Amendments in Schedule III of The Companies Act, 2013 from lenders' point of view : Credit officials should go through By *CA. Sumat Singhal*

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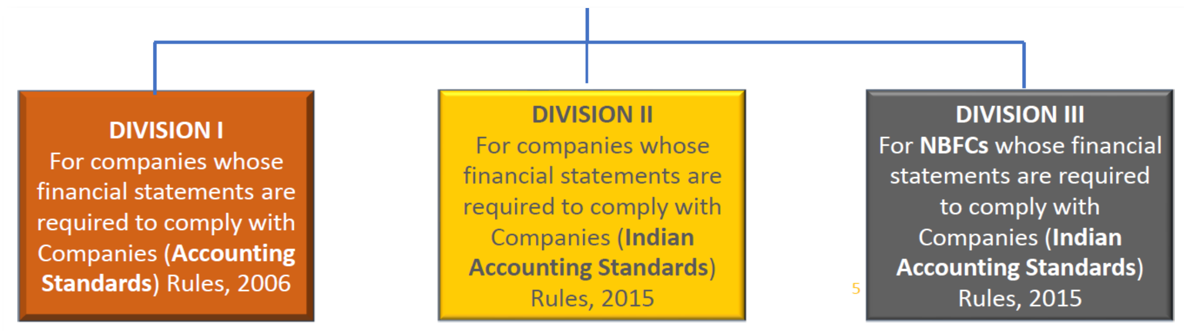
As a CA and also being a banker after going through amendments I found that some amendments are directly related to lenders and will be useful to officials of Bank working in credit while doing credit appraisal as well as while following up and monitoring the loan account. Needless to say that these amendments would be helpful while sharing information with statutory auditor of the Borrowing unit. Accordingly I have tried to explain the key things relevant and useful for credit bankers. Let's understand-

The MCA through a notification dated 24 March 2021 has issued certain amendments to Schedule III to the 2013 Act. Key Amendments are divided into three divisions:



APPLICABILITY- for Financial years beginning on or after 1stApril 2021. So credit officials will receive ABS for FY 2021-22 having these amendments.

List of amendments relevant to Bankers:

1. Note on Share Capital	6. Capital-Work-in Progress (CWIP)
2. Trade Payables ageing schedule	7. WORKING CAPITAL
3. Trade Receivables ageing schedule	8. WILFUL DEFAULTER & END USE OF FUNDS
4. Current Maturities of Long term borrowings	9. Ratios
5. Security Deposits	10. COMPANIES ACT COMPLIANCE

Applicability of Round off

For the purpose of rounding off the figures appearing in the Financial Statements, **the total income of the Company shall be considered as the basis instead of turnover** of the company.

Total Income in Rupees	Rounding Off
Less than Rs.100 crore	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
Rs.100 crore or more	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof

DIFFERENCE BETWEEN TURNOVER AND TOTAL INCOME

As per Sec 2(91) of the Companies (Amendment) Act, 2017 ,"turnover" means the gross amount of revenue recognized in the profit and loss account from the sale ,supply, or distribution of goods or on account of services rendered ,or both , by a company during a financial year;

Total Income:

a. Revenue from Operations	**XXX**
b. Other Income	**XXX**
Total Income	**XXX (Amendment)**

SUMMARY OF AMENDMENTS:

1. NOTE ON SHARE CAPITAL

The note on Share Capital in the Financial Statements shall **mention details of the Shareholding of the Promoters along with changes, if any, during the Financial Year**.

Shares held by promoters at the end of the year				% Change during the year**
S. No.	Promoter name	No. of Shares*	% of total shares**	
Total				

Similar disclosure is already there for Listed companies (LODR).

Nota bene:

Key take away for Credit officials handling large credit

i. Shares held by the promoters (More the percentage, more the stake)
ii. If there is any changes in promoter's shareholding during the FY.
iii. If Changes yes. What is the reason thereof.

2. TRADE PAYABLES AGEING SCHEDULE

The note on Trade Payables due for payment by the company shall consist of an ageing schedule with a head "FB. Trade payables due for payment"

Trade Payables ageing schedule **(Amount in Rs.)**

Particulars	Outstanding for following periods from due date of payment#				
	Less than 1 Year	1-2 years	2-3 years	More than 3 years	Total
(i) MSME					
(ii) Others					
(iii) Disputed dues – MSME					
(iv) Disputed dues – Others					

i. This disclosure has a material impact specifically on the pending/prospective litigations under Section 9 of the **Insolvency and Bankruptcy Code, 2016.**

ii. In case any operational creditor of the Company files an application under Section 9 of the IBC to initiate CIRP (Corporate Insolvency Resolution Process) upon the Company and the Company submits before the Hon'ble Adjudicating Authority that the debt of the Creditor was in dispute, the Financial Statements of the Company as available in the public domain will be scrutinized first to ensure that such debt is classified as a disputed trade payable in the notes to accounts of the Financial Statements of the Company.

iii. This disclosure also requires to mention the time period for which such debt is due which shall also help assess the point of Limitation in accordance with the provisions of the Limitation Act, 1963 for such proceeding under the Insolvency and Bankruptcy Code, 2016.

iv. Through this information Credit officials will come to know about average payable period while assessing credit limit and making credit decision.

3. Trade Receivables ageing schedule

The note on Long-Term Trade Receivables in Other non-current assets due for payment to the Company shall consist of an ageing schedule as follows:

(Amount in Rs.)

Particulars	Outstanding for following periods from due date of payment#					Total
	Less than 6 months	6 months - 1 year	1-2 years	2-3 years	More than 3 years	
(i) Undisputed Trade receivables – considered good (ii) Undisputed Trade Receivables – considered doubtful (iii) Disputed Trade Receivables considered good (iv) Disputed Trade Receivables considered doubtful						

This clause is more relevant for Bankers. Through this more elaborative details on Trade receivables will be available to Credit officials for the purpose of assessing working capital limit as well as to know collection schedule of debtors. Additionally actual (revised) level of current assets may be revisited. Officials may also exclude disputed TR while calculating different ratios looking into overall judgement.

4. Current Maturities of Long term borrowings

Nota bene:
"(v) Current Maturities of Long Term Borrowings" shall be disclosed separately under the head Short-term borrowings.

Impact of Amendment: Instead of mentioning the Current Maturities under "G. Other Current Liabilities", hereafter it is going to be disclosed as part of "F. Short Term Borrowings"

This is a merely presentation alignment won't have any impact in the calculating ratios.

5. Security Deposits

SECURITY DEPOSITS SHALL BE OMITTED FROM "L. LONG-TERM LOANS AND ADVANCES" AND INSERTED UNDER THE HEADING "M. OTHER NON-CURRENT ASSETS"

This is a merely presentation alignment won't have any impact in the calculating ratios.

6. Capital-Work-in Progress (CWIP)

For capital-work-in progress, whose completion is overdue or has exceeded its cost compared to its original plan, following CWIP completion schedule shall be given:

(a) For Capital-work-in progress, following ageing schedule shall be given:
CWIP ageing schedule

(Amount in Rs.)

CWIP	Amount in CWIP for a period of				Total*
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
Projects in progress					
Projects temporarily suspended					

**Total shall tally with CWIP amount in the balance sheet.*

From my point of view, this is one of relevant changes from lenders perspective. Bank who has given Term Loan for the specific project having implementation period. Through this status of project as well as completion time may be assessed since it will be signed by statutory auditor also. Through this half yearly or quarterly progress may be compared and officials may effective monitor the project.

7. WORKING CAPITAL **Bingo**

Whether during any point of time of the year , the company has been sanctioned working capital limits in excess off five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;

Now whatever documents borrowing company submit whether it is stock statement, quarterly progress reports, QRS, FFR or any information should be reviewed by the auditor and these should match with the books of account maintained by the Company. It will give more relief to lender. Auditor may now insist client to develop a reconciliation system with good internal controls every time statements are filed with banks and/or encourage quarterly FS to review by Statutory Auditor.

Where the company has borrowings from banks or financial institutions on the basis of security of current assets, it shall disclose the following:

i. Whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are in agreement with the books of accounts.
ii. If not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed.

8. WILFUL DEFAULTER & END USE OF FUNDS

i. Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format.
ii. Whether the company is a declared wilful defaulter by any bank or financial institution or other lender?
iii. Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported. (Old clause)
iv. Whether funds raised on short term basis have been utilised for long term purposes? If yes, the nature and amount to be indicated. (Old clause)

9. RATIOS

Ratios to be disclosed in Notes to Accounts:

i. Current ratio	vii. Trade payables turnover ratio
ii. Debt-equity ratio	viii. Net capital turnover ratio
iii. Debt service coverage ratio	ix. Net profit ratio
iv. Return on equity ratio	x. Return on capital employed
v. Inventory turnover ratio	Return on investment
vi. Trade receivables turnover ratio	

The company shall explain the items included in numerator and denominator for computing the above ratios. Explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year.

10. COMPANIES ACT COMPLIANCE

1. REGISTRATION OF CHARGES OR SATISFACTION WITH REGISTRAR OF COMPANIES

Where any charges or satisfaction is yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof shall be disclosed.

2. COMPLIANCE WITH NUMBER OF LAYERS OF COMPANIES

Where the company has not complied with the number of layers prescribed under clause (87) of section 2 of the Act read with Companies (Restriction on number of Layers) Rules, 2017, the name and CIN of the companies beyond the specified layers and the relationship/extent of holding of the company in such downstream companies shall be disclosed.

Above disclosures will help in better compliance & governance system and accordingly help the credit officials.

These are just illustrative list, where I have tried to consolidate the key amendments for the specific purpose of lenders. For overall learning and understanding please refer complete text of amendment.