KPAC

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XYZ Private Limited

Actuarial Valuation Report as at 31 December 2014
Defined Benefit - Gratuity Plan
Indian Accounting Standard AS 15 (Revised 2005)

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Content

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1 Report Highlights and Certification

1.1 Overview

I have been requested by XYZ Private Limited (the 'Company') to assist them with the preparation of financial reports in accordance with Indian Accounting Standards AS 15 (Revised 2005) for defined benefit plans relating to the Gratuity scheme for the period ending 31-12-2014.

The results set out in the Report are based on requirements of AS 15 (Revised 2005) and its application to the Plan. They have been prepared for specific requirements of AS 15 (Revised 2005) 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 the contributions or funding levels. The Report is based on my understanding of the AS 15 (Revised 2005) and its application to the scheme. This Report may not be used or relied upon by any other party or for any other purpose. I am not responsible for the consequences of any unauthorized use.

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 any such consent or 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 content. 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 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.

The valuation report is a summary of the Plan's financial position at a particular time; it does not predict the plan's future financial condition or its ability to pay benefits in the future.

The report has been prepared in accordance with applicable provisions, to the extent they are relevant and material, under the relevant Actuarial Practice Standards / Guidance Notes issued by the Institute of Actuaries of India at the current valuation date.

All numbers in this report relating to the valuation dates earlier than the current valuation date have been produced from the previous actuarial reports provided by the Company.

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

1.2 Data and Benefit Plan

To prepare this report, I have **relied on the completeness and accuracy of the information provided** to me orally and in writing by or on behalf of the Company and its employees. I have reviewed the participant data for internal consistency and general reasonableness but I have not completed any detailed validation checks on the information provided. The Company is solely responsible for the validity, accuracy and comprehensiveness of this information; if the data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information.

1.3 Valuation Assumptions

The **assumptions used in this Report are as selected by the company.** Any changes in actuarial assumptions are mentioned in this Report.

Actuarial assumptions, as discussed in the Report, may be changed from one valuation to the next because of changes in mandated requirements, plan's experience, changes in expectations about the future and other factors. To prepare this Report, actuarial assumptions, as described in this Report, are used to select a single scenario from the range of possibilities. The results of that single scenario are included in this Report. However, future is uncertain and the plan's actual experience can differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different.

The decision about benefit changes, investment policy, funding methods should be made only after careful consideration of alternative future financial conditions and scenarios and not solely on the basis of this Report.

1.4 Professional Qualification

I am available to answer any questions on the material contained in the Report, or to provide explanations or further details as may be appropriate.

I am not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest that would impair the objectivity of my work.

Khushwant Pahwa (FIAI)
Membership Number: 04446
Fellow of Institute of Actuaries of India
Email: k.pahwa@kpac.co.in

Date

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2 Summary of Results

The valuation results as at 31-12-2014 are summarised in the tables below:

2.1 Assets and Liability (Balance Sheet Position)

refer para 120 (n) of AS 15

Particulars	As on				
	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14
Present Value of Obligation	-	-	136,639,260	166,055,460	194,717,719
Fair Value of Plan Assets	-	-	109,237,644	148,739,020	174,353,919
Unrecognized Past Service Cost	-	-	-	-	-
Effects of Asset Ceiling	-	-	-	-	-
Net Asset / (Liability)	**-**	**-**	**(27,401,616)**	**(17,316,440)**	**(20,363,800)**

2.2 Expenses recognized in the Profit and Loss Account

Particulars	For the period ending				
	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14
Expenses recognized in the statement of Profit and Loss	-	-	-	20,424,735	23,383,229

2.3 Experience adjustments on Present Value of Benefit Obligation and Plan Assets

refer para 120 (n) of AS 15

Particulars	For the period ending				
	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14
(Gain) / Loss on Plan Liabilities	-	-	-	14,751,212	13,635,548
% of Opening Plan Liabilities	-	-	-	10.8%	8.2%
Gain / (Loss) on Plan Assets	-	-	-	2,767,237	1,852,470
% of Opening Plan Assets	-	-	-	2.5%	1.2%

2.4 The Company's best estimate of Contribution during the next year

36,492,639

3 Benefits and Methodology

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures. The calculations in this report are consistent with my understanding of AS 15 (Revised 2005).

3.1 The Benefit Valued

refer para 120 (b) of AS 15

The benefit valued in this Report are summarised below:

Type of Plan	Defined Benefit
Employer's Contribution	100%
Employee's Contribution	Nil
Salary for calculation of Gratuity	Last drawn salary
Normal Retirement Age	58 Years
Vesting period	5 Years
Benefit on normal retirement	Same as per the provisions of the Payment of Gratuity Act, 1972 (as amended from time to time).
Benefit on early retirement / termination / resignation / withdrawal	Same as normal retirement benefit based on the service upto the date of exit.
Benefit on death in service	Same as normal retirement benefit and no vesting period condition applies.
Limit	No Limit
Gratuity formula	15/26 * Last drawn salary * Number of completed years

3.2 Actuarial Valuation Method

The valuation has been carried out using the Project Unit Credit Method as per AS 15 (refer paragrah 65 of AS 15) to determine the Present Value of Defined Benefit Obligations and the related Current Service Cost and, where applicable, Past Service Cost.

4 Actuarial Assumptions

I have used actuarial assumptions selected by the Company. The Company has been advised that the assumptions need to be set up based on Para 73 to Para 91 of AS15 (Revised 2005).

4.1 Financial Assumptions

refer para 120 (l) of AS 15

The principal financial assumptions used in the valuation are shown in the table below:

Particulars	As on	
	31-Dec-13	31-Dec-14
Discount rate (per annum)	7.75%	8.00%
Salary growth rate (per annum)	9.50%	9.50%
Expected rate of return on plan assets (per annum)	7.75%	8.00%

4.2 Demographic Assumptions

Particulars	As on	
	31-Dec-13	31-Dec-14
Mortality Rate	100% of IALM 94-96	100% of IALM 06-08
Withdrawal rates, based on age: (per annum)		
Up to 30 years	3%	3%
31 - 44 years	2%	2%
Above 44 years	1%	1%

Please refer section 7 (7.2) and 8 (8.1 and 8.2) to see how the assumption are derived.

Table of sample mortality rates from Indian Assured Lives Mortality 2006-08

Mortality (per annum)		
Age	**Male**	**Female**
20 years	0.089%	0.089%
25 years	0.984%	0.984%
30 years	0.106%	0.106%
35 years	0.128%	0.128%
40 years	0.180%	0.180%
45 years	0.287%	0.287%
50 years	0.495%	0.495%
55 years	0.789%	0.789%
60 years	1.153%	1.153%
65 years	1.700%	1.700%
70 years	2.585%	2.585%

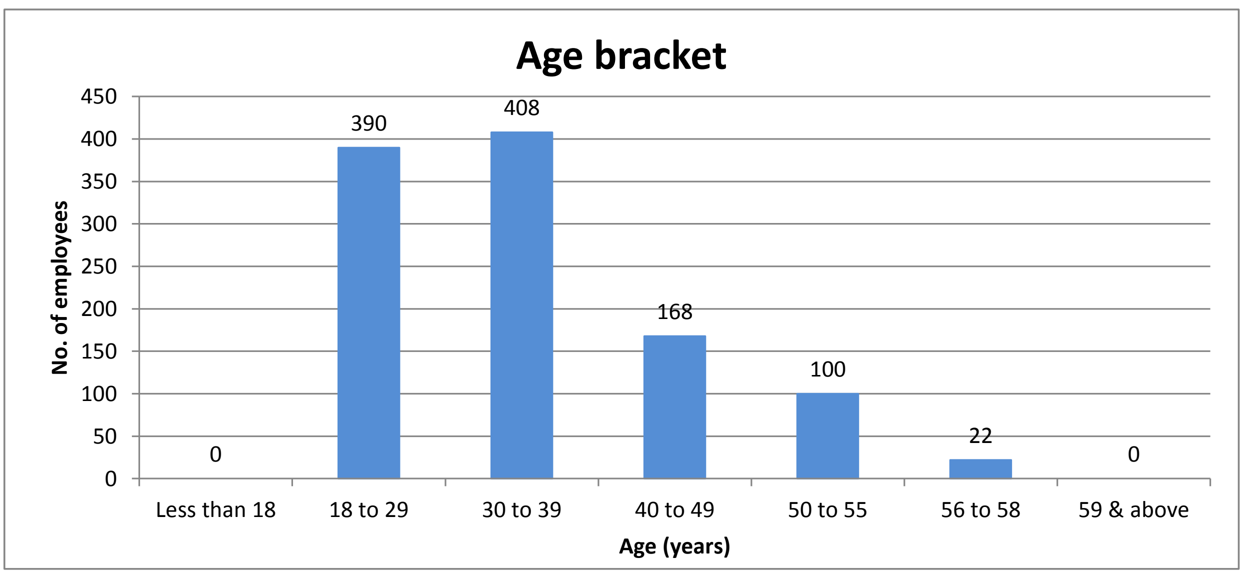
5 Membership Status

The defined benefit obligation for the period ending 31-12-2014 is based on the member data provided by the Company. The summary statistics for the data as follows:

5.1 Summary of Membership Status

Particulars	As on	
	31-Dec-13	31-Dec-14
Number of employees	1,137	1,088
Total monthly salary (Rs.)	19,455,457	22,280,683
Average past service (years)	11.07	11.51
Average age (years)	35.16	34.81
Average remaining working life (years)	22.84	23.19
Number of completed years valued	12,587	12,523

5.2 Age Analysis (as at 31-12-2014)



6 Valuation Results

The valuation results for the defined benefit gratuity plan as at 31-12-2014 are produced in the tables below:

6.1 Changes in the Present Value of Obligation

refer para 120 (c) of AS 15

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Present Value of Obligation as at the beginning	**136,639,260**	**166,055,460**
Acquisition Adjustment	-	-
Interest Cost	10,589,543	12,869,298
Past Service Cost	-	-
Current Service Cost	13,874,162	15,918,790
Curtailment Cost	-	-
Settlement Cost	-	-
Benefits Paid	(3,277,265)	(8,100,714)
Actuarial (Gain) / Loss on the Obligation	8,229,760	7,974,885
Present Value of Obligation as at the end	**166,055,460**	**194,717,719**

6.2 Changes in the Fair Value of Plan Assets

refer para 120 (e) of AS 15

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Fair Value of Plan Assets as at the beginning	**109,237,644**	**148,739,020**
Acquisition Adjustment	-	-
Expected Return on Plan Assets	9,501,493	11,527,274
Employer's Contributions	30,509,911	20,335,869
Employee's Contributions	-	-
Benefits Paid	(3,277,265)	(8,100,714)
Actuarial Gain / (Loss) on the Plan Assets	2,767,237	1,852,470
Fair Value of Plan Assets as at the end	**148,739,020**	**174,353,919**

6.3 Fair Value of Plan Assets

refer para 120 (k) of AS 15

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Fair Value of Plan Assets as at the beginning	**109,237,644**	**148,739,020**
Acquisition Adjustment	-	-
Actual Return on Plan Assets	12,268,730	13,379,744
Employer's Contributions	30,509,911	20,335,869
Employee's Contributions	-	-
Benefits Paid	(3,277,265)	(8,100,714)
Fair Value of Plan Assets as at the end	**148,739,020**	**174,353,919**

6.4 Expenses Recognised in the Profit and Loss Account

refer para 120 (g) of AS 15

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Current Service Cost	13,874,162	15,918,790
Past Service Cost	-	-
Interest Cost	10,589,543	12,869,298
Expected Return on Plan Assets	(9,501,493)	(11,527,274)
Curtailment Cost	-	-
Settlement Cost	-	-
Net Actuarial (Gain) / Loss recognised in the period	5,462,523	6,122,415
Expenses Recognised in statement of Profit and Loss	**20,424,735**	**23,383,229**

6.5 Amount for the Current Period

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Actuarial (Gain) / Loss for the period - Present Value of Obligation	8,229,760	7,974,885
% of Opening Present Value of Obligation	6.0%	4.8%
Actuarial Gain / (Loss) for the period - Fair Value of Plan Assets	2,767,237	1,852,470
% of Opening Fair Value of Plan Assets	2.5%	1.2%
Total Actuarial (Gain) / Loss for the period	**5,462,523**	**6,122,415**
Actuarial (Gain) / Loss recognised in the period	5,462,523	6,122,415
Unrecognised Actuarial (Gain) / Loss in the period	-	-
Experience Adjustment on Present Value of Obligation - Loss / (Gain)	**14,751,212**	**13,635,548**
Experience Adjustment on Fair Value of Plan Assets - (Loss) / Gain	**2,767,237**	**1,852,470**

6.6 Movement in the Liability recognized in the Balance Sheet

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Present Value of Obligation as at the beginning	**136,639,260**	**166,055,460**
Expenses Recognized in statement of Profit and Loss	20,424,735	23,383,229
Benefits Paid	(3,277,265)	(8,100,714)
Actual Return on Plan Assets	12,268,730	13,379,744
Acquisition Adjustment	-	-
Present Value of Obligation as at the end	**166,055,460**	**194,717,719**

6.7 Major categories of Plan Assets (as percentage of Total Plan Assets)

refer para 120 (h) of AS 15

Particulars	As on	
	31-Dec-13	31-Dec-14
Government of India securities	-	-
State Government securities	-	-
High quality corporate bonds	-	-
Equity shares of listed companies	-	-
Property	-	-
Special Deposit Scheme	-	-
Funds managed by Insurer	100%	100%
Bank balance	-	-
Other Investments	-	-
Total	**100%**	**100%**

6.8 Bifurcation of Present Value of Obligation at the end of the year as per revised Schedule VI of the Companies Act, 1956

Particulars	As on	
	31-Dec-13	31-Dec-14
Current Liability (Short term)	6,950,381	11,981,260
Non-Current Liability (Long term)	159,105,079	182,736,459
Present Value of Obligation as at the end	**166,055,460**	**194,717,719**

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7 Glossary

7.1 Balance Sheet related terms

Present Value of Defined Benefit Obligation: It is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Fair Value of Plan Assets: The assets out of which the obligations have to be settled, measured at their market value.

Unrecognised Past Service Cost: It is the portion of past service cost that has not yet been recognised as a part of the expense.

Funded Status: This is the excess/(shortfall) of the fair value of plan assets over the Present Value of Defined Benefit Obligation.

Current Liability (Short term): The liability estimated on an undiscounted basis which is expected to be paid out within twelve months of the current valuation date.

Non Current Libility (Long term): The liability which is not expected to be paid out within twelve months of the current valuation date.

7.2 Profit and Loss Account related terms

Expenses: It is the amount recognised in profit and loss account, calculated as net total of current service cost, interest cost, expected return of assets, actuarial gains / losses, past service cost (if any) and the effects of curtailment or settlements (if any). It can also be calculated as a change in the Present Value of Obligation during the period plus the benefits paid less actual return on plan assets.

Interest Cost: It is the increase during the period in the present value of the defined benefit obligation which arises because the benefits are one period closer to settlement.

Current Service Cost: It is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Past Service Cost: It is the change in the present value of obligation for employee service in the prior periods, resulting in the current period from the introduction of, or changes to, post employment benefits or other long-term employee benefits.

Actuarial Gain/Loss: It comprises of the following two components:
i) **Experience Adjustments:** The effect of differences between the previous actuarial assumptions and what has actually occurred.
ii) The effect of **changes in actuarial assumptions**.

Curtailment Cost: It is the cost that arises due to an event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits of some or all of their future services.

Settlement Cost: It is the cost that arises due to an event where an enterprise enters into a transaction that eliminates all further obligations for part or all of the benefits provided under a defined benefit plan.

Expected Rate of Return: The expected return on assets over the accounting period, based on an assumed rate of return. The same is dertermined by considering the yield earned in past as well as current prevailing yield.

Actual Rate of Return: The return earned by the accumulated fund assets in a year due to interest, dividends, and realized and unrealized changes in fair market value of plan assets.

7.3 Method and Assumptions related terms

Discount Rate: Discount rate is the rate which is used to discount future benefit cashflows to determine the present value of the defined benefit obligation at the valuation date. The rate is based on the prevailing market yields of Indian government bonds at the valuation date for the expected term of the obligation.

Salary Escalation Rate: The rate at which salaries are expected to escalate in future. It is used to determine the benefit based on salary at the date of separation.

Attrition Rate: The reduction in staff/employees of a company through normal means, such as retirement and resignation. This is natural in any business and industry.

Mortality Rate: Mortality rate is a measure of the number of deaths (in general, or due to a specific cause) in a population, scaled to the size of that population, per unit of time.

Projected Unit credit Method: The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The Projected Unit Credit Method requires an enterprise to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations).

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8 Frequently Asked Questions

8.1 How should the discount rate be determined?

As per para 78 of Accounting Standard 15 (Employee Benefits) requires that "the rate used to discount post-employement benefit obligations (both funded and unfunded) should be determined by reference to market yields at the balance sheet date on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the post-employment and benefit obligation.

It can be verified by visiting websites publishing economic data/indicators such as:
http://www.investing.com/rates-bonds/india-30-year-bond-yield-historical-data
http://www.tradingeconomics.com/india/government-bond-yield

8.2 How to determine the salary growth rate?

Salary growth rate is one of the important assumptions used in valuation of gratuity benefit. As per para 84 of the Accounting Standard 15 (Employee Benefits), it should take into account inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

Salary growth rate can be typically seen as comprising of three components:

1) **Inflation Component**: The most basic component of salary growth rate is the 'cost-of-living' increase given by the entity to the employees. Typically, this component is, over a long term, closely linked to the Consumer Price Inflation (CPI) Index.

   Also, since inflation is a common theoretical component of both long-term salary and long-term interest rates, salary growth rate is expected to be closely linked to the discount rate used in valuation. In other words, it can be argued that an increase in discount rate should result in a consistent increase in the inflation component of the Salary Growth Rate.

2) **Productivity Component**: The productivity component of the salary growth rate represents labour's share of company-based (or group-based) productivity gains (or economies of scale). This component is typically higher in case of companies / industries that are new and experiencing high growth whilst lower in case of companies / industries that have achieved scale and growth is stable.

3) **Merit Component**: The merit component denotes the individual-based productivity gains achieved by the employee over his working career. This component typically manifests itself in the increase in salaries given on promotions but can also be given to employees in terms of higher than average increase in salaries (without promotions).

Common practice in determining salary growth rate assumption is to choose expected long-term rate rather than currently observed rates. However, discrepancy between the assumption and current trends must be observed and where such a discrepancy is expected to persist for some time, the Company may use a non uniform projection year based assumption (for e.g. 10% p.a. in next 3 years and 8% p.a. thereafter).

8.3 What does significant actuarial gain / loss on liability represent?

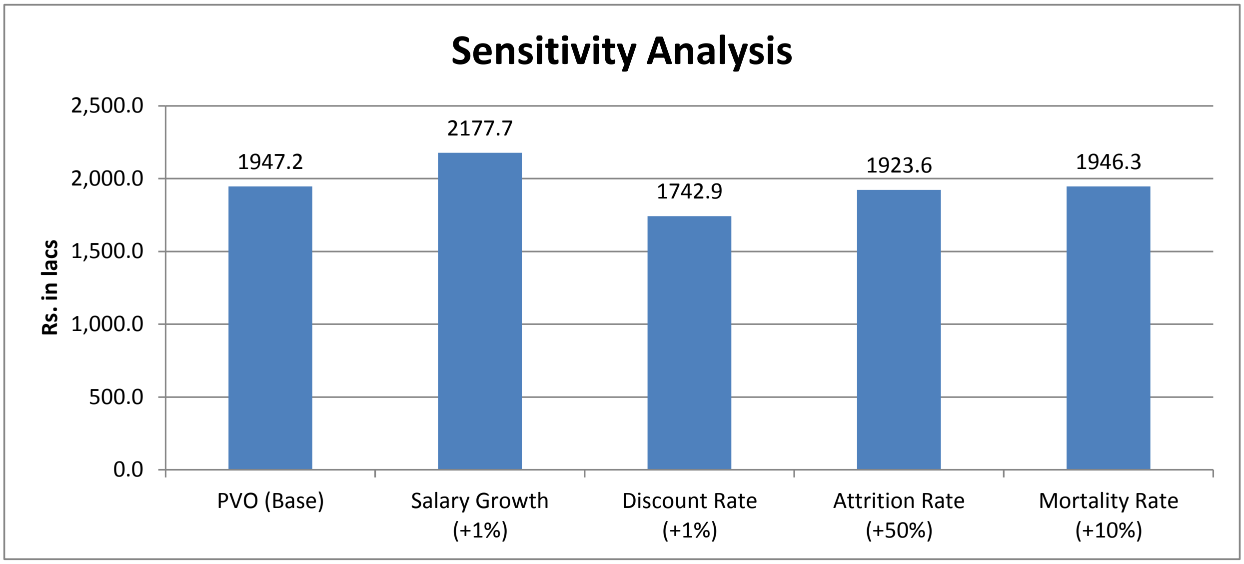
Significant actuarial gain / loss in movement of present value of obligation represents either or both:

1) **Significant change in assumptions**: This can be a change in **financial** (e.g. discount rate or salary growth rate) or **demographic** (e.g. attrition) assumptions used in closing valuation vis-a-vis opening valuation. For example, a decrease in discount rate or an increase in salary growth rate results increase in the liability, giving rise to actuarial loss.

2) **Experience variance**: This represents that actual experience during the period was different from the assumptions used in the previous actuarial valuation. For example, if the assumed salary growth rate was 5% p.a. whereas the salary growth rate actually given to employees during the period was 10%, a significant experience loss would arise. **A persistent and significant experience variance represents that the assumptions used in valuations are not in line with actual experience**. A persistent and significant experience loss may be a cause of concern.

9 Additional Information Sheet

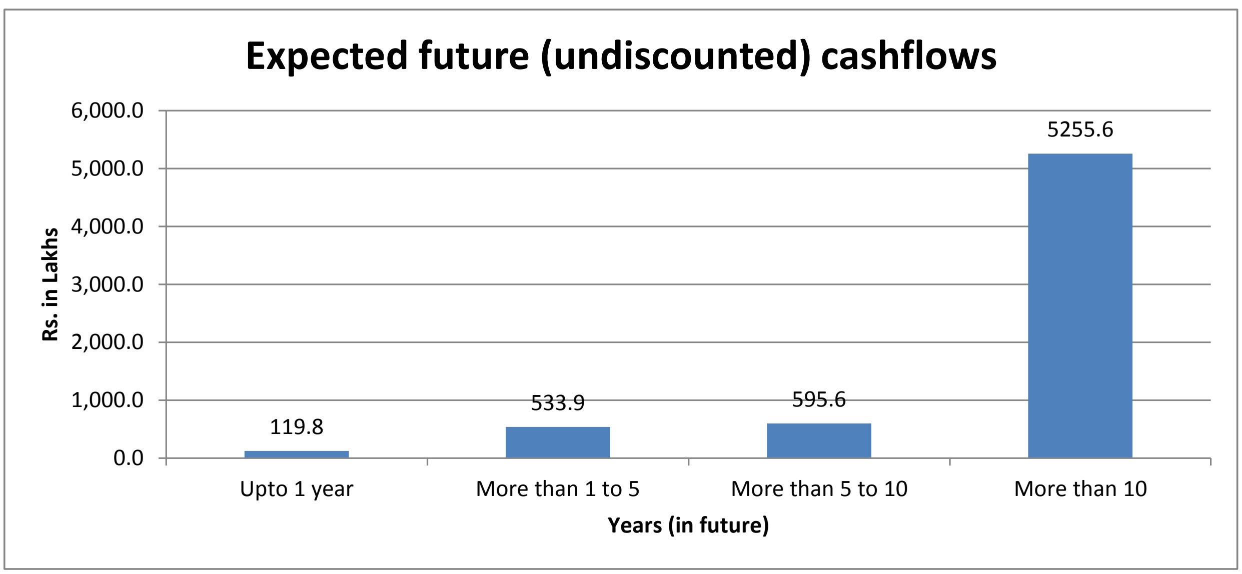
9.1 Sensitivity of Present Value of Obligation to key assumptions



9.2 Nature of Liability

Duration of Liability (weighted by discounted cashflows) 12 years

Expected future (undiscounted) cash flows:

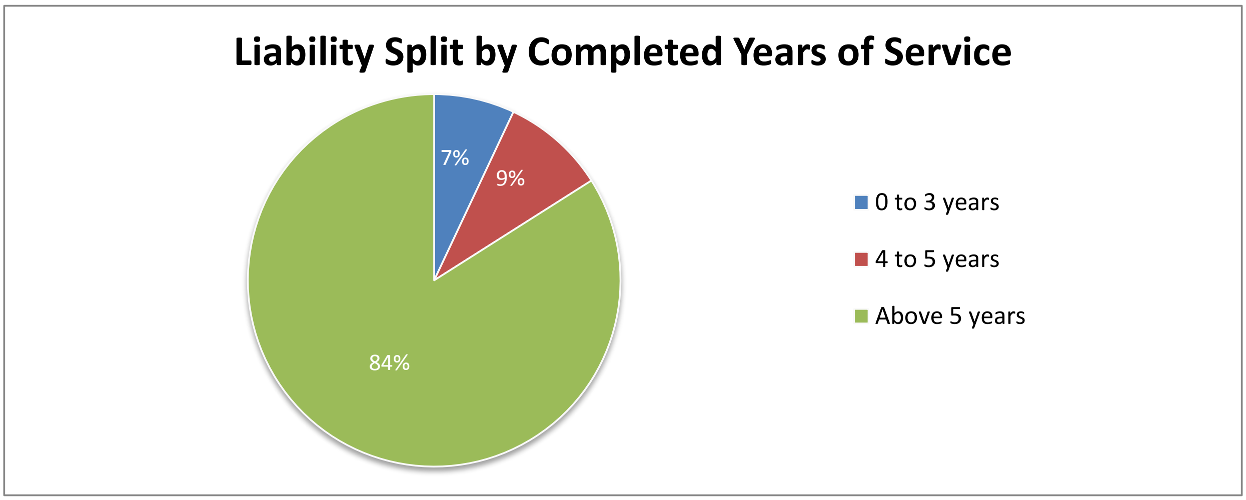


9.3 Windup Liability / Discontinuance Liability

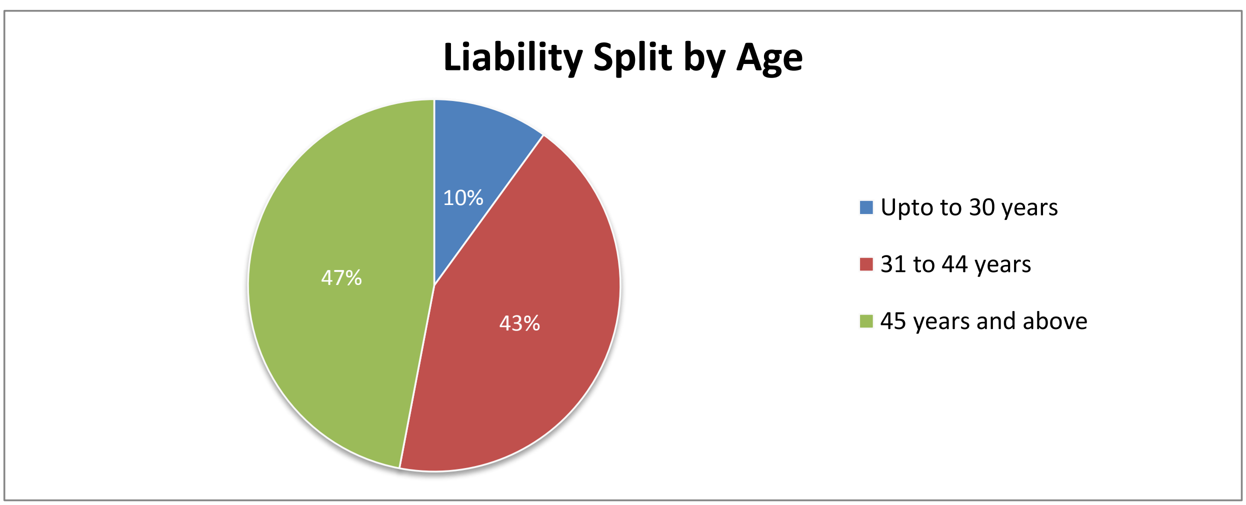
Particulars	31-Dec-14
Discontinuance Liability *	172,189,140
Present Value of Obligation	194,717,719
Ratio (Present Value of Obligation / Discontinuance Liability)	113%

* **Discontinuance liability** is the amount that would be payable to the employees if all the obligations were to be settled immediately. It has been calculated ignoring the vesting criteria.

9.4 Gratuity Liability Split by Completed Years of Service



9.5 Gratuity Liability Split by Age



10 Disclosure Requirments As Per Accounting Standard 15

Following discloures are required as per AS 15 for a Defined Benefit Plan -

S.No	Reference	Title	Items in AS 15 Report
1	Para 120(a)	Accounting policy for recognisation of Actuarial Gain / Loss	-
2	Para 120(b)	General Description of Type of Plan	3.1
3	Para 120(c)	Reconciliation of Opening and Closing balances of the Present Value of Defined Benfit Obligation	6.1
4	Para 120(d)	Analysis of Defined Benefit Obligation arising from Plans that are wholly unfunded / wholly funded / partly funded	N/A as this report pertains to one defined benefit plan
5	Para 120(e)	Reconciliation of Opening and Closing balances of the Fair Value of Plan Assets	6.2
6	Para 120(f)	Amount to be Recognised in the Balance Sheet	2.1
7	Para 120(g)	Expense Recognised in the Statement of Profit and Loss	6.4
8	Para 120(h)	Percentages or amount that each major category constitutes of the fair value of total plan assets	6.7
9	Para 120(i)	Amounts included in fair value of plan assets for each category and any property occupied by, or other assets	-
10	Para 120(j)	Description of the basis used to determine the overall expected return of assets	7.2
11	Para 120(k)	Actual Return on Plan Assets, as well as actual return on any reimbursment reight recognised as an asset	6.3
12	Para 120(l)	Principal Actuarial Assumptions used as at balance sheet date	4
13	Para 120(m)	Effect of an increase and decrease of one percentage point in the assumed medical cost trend rates	N/A
14	Para 120(n)	Present Value of Obligation and Experience Adjustments for the current and previous four periods	2.1 and 2.3
15	Para 120(o)	Best estimate contribution expected to be paid during the annual period beginning after the balance sheet date	2.4