Draft Report

As per IND AS 19

Gratuity Scheme

ABC Company India Pvt. Ltd.

Actuarial Valuation for the year ended 31 March 2022

Fellow Actuary Details

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Section 1: Purpose and Scope of the work assigned

The primary objective of this valuation exercise is to provide ABC Company India Pvt. Ltd. (Hereinafter referred as “The Company”) with an actuarial valuation of the gratuity benefit that is currently being provided for its employees in India, as at 31-MARCH-2022, for financial year 2021-22.

I have been requested by the Company to calculate the accounting expenses associated with the Gratuity Plan for the year ended March 31, 2022 in terms of Accounting Standard IND AS 19 issued by the Ministry of Corporate Affairs.

The results set out in this Report are based on requirements of IND AS 19 and its application to the Plan. They have been prepared for the specific requirements of IND AS 19 and should not be used for any other purpose. In particular, this Report does not constitute a formal funding actuarial valuation of the Plan and does not present any recommendation of contributions or funding levels.

This Report is provided solely for the Company's use and for the specific purposes indicated above. Except where I expressly agree in writing, it should not be disclosed or provided to any third party, other than as provided below. In the absence of such consent and an express assumption of responsibility, no responsibility whatsoever is accepted by me for any consequences arising from any third party relying on this Report or any advice relating to its contents. The Company may make a copy of this Report available to its auditors, but I make no representation as to the suitability of this Report for any purpose other than that for which it was originally provided and accept no responsibility or liability to the Company's auditors in this regard. The Company should draw the provisions of this paragraph to the attention of its auditors when passing this Report to them.

Actuarial techniques have been adopted; taking into consideration the requirements under Accounting Standard IND AS 19 issued by The Ministry of Corporate Affairs and generally accepted actuarial principles.

All monetary amounts mentioned in this report are in Indian Rupee (INR), unless mentioned otherwise.

Section 2: Summary of Results

2.1 The below table shows the summary of key results for the year ended 31-03-2022.

All Figures in INR	March 31, 2021	March 31, 2022
Fair Value of Plan Assets		
Present value of obligation		

2.2 Balance Sheet Position as on valuation date

All Figures in INR	March 31, 2021	March 31, 2022
Net asset/(liability) recognised in balance sheet		

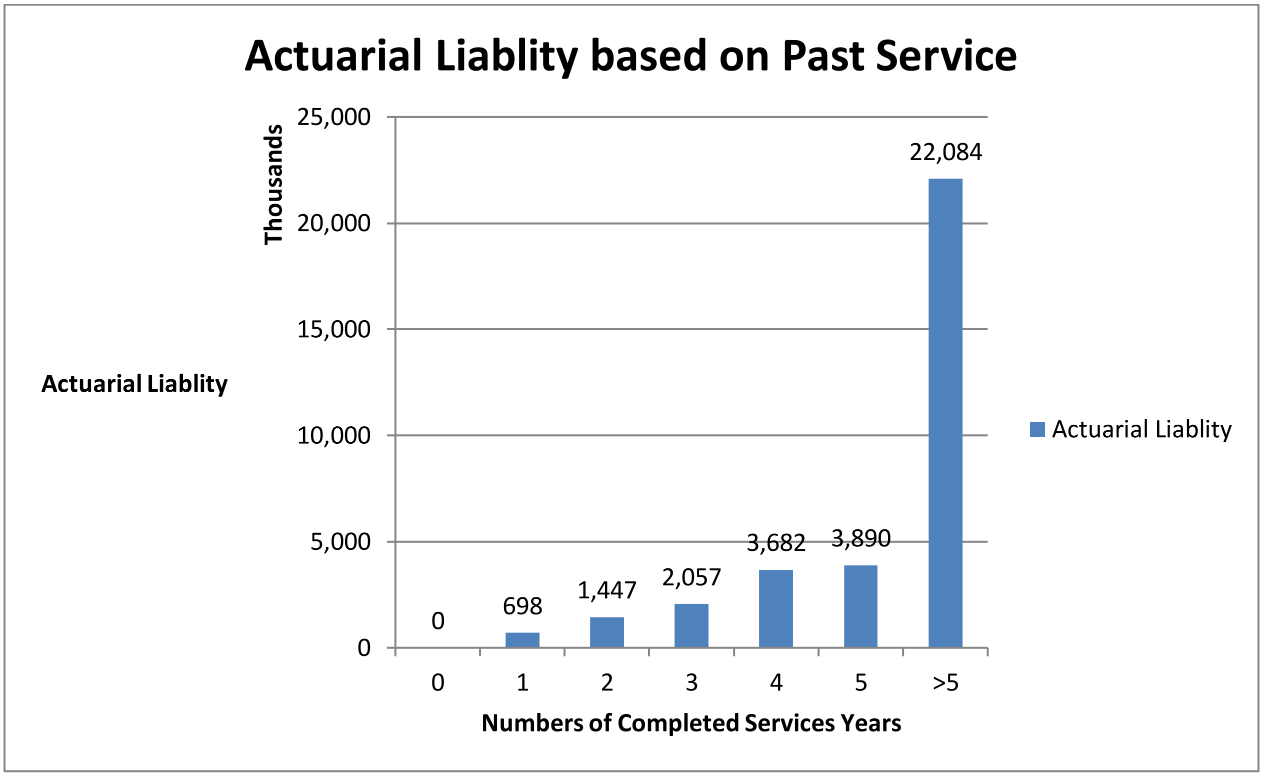
2.3 Expense Recognised in Profit and Loss Account

All Figures in INR	March 31, 2021	March 31, 2022
Total Employer Expense		

2.4 Bifurcation of Present Value of Obligation at the end of the year

All Figures in INR	March 31, 2021	March 31, 2022
Current Liability		
Non-Current Liability		
Total Liability		

2.5 Actuarial Liability based on past service



Section 3: Data

In preparing this report we have relied on the completeness and accuracy of the information provided to us orally and in writing by or on behalf of the Company and its advisers. We have not completed any detailed validation checks on the information provided. We have, however, carried out broad consistency and validation checks. The Company is solely responsible for validity, accuracy and completeness of the data and information provided. The valuation results may differ significantly from the results that would have been obtained with accurate and complete information.

3.1 Membership Data

The calculations have been based on the membership information for the Plan as at March 31, 2022 as supplied by the Company.

Following is the summary of employees profile data as on valuation date:

Item	As on March 31, 2021	As on March 31, 2022
Total Number of Employees Total Monthly Salary (in 000's) (As provided by the Company) Average Monthly Salary (absolute) Average Age (Age last Birthday) (in Years) Average past service (in Years) Average future service (in Years)		

We have assumed that Salary provided by the Company includes only basic salary.

3.2 Asset Data

There were no plan assets set up by the company. Hence we have taken zero value in this report.

The Summary of assets information provided is given below:

All Figures in INR	March 31, 2021	March 31, 2022
Opening fair value of Plan Assets		
Actual Return on plan assets		
Employer Contributions		
Benefit Paid		
Closing fair value of Plan Assets		

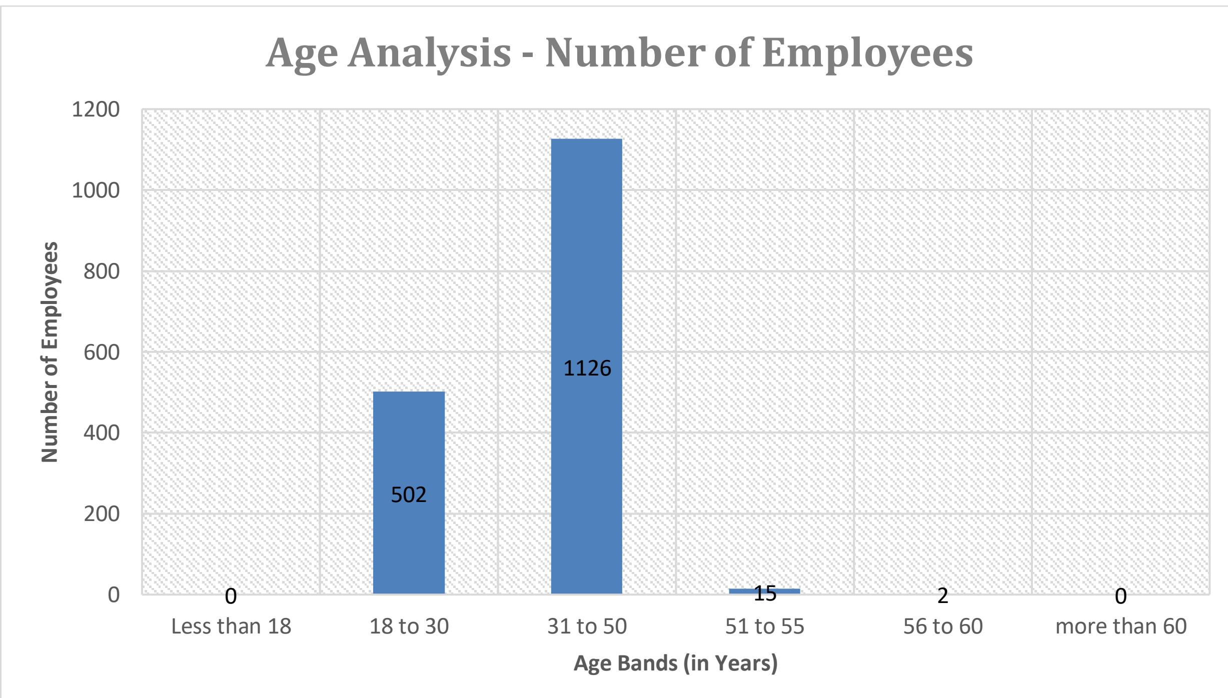
3.3 We have broadly performed the following consistency and validation checks:

- Data missing that is any blank field in the data
- The age last birthday is not less than 18 years at the valuation date
- Date of joining is less than valuation date
- Salaries are not negative or zero
- Age as at valuation date should not be more than the retirement age

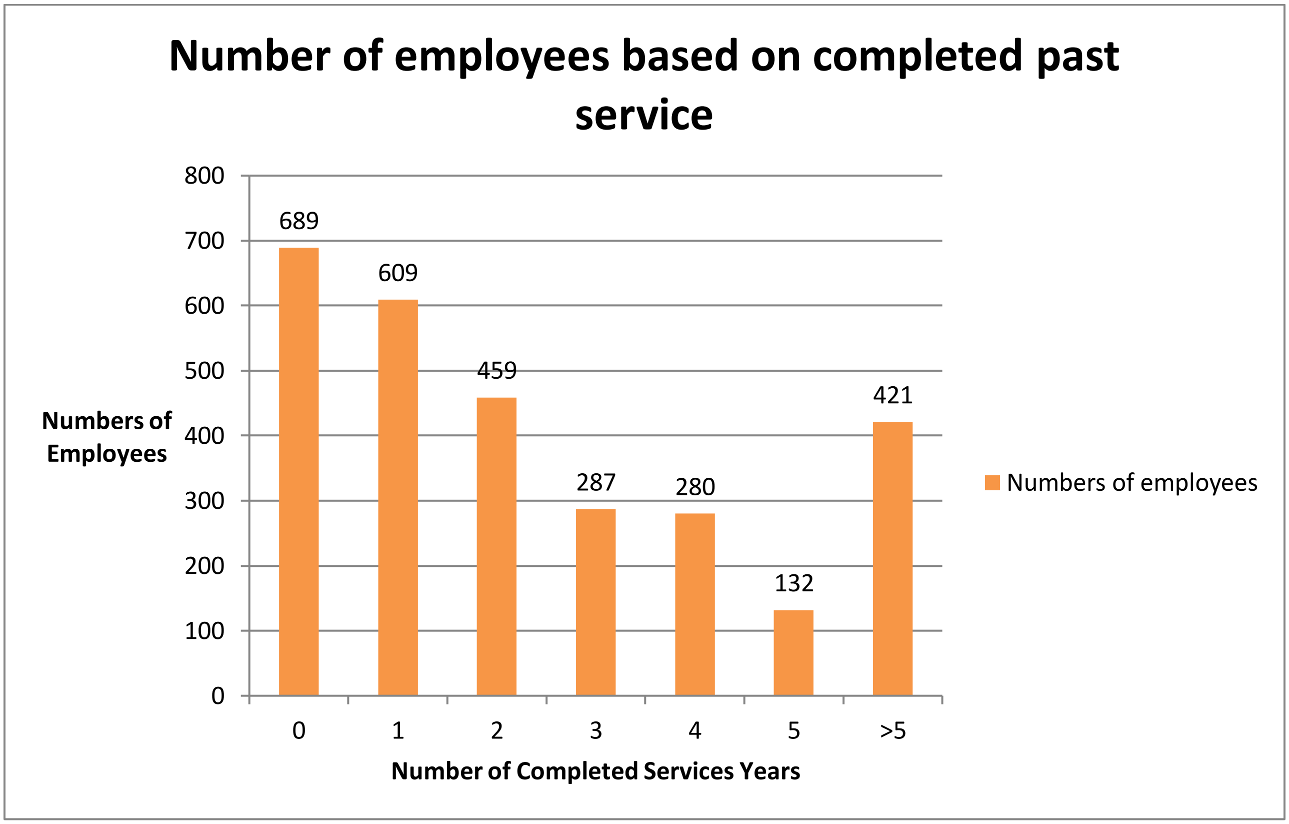
3.4 We have also conducted the following analysis on the data:

3.4 (a) Number of Employees in various age bands.

The following chart represents employee's age profile of the Company:



3.4 (b): Number of Employees based on completed past service



Section 4: Assumptions

To prepare an actuarial valuation, assumptions are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities. The future is uncertain and the plan's actual experience will differ from assumptions; these differences may be significant or material because actuarial estimates can be very sensitive to the assumptions made and, in some cases, to the interactions between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on alternative assumptions would be different. As a result of the uncertainty inherent in a forward looking projection in a very long period of time, no one projection is uniquely "correct" and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of future. A "sensitivity analysis" shows the degree to which result would be different if alternative assumptions are used for the actuarial estimates.

Assumptions may also be changed from one valuation to the next because of changes in mandated requirement, plan experience, changes in expectation about future and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable when made.

4.1 The assumptions and methodology used in compiling this Report are consistent with the requirements of IND AS 19.

4.2 **Economic assumptions include:**

- Discount Rate
- Salary Inflation rate
- Expected return on plan assets

4.3**Demographic assumptions include:**

- Retirement Age
- Mortality
- Withdrawal Rates
- Disability Rates etc.

Following are the major assumptions that have been used in carrying out the valuation:

Per Annum	Year 1	Year 2	Year 3	Year 4	Year 5	Year 5+
Discount Rate Salary Inflation Rate Withdrawal Rate						
Mortality Rate	100% of IALM 2012-14					

Note: Due to insufficient data and experience, we have used 100% of industry mortality table IALM 2012-14 for this valuation.

There are no explicit assumptions for disability and no assumption for medical costs and its trends.

Major assumption that had been used in last valuation ending at 31-Mar-2021:

Discount Rate	% for all years
Salary Inflation Rate	% per annum
Withdrawal Rate	% per annum
Mortality Rate	100% of IALM 2012-14

Note: Due to insufficient data and experience, we have used 100% of industry mortality table IALM 2012-14 for this valuation.

4.4 The requirements relating to the major valuation assumptions were made clear as per IND AS 19 and same have been used and relied upon as provided by the employer. It should be noted that I have not performed any validation checks for the appropriateness and adequacy of the assumptions. The broader professional and accounting standard guidance are that Discount Rate should be based upon the market yields available on Government bonds at the accounting date with a term that matches that of the liabilities and the salary increase should take account inflation, seniority, promotion and other relevant factors.

4.5 The Duration of liability is calculated by scientific method called Macaulay duration. The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. The duration of the liabilities is approximately 10 years.

4.6 The discount rate as at 31 March 2022 is based on the government bond yields as at 31 March 2022.

4.7 The results are particularly sensitive to some assumptions, such as the Discount Rate, inflation e.g. level of salary increases and mortality.

Section 5: Methodology

An actuarial estimation is only a snapshot of a plan's estimated financial condition at a particular point in time; it does not provide the plan's future financial condition or its ability to pay benefit in the future and does not provide any guarantee of future financial soundness of the plan. Over time, a plan's total cost will depend on a number of factors, including the amount of benefit plan pays, the number of people paid benefits, the period of time over which benefits are paid, plan expenses and the amount earned on any assets invested to pay benefits. These amounts and other variables are uncertain and unknowable at the valuation date.

Because modeling all aspects of a situation is not possible or practical, we may use summary information, estimates, or simplifications of estimates to facilitate the modeling future events in an efficient and cost- effective manner. We may also include factor or data that, if used, in our judgment, would not have significantly affected our results. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of valuation results for the plan.

Valuations do not affect the ultimate cost of the plan, only the timing when benefits costs are recognized. Cost recognitions occur over time. If the costs recognized over the period of years are lower or higher than necessary, for whatever reason, normal and expected practice is to adjust future levels to recognize the entire cost of the plan over time.

5.1 The valuation has been carried out using the Projected Unit Credit (PUC) actuarial method to assess the Plan's liabilities, including those related to death-in-service and incapacity benefits.
Under the PUC method a "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 all 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.

Recognition of re-measurement items

The disclosures in this report have been prepared using the immediate recognition approach of recognising all re-measurement items occurring during the year in the other comprehensive income (OCI).

Re-measurements arising from defined benefit plans comprise actuarial gains and losses on benefit obligations, the return on plan assets in excess of what has been estimated and the effect of asset ceiling, if any, in case of over funded plans. The company recognises these items of re-measurements immediately in other comprehensive income and all the other expenses related to defined benefit plans in employee benefit expenses in profit and loss account.

Section 6: Provisions

6.1 The benefits payable under this plan are governed by “Gratuity Act 1972”.

6.2 We give below a summary of the principal rules of the Plan:

Type of Plan	Defined Benefit
Employer’s Contribution	100%
Employee’s Contribution	0%
Salary for calculation of gratuity	As provided by the Company in the data
Benefits on Normal Retirement	15/26 * Salary * No. of years of completed service,
Benefit on early exit due to early retirement/withdrawal/resignation	Same as normal retirement benefit upto the date of exit
Benefit on death in service	Same as normal retirement benefit except that no vesting condition apply
Maximum Limit	INR 10 Lacs
Minimum Service Condition (in Years)	5 Years or (No such conditions)
Normal Retirement Age (in Years)	58

Note: The principal rules of the plan regarding the payment of gratuity benefits to the employees have not changed over the previous valuation period.

6.3 We have made full actuarial valuations based on member data and plan information provided by the Company as at Valuation date.

6.4 The definitions of various terms used in the Report are given in the last section.

6.5 The full results of our calculations are set out in Disclosure Tables in Section 9.

6.6 We would be pleased to discuss this report with you.

Section 7: Characteristics of Defined Benefit Plan

7.1 The Nature of benefits provided by the plan

This plan provides a lump sum benefit based on the past service and salary at the time of leaving the plan.

The benefit formula is as per the Gratuity Act 1972:

15/26*Past Service*Current Salary

In case Plan Provision offers Capped Gratuity, maximum benefit payable is INR 20,00,000.

If the Plan Provision offers Uncapped Gratuity, maximum benefit payable is actual benefit as per above formula.

Under this Plan, Capped Gratuity is payable to all the employees.

7.2 Regulatory Framework in which Plan operates

This Plan is Governed by the "Gratuity Act 1972" issued by Ministry of Labour Laws.

The accounting standard governing the provisioning of this plan in the books of accounts is AS 15 (R)/IND AS 19 issued by the Ministry of Corporate Affairs.

The actuarial valuation of this Plan has been done as per the actuarial principles as mentioned in the Actuarial Practice Standard APS15 issued by the "Institute of Actuaries of India".

Currently there are no minimum funding requirements in India.

7.3 Responsibilities for the governance of the Plan

The responsibility for the governance of this Plan lies with the Trustees, Board Members, or Employer who is managing the Plan. We have no responsibility of how the Plan is managed, liabilities are funded, data is stored, assumptions are set and benefits are paid to the employees.

7.4 Any expected changes in rules and regulations.

The Gratuity ceiling is expected to be increased in future.

Section 8: Risks associated with Defined Benefit Plan

Where there is a delay in benefit being promised and benefit being provided, there will always be some uncertainty for the benefit provider and the benefit recipient.

Benefit Risks in Defined Benefit Schemes

1. Risk to the beneficiary

   The greatest risk to the beneficiary is that there are insufficient funds available to provide the promised benefits. This may be due to:

   - The insufficient funds set aside, i.e. underfunding
   - The insolvency of the Employer
   - The holding of investments which are not matched to the liabilities
   - Or a combination of these events

2. Parameter risk

   Actuarial valuation is done basis some assumptions like salary inflation, discount rate and withdrawal assumptions. In case the actual experience varies from the assumptions, fund may be insufficient to pay off the liabilities.

   For example: the plan's liability is calculated with salary inflation assumption of 5% per annum. However, Company's' actual practice is to provide increment of 10% per annum. This will result into underfunding.

   Similarly, reduction in discount rate in subsequent future years can increase the plan's liability.

   Further, actual withdrawals may be lower or higher than what was assumed in the valuation, may also impact the plan's liability.

3. Risk of illiquid assets

   Another risk is that the funds, although sufficient, are not available when they are required to finance the benefits. This may be due to assets being locked for longer period or in illiquid assets.

4. Risk of benefit change

   There may be a risk that a benefit promised is changed or is changeable within the terms of the contract. For e.g. regulator may increase the benefits payable under defined benefit plans.

5. Asset liability mismatching risk

   ALM risk arises due to a mismatch between assets and liabilities either due to liquidity or changes in interest rates or due to different duration.

   For example: The liability duration is 10 years. While assets are locked in 5-year g-sec securities. After 5 years, there is huge reinvestment risk to invest maturity proceeds of assets due to uncertainty about the market prevailing yields at that time.

Section 9: Disclosure Format

This section provides the Report under IND AS 19 in respect of Gratuity Plan.

Table I: Assumptions

Assumptions	March 31, 2021	March 31, 2022
Discount Rate	% per annum	% per annum
Rate of increase in Compensation levels	% per annum	% per annum
Rate of Return on Plan Assets	Not Applicable	Not Applicable

Table II: Service Cost

All Figures in INR	March 31, 2021	March 31, 2022
Current Service Cost	0	0
Past Service Cost (including curtailment Gains/Losses)	0	0
Gains or losses on Non Routine settlements	0	0
Total	0	0

Table III: Net Interest Cost

All Figures in INR	March 31, 2021	March 31, 2022
Interest Cost on Defined Benefit Obligation	0	0
Interest Income on Plan Assets	0	0
Net Interest Cost (Income)	0	0

Table IV: Change in Present Value of Obligations

All Figures in INR	March 31, 2021	March 31, 2022
Opening of defined benefit obligations		
Service cost		
Interest Cost		
Benefit Paid		
Actuarial (Gain)/Loss on total liabilities:		
- *Actuarial (gain) / loss due to change in financial assumptions*		
- *Actuarial (gain) / loss due to demographic assumptions*		
- *Actuarial (gain) / loss due to experience changes*		
Closing of defined benefit obligation		

Table V: Change in Fair Value of Plan Assets

All Figures in INR	March 31, 2021	March 31, 2022
Opening fair value of plan assets		
Actual Return on Plan Assets		
Employer Contribution		
Benefit Paid		
Closing fair value of plan assets		

Table VI: Actuarial (Gain)/Loss on Plan Asset

All Figures in INR	March 31, 2021	March 31, 2022
Expected Interest Income		
Actual Income on Plan Asset		
Actuarial gain /(loss) on Assets		

Table VII: Other Comprehensive Income

All Figures in INR	March 31, 2021	March 31, 2022
Opening amount recognized in OCI outside profit and loss account		
Actuarial gain / (loss) on liabilities		
Actuarial gain / (loss) on assets		
Closing of amount recognized in OCI outside profit and loss account		

Table VIII: The amount to be recognized in Balance Sheet Statement

All Figures in INR	March 31, 2021	March 31, 2022
Present value of obligations		
Fair value of plan assets		
Net obligations		
Amount not recognized due to asset limit		
Net defined benefit liability / (assets) recognized in balance sheet		

Table IX: Expense Recognized in Statement of Profit and Loss

All Figures in INR	March 31, 2021	March 31, 2022
Service cost		
Net Interest Cost		
Expenses Recognized in the statement of Profit & Loss		

Table X: Major categories of plan assets (as percentage of total plan assets)

All Figures in INR	March 31, 2021	March 31, 2022
Government of India Securities	NA	NA
State Government securities	NA	NA
High Quality Corporate Bonds	NA	NA
Equity Shares of listed companies	NA	NA
Property	NA	NA
Funds Managed by Insurer	NA	NA
Bank Balance	NA	NA
Total	NA	NA

Table XI: Change in Net Defined Obligations

All Figures in INR	March 31, 2021	March 31, 2022
Opening of Net defined benefit liability		
Service cost		
Net Interest Cost		
Re-measurements		
Contribution paid to fund		
Closing of Net defined benefit liability		

Section 10: Reconciliation of Expense in Profit and Loss Statement

All Figures in INR	March 31, 2021	March 31, 2022
Present Value of Obligation as at the end of the year		
Present Value of Obligation as at the beginning of the year		
Benefit Paid		
Actual Return on Assets		
OCI		
Expenses Recognised in the Statement of Profit and Loss		

Note: The expense amount mentioned in Table IX of Section 9 reconciled with Zero difference.

Section 11: Reconciliation of Liability in Balance Sheet

All Figures in INR	March 31, 2021	March 31, 2022
Opening net defined benefit liability / (asset)		
Expense charged to profit and loss account		
Amount recognized outside profit & loss account		
Employer Contributions		
OCI		
Closing net defined benefit liability / (asset)		

Note: The closing net liability amount mentioned in Table XI of Section 9 reconciled with Zero difference.

The following material developments in the inter-investigation period have led to a significant variation in the liability.

- There has been a significant increase/decrease in the number of employees.
- The average salary over the period has increased/decreased.
- The benefit structure has been changed from the last valuation.
- Changes in the Payment of Gratuity Act.

Section 12: Sensitivity Analysis

Following table shows the sensitivity results on liability due to change in the assumptions:

All Figures in INR	March 31, 2022	Impact (Absolute)	Impact (%)
Base Liability			
Increase Discount Rate by 0.50%			
Decrease Discount Rate by 0.50%			
Increase Salary Inflation by 1%			
Decrease Salary Inflation by 1%			
Increase in Withdrawal Assumption by 5%			
Decrease in Withdrawal Assumption by 5%			

Note:

- ✓ The base liability is calculated at discount rate of 7.75% per annum and salary inflation rate of 9% per annum for all future years.
- ✓ Comments on sensitivities results……….
- ✓ Liabilities are very sensitive to ………….
- ✓ Liabilities are very less sensitive due to change in mortality assumptions. Hence, sensitivities due to change in mortality are ignored.

Section 13: Maturity Profile of Defined Benefit Obligation (Valued on undiscounted basis)

All Figures in INR	March 31, 2021	March 31, 2022
Year 1		
Year 2		
Year 3		
Year 4		
Year 5		
After 5th Year		
Total		

Note:

Section 14: Comparison with last years' figures

Following table shows the sensitivity results on liability due to change in the assumptions:

All Figures in INR	March 31, 2021	March 31, 2022	Variation
Fair Value of Plan Assets Present value of obligation Net asset/(liability) recognised in balance sheet OCI Expense to be recognized in the Profit and loss statement			

Note:

- ✓ Comments

Certificate

I have prepared an actuarial valuation on the Group Gratuity benefits in accordance with the Accounting Standard IND AS 19 issued by the Ministry of Corporate Affairs.

I have adhered to Guidance Notes issued by the Institute of Actuaries of India from time to time.

The valuation has been based on membership data provided by the Company which are summarized in Section 3.1 above.

Generally accepted actuarial principles and procedures have been applied in determining the liabilities under the scheme. The calculations are also consistent with my understanding of the requirements of IND AS 19.

The requirements relating to the major valuation assumptions were made clear to the Company as per IND AS 19 guidelines and same have been used accordingly. I consider that the assumptions used are appropriate for the purpose of this report.

The valuation may not, however, be appropriate for any purpose such as determining a suitable funding rate, should the Company wish to pre-fund the liabilities.

Sapna Malhotra
Fellow Member, Institute of Actuaries of India
Membership No. IAI- 3766

Glossary

All definitions of terms are as per IND AS 19. The following terms are used with explanations given below:

- **Service cost comprises:**

  - *current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;*
  - *past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and*
  - *any gain or loss on settlement.*

- **Remeasurements of the net defined benefit liability (asset) comprise:**

  - *actuarial gains and losses;*
  - *the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and*
  - *any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).*

- **Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:**

  - *experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and*
  - *the effects of changes in actuarial assumptions.*

- **Balance Sheet:**

  An entity shall recognise the net defined benefit liability (asset) in the balance sheet.
  When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:

  - *the surplus in the defined benefit plan; and*
  - *the asset ceiling, determined using the discount rate specified in paragraph 83.*

- **Funded Status:** This is the excess/(shortfall) of the fair value of plan assets over the Plan Liability.