cost of intangible assets is amortised over the estimated useful life, in any case, not exceeding ten years, on a straight-line basis. A detail of estimated useful life is given below:

Software and related implementation costs	2 to 6 years
Rights to use facilities	5 years
Technical Know How	10 years

(l) Impairment of Tangible and Intangible Assets

The carrying amount of cash generating units/assets is reviewed at the Consolidated Balance Sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount is estimated as the fair value less cost of disposal or value in use, whichever is higher. While assessing value in use, the estimated future cash flows are discounted to the present value by using pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Impairment loss, if any, is recognised whenever carrying amount exceeds the recoverable amount. The impairment loss recognised in prior accounting period is reversed if there has been a change in the estimate of recoverable amount.

(m) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, demand deposits with bank and other short-term deposits (3 months or less from the date of acquisition), highly liquid investments that are readily convertible into cash and which are subject to an insignificant risk of changes in value.

(n) Inventories

Raw materials and components, stores and spares are valued at cost determined on period-moving weighted average basis and are net of Cenvat, VAT & GST. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to the present location and condition. Due allowances are made for slow moving and obsolete inventories based on estimates made by the Group. Items such as spare parts, stand-by equipment and servicing equipment which is not plant and equipment gets classified as inventory.

Finished Goods and Stock-in-process are valued at cost of purchase of raw materials and conversion thereof, including the cost incurred in the normal course of business in bringing the inventories up to the present condition or at the net realisable value, whichever is lower. The inventories of joint products are valued by allocating the costs to the joint products by 'Relative Sales Value' method. By-products are valued at net realisable price.

(o) Financial Instruments

Financial Assets and Financial Liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial Assets and Financial Liabilities are initially measured at Fair Value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in Consolidated Statement of Profit and Loss.

Financial Assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(i) Classification of Financial Assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost (except for debt instruments that are designated as at fair value through profit or loss on initial recognition)

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (except for debt instruments that are designated as at fair value through profit or loss on initial recognition)

- the asset is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL. Interest income is recognised in Consolidated Statement of Profit and Loss and is included in the "Other Income" line item.

(iii) Investments in Equity Instruments

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to present the subsequent changes in fair value in other comprehensive income pertaining to investments in equity instruments. This election is not permitted if the equity investment is held for trading. These elected investments are initially measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the 'Reserve for equity instruments through other comprehensive income'.

The cumulative gain or loss is not reclassified to Consolidated Statement of Profit and Loss on disposal of the investments.

Dividends on these investments in equity instruments are recognised in Consolidated Statement of Profit and Loss when the Group's right to receive the dividends is established, it is probable that the economic benefits associated with the dividend will flow to the entity, the dividend does not represent a recovery a part of cost of the investment and the amount of dividend can be measured reliably. Dividends recognised in Consolidated Statement of Profit and Loss are included in the 'Other income' line item.

(iv) Financial Assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Group irrevocably elects on initial recognition to present subsequent changes in fair value in other comprehensive income for investments in equity instruments which are not held for trading.

Debt instruments that do not meet the amortised cost criteria or FVTOCI criteria are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria or the FVTOCI criteria but are designated as at FVTPL are measured at FVTPL.

A financial asset that meets the amortised cost criteria or debt instruments that meet the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in Consolidated Statement of Profit and Loss. The net gain or loss recognised in Consolidated Statement of Profit and Loss incorporates any dividend or interest earned on the financial asset and is included in the Other income or Other expenses line item. Dividend on financial assets at FVTPL is recognised when the Group's right to receive the dividends is established, it is probable that the economic benefits associated with the dividend will flow to the entity, the dividend does not represent a recovery of part of cost of the investment and the amount of dividend can be measured reliably.

(v) Impairment of Financial Assets

The Group recognises a loss allowance for Expected Credit Losses (ECL) on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables and contract assets, financial guarantee contracts, and certain other financial assets measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For the purpose of measuring lifetime expected credit loss allowance for trade receivables, the Group has used a practical expedient as permitted under Ind AS 109. This expected credit loss allowance is computed based on a provision matrix which takes into account historical credit loss experience and adjusted for forward-looking information.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

(vi) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in Consolidated Statement of Profit and Loss if such gain or loss would have otherwise been recognised in Consolidated Statement of Profit and Loss on disposal of that financial asset.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in Consolidated Statement of Profit and Loss if such gain or loss would have otherwise been recognised in Consolidated Statement of Profit and Loss on disposal of that financial asset.

A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part it continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

(vii) Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.

- For foreign currency denominated financial assets measured at amortised cost and FVTPL, the exchange differences are recognised in Consolidated Statement of Profit and Loss.
- Changes in the carrying amount of investments in equity instruments at FVTOCI relating to changes in foreign currency rates are recognised in other comprehensive income.
- For the purposes of recognising foreign exchange gains and losses, FVTOCI debt instruments are treated as financial assets measured at amortised cost. Thus, the exchange difference on amortised cost are recognised in Consolidated Statement of Profit and Loss and other changes in the fair value of FVTOCI financial assets are recognised in other comprehensive income.

(p) Financial Liabilities and equity instruments

(i) Classification as Debt and Equity

Debt and Equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(ii) Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in Consolidated Statement of Profit and Loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(iii) Financial Liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Group, and commitments issued by the Group to provide a loan at below-market interest rate are measured in accordance with the specific accounting policies set out below.

a) Financial Liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and Ind AS 109 permits the entire combined contract to be designated as at FVTPL in accordance with Ind AS 109.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in Consolidated Statement of Profit and Loss. The net gain or loss recognised in Consolidated Statement of Profit and Loss incorporates any interest paid on the financial liability and is included in the 'Other income' or 'Other expenses' line item.

However, for non-held-for-trading financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in Consolidated Statement of Profit and Loss, in which case these effects of changes in credit risk are recognised in Consolidated Statement of Profit and Loss. The

remaining amount of change in the fair value or liability is always recognised in Consolidated Statement of Profit and Loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are reflected immediately in retained earnings and are not subsequently reclassified to Consolidated Statement of Profit and Loss.

b) Financial Liabilities subsequently measured at Amortised Cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amount of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in the 'Finance costs' line item.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

c) Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in 'Other income' or 'Other expenses'.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses.

d) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. An exchange between a lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability. Similarly, a substantial modification of the terms of an existing financial liability (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the financial liability and the consideration paid and payable is recognised in Consolidated Statement of Profit and Loss.

(q) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the Consolidated Balance Sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(r) Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. These are reviewed at each year end and reflect the best current estimate. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of best estimate of the Management of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities are disclosed when there is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or a present obligation that arises from past events where it is either not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount cannot be made.

Contingent assets are not recognised but disclosed in the financial statements when an inflow of economic benefits is probable.

(s) Research and Development Expenditure

Research and Development expenditure is charged to revenue under the natural heads of account in the year in which it is incurred. Research and Development expenditure on property, plant and equipment is treated in the same way as expenditure on other property, plant and equipment.

(t) Earnings Per Share

Basic Earnings per share (EPS) is calculated by dividing the net profit or loss for the period attributable to Equity Shareholders by the weighted average number of Equity shares outstanding during the period. Diluted Earnings per Equity Share are computed by dividing net income by the weighted average number of Equity Shares adjusted for the effects of all dilutive potential Equity Shares. Earnings considered in ascertaining the EPS is the net profit for the period after attributable tax thereto for the period.

(u) Segment Reporting - Basis of Information

The Group has determined 4 (four) reporting Segments, based on the information reviewed by chief operating decision maker as primary segments viz. (i) Basic Chemicals, (ii) Fine & Speciality Chemicals, (iii) Performance Products and (iv) Phenolics.

Inter segment transfer prices are normally negotiated amongst the segments with reference to the costs, market prices and business risks, within an overall optimisation objective of the Group.

Revenue and expenses have been accounted on the basis of their relationship to the operating activities of the segment. Revenue and expenses, which relate to the enterprise as a whole and are not allocable to segments on reasonable basis, have been included under "Other unallocable". Assets and liabilities which relate to the enterprise as a whole but are not allocable to segments on a reasonable basis, have been included under "Unallocable Assets/Liabilities".

Secondary segment have been identified with reference to geographical location of external customers. Composition of secondary segment is as follows:

- (i) India and
- (ii) Outside India.