Allied Digital Services Limited
Impairment of Financial Assets and Account Receivables with Expected Credit Loss (ECL) Policy

Purpose

The purpose of this policy is to establish guidelines and procedures for the impairment assessment of financial assets and account receivables in accordance with Ind AS 109, Financial Instruments: Recognition and Measurement. This policy aims to ensure that our financial statements accurately reflect the credit risk associated with our financial assets and account receivables and provide transparency to stakeholders.

Scope

This policy applies to all financial assets and account receivables held by the Company.

Definitions

a. **Financial Assets:** Assets that are contractual rights to receive cash or another financial asset from another party.

b. **Account Receivables:** Amounts owed to the company by customers or counterparties arising from the sale of goods or services on credit.

c. **Expected Credit Loss (ECL):** The estimated credit loss over the expected life of a financial asset or account receivable, comprising both the probability of default and the potential loss severity.

Policy Guidelines

a. **Classification and Measurement:** Financial assets and account receivables shall be classified and measured at either amortized cost, fair value through other comprehensive income, or fair value through profit or loss, as per the requirements of Ind AS 109.

b. **Recognition of ECL:** ECL shall be recognized for financial assets and account receivables measured at realizable value except for those that are credit impaired.

c. **Impairment Methodology:** ECL shall be determined based on a forward-looking approach that considers relevant information, including historical credit loss experience, current conditions, and reasonable and supportable forecasts.

d. **ECL Measurement Techniques:** ECL shall be measured using various techniques, including probability-weighted scenarios and other appropriate methods, considering relevant factors such as historical data, macroeconomic conditions, and industry-specific factors.

e. ECL Assessment Technique:

Stage -1: Ageing analysis of all financial assets & account receivables balances as per the following age-bucket

- Upto 1 year from the date of initial recognition
- 1-2 year from the date of initial recognition
- 2-3 year from the date of initial recognition
- 3 Years and above from the date of recognition

Stage-2: Based on the analysis as per stage-1, the Expected Credit Loss (ECL) provisions shall be made as per below matrix

- 1% for receivables upto 1 year from the date of initial recognition
- 5% for receivables between 1-2 year from the date of initial recognition
- 10% for receivables between 2-3 year from the date of initial recognition
- 15% for receivables between 3 Years and above from the date of recognition

Note:

1. Above provision towards ECL is irrespective of the level of risk associated with individual customers.
2. The receivables from subsidiary/group companies and govt receivables against smart city projects are excluded.

f. **Regular Assessment and Monitoring:** Financial assets and account receivables shall be regularly assessed for changes in credit risk and their corresponding stage reclassifications. Monitoring of credit risk factors shall be conducted to identify any changes that may impact the ECL measurement.

g. **Write-off and Recovery:** Financial assets and account receivables shall be written off when there is no reasonable expectation of recovery. Subsequent recoveries, if any, shall be recognized in the profit or loss.

h. **Documentation:** Adequate documentation shall be maintained to support the ECL estimation process, including the rationale, assumptions, data sources, and any significant judgments or uncertainties involved.

Roles and Responsibilities

a. **Board of Directors:** The Board is responsible for approving and overseeing the implementation of this policy, ensuring compliance with Ind AS 109, and reviewing the adequacy of ECL provisions.

b. **Management:** Management is responsible for implementing and monitoring the ECL policy, performing impairment assessments, establishing appropriate controls and procedures, and providing regular reports to the Board and stakeholders.

c. **Internal Audit:** Internal Audit shall periodically review the effectiveness of the ECL policy implementation, including the accuracy and reliability of ECL estimates, and compliance with this policy.

d. **Statutory Auditor:** The statutory auditor shall assess the reasonableness of the ECL estimates and provide an independent opinion on the adequacy of the impairment provisions in the financial statements.

Policy Review

This policy shall be reviewed periodically to ensure its continued relevance and effectiveness in accordance with any changes in Ind AS 109 or other applicable regulations.

Policy Communication and Training

This policy shall be communicated to all relevant personnel within the organization, particularly those involved in financial asset management and account receivables. Need based training programs shall be conducted to ensure understanding and compliance with the policy guidelines.

Policy Approval
This policy has been approved by the Board of Directors and shall be effective as of July 31, 2023

Company is committed to upholding the principles and requirements of Ind AS 109 and ensuring the accurate recognition and measurement of impairment for financial assets and account receivables.