

Albonair (India) Private Limited
Notes annexed to and forming part of financial statements

1. General Information

Albonair India Private Limited ("The Company") is an unlisted private company domiciled in India and governed by the Companies Act, 2013 ("Act"). The Company's registered office is situated at 1, Sardar Patel Road, Guindy, Chennai, Tamil Nadu, India. The Company is principally engaged in the development and production of exhaust after-treatment systems for on-road and off-road vehicles.

2. Significant Accounting Policies

2.1 Compliance with Indian Accounting Standards (Ind AS)

The financial statements have been prepared in accordance with Indian Accounting Standards as per the Companies (Indian Accounting Standards) Rules, 2015 as amended and notified under Section 133 of the Companies Act, 2013 (the 'Act') and other relevant provisions of the Act.

2.2 Basis of preparation of financial statements

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period as explained in the accounting policies below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in the schedule III to the Act. Based on the time between the acquisition of assets for processing and their realisation in cash and cash equivalents, the Company has determined its operating cycle as twelve months for the purpose of current – non-current classification of assets and liabilities.

The financial statements are presented in Indian Rupees (INR) which is the functional currency of the Company and all values are rounded to the nearest lakhs as per the requirement of Schedule III of the Companies Act 2013, except when otherwise indicated

Recent accounting pronouncements

Ministry of Corporate Affairs ("MCA") notifies new standard or amendments to the existing standards. There is no such notification which would have been applicable from April 1, 2020

The significant accounting policies are detailed below:

3.1 Revenue Recognition

Ind AS 115 Revenue from Contracts with Customers

Ind AS 115 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Ind AS 115 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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Revenue from Sale of Products

Revenue from sale of products is recognised when control of the asset is transferred to the customer, generally when the product is despatched to the customer or appropriated in accordance with the terms of Sale and when the Collectability of the resulting receivable is reasonably assured. With respect to revenue from sale of Exhaust After treatment system the Company operates predominantly on credit basis (30 to 45 days) to customers.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of product, the Company considers the effects of variable consideration, the existence of consideration payable to the customer, etc.

Revenue from Sale of Services

Revenue from services is recognised over the period of time as and when services are rendered in accordance with the specific terms of contract with customers. Revenue in excess of invoicing are classified as Contract assets (referred to as Unbilled revenue) while invoicing in excess of revenues are classified as Contract liabilities (referred to as Unearned revenue)

Interest Income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.) Interest income is included in other income in the statement of profit or loss.

3.2 Foreign currency transactions

Foreign currency transactions are recorded on initial recognition in the functional currency, using the exchange rate at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currency are retranslated at the rates prevailing at that date. Exchange differences that arise on settlement of monetary items or on reporting at each balance sheet date are recognized as profit or loss in the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.3 Employee benefits

Short term employee benefits

A liability is recognised for benefits accruing to employees in respect of salaries, wages, performance incentives, medical benefits and other short-term benefits in the period the related service is rendered, at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Long-term employee benefits

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

Retirement benefit costs and termination benefits

Payment to defined contribution retirement benefits plans are determined under the relevant schemes and /or statute and charged to the Statement of Profit and Loss in the period of incurrence when the services are rendered by the employees.

Payments to defined contribution plans i.e., Company's contribution to provident fund, and other funds are determined under the relevant schemes and/ or statute and charged to the Statement of Profit and Loss in the period of incurrence when the services are rendered by the employees.

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For defined benefit plans i.e. Company's liability towards gratuity (unfunded) and compensated absences (unfunded), the cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out at the end of each annual reporting period.

Defined benefit costs are comprised of:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- re-measurement.

The Company presents the first two components of defined benefit costs in profit or loss in the line item 'Employee benefits expense'. Curtailment gains and losses are accounted for as past service costs.

Re-measurement of net defined benefit liability/ asset pertaining to gratuity comprise of actuarial gains/ losses (i.e. changes in the present value resulting from experience adjustments and effects of changes in actuarial assumptions) and is reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Re-measurement recognised in other comprehensive income is reflected immediately in retained earnings and is not reclassified to profit or loss.

Termination benefits are recognised as an expense in the period in which they are incurred.

3.4 Income Taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Current tax

Current tax is determined on taxable profits for the year chargeable to tax in accordance with the applicable tax rates and the provisions of the Income Tax Act, 1961 including other applicable tax laws that have been enacted or substantively enacted.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all unused tax credits (MAT entitlement), deductible temporary differences and unused tax losses to the extent that it is probable that taxable profits will be available against which those unused tax credits, deductible temporary differences and unused losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

If there is uncertainty over tax treatment of an item, company will predict the resolution of the uncertainty. If it is probable that the taxation authority will accept the tax treatment, there will be no

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impact on the amounts of taxable profits/losses, tax bases, unused tax losses/credits and tax rates. If it is not so probable that tax authority will accept the tax treatment, company will show the effect of the uncertainty for each uncertain tax treatment by using either the most likely outcome or the expected outcome of the uncertainty.

3.5 Property, Plant and Equipment.

Cost:

Property, Plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost (net of duty/ tax credit availed) less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenses attributable to bringing the asset to its working condition and also borrowing cost in respect of qualifying assets.

Depreciation/ amortisation:

Depreciation on Property, Plant and Equipment is recognised from the date the assets are ready for their intended use so as to write off the cost of the assets less their residual values over their useful lives using the straight-line method.

Depreciation on Property, plant and Equipment which are added/disposed during the year, is provided on pro-rata basis with reference to the month of addition/ deletion. When significant parts of an item of property, plant and equipment have different useful lives they are accounted for as separate items (major components) of Property, Plant and Equipment.

The Company has elected to continue with the carrying value of all of its property, plant and equipment recognised as of April 1, 2015 (the transition date) measured as per the previous GAAP and use such carrying value as its deemed cost as of the transition date.

Estimated useful lives of the assets, based on technical assessment, which are different in certain cases from those prescribed in Schedule II to the Act, are as follows:

Classes of Property, Plant and Equipment	Useful life (years)
Plant and machinery	1 to 20 years
Furniture and fittings	2 to 8 years
Office equipment	3 to 8 years
Office equipment – Data processing system (including servers)	3 to 8 years

De-recognition:

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

3.6 Intangible Assets

Intangible assets are capitalised when it is probable that the future economic benefits that are attributable to the assets will flow to the Company and the cost of the asset can be measured reliably.

Intangible assets acquired are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortized over their respective individual estimated useful lives on a straight-line basis, commencing from the date the asset is available to the Company for its use

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and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The Company has elected to continue with the carrying value of all its intangible assets recognised as of April 1, 2015 (the transition date) measured as per the previous GAAP and use such carrying values as its deemed cost as of the transition date.

De-recognition of intangible assets:

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss when the asset is derecognised.

Estimated useful lives of the intangible assets, based on technical assessment, are as follows:

Classes of Intangible Asset	Useful life (years)
Other Software	2 to 8 years

3.7 Impairment losses

At the end of each reporting period, the Company determines whether there is any indication that its assets (property, plant and equipment and intangible assets) have suffered an impairment loss with reference to their carrying amounts. If any indication of impairment exists, the recoverable amount (i.e. higher of the fair value less costs of disposal and value in use) of such assets is estimated and impairment is recognised, if the carrying amount exceeds the recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount carried had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3.8 Leases

Transition to Ind AS 116:

Ministry of Corporate Affairs ("MCA") through Companies (Indian Accounting Standards) Amendment Rules, 2019 and Companies (Indian Accounting Standards) Second Amendment Rules, has notified Ind AS 116 Leases which replaces the existing lease standard, Ind AS 17 Leases and other interpretations. Ind AS 116 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. It introduces a single, on-balance sheet lease accounting model for lessees.

Ind AS 116 requires entity to determine whether a contract is or contains a lease at the inception of the contract. Identification of a lease requires significant judgment. The company uses significant judgement in assessing the lease term (including anticipated renewals) and the applicable discount rate. The company determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the company is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the company is reasonably certain not to exercise that option. In assessing whether the company is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, it considers all relevant facts and circumstances that create an economic incentive for the company

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to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The discount rate is generally based on the incremental borrowing rate specific to the lease being evaluated or for a portfolio of leases with similar characteristics

Ind AS 116 requires lessee to recognise a liability to make lease payments and an asset representing the right to use asset during the lease term for all leases except for short term leases and leases of low-value assets, if they choose to apply such exemptions.

The company has elected not to apply the requirements of Ind AS 116 Leases to short term leases of all assets that have a lease term of 12 months or less and leases for which the underlying asset is of low value. The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

3.9 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits with banks which are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

3.10 Inventories

Inventories are stated at lower of cost and net realisable value.

Cost of raw materials and components, stores, spares, and consumable tools comprises cost of purchases and includes taxes and duties and is net of eligible credits under CENVAT/ VAT/GST schemes. Cost of work-in-progress, work-made components and finished goods comprises direct materials, direct labour and an appropriate proportion of variable and fixed overheads, which is allocated on a systematic basis. Cost of inventories also includes all other related costs incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cost of inventories are determined as follows:

- Raw materials and components, stores, spares, consumable tools: on moving weighted average basis; and
- Work-in-progress, works-made components and finished goods: on moving weighted average basis plus appropriate share of overheads.

Cost of surplus/ obsolete/ slow moving inventories are adequately provided for.

3.11 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation it's carrying amount is the present value of those cash flows (when the effect of the time value of money is material.)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursements will be received and the amount of the receivable can be measured reliably.

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Warranties:

Provision for expected cost of warranty obligations governing sale of goods are recognised on the date of sale of the relevant products at the Management's best estimate of the expenditure required to settle the obligation which takes into account the empirical data on the nature, frequency and average cost of warranty claims regarding possible future incidences. Product warranty is estimated and made for the unexpired period with regard to obligations after considering contractual recourse on the supplier for product defects.

3.12 Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments.

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

3.13 Financial assets

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

3.13.1 Classification of financial assets

The financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets are added to the fair value of the financial assets on initial recognition.

Financial instruments that meet the following conditions are subsequently measured at amortised cost if the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments on principal and interest on the principal amount outstanding.

Financial instruments that meet the following conditions are subsequently measured at FVTOCI if the asset is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets; and the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Financial assets which are not classified in any of the above categories are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "Other Income" line item.

3.13.2 Impairment of financial assets

A financial asset is regarded as credit impaired or subject to significant increase in credit risk, when one or more events that may have a detrimental effect on estimated future cash flows of the asset have occurred. The Company applies the expected credit loss model for recognising impairment loss on financial assets (i.e. the shortfall between the contractual cash flows that are due and all the cash flows (discounted) that the Company expects to receive).

The Company applies expected credit loss model for recognising impairment loss on financial assets not designated as at FVTPL.

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Expected credit losses are measured through a loss allowance at an amount equal to:

- a. the 12 months expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- b. full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

3.13.3 De-recognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the Statement of profit and loss.

3.14 Financial liabilities and equity instruments

3.14.1 Classification as debt or equity

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

3.14.2 Equity instruments

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

3.14.3 Financial liabilities

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

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

3.14.4 De-recognition of financial liabilities

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

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4. Critical Accounting Judgments and key sources of estimation uncertainty

4.1 Use of Estimates

The preparation of financial statements in conformity with Ind AS requires management to make estimates, judgements and assumptions about the carrying amounts of assets and liabilities recognised in the financial statements that are not readily apparent from other sources. These estimates, judgements and assumptions affect the application of accounting policies and the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the period. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates (accounted on a prospective basis) are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that have been made by the management in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements and or key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2 Borrowing costs

Borrowing costs (general and specific borrowings) that are attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.3 Critical accounting estimates

4.3.1 Provision for product warranty

The Company's product warranty obligations and estimations thereof are determined using historical information on the type of product, nature, frequency and average cost of warranty claims and the estimates regarding possible future incidences of product failures. Changes in estimated frequency and amount of future warranty claims, which are inherently uncertain, can materially affect warranty expense.

4.3.2 Fair value measurements and valuation processes

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes. The Management determines the appropriate valuation techniques and inputs for the fair value measurements.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified valuers to perform the valuations. The Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes to the Financial Statements.

4.3.3 Taxation

Tax expense is calculated using applicable tax rate and laws that have been enacted or substantially enacted. In arriving at taxable profit and all tax bases of assets and liabilities, the Company determines the taxability based on tax enactments, relevant judicial pronouncements and tax expert opinions, and makes appropriate provisions which includes an estimation of the likely outcome of

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any open tax assessments / litigations. Any difference is recognised on closure of assessment or in the period in which they are agreed.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, unused tax losses, unabsorbed depreciation and unused tax credits could be utilised.

4.3.4 Inventories

An inventory provision is recognised for cases where the realisable value is estimated to be lower than the inventory carrying value. The inventory provision is estimated taking into account various factors, including prevailing sales prices of inventory item, changes in the related laws / emission norms and losses associated with obsolete / slow-moving / redundant inventory items. The Company has, based on these assessments, made adequate provision in the books.