Notes to Standalone Financial Statements for the year ended March 31, 2020

1 Summary of Significant accounting policies

a) Corporate information:

Cummins India Limited ('CIL' or 'the Company') is a public company domiciled in India and is incorporated under the provisions of the Companies Act applicable in India. The Company's shares are listed on two recognised stock exchanges in India. The registered office of the Company is located at Cummins India Office Campus, Balewadi, Pune. The Company is engaged in the business of manufacturing, trading and selling of engines and allied activities. (CIN : L29112PN1962PLC012276)

The standalone financial statements for the year ended March 31, 2020 were authorised for issue in accordance with the resolution of the directors on June 17, 2020.

b) Basis of preparation:

The financial statements of the Company have been prepared in accordance with Indian Accounting Standards (Ind AS) notified under the Companies (Indian Accounting Standards) Rules, 2015 (as amended from time to time) and presentation requirements of division II of schedule III to the Companies Act, 2013 (Ind AS compliant schedule III).

The financial statements are prepared on a historical cost basis, except for the following assets and liabilities:

- certain financial assets and financial liabilities (including derivative instruments) which have been measured at fair value,
- assets held for sale are measured at lower of carrying amount or fair value less cost to sell
- defined benefit plans- Plan assets are measured at fair value

All assets and liabilities have been classified as current and non-current as per the Company's normal operating cycle and other criteria set out in Schedule III to the Companies Act, 2013. Based on the nature of products and services and the time between the acquisition of assets for processing and their realisation in cash and cash equivalents, the Company has ascertained its operating cycle as 12 months for the purpose of current and non-current classification of assets and liabilities. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

c) Fair value measurements

The Company measures financial instruments at fair value on initial recognition and at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

i) In the principal market for the asset or liability or

ii) In the absence of a principal market, in the most advantageous market for the asset or liability,

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

i) Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

ii) Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

iii) Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. This note summarises accounting policy for fair value. Other fair value related disclosures are given in the relevant notes:

Disclosures for valuation methods, significant estimates and assumptions (refer note 35 and 44)

Financial instruments (including those carried at amortised cost) (refer note 4 to 5, 9 to 13)

Investment properties (refer note 3 and 44)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

d) Property, plant and equipment and investment properties

Property plant and equipment, capital work in progress and investment properties are stated at cost of acquisition or construction net of accumulated depreciation and impairment loss. All significant costs relating to the acquisition and installation of property plant and equipment/ investment property are capitalised. Subsequent costs are included in the asset's carrying amount 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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Profit and Loss during the financial period in which they are incurred. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciate them separetely based on their specific useful lives.

Depreciation is computed on straight line method based on useful lives, determined based on internal technical evaluation, as follows:

Asset	Useful life
Roads	10 years
Office building and investment properties	Upto 60 years
Factory building	30 Years
Plant and machinery	3 to 15 years
Furniture and fittings	5 to 10 years
Vehicles	8 to 9 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Freehold land is carried at cost. Losses arising from the retirement of, and gains and losses arising from disposal of property, plant and equipment which are carried at cost are recognised in the Statement of Profit and Loss.

e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Intangible assets with finite useful life are amortized over their respective useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Notes to Standalone Financial Statements for the year ended March 31, 2020

Software's are amortised over a period of useful lives from the date of purchase/date of completion of development and put to use (3-5 years), being the estimated useful life as per the management estimate or license term whichever is less.

Losses arising from the retirement of, and gains and losses arising from disposal of intangible assets which are carried at cost are recognised in the Statement of Profit and Loss.

f) Assets held for sale

Items of property, plant and equipment/ intangible assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realisable value, and are disclosed as assets held for disposal in financial statements. Such assets, once classified as held for sale, are not depreciated. Any expected loss is recognised immediately in the Statement of Profit and Loss.

g) Inventories

Inventories are valued at the lower of cost and net realisable value after providing for obsolescence.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials : cost includes cost of purchase and other costs incurred in bringing the inventories to their present location and condition.

Finished goods and work in progress : cost includes cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity.

Traded goods : cost includes cost of purchase and other costs incurred in bringing the inventories to their present location and condition.

Material cost is determined on weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Material in transit is valued at cost incurred till date.

h) Foreign currency transactions

The Company's financial statements are presented in INR (₹), which is also the functional currency of the Company.

Transactions in foreign currencies are accounted at the functional currency spot rates prevailing on the date of transactions. Monetary foreign currency financial assets and liabilities are translated at functional currency spot rates of exchange at the reporting date. The resulting exchange differences are appropriately recognised in the Statement of Profit and Loss.

Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non - monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non- monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in the fair value of the item.

i) Revenue recognition

i) **Revenue from sale of products**

Revenue from contracts with customers for sale of products is recognised, generally at a point in time, when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding taxes or duties collected on behalf of the government e.g. goods and service tax (GST). The Company has generally concluded that it is the principal in its revenue arrangements.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 35.

ii) **Volume rebates**

The Company provides retrospective volume rebates to certain customers once the quantity of products purchased by them during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer and are reduced from revenue. To estimate the variable consideration for the expected future rebates, the Company applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract.

iii) **Warranty obligations**

The Company typically provides warranties for general repairs of defects that existed at the time of sale. These assurance-type warranties are accounted for under Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets.

iv) **Sale of services - installation services**

The Company provides installation services that can be either sold separately or bundled together with the sale of products to a customer. The installation services can be obtained from other providers and do not significantly customise or modify the product sold.

Contracts for bundled sales of products and installation services are comprised of two performance obligations because the promises to transfer products and provide installation services are capable of being distinct and separately identifiable. Accordingly, the Company allocates the transaction price based on the relative standalone selling prices of the products and installation services. The Company recognises revenue from installation services over time, using an output method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company. Revenue from sale of products is recognised at a point in time, generally upon delivery of the products.

v) **Sale of services - service contracts**

The Company has long-term service contracts with customers. Revenue from service contracts is recognised over time i.e based on the proportionate completion method. Completion is determined as a proportion of costs incurred till date to the total estimated contract costs. Provision is made for any loss in the period in which it is foreseen. The Company considers that this method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under Ind AS 115.

In case of other service contracts, revenue is recognized over time, using input/output method, when services are rendered and on receipt of confirmation from customers, as the case may be.

vi) **Contract assets**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays the consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

vii) Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due when billing has been done) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

viii) **Trade receivables**

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

ix) Interest income is recognised using effective interest rate method ('EIR'). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the gross amount of the financial asset or to the amortised cost of a financial liability. When calculating EIR, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument but doesn't consider the expected credit losses. Interest income is included in Other Income in the Statement of Profit and Loss.

Notes to Standalone Financial Statements for the year ended March 31, 2020

x) Rental income is recognised on straight-line basis over the lease term, other than escalations on account of inflation.

xi) Dividend income from investments is recognised when the right to receive payment is established.

j) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section "o" impairment of non-financial assets.

Lease Liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of offices and warehouses. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising on such leases is accounted for on a straight-line basis over the lease terms. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

k) Employee benefits

The Company operates following post-employment schemes, including both defined benefit and defined contribution plans.

A) **Post-employment benefits**

i) **Defined contribution plans:**

A defined contribution plan is a plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Company has defined contribution plans for post employment benefits in the form of superannuation fund for management employees and provident fund for non management employees which is administered by Life Insurance Corporation of India/regional provident fund commissioner. In case of superannuation fund for management employees and provident fund for non management employees, the Company has no further obligation beyond making the contributions. The contributions are accounted for as employee benefit expense when they are due. Prepaid contribution is recognised as an asset to the extent cash refund or reduction in future contribution is available.

ii) **Defined benefit plans:**

Funded Plan: The Company has defined benefit plans for post-employment benefits in the form of gratuity for all employees, pension for non management employees and provident fund for management employees which are administered through Company managed trust/Life Insurance Corporation of India.

Unfunded plan: The Company has unfunded defined benefit plans in the form of post retirement medical benefits (PRMB) and ex-gratia benefits as per the policy of the Company.

Liability for above defined benefit plans is provided on the basis of valuation, as at the Balance Sheet date, carried out by an independent actuary. The actuarial method used for measuring the liability is Projected Unit Credit method. In case of provident fund for management employees, the Company has an obligation to make good the shortfall, if any, between the return from the investments of the trust and the notified interest rate. The Company's contributions and such shortfall are charged to the Statement of Profit and Loss as and when incurred.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the Balance Sheet with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

B) **Other employee benefit (unfunded)**

Liability for compensated absences is provided on the basis of valuation, as at the Balance Sheet date, carried out by an independent actuary. The actuarial valuation method used for measuring the liability is Projected Unit Credit method. Under this method, projected accrued benefit is calculated at the beginning of the year and again at the end of the year for each benefit that will accrue for active members of the plan. The "projected accrued benefit" is based on the plan's accrual formula and upon service as of the beginning or end of the year, but using a member's final compensation, projected to the age at which the employee is assumed to leave active service. The plan liability is the actuarial present value of the "projected accrued benefits" as of the beginning of the year for active members.

Termination benefits are recognized as an expense as and when incurred.

The present value of defined benefit obligation denominated in INR (₹) is determined by discounting the estimated future cash flows by reference to the market yield at the end of the reporting period on the government bonds that have terms approximately the terms of the related obligation.

l) Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale

Notes to Standalone Financial Statements for the year ended March 31, 2020

- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation expense is recognised in the statement of profit and loss unless such expenditure forms part of carrying value of another asset. During the period of development, the asset is tested for impairment annually.

m) Income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the 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, as the case may be.

Current tax is measured at the amount expected to be paid to the tax authorities in accordance with the taxation laws prevailing and applicable for the relevant assessment year. 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.

Deferred income taxes are recognised for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases in the financial statements. The effect on deferred tax assets and liabilities of a change in the tax rates is recognised using the tax rates and tax laws that have been enacted or substantively enacted by the Balance Sheet date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the same taxable entity and the same taxation authority.

In the situations where the Company is entitled to a tax holiday under the Income Tax Act, 1961, no deferred tax (asset or liability) is recognised in respect of temporary differences which reverse during the tax holiday period, to the extent the Company's gross total income is subject to the deduction during the tax holiday period. Deferred tax in respect of temporary differences which reverse after the tax holiday period is recognised in the year in which the temporary differences originate. However, the Company restricts recognition of deferred tax assets to the extent that it has become reasonably certain, that sufficient future taxable income will be available against which such deferred tax assets can be realized. For recognition of deferred taxes, the temporary differences which originate first are considered to reverse first.

Minimum alternate tax ('MAT') credit is recognized as a deferred tax asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. Such asset is reviewed at each Balance Sheet date and the carrying amount of MAT credit asset is written down to the extent there is no longer a convincing evidence to the effect that the Company will pay normal income tax during the specified period.

n) Provisions and contingent liabilities

A provision is recognised when there is a present legal or constructive obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, and in respect of which a reliable estimate can be made. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. A disclosure for a contingent liability is made where there is a possible obligation arising out of past event, 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 Company or a present obligation arising out of past event where it is either not probable that an outflow of resources will be required to settle or a reliable estimate of the amount cannot be made.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

o) Impairment of non financial assets

The Company tests non financial assets for impairment at the close of the accounting period if and only if there are indications that suggest a possible reduction in the recoverable value of an asset. If the recoverable value of an asset, i.e. the net realizable value or the economic value in use of a cash generating unit, is lower than the carrying amount of the asset, the difference is provided for as impairment. However, if subsequently the position reverses and the recoverable amount becomes higher than the then carrying value the provision to the extent of the then difference is reversed, but not higher than the amount provided for.

p) Cash and cash equivalents

Cash and cash equivalent in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

q) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

r) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, it is either recorded as deferred income and is recognised as income on a systematic and rational basis over the useful life of the asset, or adjusted against the cost of the asset.

When the Company receives non-monetary grants, the asset and the grant are recorded at fair value and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant. The loan or assistance is initially recognized and measured at fair value and the government grant is measured as the difference between the initial carrying value of the loan and the proceeds received. The loan is subsequently measured as per the accounting policy applicable to financial liabilities.

s) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. For all subsequent measurements financial assets are classified in following categories:

A) **Debt instruments**

i) Debt instruments at amortised cost: A debt instrument is at amortised cost if the asset is held within a business model whose objective is to hold assets for collecting contractual cash flows, and contractual terms of the asset give rise on specified dates to cash flow that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

This category is most relevant to the Company. After initial measurement, such assets are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into

Notes to Standalone Financial Statements for the year ended March 31, 2020

account any discount or premium on acquisition and fees for cost that are an integral part of the EIR. EIR amortisation is included in other income in the Statement of Profit and Loss. This category generally applies to loans and trade and other receivables.

ii) Debt instruments fair value through OCI (FVOCI): A debt instrument is classified as FVOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company has not classified any financial assets under this category.

iii) Debt instruments at fair value through profit and loss (FVTPL): Debt instruments not classified as amortised cost or FVOCI are classified as FVTPL. The Company has not classified any debt under this category.

B) **Equity instruments**

Equity instruments held for trading are classified as FVTPL. For all other equity instruments, the Company may make an irrevocable election to present in OCI the subsequent changes in fair value. The Company makes such election on an instrument by instrument basis. If the Company decides to classify an equity instrument as FVOCI, then all fair value changes on the instrument, excluding dividends are recognized in OCI. There is no recycling of the amount from OCI to Statement of Profit and Loss. However, the Company may transfer the cumulative gain or loss within equity.

The Company has elected to present all equity instruments, other than those in subsidiary, joint ventures and associate, through FVTPL and all subsequent changes are recognized in Statement of Profit and Loss.

C) **Derecognition**

A financial asset (or wherever applicable, a part of the financial asset or part of a group of similar financial assets) is primarily derecognized when the rights to receive cash flow from the assets have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flow in full to a third party under a pass through arrangement and either a) the Company has transferred substantially all risks and rewards of the asset or b) has transferred control of the asset.

D) **Impairment of financial assets**

In accordance with Ind AS 109, the Company applies expected credit loss (ECL) model for measurement and recognition of impairment loss and credit risk exposure on the financial assets that are debt instruments measured at amortized costs e.g. loans, deposits, trade receivables, lease receivable and bank balances.

The Company follows simplified approach for recognition of impairment loss allowance on trade receivables and lease receivables. The application of simplified approach does not require the Company to track changes in credit risk. Rather it recognizes impairment loss allowance based on lifetime ECL's at each reporting date, right from its initial recognition.

For recognition of impairment loss on other financial assets and risk exposure, the Company determines that whether there has been a significant increase in the credit risk since initial recognition. If credit risk has not increased significantly, 12 month ECL is used to provide for impairment loss. However, if credit risk has increased significantly, lifetime ECL is used. If in subsequent period the credit risk reduces since initial recognition, then the entity reverts to recognizing impairment loss allowance based on 12 month ECL.

As a practical expedient, the Company uses a provision matrix, based on the receivables classified into various age buckets, to determine impairment loss allowance on portfolio of its trade receivables. The matrix is based on its historically observed default rates over the expected life of the trade receivables and is adjusted for forward looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward looking estimates are analysed. The Company has presumed that default doesn't occur later than when a financial asset is 90 days past due.

Impairment loss allowance including ECL or reversal recognized during the period is recognized as income/ expense in the Statement of Profit and Loss. This amount is reflected under the head 'Other Expenses' in

Statement of Profit and Loss. The impairment loss is presented as an allowance in the Balance Sheet as a reduction from the net carrying amount of the trade receivable, loan, deposits and lease receivable respectively.

Financial Liabilities

All financial liabilities are initially recognised at fair value. The Company's financial liabilities include trade and other payables, other financial liabilities, loans and borrowings and derivative financial instruments.

Subsequent measurement of financial liabilities depends on their classification as FVTPL or at amortized cost.

All changes in fair value of financial liabilities classified as FVTPL is recognized in the Statement of Profit and Loss. Amortised cost category is applicable to loans and borrowings, trade and other payables. After initial recognition the financial liabilities are measured at amortised cost using EIR method. Gains and losses are recognized in Statement of Profit and Loss when the liabilities are derecognized as well as through the EIR amortization process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of EIR. EIR amortization is included as finance cost in the Statement of Profit and Loss.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of the new liability. The difference in the respective carrying amounts is recognized in the Statement of Profit and Loss.

Derivatives

The Company uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the Statement of Profit and Loss.

Embedded derivatives: An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract – with the effect that some of the cash flows of the combined instrument vary in a way similar to a standalone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVTPL category.

If the hybrid contract contains a host that is a financial asset within the scope of Ind AS 109, the Company does not separate embedded derivatives. Rather, it applies the classification requirements contained in Ind AS 109 to the entire hybrid contract. Derivatives embedded in all other host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in Statement of Profit and Loss, unless designated as effective hedging instruments.

Reclassification of financial instruments

After initial recognition, no reclassification is made for financial assets which are equity instruments and financial liabilities. For financial assets, which are debt instruments, a reclassification is made only if there is a change in the business model for managing those assets. Changes to the business model are expected to be infrequent. If the Company reclassifies the financial assets, it applies the reclassification prospectively

Notes to Standalone Financial Statements for the year ended March 31, 2020

from the reclassification date which is the first day of the immediately next reporting period following the change in the business model.

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the Balance Sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

t) Dividend distribution

The Company recognises a liability to pay dividend to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company.

u) Earning per Share (EPS)

Basic earnings per share is calculated by dividing the net profit or loss attributable to equity holder of the Company (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they are entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average number of equity shares outstanding during the period is adjusted for events such as bonus issue, bonus element in a rights issue, share split, and reverse share split (consolidation of shares) that have changed the number of equity shares outstanding, without a corresponding change in resources.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders of the Company and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

1.1 Changes in accounting policies and disclosures

Ind AS 116

The Company applied Ind AS 116 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Ind AS 116 supersedes Ind AS 17 Leases including its appendices and sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under Ind AS 116 is substantially unchanged from Ind AS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in Ind AS 17. Therefore, Ind AS 116 does not have an impact for leases where the Company is the lessor.

The Company adopted Ind AS 116 using the modified retrospective method of adoption, with the date of initial application on April 1, 2019. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 April 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying Ind AS 17 and Appendix C of Ind AS 17 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The application of modified retrospective approach for implementation of Ind AS 116 resulted in a recognition of right-of-use asset and a lease liability aggregating to ₹ 3,195 Lacs (including Land lease aggregating to ₹ 1,447 Lacs which was classified as finance lease under Ind AS 17 and disclosed in Property, Plant and Equipment) and ₹ 1,841 Lacs respectively (refer note 37).

Appendix C to Ind AS 12 Uncertainty over Income Tax Treatment

The appendix addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of Ind AS 12 Income Taxes. The Appendix specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Company applies significant judgement in identifying uncertainties over income tax treatments, and determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities. The Appendix did not have an impact on the financial statements of the Company.

Amendments to Ind AS 109: Prepayment Features with Negative Compensation

Under Ind AS 109, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to Ind AS 109 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Company.

Amendments to Ind AS 19: Plan Amendment, Curtailment or Settlement

The amendments to Ind AS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

The amendments had no impact on the financial statements of the Company.

Amendments to Ind AS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies Ind AS 109 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in Ind AS 109 applies to such long-term interests. This amendment had no impact on the financial statements of the Company as it has no associates or joint ventures which are not accounted for as per equity method.

Notes to Standalone Financial Statements for the year ended March 31, 2020

2.1 Property, plant and equipment

₹ Lacs

Particulars	Gross block					Depreciation and Amortisation					Net block
	As at April 1, 2019	Additions	Adjust-ment***	Deductions / Write-off	**As at March 31, 2020**	As at April 1, 2019	For the year	Adjust-ment***	Deductions / Write-off	**As at March 31, 2020**	**As at March 31, 2020**
Land											
- Freehold @	4,965	-	(1,353)	-	**3,612**	-	-	-	-	**-**	**3,612**
- Leasehold	1,564	-	(1,564)	-	**-**	117	-	(117)	-	**-**	**-**
Leasehold Improvements	614	-	(7)	-	**607**	45	5	(1)	-	**49**	**558**
Roads	2,728	308	(307)	-	**2,729**	1,553	241	(17)	-	**1,777**	**952**
Buildings #	101,546	9,850	(27,985)	47	**83,364**	12,491	1,963	(2,376)	16	**12,062**	**71,302**
Plant & Machinery #	96,229	22,028	(2,213)	10,546	**105,498**	68,100	5,529	(13)	8,081	**65,535**	**39,963**
Furniture and fittings #	4,625	821	(175)	108	**5,163**	1,952	380	16	95	**2,253**	**2,910**
Vehicles	462	61	6	55	**474**	246	46	6	53	**245**	**229**
	212,733	**33,068**	**(33,598)**	**10,756**	**201,447**	**84,504**	**8,164**	**(2,502)**	**8,245**	**81,921**	**119,526**

2.2 Intangible assets

Particulars	As at April 1, 2019	Additions	Adjust-ment***	Deductions / Write-off	**As at March 31, 2020**	As at April 1, 2019	For the year	Adjust-ment***	Deductions / Write-off	**As at March 31, 2020**	**As at March 31, 2020**
Software	2,349	46	-	20	**2,375**	2,103	106	-	20	**2,189**	**186**
Technical knowhow	2,060	-	-	-	**2,060**	2,060	-	-	-	**2,060**	**-**
	4,409	**46**	**-**	**20**	**4,435**	**4,163**	**106**	**-**	**20**	**4,249**	**186**

NOTES:

@ 1) Includes reservations by Pune Municipal Corporation for Economically Weaker Section (EWS), Maternity Home and Road.

2) Includes undivided share of land, on purchase of office premises.

*** includes reclassification to investment properties and right-of-use asset (refer note 3)

Includes certain assets given on cancellable/ non-cancellable operating lease

The Company had elected to continue with the carrying value of property, plant and equipment and intangible assets as recognised in the financial statements as per previous GAAP and had regarded those values as the deemed costs on the date of transition (i.e. April 1, 2015). The Company has disclosed the gross block and accumulated depreciation / amortisation above, for information purpose only.

Notes to Standalone Financial Statements for the year ended March 31, 2020

2.1 Property, plant and equipment (Contd.)

₹ Lacs

Particulars	Gross block					Depreciation and Amortisation					Net block
	As at April 1, 2018	Additions	Adjustment	Deductions / Write-off	**As at March 31, 2019**	As at April 1, 2018	For the year	Adjustment	Deductions / Write-off	**As at March 31, 2019**	**As at March 31, 2019**
Land											
- Freehold @	5,022	-	-	57	**4,965**	-	-	-	-	**-**	**4,965**
- Leasehold **	1,564	-	-	-	**1,564**	103	14	-	-	**117**	**1,447**
Leasehold Improvements	614	-	-	-	**614**	39	6	-	-	**45**	**569**
Roads	2,717	12	-	1	**2,728**	1,300	254	-	1	**1,553**	**1,175**
Buildings #	99,307	2,405	31	197	**101,546**	10,517	2,031	2	59	**12,491**	**89,055**
Plant and machinery #	93,110	5,680	965	3,526	**96,229**	65,186	5,097	762	2,945	**68,100**	**28,129**
Furniture and fittings #	4,648	174	-	197	**4,625**	1,805	304	-	157	**1,952**	**2,673**
Vehicles	509	25	28	100	**462**	266	49	25	94	**246**	**216**
	207,491	**8,296**	**1,024**	**4,078**	**212,733**	**79,216**	**7,755**	**789**	**3,256**	**84,504**	**128,229**

2.2 Intangible assets

Particulars	As at April 1, 2018	Additions	Adjustment	Deductions / Write-off	**As at March 31, 2019**	As at April 1, 2018	For the year	Adjustment	Deductions / Write-off	**As at March 31, 2019**	**As at March 31, 2019**
Software	2,477	32	-	160	**2,349**	1,937	326	-	160	**2,103**	**246**
Technical knowhow	2,060	-	-	-	**2,060**	2,060	-	-	-	**2,060**	**-**
	4,537	**32**	**-**	**160**	**4,409**	**3,997**	**326**	**-**	**160**	**4,163**	**246**

NOTES:

@ 1) Includes reservations by Pune Municipal Corporation for Economically Weaker Section (EWS), Maternity Home and Road.

2) Includes undivided share of land, on purchase of office premises.

** Includes land for which lease deed is pending finalisation with MIDC.

Includes certain assets given on cancellable/ non-cancellable operating lease

The Company had elected to continue with the carrying value of property, plant and equipment and intangible assets as recognised in the financial statements as per previous GAAP and had regarded those values as the deemed costs on the date of transition (i.e. April 1, 2015). The Company has disclosed the gross block and accumulated depreciation / amortisation above, for information purpose only.

Notes to Standalone Financial Statements for the year ended March 31, 2020

		Year ended March 31, 2020 ₹ Lacs	Year ended March 31, 2019 ₹ Lacs
3	**Investment properties**		
	Gross		
	Opening balance	**77,263**	74,620
	Additions	**4,325**	2,643
	Re-classification from property, plant and equipment	**32,278**	-
	Closing balance	**113,866**	77,263
	Depreciation		
	Opening balance	**4,461**	1,510
	Depreciation	**3,165**	2,951
	Re-classification from property, plant and equipment	**2,576**	-
	Closing balance	**10,202**	4,461
	Net	**103,664**	72,802

Information regarding income and expenditure of investment properties

	Year ended March 31, 2020 ₹ Lacs	Year ended March 31, 2019 ₹ Lacs
Rental income derived from investment properties	**7,016**	5,605
Direct operating expenses (including repairs and maintenance) generating rental income	**787**	742
Profit arising from investment properties before depreciation and indirect expenses	**6,229**	4,863
Less: Depreciation	**3,165**	2,951
Profit arising from investment properties before indirect expenses	**3,064**	1,912

The investment properties consist of office premises and plants. As at March 31, 2020 the fair value of the properties is **₹ 121,584 lacs** (As at March 31, 2019: ₹ 78,048 lacs). The valuation is performed by accredited independent valuers, who are specialists in valuing these types of investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties. The rental income considered in the table above is from the date of rental agreement or date of transfer from property, plant and equipment as applicable.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements. Fair value disclosures for investment properties are provided in Note 44.

Description of valuation techniques used and key inputs to valuation on investment properties

Valuation technique	**Significant unobservable inputs**	**Range (weighted average) March 31, 2020**	Range (weighted average) March 31, 2019
Income approach	Estimated rental		
(Discounted Cashflow (DCF) method)	value per sq ft per month	**₹ 31 - ₹ 103**	₹ 55 - ₹ 75
	Rent growth p.a.	**15% every 3 years or based on market assessment**	15% every 3 years
	Discount rate	**11.66% to 12.66%**	11.70% to 12.27%

As per the DCF method, fair value is defined as the present value of future cash flows that can be withdrawn from the Company. To estimate the cash flows available, projected cash flows of the Company are considered for certain future years (explicit forecast period). Based on the projected cash flows, the free cash flows from subject properties are estimated. The Company has discounted the net cash flows to arrive at the present value of free cash flows. After the explicit period, the subject properties will continue to generate cash. In DCF method, therefore, perpetuity value/capitalized value/terminal value is also considered to arrive at the value of the subject properties.

Notes to Standalone Financial Statements for the year ended March 31, 2020

4 Non-Current Investments :

As at March 31, 2020 Units	As at March 31, 2019 Units	Face value per unit ₹		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
			Investment in subsidiary, joint- ventures and an associate		
			Unquoted equity instruments (at cost)		
			Investment in subsidiary (fully paid up)		
12,000,000	12,000,000	10	Cummins Sales & Service Private Limited (% Holding: 100%) (Incorporated in India)	**1,200**	1,200
			Investments in joint ventures (fully paid up)		
9,500,000	9,500,000	10	Valvoline Cummins Private Limited (% Holding: 50%) (Incorporated in India)	**804**	804
114,600	114,600	10	Cummins Research and Technology India Private Limited (% Holding: 50%) (Incorporated in India)	**11**	11
			Investment in associate (fully paid up)		
779,997	779,997	10	Cummins Generator Technologies India Private Limited (% Holding : 48.54%) (Incorporated in India)	**1,720**	1,720
			Total	**3,735**	3,735
			Other investments (fully paid up)		
			Unquoted equity instruments (Fair value through profit and loss)		
-	1,000	25	The Shamrao Vithal Co-operative Bank Limited *	-	0
-	1,000	10	The Saraswat Co-operative Bank Limited *	-	0
			Aggregate value of unquoted investments *	-	0
			Valued at amortised cost		
			Quoted Government of India Bonds		
50,000,000	50,000,000	1	8.35% Government of India 2022	**517**	522
			Aggregate book value / market value of quoted investments	**517**	522
			Total	**517**	522

* Amount is below the rounding off norm adopted by the Company

Notes to Standalone Financial Statements for the year ended March 31, 2020

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
5	**Other non-current financial assets (carried at amortised cost)**		
	Unsecured, considered good;		
	Security deposits	**2,877**	1,886
	Total	**2,877**	1,886
6	**Income tax assets (net)**		
	Advance income tax (net of provision for taxation)	**11,119**	9.279
	Total	**11,119**	9.279
7	**Other non-current assets**		
	Unsecured, considered good		
	Capital advances	**2,173**	7,049
	Balances with statutory/government authorities	**4,442**	4,948
	Total	**6,615**	11,997
8	**Inventories**		
	Raw materials and components (includes goods in transit)	**31,395**	33,455
	Work-in-progress (includes goods with third parties)	**12,376**	11,141
	Finished goods (includes goods in transit and lying with third parties) *	**11,567**	15,841
	Traded goods (includes goods in transit)	**570**	875
	Stores and spares	**724**	707
	Loose tools	**660**	517
	Total	**57,292**	62,536

* During the year ended March 31, 2020 **₹ (8) Lacs** (March 31, 2019: ₹ (81) Lacs) was recognised as an expense / (reversal) for inventories carried at net realisable value.

Notes to Standalone Financial Statements for the year ended March 31, 2020

9 Current Investments :

As at March 31, 2020 Units	As at March 31, 2019 Units	**Face value per unit ₹**		**As at March 31, 2020 ₹ Lacs**	As at March 31, 2019 ₹ Lacs
			Current portion of long term investments		
			Quoted equity instrument (fair value through profit and loss)		
-	9,811	2	Kirloskar Oil Engines Limited	**-**	17
-	913	10	Kirloskar Industries Limited	**-**	7
			Aggregate book value / market value of quoted investments	**-**	24
			Current investments		
			Unquoted mutual funds valued at fair value through profit and loss		
-	96,964	1,000	Axis Liquid Fund - Growth	**-**	2,002
414,539	-	1,000	Axis Liquid Fund - Direct Growth	**9,138**	-
631,099	-	100	Aditya Birla Sun Life Liquid Fund - Growth-Direct Plan	**2,017**	-
-	684,365	100	Aditya Birla Sun Life Liquid Fund - Growth-Regular Plan	**-**	2,046
-	806,992	100	Aditya Birla Sun Life Money Manager Fund - Growth-Direct Plan	**-**	2,031
136,251	-	1,000	Franklin India liquid Fund - Super Insitutional Plan - Direct - Growth	**4,065**	-
287,259	-	1,000	HDFC Liquid Fund - Direct Plan - Growth	**11,222**	-
-	55,625	1,000	HDFC Liquid Fund - Regular Plan - Growth	**-**	2,036
-	51,217	1,000	HDFC Money Market Fund - Direct Plan - Growth Option	**-**	2,007
3,439,788	-	100	ICICI Prudential liquid Fund - Growth Direct	**10,105**	-
-	780,490	100	ICICI Money Market Fund - Growth Direct	**-**	2,031
-	53,981	1,000	Kotak Liquid Regular Plan Growth	**-**	2,037
-	65,331	1,000	Kotak Money Market Scheme - Direct Plan - Growth	**-**	2,016
227,008	-	1,000	Kotak Liquid Direct Plan Growth	**9,114**	-
224,099	-	1,000	L&T Liquid Fund Direct Plan - Growth	**6,098**	-
209,971	88,403	1,000	Nippon India Liquid Fund - Direct Growth Plan Growth Option (Formerly Known as Reliance liquid Fund - Direct plan growth plan - growth option)	**10,185**	4,033
292,936	-	1,000	SBI Liquid Fund - Direct Plan - Growth	**9,106**	-
-	68,719	1,000	SBI Liquid Fund Regular Growth	**-**	2,004
31,957	-	1,000	Tata Liquid Fund Direct Plan - Growth	**1,001**	-
-	65,696	1,000	UTI Liquid Cash Plan - Regular - Growth Plan	**-**	2,005
187,449	-	1,000	UTI Liquid Cash Plan - Direct Growth Plan	**6,095**	-
			Aggregate value of unquoted investments	**78,146**	24,248
			Total	**78,146**	24,272

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
10	**Trade receivables (carried at amortised cost)**		
	Trade receivables	**85,070**	90,653
	Receivables from related parties (Refer note 41)	**28,089**	36,616
	Total	**113,159**	127,269
	Break up for security details		
	Secured, considered good	**24,899**	29,089
	Unsecured, considered good	**88,355**	98,460
	Trade receivable which have significant increase in credit risk	**586**	-
	Trade receivable - credit impaired	**947**	165
		114,787	127,714
	Impairment allowance (allowance for bad and doubtful debts)		
	Unsecured, considered good	**-**	-
	Provision for impairment	**(681)**	(280)
	Trade receivable - credit impaired	**(947)**	(165)
		(1,628)	(445)
	Total	**113,159**	127,269

No trade receivable or advances are due from directors or other officers of the Company either severally or jointly with any other person. Trade or other receivable are due from firms or private companies in which any director is a partner, a director or a member amounts to **₹ 677 lacs** (March 31, 2019: ₹ 2,316 lacs). Trade receivables are non interest bearing and are generally on terms of 30 to 90 days.

For terms and conditions and transactions with related parties refer note 41.

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
11	**Cash and cash equivalents (carried at amortised cost)**		
	Cash on hand	**2**	1
	Bank balances		
	In current accounts	**18,140**	19,533
	Total	**18,142**	19,534
12	**Other bank balances (carried at amortised cost)**		
	Unpaid dividend account (restricted)	**1,341**	1,259
	Deposits with Banks (orignal maturity more than 3 months but less than 1 year)	**25,900**	53,000
	Total	**27,241**	54,259

Notes to Standalone Financial Statements for the year ended March 31, 2020

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
13	**Other current financial assets (carried at amortised cost, other than foreign exchange forward contracts)**		
	Unsecured, considered good:		
	Security deposits	**1,518**	1,294
	Deposits with banks (with residual maturity less than 12 months)	**15,000**	27,000
	Contract assets	**1,394**	2,116
	Foreign exchange forward contracts #	**-**	419
	Interest accrued on investments and deposits	**1,845**	2,510
	Others *	**1,843**	2,618
	Total	**21,600**	35,957

Derivative instruments at fair value through profit and loss reflect the positive change in fair value of those foreign exchange forward contracts that are not designated in hedge relationship, but are nevertheless, intended to reduce the level of foreign currency risk exposure.

* Others primarily include warranty receivable, royalty receivable from dealers, cross charge etc.

Other current financial assets receivable from firms or private companies in which any director is a partner, a director or a member amounts to **₹ 647 lacs** (March 31, 2019: ₹ 1,923 lacs). Refer note 41 for related party transactions.

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
14	**Other current assets**		
	Unsecured, considered good:		
	Balances with statutory/government authorities	**14,901**	14,326
	Others *	**4,182**	2,271
	Total	**19,083**	16,597

* Others include prepaid expenses, government grants receivable, supplier advances, service contracts in progress, etc.

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
15	Assets classified as held for sale		
	Assets held for sale (at lower of cost or fair value less cost to sell) *	**1,444**	386
	Total	**1,444**	386

* Includes land, building, plant and machinery held for sale where the Company is in the process of disposal.

	As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
16 Equity share capital		
Authorised :		
400,000,000 equity shares of ₹ 2 each	**8,000**	8,000
Issued, subscribed and fully paid-up shares:		
277,200,000 equity shares of ₹ 2 each	**5,544**	5,544
Total	**5,544**	5,544

a) **Reconciliation of number of shares**

Equity shares:	As at March 31, 2020		As at March 31, 2019	
	Number of Shares	**₹ Lacs**	Number of Shares	₹ Lacs
Balance as at the beginning and end of the year	**277,200,000**	**5,544**	277,200,000	5,544

b) **Rights, preferences and restrictions attached to shares**

The Company has only one class of equity shares having a par value of ₹ 2 per share. Each shareholder is entitled to one vote per share. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting, except in case of interim dividend. In the event of liquidation of the Company, the equity shareholders are eligible to receive remaining assets of the Company, after distribution of all preferential amounts, in the proportion to their shareholding.

c) **Shares held by holding / ultimate holding company and / or their subsidiaries / associates**

Of the above equity shares, 141,372,000 (March 31, 2019 : 141,372,000) shares of ₹ 2 each are held by the Holding Company, Cummins Inc. USA.

d) **Details of shareholders holding more than 5% of the aggregate shares in the Company**

	As at March 31, 2020		As at March 31, 2019	
	Nos.	**%**	Nos.	%
Equity shares of ₹ 2 each fully paid				
Cummins Inc., the holding company	**141,372,000**	**51.00%**	141,372,000	51.00%
SBI Blue Chip Fund	**17,200,470**	**6.21%**	9,259,182	3.34%
Life Insurance Corporation Of India	**15,799,308**	**5.70%**	12,547,549	4.53%

Notes to Standalone Financial Statements for the year ended March 31, 2020

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
17	**Other equity**		
	Retained earnings	**296,720**	292,447
		296,720	292,447
	Other reserves		
	Capital redemption reserve	**70**	70
	General reserve	**114,202**	114,202
	Equity contribution from Holding Company	**960**	782
	Total	**115,232**	115,054

a) **Retained earnings**

	Year Ended March 31, 2020 ₹ Lacs	Year Ended March 31, 2019 ₹ Lacs
Opening balance as at April 1	**292,447**	278,201
Less: Effect of adoption of Ind AS 116 Leases (Refer note 1.1)	**(93)**	-
Add: Profit for the year	**62,934**	72,257
Items of other comprehensive income recognised directly in retained earnings		
- Remeasurements of post employment benefit obligations, net of tax	**(1,757)**	(1,200)
	353,531	349,258
Less:		
Interim dividend paid	**19,404**	19,404
Tax on interim dividend	**3,989**	3,989
Final dividend paid for the financial years ended March 31, 2019 and March 31, 2018	**27,720**	27,720
Tax on final dividend for the financial years ended March 31, 2019 and March 31, 2018	**5,698**	5,698
	56,811	56,811
Closing balance as at March 31	**296,720**	292,447

During the years March 31, 2020 and March 31, 2019, the Company paid dividend to its shareholders. This resulted in payment of dividend distribution tax ('DDT') to the taxation authorities. The Company believes that DDT represents additional payment to taxation authorities on behalf of the shareholders. Hence DDT paid is charged to equity.

Dividend not recognised at the end of the reporting period

In addition to the above dividends, since year end the directors have recommended payment of final dividend of **₹ 19,404 lacs** for the year ended March 31, 2020 (March 31, 2019: ₹ 33,418 lacs) which is **₹ 7** per fully paid up share (March 31, 2019: ₹ 10 per fully paid up share) and applicable tax on dividend. This proposed dividend is subject to approval of shareholders in the ensuing Annual General Meeting.

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
b)	**Capital redemption reserve**		
	Opening balance as at April 1	**70**	70
	Add: Movement during the year	-	-
	Closing balance as at March 31	**70**	70
c)	**General reserve**		
	General reserve denotes the amounts transferred from retained earnings on declaration of dividends as per the requirements of erstwhile Companies Act, 1956.		
	Opening balance as at April 1	**114,202**	114,202
	Add: Movement during the year	**-**	-
	Closing balance as at March 31	**114,202**	114,202
d)	**Equity contribution from the Holding Company**		
	Certain employees are directly paid by the Holding Company through stock options.		
	Opening balance as at April 1	**782**	590
	Add: Movement during the year	**178**	192
	Closing balance as at March 31	**960**	782

18 Other non-current financial liabilities

	As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
Non current financial liabilities carried at amortised cost		
Dealer deposit	**2,173**	2,007
Retention money	**1,349**	670
Total	**3,522**	2,677

19 Provisions

	As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
Provision for post retirement benefit and compensated absences (Refer note 40)	**11,634**	10,192
Warranties (Refer note 39 (i))	**8,756**	9,330
Statutory matters (Refer note 39 (ii))	**2,292**	2,556
New Engine Performance Inspection (NEPI) (Refer note 39 (iii))	**2,190**	2,208
	24,872	24,286
Current provisions	**15,683**	17,019
Non-current provisions	**9,189**	7,267
Total	**24,872**	24,286

Notes to Standalone Financial Statements for the year ended March 31, 2020

20 Income taxes

a) Deferred tax liabilities (net)

	Balance Sheet		Statement of profit and loss	
	As at March 31, 2020	As at March 31, 2019	**Year Ended March 31, 2020**	Year Ended March 31, 2019
	₹ Lacs	₹ Lacs	**₹ Lacs**	₹ Lacs
Deferred tax assets				
Provision for employee benefits	**1,921**	2,350	**(429)**	(1,052)
Other timing differences	**1,918**	876	**1,042**	749
Total deferred tax assets	**3,839**	3,226	**613**	(303)
Deferred tax liabilities				
Depreciation	**11,826**	13,000	**(1,174)**	1,103
Other timing differences	**17**	102	**(85)**	(656)
Total deferred tax liabilities	**11,843**	13,102	**(1,259)**	447
Deferred tax (expense)/income			**1,872**	(750)
Net deferred tax liabilities	8,004	9,876		

b) The major components of income tax expenses for the years ended March 31, 2020 and March 31, 2019 are:

Statement of Profit and Loss

	Year ended March 31, 2020 ₹ Lacs	Year ended March 31, 2019 ₹ Lacs
Profit and loss section		
Current income tax:		
Current income tax charge	**14,253**	29,384
Adjustments in respect of current income tax of previous year	**-**	-
Deferred tax:		
Relating to origination and reversal of temporary differences	**(1,281)**	1,394
Income tax expenses reported in the Statement of Profit and Loss	**12,972**	30,778
OCI section		
Tax related to items recognised in OCI during the year	**(591)**	(644)
Net (gain)/loss on remeasurements of defined benefit plans	**(591)**	(644)

20 Income taxes (contd.)

		Year ended March 31, 2020 ₹ Lacs	Year ended March 31, 2019 ₹ Lacs
c)	Reconciliation of tax expenses and the accounting profit multiplied by India's domestic tax rate for March 31, 2020 and March 31, 2019		
	Accounting profit before tax	**75,906**	103,035
	At India's statutory Income tax rate	**25.17%**	34.94%
	Tax at full rate	**19,104**	36,000
	Adjustments:		
	Research and development expenses allowance	**-**	(625)
	Income of SEZ unit (not subject to tax)	**-**	(4,208)
	Dividend income (not subject to tax)	**(1,888)**	(2,128)
	Capital gains	**(5)**	(79)
	Impact of changes in tax rates	**(2,095)**	-
	Impact on account of transfer of assets to investment properties	**(2,385)**	-
	Others (deductible, non-deductible items, net)	**241**	1,818
	Total	**(6,132)**	(5,222)
	Income tax expenses reported in the Statement of Profit and Loss for the current year	12,972	30,778
d)	**Deferred tax**		
	Reconciliation of deferred tax liabilities (net) :		
	Opening balances as at April 1	**9,876**	2,988
	Tax expense/(income) during the year recognised in Statement of Profit and Loss	**(1,281)**	1,394
	MAT credit utilisation	**-**	5,494
	Tax expense/(income) during the year recognised in OCI	**(591)**	-
	Closing balance as at March 31	**8,004**	9,876

During the years March 31, 2020 and March 31, 2019, the Company paid dividend to its shareholders. This resulted in payment of dividend distribution tax ('DDT') to the taxation authorities. The Company believes that DDT represents additional payment to taxation authorities on behalf of the shareholders. Hence DDT paid is charged to equity.

e) The Government of India introduced Taxation Laws (Amendment) Bill, 2019 (The "Bill") and also introduced some changes in tax laws in the Finance Act 2020. Tax expenses for the year ended March 31, 2020 reflect changes made vide the Bill and the Finance Act 2020, as applicable to the Company.

Notes to Standalone Financial Statements for the year ended March 31, 2020

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
21	**Other non-current liabilities**		
	Contract liabilities	**106**	206
	Total	**106**	206
22	**Borrowings**		
	Working capital loan from bank	**48,536**	30,916
	Total	**48,536**	30,916

The loan is unsecured and repayable within one year. Interest is payable @ 4.25%-5.50% (T-Bill/Repo/CD) adjusted by a reasonable spread p.a. The Company has availed the benefit of interest equalisation scheme of the Reserve Bank of India. Interest on borrowings is accounted for on net basis.

The changes in liabilities arising from financing activities is on account of cash flow changes only and there are no non-cash changes.

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
23	**Trade payables**		
	Trade payables of micro and small enterprises (Refer note 34)	**1,883**	2,371
	Trade payables other than micro and small enterprises	**32,448**	45,864
	Trade payables of related parties (Refer note 41)	**35,311**	34,276
	Total	**69,642**	82,511

Trade payables are non interest bearing and are normally settled in 30 to 90 days terms.

For terms and conditions and transactions with related parties refer note 41.

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
24	**Other current financial liabilities**		
	Unpaid dividend	**1,341**	1,259
	Royalty (Refer note 41)	**4,605**	5,996
	Support services payable (Refer note 41)	**3,264**	3,816
	Retention money	**2,946**	2,426
	Others including salaries, wages, bonus payable	**4,463**	2,451
	Total	**16,619**	15,948

Other current financial liabilities are non interest bearing and have an average term of 6 months.

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
25	**Other current liabilities**		
	Statutory dues including tax deducted at source	**2,798**	3,321
	Contract Liabilities	**1,976**	2,571
	Total	4,774	5,892

		Year ended March 31, 2020 ₹ Lacs	Year ended March 31, 2019 ₹ Lacs
26	**Revenue from operations**		
	Sale of products	**478,225**	524,537
	Sale of services	**27,935**	28,034
		506,160	552,571
	Other operating revenue		
	Scrap sales	**642**	737
	Export incentives	**4,793**	6,024
	Others *	**4,178**	6,568
		9,613	13,329
	Revenue from operations	**515,773**	565,900
	* Others primarily includes testing income, engineering income and royalty income from dealers etc.		
	Disaggregated revenue information		
	Set out below is the disaggregation of the Companies revenue from contracts with customers		
	Location		
	India	**395,820**	410,062
	Outside India	**115,160**	149,814
	Total revenue from contracts with customers *	**510,980**	559,876
	Timing of revenue recognition		
	Goods transferred at a point in time	**478,825**	525,477
	Services transferred over time	**32,155**	34,399
	Revenue from contract with customers *	**510,980**	559,876
	Set out below is the amount of revenue recognised from		
	Amounts included in contract liabilities at the beginning of the year	**2,777**	2,500
	Performance obligations satisfied in previous years	**450**	387
	Reconciling the amount of revenue recognised in the statement of profit and loss with the contracted price		
	Revenue as per contracted price	**519,959**	570,593
	Adjustments		
	Sales return	**(3,294)**	(3,836)
	Discounts	**(3,892)**	(4,776)
	Liquidated damages	**(775)**	(1,147)
	Others	**(1,018)**	(958)
	Revenue from contract with customers *	**510,980**	559,876
	* Excludes export incentives		

Notes to Standalone Financial Statements for the year ended March 31, 2020

	Year ended March 31, 2020 ₹ Lacs	Year ended March 31, 2019 ₹ Lacs
27 Other income		
Income from investments:		
Interest income from financial assets at amortised cost		
- On bonds (non - current/current investments)	**42**	51
	42	51
Dividend Income		
- On current investments designated at fair value through profit and loss	**1**	320
- On investments in associate and joint ventures carried at cost	**7,501**	5,771
	7,502	6,091
Gain on sale/redemption of investments		
- On current investments designated at fair value through profit and loss	**3,140**	2,356
	3,140	2,356
Interest on term deposits and others	**5,737**	5,242
Rent (Refer note 3 for rent on investment properties)	**13,796**	11,744
Exchange gain (net)	**171**	1,602
Net gain on fixed assets sold or discarded	**-**	70
Miscellaneous income	**2,766**	2,121
	22,470	20,779
Total	**33,154**	29,277
28.1 Cost of material consumed		
Inventory at the beginning of the year	**33,455**	28,597
Add : Purchases	**259,195**	275,459
Less : Inventory at the end of the year	**31,395**	33,455
Cost of materials consumed	**261,255**	270,601

	Year ended March 31, 2020 ₹ Lacs	Year ended March 31, 2019 ₹ Lacs
28.2 Changes in inventories of finished goods, work-in-progress and traded goods		
Inventories at the end of the year (Refer note 8)		
Work-in-progress	**12,376**	11,141
Finished goods	**11,567**	15,841
Traded goods	**570**	875
Subtotal (A)	**24,513**	27,857
Inventories at the beginning of the year (Refer note 8)		
Work-in-progress	**11,141**	9,853
Finished goods	**15,841**	13,075
Traded goods	**875**	987
Subtotal (B)	**27,857**	23,915
Decrease / (Increase) (B-A)	**3,344**	(3,942)
29 Employee benefits expense		
Salaries, wages and bonus	**47,438**	45,544
Contribution to provident and other funds (Refer note 40)	**5,620**	5,227
Staff welfare expenses	**2,960**	3,809
Total	**56,018**	54,580
30 Finance costs		
Interest on borrowings and others	**1,368**	1,214
Interest cost on lease liabilities (Refer note 37)	**174**	-
Unwinding of discount and effect of changes in discount rate on provisions (Refer note 39)	**483**	406
Total	**2,025**	1,620

Notes to Standalone Financial Statements for the year ended March 31, 2020

		Year ended March 31, 2020 ₹ Lacs	Year ended March 31, 2019 ₹ Lacs
31	**Other expenses**		
	Commission on sales	**1,732**	3,018
	Consumption of stores and spare parts	**4,496**	4,803
	Warranty expenses (Refer note 39)	**7,308**	8,489
	Consumption of tools and gauges	**759**	572
	Repairs to buildings	**2,690**	2,890
	Repairs to machinery	**1,136**	981
	Other repairs	**326**	354
	Power and fuel	**2,910**	2,933
	Rent (Refer note 37)	**12**	216
	Rates and taxes	**1,617**	1,352
	Insurance	**982**	837
	Outside processing charges	**3,170**	3,536
	Donations - expenditure towards corporate social responsibility (CSR) activities (Refer note 41 and 42)	**1,723**	1,616
	Royalties (Refer note 41)	**5,214**	5,073
	Support services (Refer note 41)	**11,491**	8,934
	Computer and other services	**7,024**	7,433
	Payment to auditors (Refer details below)	**133**	117
	Net loss on fixed assets sold / discarded	**408**	-
	Bad Debts		
	Bad debts written off	**46**	448
	Provision for bad and doubtful debts	**1,229**	239
	Amount withdrawn from provisions	**(46)**	(448)
		1,229	239
	Other expenses (net of expenses recovered) (Refer note 41)	**9,982**	10,171
	Total	**64,342**	63,564
	Payment to Auditors:		
	Statutory audit (including limited reviews)	**107**	90
	Other services (including tax audit)	**18**	18
	Reimbursement of expenses	**8**	9
	Total	**133**	117

		Year ended March 31, 2020 ₹ Lacs	Year ended March 31, 2019 ₹ Lacs
32	**Earning per share (EPS)**		
	Earnings per share is calculated by dividing the profit attributable to the equity shareholders by the weighted average number of equity shares outstanding during the year. The numbers used in calculating basic and diluted earnings are stated below :		
	(a) Profit for the year after taxation (₹ Lacs)	**62,934**	72,257
	(b) Weighted average number of shares outstanding during the year	**277,200,000**	277,200,000
	(c) Earnings per share (Basic and Diluted) (₹)	**22.70**	26.07
	Face value per share (₹ 2 per share)	**2**	2

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
33	**Capital and other commitments**		
	Estimated amount of contracts in capital account remaining to be executed (net of capital advances). For other commitments also refer Note 37	**9,086**	26,721
	Total	**9,086**	26,721
34	**Trade payables include:**		
	Total outstanding dues of micro and small enterprises	**1,883**	2,371
	Details of dues to micro and small enterprises as defined under the MSMED Act, 2006 are as under:		
	1 Principal Amount	**1,883**	2,371
	2 Interest accrued	**-**	-
	3 Payment made to suppliers (other than interest) beyond the appointed day, during the year	**1,350**	360
	4 Interest paid to suppliers under MSMED Act, 2006 (other than section 16)	**-**	-
	5 Interest paid to suppliers under MSMED Act, 2006 (Section 16)	**12**	4
	6 Interest due and payable to suppliers under MSMED Act, 2006 for the payments already made	**-**	-
	7 Interest accrued and remaining unpaid at the end of the year to suppliers under MSMED Act, 2006	**-**	-

The Company has compiled this information based on intimations received from the suppliers of their status as Micro or Small Enterprises and / or its registration with the appropriate authority under the Micro, Small and Medium Enterprises Development Act, 2006.

Notes to Standalone Financial Statements for the year ended March 31, 2020

35 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcome that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

<u>**Judgements**</u>

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

Revenue from contracts with customers

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- **Identifying performance obligations in a bundled sale of equipment and installation services**

  The Company provides installation services that can either be sold separately or bundled together with the sale of equipment to a customer. The installation services are a promise to transfer services in the future and are part of the negotiated exchange between the Company and the customer. The Company determined that both the equipment and installation are capable of being distinct.

- **Determining method to estimate variable consideration and assessing the constraint**

  Certain contracts for the sale of services include volume rebates that give rise to variable consideration. In estimating the variable consideration, the Company applies either the most likely amount method or the expected value method.The most likely amount method is applied for contracts with a single-volume threshold and the expected value method is applied for contracts with more than one volume threshold.

The Company determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Determining the lease term of contracts with renewal and termination options – Company as lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Operating lease commitments – Company as lessor

The Company has leased out commercial properties (investment properties) on operating lease. The Company had determined, based on an evaluation of the terms and conditions of the arrangement, such as the lease term not constituting a major part of the economic life of the commercial property and the fair value of the assets, that it retains all the significant risks and rewards of ownership of these properties, and accounts for the contracts as operating leases.

<u>**Estimates and assumptions**</u>

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimation on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Defined benefit plans:

The cost of the defined benefit gratuity plan and other post–employment medical benefits and the present value of the gratuity obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexities involved in the valuation and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The discount rate is the parameter most subject to change. In determining the appropriate discount rate for plans operated in India, the management considers the interest rates of government bonds. The mortality rate is based on publicly available mortality tables for India. Mortality tables tend to change only at interval in response to demographic changes. Future salary increases and gratuity increases are based on expected future inflation rates. Further details about gratuity obligations are given in note 40.

Fair value measurements of financial instruments:

When the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets if available, otherwise, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of the financial instrument. Refer note 44 for further disclosures.

Warranty, statutory matters and New Engine Performance Inspection (NEPI)

For estimates relating to warranty, statutory matters and NEPI (refer note 39)

Leases - Estimating the incremental borrowing rate

The lease payments are discounted using the interest rate implicit in the lease or, if not readily determinable, using the incremental borrowing rate (IBR).The Company uses IBR to discount lease liablities.The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

		As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
36	**Contingent liabilities**		
a.	Income tax matters*	**59**	882
b.	Central excise duty/service tax matters*	**337**	1,058
c.	Duty drawback matters	**2,604**	2,604
d.	Sales Tax matters*	**1,875**	2,145
e.	Claims against the Company not acknowledged as debts (excludes interests, penalties if any, and claims which cannot be quantified)	**-**	9
f.	Civil liability / secondary civil liability in respect of suits filed against the Company	**181**	216
	Total	**5,056**	6,914

* Excludes interest and penalties if any. The above matters pertain to certain disallowances/demand raised by respective authorities.

The Company is contesting the demands and the management, including its tax/legal advisors, believe that its position will likely be upheld in the appeal process.

There are numerous interpretative issues relating to the Supreme Court (SC) judgement on Provident Fund dated February 28, 2019. The Company has implemented SC decision prospectively.

The Company has various on-going litigations by/or against the Company with respect to tax and other legal matters, other than those disclosed above. The Company believes that they have sufficient and strong arguments, accordingly no provision/disclosure in this regard has been considered in the financial statements.

Notes to Standalone Financial Statements for the year ended March 31, 2020

37 Leases

Lease commitments as a Lessee

The Company has entered into leases for office premises. These lease arrangements range for a period between 12 months and 108 months with lock in periods between 36 months and 108 months, which include both renewable and non-renewable leases.

Following are the changes in the carrying value of right of use assets during the year ended March 31, 2020

Particulars	Category of ROU		Total
	Building	Land	₹ Lacs
Balance as on April 1, 2019	1,748	1,447	3,195
Additions	352	-	352
Adjustment	-	(60)	(60)
Depreciation	(416)	(15)	(431)
Balance as on March 31, 2020	1,684	1,372	**3,056**

Following are the changes in carrying value of lease liablities during the year ended March 31, 2020

Particulars	As at March 31, 2020 ₹ Lacs
Balance as on April 1, 2019	1,841
Additons	352
Interest cost accrued during the period	174
Payments	(533)
Balance as on March 31, 2020	**1,834**
Current portion	257
Non-current portion	1,577

The maturity analysis of lease liabilities is disclosed in note 43(c). Lease liability has been discounted using the lessee's incremental borrowing rate. There are no variable lease payments.

The following are the amounts recognised in statement of profit and loss:

Particulars	As at March 31, 2020 ₹ Lacs
Depreciation expense of right-of-use assets	431
Interest expense on lease liabilities	174
Total amount recognised in statement of profit and loss	**605**
Decrease in rent on account of adoption of Ind AS 116, Leases	(533)
Net impact to statement of profit and loss	**72**

Previous year's figures not disclosed above as this is the first time adoption of Ind AS 116.

Operating lease commitments as a lessor

The Company has entered into operating leases on its investment properties consisting of buildings and other related assets. These leases have term between 36 months and 120 months. Leases include a clause for upward revision of the rental charge once in 36 months on the basis of prevailing market conditions.

Future minimum lease rentals receivable under non cancellable operating leases are as follows:

	As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
Within one year	**4,578**	3,611
After one year but not more than five years	**14,782**	13,133
More than five years	**890**	3,311
Total	**20,250**	20,055

The Company during the year has not entered into sub - leases.

38 The total research and development expenses incurred by the Company are as under :

	Year ended March 31, 2020 ₹ Lacs	Year ended March 31, 2019 ₹ Lacs
On capital account	**14,534**	83
On revenue account	**4,470**	3,329
Total	**19,004**	3,412

39 Disclosure on provisions made, utilised and reversed during the year

i) Provision for warranty

Provision for warranty is on account of warranties given on products sold by the Company. The amount of provision is based on historical information of the nature, frequency and average cost of warranty claims and management estimates regarding possible future incidence. The timing and amount of cash flows that will arise from these matters will be determined at the time of receipt of claims. Amount expected to be paid in next 12 months is classified as current.

	As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
Balance as at the beginning of the year	**9,330**	8,686
Additions	**7,308**	8,489
Utilisation / reversal	**8,294**	8,187
Unwinding of discount and changes in the discount rate	**412**	342
Balance as at the end of the year	8,756	9,330
Classified as non-current	**3,463**	2,340
Classified as current	**5,293**	6,990

Notes to Standalone Financial Statements for the year ended March 31, 2020

ii) Provision for statutory matters

Provisions for statutory matters are on account of legal matters where the Company anticipates probable outflow. The amount of provision is based on estimates made by the Company considering the facts and circumstances of each case. The timing and amount of cash flows that will arise from these matters will be determined by the relevant authorities only on settlement of these cases.

	As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
Balance as at the beginning of the year	**2,556**	1,821
Additions	**441**	735
Utilisation / reversal	**705**	-
Balance as at the end of the year	**2,292**	2,556
Classified as non-current	**-**	-
Classified as current	**2,292**	2,556

iii) Provision for New Engine Performance Inspection (NEPI)

Provision for New Engine Performance Inspection (NEPI) is on account of checks to be carried out by the Company at specified intervals. The amount of provision is based on historical information of the nature, frequency and average cost of claims and management estimates regarding possible future incidence. The timing and amount of the cash flows that will arise from these matters will be determined at the time of receipt of claims. Amount expected to be paid in next 12 months is classified as current.

	As at March 31, 2020 ₹ Lacs	As at March 31, 2019 ₹ Lacs
Balance as at the beginning of the year	**2,208**	1,846
Additions	**1,051**	1,136
Utilisation	**1,140**	838
Unwinding of discount and changes in the discount rate	**71**	64
Balance as at the end of the year	**2,190**	2,208
Classified as non-current	**1,639**	1,575
Classified as current	**551**	633

40 Employee benefit plans

1. Defined contribution plans - The Company has recognised the following amounts in statement of profit and loss for the year:

	₹ Lacs Total
Contribution to employees provident fund	**1,001**
	1,115
Contribution to management superannuation fund	**1,964**
	1,704

2. Defined benefit plans -

The following figures are as per actuarial valuation, as at the balance sheet date, carried out by an independent actuary.

a. Net Balance Sheet position

₹ Lacs

Sr. No.	Particulars	As at	Gratuity	Pension	Ex-Gratia	PRMB	PF
i)	Defined benefit obligation	March 31, 2020	**16,381**	**2,653**	**71**	**57**	**25,270**
		March 31, 2019	15,081	2,039	56	48	21,964
ii)	Fair value of Plan assets	March 31, 2020	**13,498**	**2,062**	**-**	**-**	**25,270**
		March 31, 2019	12,267	1,739	-	-	21,964
iii)	Funded status surplus/ -deficit	March 31, 2020	**(2,883)**	**(591)**	**(71)**	**(57)**	**-**
		March 31, 2019	(2,814)	(300)	(56)	(48)	-
iv)	Effect of asset ceiling	March 31, 2020	**-**	**0**	**-**	**-**	**-**
		March 31, 2019	-	0	-	-	-
	Net defined benefit asset /-liability	March 31, 2020	**(2,883)**	**(591)**	**(71)**	**(57)**	**-**
		March 31, 2019	(2,814)	(300)	(56)	(48)	-

b. Reconciliation of opening and closing balances of the present value of the Defined Benefit Obligation (DBO)

₹ Lacs

Sr. No.	Particulars	As at	Gratuity	Pension	Ex-Gratia	PRMB	PF
	Opening defined benefit obligation	March 31, 2020	**15,081**	**2,039**	**56**	**48**	**21,964**
		March 31, 2019	12,138	1,775	51	47	19,674
i)	Current service cost	March 31, 2020	**1,175**	**82**	**2**	**2**	**1,059**
		March 31, 2019	975	73	2	2	1,054
ii)	Interest cost	March 31, 2020	**1,020**	**146**	**4**	**3**	**1,974**
		March 31, 2019	894	129	4	3	1,706
iii)	Curtailment (credit)/ cost	March 31, 2020	**(231)**	**-**	**-**	**-**	**-**
		March 31, 2019	-	-	-	-	-
iv)	Actuarial -gains / losses - experience	March 31, 2020	**231**	**(47)**	**3**	**(4)**	**-**
		March 31, 2019	1,566	59	2	(2)	-
v)	Actuarial -gains / losses - demographic changes	March 31, 2020	**486**	**13**	**10**	**8**	**-**
		March 31, 2019	-	-	-	-	-
vi)	Actuarial -gains / losses - financial assumptions	March 31, 2020	**1,184**	**543**	**3**	**3**	**-**
		March 31, 2019	246	27	1	1	-
vii)	Benefits paid	March 31, 2020	**(2,552)**	**(123)**	**(7)**	**(3)**	**(1,950)**
		March 31, 2019	(635)	(162)	(4)	(3)	(2,621)
viii)	Past service cost	March 31, 2020	**-**	**-**	**-**	**-**	**-**
		March 31, 2019	-	138	-	-	-
ix)	Acquisitions (credit)/cost	March 31, 2020	**(13)**	**-**	**-**	**-**	**475**
		March 31, 2019	(103)	-	-	-	464
x)	Contributions by employees	March 31, 2020	**-**	**-**	**-**	**-**	**1,748**
		March 31, 2019	-	-	-	-	1,687
	Closing defined benefit obligation	March 31, 2020	**16,381**	**2,653**	**71**	**57**	**25,270**
		March 31, 2019	15,081	2,039	56	48	21,964

Notes to Standalone Financial Statements for the year ended March 31, 2020

c. Reconciliation of opening and closing balances of the fair value of plan assets

₹ Lacs

Sr. No.	Particulars	As at	Gratuity	Pension	Ex-Gratia	PRMB	PF
	Opening fair value of plan assets	March 31, 2020 March 31, 2019	**12,267** 11,236	**1,739** 1,474	**-** -	**-** -	**21,964** 19,674
i)	Interest income on plan assets	March 31, 2020 March 31, 2019	**917** 859	**135** 117	**-** -	**-** -	**1,974** 1,730
ii)	Return on plan asset greater /-lesser than discount rate	March 31, 2020 March 31, 2019	**74** 45	**11** 9	**-** -	**-** -	**-** -
iii)	Actuarial gains / -losses	March 31, 2020 March 31, 2019	**-** -	**-** -	**-** -	**-** -	**-** -
iv)	Contribution by the employer	March 31, 2020 March 31, 2019	**2,824** 902	**300** 301	**-** -	**-** -	**1,059** 1,054
v)	Benefits paid	March 31, 2020 March 31, 2019	**(2,552)** (635)	**(123)** (162)	**-** -	**-** -	**(1,950)** (2,621)
vi)	Acquisition adjustment	March 31, 2020 March 31, 2019	**(32)** (140)	**-** -	**-** -	**-** -	**475** 469
vii)	Contribution by employee	March 31, 2020 March 31, 2019	**-** -	**-** -	**-** -	**-** -	**1,748** 1,687
viii)	Other adjustments	March 31, 2020 March 31, 2019	**-** -	**-** -	**-** -	**-** -	**(0)** (29)
	Closing fair value of plan assets	March 31, 2020 March 31, 2019	**13,498** 12,267	**2,062** 1,739	**-** -	**-** -	**25,270** 21,964

d. Total defined benefit cost

₹ Lacs

Sr. No.	Particulars	As at	Gratuity	Pension	Ex-Gratia	PRMB	PF
i)	Current and past service cost	March 31, 2020 March 31, 2019	944 975	82 212	2 2	2 2	1,059 1,054
ii)	Net interest cost	March 31, 2020 March 31, 2019	103 35	11 12	4 4	3 3	- (24)
iii)	Actuarial -gains / losses recognised in OCI	March 31, 2020 March 31, 2019	1,827 1,767	498 77	16 2	7 (1)	- -
	Total defined benefit cost	March 31, 2020 March 31, 2019	2,874 2,777	591 301	22 8	12 4	1,059 1,030

e. Statement of profit and loss

₹ Lacs

Sr. No.	Particulars	As at	Gratuity	Pension	Ex-Gratia	PRMB	PF
i)	Current and past service cost	March 31, 2020 March 31, 2019	1,175 975	82 212	2 2	2 2	1,059 1,054
ii)	Curtailment cost / (credit)	March 31, 2020 March 31, 2019	(231) -	- -	- -	- -	- -
iii)	Net interest cost	March 31, 2020 March 31, 2019	103 35	11 12	4 4	3 3	0 (24)
	Cost recognised in profit and loss	March 31, 2020 March 31, 2019	1,047 1,010	93 224	6 6	5 5	1,059 1,030

All of the above have been included in the line 'Company's contribution to provident and other funds', in note 30 of the statement of profit and loss.

f. Other comprehensive income

₹ Lacs

Sr. No.	Particulars	As at	Gratuity	Pension	Ex-Gratia	PRMB	PF
i)	Actuarial -gain / loss due to DBO experience	March 31, 2020	**231**	**(47)**	**3**	**(4)**	**-**
		March 31, 2019	1,566	59	2	(2)	-
ii)	Actuarial -gain / loss due to assumption change	March 31, 2020	**1,670**	**556**	**13**	**11**	**-**
		March 31, 2019	246	27	1	1	-
iii)	Return on plan assets -greater / less than discount rate	March 31, 2020	**(74)**	**(11)**	**-**	**-**	**-**
		March 31, 2019	(45)	(9)	-	-	-
	Actuarial -gain/ loss recognised in OCI	March 31, 2020	**1,827**	**498**	**16**	**7**	**-**
		March 31, 2019	1,767	77	2	(1)	-
	Adjustment for limit of net asset	March 31, 2020	**-**	**-**	**-**	**-**	**-**
		March 31, 2019	-	-	-	-	-

g. For each major category of plan assets, following is the percentage that each major category constitutes of the fair value of the total plan assets

Sr. No.	Particulars	Gratuity		Pension		PF	
		March 31, 2020	March 31, 2019	**March 31, 2020**	March 31, 2019	**March 31, 2020**	March 31, 2019
i)	Government of India securities	**0.00%**	0.00%	**0.00%**	0.00%	**50.22%**	48.92%
ii)	Corporate bonds	**0.00%**	0.00%	**0.00%**	0.00%	**38.93%**	39.54%
iii)	Special deposit scheme	**0.00%**	0.00%	**0.00%**	0.00%	**6.81%**	7.63%
iv)	Insurer managed funds	**100.00%**	100.00%	**100.00%**	100.00%	**0.00%**	0.00%
v)	Cash and others	**0.00%**	0.00%	**0.00%**	0.00%	**4.04%**	3.91%
Total		**100.00%**	100.00%	**100.00%**	100.00%	**100.00%**	100.00%

The overall expected rate of return on assets is based on the expectations of the average long term rate of return expected on investments of the fund during the estimated term of obligations.

h. Supplementary information as per Ind AS 19

Sr. No.	Particulars	As at	Gratuity	Pension	Ex-Gratia	PRMB
i)	Expected employer contribution for next year	March 31, 2020	**2,914**	**591**	**NA**	**NA**
		March 31, 2019	2,824	300	NA	NA

Notes to Standalone Financial Statements for the year ended March 31, 2020

i. Following are the principal actuarial assumption used as at the balance sheet date

Particulars	Gratuity	Pension	Ex-gratia	PRMB	PF
Discount rate - March 31, 2020	6.70%	6.70%	6.70%	6.70%	6.70%
Discount rate - March 31, 2019	7.40%	7.40%	7.40%	7.40%	7.40%
Expected rate of return on plan assets	7.25%	7.25%	NA	NA	NA
	8.00%	8.00%	NA	NA	NA
Expected return on assets for exempt PF fund					
2020-21	NA	NA	NA	NA	8.50%
	NA	NA	NA	NA	8.65%
2021-22	NA	NA	NA	NA	8.50%
	NA	NA	NA	NA	8.60%
2022 and thereafter	NA	NA	NA	NA	8.50%
	NA	NA	NA	NA	8.60%
Salary escalation rate - management staff	10%	NA	NA	NA	NA
	10%	NA	NA	NA	NA
Salary escalation rate - non-management staff	7%	NA	NA	NA	NA
	7%	NA	NA	NA	NA
Annual increase in healthcare costs - upto year 2021	NA	NA	NA	10%	NA
	NA	NA	NA	10%	NA
Annual increase in healthcare costs - year 2022- 2026	NA	NA	NA	8%	NA
	NA	NA	NA	8%	NA
Annual increase in healthcare costs - 2027 and thereafter	NA	NA	NA	6%	NA
	NA	NA	NA	6%	NA
Long term EPFO rate 2019-20	NA	NA	NA	NA	8.50%
	NA	NA	NA	NA	8.65%
2020 and thereafter	NA	NA	NA	NA	8.50%
	NA	NA	NA	NA	8.60%

The estimates of future salary increases considered in actuarial valuation takes into account inflation, seniority, promotion and other relevant factors.

j. Expected benefit payment for the next years

₹ Lacs

Particulars	As at	**March 31, 2021** March 31, 2020	**March 31, 2022** March 31, 2021	**March 31, 2023** March 31, 2022	**March 31, 2024** March 31, 2023	**March 31, 2025** March 31, 2024	**2026-2030** 2025 2029
Gratuity	March 31, 2020	**638**	**982**	**714**	**1,207**	**1,324**	**8,336**
	March 31, 2019	1,094	1,246	1,521	1,263	1,764	9,744
Pension	March 31, 2020	**153**	**247**	**144**	**235**	**315**	**2,010**
	March 31, 2019	158	132	201	116	196	1,607
Ex gratia	March 31, 2020	**4**	**7**	**4**	**7**	**9**	**55**
	March 31, 2019	4	5	7	4	6	46
PRMB	March 31, 2020	**3**	**3**	**3**	**4**	**5**	**40**
	March 31, 2019	3	3	3	3	4	34
PF	March 31, 2020	**110**	**112**	**110**	**108**	**108**	**106**
	March 31, 2019	110	112	110	108	108	516

k. A quantitative sensitivity analysis for significant assumption is as shown below:

₹ Lacs

Assumptions	Discount Rate		Future salary increase		Withdrawal Rate	
Sensitivity level	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	5% increase	5% decrease
Gratuity						
March 31, 2020	**(859)**	**934**	**926**	**(862)**	**(1,333)**	**1,063**
March 31, 2019	(602)	646	651	(597)	(640)	1,046
Pension						
March 31, 2020	**(85)**	**89**	**NA**	**NA**	**(33)**	**15**
March 31, 2019	(67)	70	NA	NA	(23)	25
Ex Gratia						
March 31, 2020	**(2)**	**2**	**NA**	**NA**	**(20)**	**9**
March 31, 2019	(2)	2	NA	NA	(15)	18
PF						
March 31, 2020	**(21)**	**23**	**-**	**-**	**-**	**-**
March 31, 2019	(19)	20	-	-	-	-

Assumptions	Discount Rate		Medical Inflation		Withdrawal Rate	
Sensitivity level	0.5% increase	0.5% decrease	1% increase	1% decrease	5% increase	5% decrease
PRMB						
March 31, 2020	**(2)**	**2**	**5**	**(4)**	**(15)**	**7**
March 31, 2019	(2)	2	4	(4)	(13)	16

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Notes to Standalone Financial Statements for the year ended March 31, 2020

41 Related party disclosures

a) Name of the related party and nature of relationship where control exists

Name of related party	Nature of relationship
Cummins Inc.	Holding Company
Cummins Sales & Service Private Limited	Subsidiary

b) Transactions with related parties as per the books of account during the year ended March 31, 2020

₹ Lacs

Transaction	Name of the party		Total
Purchase of goods	Cummins Inc.	March 31, 2020	**17,361**
		March 31, 2019	25,219
	Tata Cummins Private Limited	March 31, 2020	**90,775**
		March 31, 2019	105,458
	Cummins Technologies India Private Limited	March 31, 2020	**26,714**
		March 31, 2019	24,859
	Others	March 31, 2020	**38,616**
		March 31, 2019	29,573
Sale of goods	Cummins Limited	March 31, 2020	**44,751**
		March 31, 2019	50,757
	Cummins Technologies India Private Limited	March 31, 2020	**18,140**
		March 31, 2019	21,383
	Others	March 31, 2020	**50,230**
		March 31, 2019	70,087
Purchase of assets	Cummins Inc.	March 31, 2020	**2**
		March 31, 2019	45
	Cummins Technologies India Private Limited	March 31, 2020	**27**
		March 31, 2019	5
	Others	March 31, 2020	**-**
		March 31, 2019	4
Sale of assets	Cummins Technologies India Private Limited	March 31, 2020	**2,442**
		March 31, 2019	74
Services rendered (Refer note vi)	Cummins Inc.	March 31, 2020	**1,857**
		March 31, 2019	3,587
	Valvoline Cummins Private Limited	March 31, 2020	**3,753**
		March 31, 2019	3,783
	Cummins Technologies India Private Limited	March 31, 2020	**11,388**
		March 31, 2019	10,233
	Tata Cummins Private Limited	March 31, 2020	**2,256**
		March 31, 2019	2,600
	Others	March 31, 2020	**2,193**
		March 31, 2019	369

41 Related party disclosures (Contd.)

₹ Lacs

Transaction	Name of the party		Total
Services received (Refer note vii)	Cummins Sales & Service Private Limited	March 31, 2020	**1,204**
		March 31, 2019	896
	Cummins Inc.	March 31, 2020	**804**
		March 31, 2019	923
	Cummins Technologies India Private Limited	March 31, 2020	**2,599**
		March 31, 2019	1,436
	Cummins Africa Middle East (Pty) Ltd.	March 31, 2020	**1,817**
		March 31, 2019	-
	Others	March 31, 2020	**140**
		March 31, 2019	57
Royalty	Cummins Inc.	March 31, 2020	**5,214**
		March 31, 2019	5,073
Support services	Cummins Inc.	March 31, 2020	**9,674**
		March 31, 2019	8,934
Reimbursements paid	Cummins Technologies India Private Limited	March 31, 2020	**11,123**
		March 31, 2019	9,923
	Cummins Inc.	March 31, 2020	**1,641**
		March 31, 2019	1,895
	Cummins Power Generation Limited	March 31, 2020	**-**
		March 31, 2019	508
	Others	March 31, 2020	**1,675**
		March 31, 2019	1,776
Reimbursements received (Refer note viii)	Cummins Technologies India Private Limited	March 31, 2020	**8,166**
		March 31, 2019	8,080
	Cummins Generator Technologies India Private Limited	March 31, 2020	**1,031**
		March 31, 2019	1,023
	Tata Cummins Private Limited	March 31, 2020	**1,298**
		March 31, 2019	1,275
	Others	March 31, 2020	**539**
		March 31, 2019	1,050
Remuneration paid (Refer note iii)	Sandeep Sinha (Upto August 16, 2019)	March 31, 2020	**75**
		March 31, 2019	307
	Ashwath Ram (w.e.f August 17, 2019)	March 31, 2020	**184**
		March 31, 2019	-
	Rajiv Batra	March 31, 2020	**428**
		March 31, 2019	299
	K.Venkata Ramana (upto December 31, 2018)	March 31, 2020	**-**
		March 31, 2019	196
	Hemiksha Bhojwani	March 31, 2020	**50**
		March 31, 2019	-

Notes to Standalone Financial Statements for the year ended March 31, 2020

41 Related party disclosures (Contd.)

₹ Lacs

Transaction	Name of the party		Total
Interest on loan given	Cummins Technologies India Private Limited	March 31, 2020	**-**
		March 31, 2019	435
Dividend received	Cummins Generator Technologies India Private Limited	March 31, 2020	**1,326**
		March 31, 2019	546
	Valvoline Cummins Private Limited	March 31, 2020	**6,175**
		March 31, 2019	5,225
Dividend paid	Cummins Inc.	March 31, 2020	**24,033**
		March 31, 2019	24,033
Donations paid	Cummins India Foundation	March 31, 2020	**1,723**
		March 31, 2019	1,616
Contributions paid	Cummins India Limited Officers Provident Fund	March 31, 2020	**1,059**
		March 31, 2019	1,054
	Cummins Group Employees Superannuation Scheme	March 31, 2020	**1,964**
		March 31, 2019	1,704
	Cummins Group Officers Gratuity Scheme	March 31, 2020	**2,824**
		March 31, 2019	902
Sitting fees and commission to independent directors	Nasser Munjee	March 31, 2020	**20**
		March 31, 2019	20
	Prakash Telang	March 31, 2020	**19**
		March 31, 2019	21
	Priya Dasgupta	March 31, 2020	**18**
		March 31, 2019	21
	Rajeev Bakshi	March 31, 2020	**20**
		March 31, 2019	21
	Venu Srinivasan	March 31, 2020	**19**
		March 31, 2019	20
	Anjuly Chib Duggal	March 31, 2020	**20**
		March 31, 2019	6
Equity contribution - share based payments	Cummins Inc.	March 31, 2020	**178**
		March 31, 2019	192

41 Related party disclosures (Contd.)

c) Amounts outstanding as at March 31, 2020

₹ Lacs

Particulars	Name of the party		Total
Trade payables	Cummins Asia Pacific Pte Ltd	March 31, 2020	**3,766**
		March 31, 2019	2,774
	Cummins Inc.	March 31, 2020	**10,536**
		March 31, 2019	8,422
	Cummins Limited	March 31, 2020	**3,874**
		March 31, 2019	4,227
	Cummins Technologies India Private Limited	March 31, 2020	**8,812**
		March 31, 2019	10,179
	Tata Cummins Private Limited	March 31, 2020	**143**
		March 31, 2019	3,425
	Others	March 31, 2020	**8,180**
		March 31, 2019	5,386
Other current financial / non-financial liabilities	Cummins Inc.	March 31, 2020	**7,869**
		March 31, 2019	9,812
	Others	March 31, 2020	**-**
		March 31, 2019	118
Trade receivables	Cummins Angola Limited	March 31, 2020	**1,237**
		March 31, 2019	1,569
	Cummins Limited	March 31, 2020	**5,004**
		March 31, 2019	5,953
	Cummins Technologies India Private Limited	March 31, 2020	**7,532**
		March 31, 2019	11,669
	Cummins West Africa Limited	March 31, 2020	**964**
		March 31, 2019	1,033
	Cummins Inc.	March 31, 2020	**996**
		March 31, 2019	3,115
	Others	March 31, 2020	**12,356**
		March 31, 2019	13,277
Other current financial assets	Cummins Technologies India Private Limited	March 31, 2020	**202**
		March 31, 2019	557
	Valvoline Cummins Private Limited	March 31, 2020	**823**
		March 31, 2019	1,002
	Tata Cummins Private Limited	March 31, 2020	**647**
		March 31, 2019	921
	Cummins Inc.	March 31, 2020	**14**
		March 31, 2019	569
	Others	March 31, 2020	**187**
		March 31, 2019	106

Notes to Standalone Financial Statements for the year ended March 31, 2020

41 Related party disclosures (Contd.)

i) The names of the related parties under the appropriate relationship included in notes 41(b) and (c) above are as follows:

Nature of relationship	Name of the party
Fellow subsidiaries	Chongqing Cummins Engine Co. Limited
(with which there are transactions)	CMI TR Mtr Guc Sistemleri Satis Servis Ltd Sirketi
	Consolidated Diesel Company
	Cummins (China) Investment Co. Limited
	Cummins Africa Middle East (Pty) Ltd.
	Cummins Afrique De L Ouest
	Cummins Angola Limited
	Cummins Arabia FZCO
	Cummins Asia Pacific Pte Limited
	Cummins Belgium NV
	Cummins Brasil Ltda
	Cummins Bridgeway LLC
	Cummins C&G Holding Limited
	Cummins Caribbean LLC
	Cummins Commercializadora S.De R.L
	Cummins Deutschland GmbH
	Cummins Diesel International Ltd.
	Cummins DKSH (Singapore) Pte Limited
	Cummins DKSH (Thailand) Limited
	CUMMINS DKSH (Vietnam) LLC
	Cummins East Asia Research & Development Co. Limited
	Cummins Engine (Shanghai) Trading & Services Co. Limited
	Cummins Filtration Inc.
	Cummins France SA
	Cummins Fuel Systems Wuhan Co. Limited
	Cummins Generator Technologies Australia Pty Limited
	Cummins Generator Technologies Limited
	Cummins Ghana Limited
	Cummins Holland B.V.
	Cummins Hong Kong Limited
	Cummins Italia SPA
	Cummins Japan Limited
	Cummins Korea Co Ltd
	Cummins Limited
	Cummins Makina Sanayi Ve Ticaret Limited
	Cummins Middle East FZE
	Cummins Mid-South LLC
	Cummins Natural Gas Engines Inc.
	Cummins Norte de Colombia S.A.S.
	Cummins Npower LLC
	Cummins NV

41 Related party disclosures (Contd.)

Nature of relationship	Name of the party
	Cummins Pacific, LLC
	Cummins Power Generation (China) Co. Limited
	Cummins Power Generation (S) Pte. Limited
	Cummins Power Generation Inc.
	Cummins Power Generation Limited
	Cummins Qatar LLC
	Cummins Rocky Mountain LLC
	Cummins Romania SRL
	Cummins Sales and Service Korea Co. Limited
	Cummins Sales and Service Philippines Inc.
	Cummins Sales and Service Sdn. Bhd.
	Cummins Sales and Service Singapore Pte Limited
	Cummins Saudi Arabia L.L.C
	Cummins South Africa (Pty.) Limited
	Cummins South Pacific Pty Limited
	Cummins Southern Plains LLC
	Cummins Spain SL
	Cummins Sweden AB
	Cummins Technologies India Private Limited
	Cummins Vendas E Serv Motores Geradores Limited
	Cummins West Africa Limited
	Distribuidora Cummins Centroamerica Costa Rica, S.de R.L.
	Distribuidora Cummins Centroamerica El Salvador, S.de R.L.
	Distribuidora Cummins Centroamerica Guatemala, Ltda.
	Distribuidora Cummins Centroamerica Honduras, S.de R.L.
	Distribuidora Cummins de Panama S.De R.L.
	Distribuidora Cummins SA
	Distribuidora Cummins Sucursal Paraguay SRL
	OOO Cummins
	Shanghai Cummins Trade Co. Limited
	Taiwan Cummins Sales & Services Co. Limited
Key management personnel	Sandeep Sinha - Managing Director (upto August 16, 2019)
	Ashwath Ram - Managing Director (w.e.f August 17, 2019)
	Rajiv Batra -Chief Financial Officer- (Upto March 31, 2020)
	K.Venkata Ramana-Group Vice President - Legal & Company Secretary (Upto December 31, 2018)
	Hemiksha Bhojwani - Company Secretary- (Upto May 11, 2020)
	Mark Levett (Chairman of the Board)
	Antonio Leitao
	Norbert Nusterer
	Suzanne Wells (Upto September 30, 2019)
	Donald Jackson
	Lorraine Meyer (w.e.f. October 01 , 2019)

Notes to Standalone Financial Statements for the year ended March 31, 2020

41 Related party disclosures (Contd.)

Nature of relationship	Name of the party
	JM Barrowman – Alternate Director to Mr. Norbert Nusterer (Last Cessation on January 27, 2020)
	Ajay Patil -Chief Financial Officer (w.e.f April 1, 2020)
	Vinaya Joshi (Company Secretary) (w.e.f June 17, 2020)
	Independent Directors
	- Nasser Munjee
	- Prakash Telang
	- Priya Dasgupta
	- Rajeev Bakshi
	- Venu Srinivasan
	- Anjuly Chib Duggal (Upto April 6, 2020)
Associate	Cummins Generator Technologies India Private Limited
Joint venture	Valvoline Cummins Private Limited Cummins Research and Technology India Private Limited
Enterprise with common key management personnel	Tata Cummins Private Limited Cummins India Foundation New Delhi Law Offices Private Limited Valvoline Cummins Private Limited Fleetgaurd Filters Private Limited Caltherm Thermostats Private Limited
Employees benefit plans where there is significant influence	Cummins India Limited Officers Provident Fund Cummins Group Employees Superannuation Scheme Cummins Group Officers Gratuity Scheme

Terms and conditions of transactions with related parties:

ii) The sales to and purchase from related parties are made on terms equivalent to those that prevail in arm's length transaction. Outstanding balances at the year end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended March 31, 2020, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (March 31, 2019: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

iii) Liability for post employment benefits, other long term benefits, termination benefits and certain short term benefits such as compensated absences is provided on an actuarial basis for the Company as a whole. Accordingly the amount for above pertaining to key management personnel is not ascertainable and, therefore, not included above.

iv) Related party transaction, the amount of which is in excess of 10% of the total related party transactions of the same type are disclosed separately.

v) The information given above has been reckoned on the basis of information available with the Company and relied upon by the auditors.

vi) Services rendered include renting services, testing services, business support services, etc.

vii) Services received include testing services, solution contract support services, license fees, etc.

viii) Includes recoveries on account of employee cost, travel costs, training, IT services, etc.

42 As set out in section 135 of the Companies Act, 2013, the Company is required to contribute ₹ **1,723 Lacs** (March 31, 2019: ₹ 1,616 Lacs) towards Corporate Social Responsibility activities, as calculated basis 2% of its average net profits of the last three financial years. Accordingly, during the current year, the Company has contributed ₹ **1,723 Lacs** (March 31, 2019: ₹ 1,616 Lacs) to Cummins India Foundation towards eligible projects as mentioned in Schedule III (including amendments thereto) of the Companies Act, 2013.

43 Financial risk management objectives and policies

Financial risk factors:

The Company has well written policies covering specific areas, such as foreign exchange risk and investments which seek to minimise potential adverse effects on the Company's financial performance due to external factors. The Company uses derivatives to hedge foreign exchange risk exposures. The Company's senior management oversees the management of these risks. All derivatives and investment activities for risk management purposes are carried out by specialist team that has appropriate skills, experience and supervision. As per the Company's policy no trading in derivatives for speculation purpose may be undertaken. The Board of Directors reviews and approves policies for managing each of these risks.

The Company's activities are exposed to variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk.

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks as follows:

i) Foreign currency risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, GBP and Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities denominated in a currency that is not the entity's functional currency.

Management has set up a policy to manage their foreign exchange risk against their functional currency. To manage the foreign exchange risk arising from recognised assets and liabilities, the Company uses forward contracts.

The following table demonstrates the sensitivity relating to possible change in foreign currencies with all other variables held constant:

₹ Lacs

Currency	% change	March 31, 2020	March 31, 2019
		Effect on profit before tax and pre-tax equity	Effect on profit before tax and pre-tax equity
USD	1%	**51**	108
Euro	1%	**18**	17
Others	1%	**4**	3
Total		**73**	128

The movement in the pre-tax effect is a result of a change in the fair value of derivative financial instruments not designated in a hedge relationship and financial assets and liabilities denominated in various currencies. Although the derivatives have not been designated in a hedge relationship, they act as economic hedge and offset the underlying transactions when they occur.

Notes to Standalone Financial Statements for the year ended March 31, 2020

ii) Interest rate risk

Interest rate risk is the fair value of future cash flows of a financial instrument which fluctuates because of changes in the market interest rates. In order to optimise the Company's position with regards to interest income and interest expense, treasury team manages the interest rate risk by balancing the portion of fixed rate and floating rate in its total portfolio.

The Company has a borrowing of ₹ 47,500 Lacs outstanding as at March 31, 2020. The interest is payable at a rate of T-bill / Repo / CD + Spread. While the interest provision as at March end is fixed, the interest for the remainder tenure of the loans is subject to fluctuate basis the movement in T-bill/Repo/CD rate.

The following table demonstrates the sensitivity of interest payable:

₹ Lacs

	% change	March 31, 2020	March 31, 2019
		Effect on profit before tax and pre-tax equity	Effect on profit before tax and pre-tax equity
Working Capital Loan	0.5%	**80**	37

iii) Price risk

The Company invests its surplus funds in mutual funds which are linked to debt markets. The Company is exposed to price risk for investments in mutual funds that are classified as fair value through profit or loss. To manage its price risk arising from investments in mutual funds, the Company diversifies its portfolio. Diversification and investment in the portfolio is done in accordance with the limits approved by the Board of Directors.

The following table demonstrates the sensitivity relating to possible change in investment value with all other variables held constant:

₹ Lacs

	% change	March 31, 2020	March 31, 2019
		Effect on profit before tax and pre-tax equity	Effect on profit before tax and pre-tax equity
Mutual funds	0.5%	**391**	121

Profit after tax for the year would increase / decrease as a result of gains / losses on mutual funds classified as at fair value through profit or loss.

b) Credit risk

Credit risk is the risk that counterparty will not meet its obligation under financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk primarily from trade receivables, contract assets, other receivables, deposits with banks and loans given.

Trade receivable and contract assets

Senior management is responsible for managing and analysing the credit risk for each new customer before standard payment, delivery terms and conditions are offered. The Company assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment. The utilisation of credit limits is regularly monitored.

An impairment analysis is performed at each reporting date for all customers. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 10.

Other receivables, deposits with banks and loans given

Credit risk from balances with banks is managed by the Company's treasury department in accordance with Company's policy approved by the Risk Management Committee. Investments of surplus funds are made within the credit limits and as per the policy approved by the Board of Directors.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance of the above assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 5, 9, 12 and 13.

c) Liquidity risk

Cash flow forecasting is performed by Treasury function. Treasury team monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet the operational needs. Such forecasting takes into consideration the compliance with internal cash management policy.

As per the Company's policy, treasury team invests surplus cash in marketable securities and time deposits with appropriate maturities or sufficient liquidity to provide headroom to meet the operational needs. At the reporting date, the Company held mutual funds of **₹ 78,146 Lacs** (March 31, 2019: ₹ 24,248 Lacs) and other liquid assets of **₹ 18,142 Lacs** (March 31, 2019: ₹ 19,534 Lacs) that are expected to readily generate cash inflows for managing liquidity risk.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

₹ Lacs

As at March 31, 2020	**On demand**	**Less than 12 months**	**1-5 years**	**More than 5 years**
Borrowings	-	48,536	-	-
Lease Liabilities	-	457	1,315	729
Trade payables	-	69,642	-	-
Royalty and support services	-	7,869	-	-
Unpaid dividend	1,341	-	-	-
Retention money	-	2,946	1,349	-
Dealer deposits	-	-	2,173	-
Others	-	4,463	-	-

As at March 31, 2019	**On demand**	**Less than 12 months**	**1-5 years**	**More than 5 years**
Borrowings	-	30,916	-	-
Trade payables	-	82,511	-	-
Royalty and support services	-	9,812	-	-
Unpaid dividend	1,259	-	-	-
Retention money	-	2,426	670	-
Dealer deposits	-	-	2,007	-
Others	-	2,451	-	-

Notes to Standalone Financial Statements for the year ended March 31, 2020

d) Capital management

The Company's objectives when managing capital is to provide maximum returns to shareholders, benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company manages its capital structure and makes adjustments in light of changes in economic conditions.

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus all other reserves attributable to equity shareholders of the Company.

₹ Lacs

	March 31, 2020	March 31, 2019
Borrowings	**48,536**	30,916
Less: Cash and cash equivalents	**18,142**	19,534
Net debt	**30,394**	11,382
Equity	**417,496**	413,045
Gearing Ratio (times)	**0.07**	0.03

44 Fair values

The following table provides a comparison by class of the carrying amounts and fair value of the Company's financial instruments other than those with carrying amounts that are reasonable approximations of fair values.

	Carrying value		**Fair value**	
	March 31, 2020 ₹ Lacs	March 31, 2019 ₹ Lacs	**March 31, 2020 ₹ Lacs**	March 31, 2019 ₹ Lacs
Financial assets				
FVTPL of investments in mutual funds	**78,146**	24,248	**78,146**	24,248
FVTPL of investments in equity	**-**	24	**-**	24
FVTPL of Foreign exchange forward contracts	**-**	419	**-**	419
Financial liabilities				
FVTPL of Foreign exchange forward contracts	**672**	-	**672**	-
Non-current assets				
Investment properties	**103,664**	72,802	**121,584**	78,048

The Management assessed that cash and cash equivalents, other bank balances, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the financial assets and financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of investments in mutual funds are based on the price quotation at the reporting date obtained from the asset management companies. The fair value of investments in equity is based on the price quotation at the reporting date derived from quoted market prices in active market. The Company enters into derivative financial instruments with various counterparties, principally financial institutions. Foreign exchange forward contracts are valued using valuation techniques, which employs the use of market observable inputs. The most frequently applied valuation techniques include forward pricing using present value calculations.

44 Fair values (Contd.)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method as defined in accounting policy 1c.

₹ Lacs

	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Financial assets at FVTPL				
Investments in mutual funds				
March 31, 2020	-	78,146	-	78,146
March 31, 2019	-	24,248	-	24,248
Investments in equity				
March 31, 2020	-	-	-	-
March 31, 2019	24	-	-	24
Forward contracts assets				
March 31, 2020	-	-	-	-
March 31, 2019	-	419	-	419
Financial liabilities at FVTPL				
Forward contracts liability				
March 31, 2020	-	672	-	672
March 31, 2019	-	-	-	-
Non-current assets				
Investment properties				
March 31, 2020	-	-	121,584	121,584
March 31, 2019	-	-	78,048	78,048

There has been no transfer between Level 1 and Level 2 during the year. For details of valuation method, assumption used for valuation of investment properties, refer note 3.

Notes to Standalone Financial Statements for the year ended March 31, 2020

45 Exceptional Items comprise one time expense on account of Voluntary Retirement Program (VRP) and Reduction In Force (RIF) aggregating to ₹ 1,605 Lacs and ₹ 380 Lacs respectively.

46 Segment Information

In accordance with paragraph 4 of notified Ind AS 108 “Operating segments”, the Company has disclosed segment information only on the basis of the consolidated financial statements.

47 COVID 19

During the quarter ended March 31, 2020, the outbreak of the coronavirus disease of 2019 (‘COVID-19’) spread throughout the world and became a global pandemic. The pandemic triggered a significant downturn globally, including in India, and the challenging market conditions could continue for an extended period of time. In an effort to contain the spread of COVID-19, maintain the well-being of employees and stakeholders, match the reduced demand from our customers and in accordance with the governmental requirements, offices and manufacturing facilities were shut down. These closures expanded and continued into April/May 2020. While the downturn, closures and limitations on movement are expected to be temporary, and though the lockdown restrictions have now been relaxed partially, the duration of the production and supply chain disruptions, and related financial impacts, cannot be estimated at this time.

The Company has assessed the impact of COVID 19 on its assets, including property, plant and equipments, receivables, inventories etc. and it was concluded that the impact is not significant. However, the estimate of the impact of COVID 19 may differ from the same ascertained up to the date of approval of these financial results by the Board of Directors, based on how the COVID 19 situation evolves over a period of time.

As per our report of even date

For S R B C & CO LLP
Chartered Accountants
ICAI Firm Registration No. : 324982E/E300003

per Tridevlal Khandelwal
Partner
Membership Number: 501160

Place: Pune
Date: June 17, 2020

For and on behalf of the Board

Ashwath Ram
Managing Director
DIN : 00149501

Nasser Munjee
Director
DIN : 00010180
Place : Goa

Vinaya Joshi
Company Secretary
PAN : AMQPJ5216P

Ajay Patil
Chief Financial Officer
PAN : AAJPP9246Q

Place: Pune
Date: June 17, 2020