

Ind AS 118: Redefining Financial Storytelling for Investors



Dr. Anand Banka
Partner/ Risk & Quality -
Technical Accounting Lead
Audit & Assurance
M S K C & Associates LLP
- A member firm of BDO
International

Introduction

In India's boardrooms and investment committees, financial performance is often debated less on what is reported and more on how it is interpreted. Over time, a parallel language of "adjusted EBITDA," "core profit," and "exceptional items" has emerged - shaping investor perception as much as, if not more than, the audited numbers themselves. The result is a peculiar paradox: financial statements are technically robust, yet comparability and clarity remain elusive.

This is particularly noteworthy given that the preparation and presentation of financial statements in India are governed by the structured requirements of Schedule III to the Companies Act, 2013. Schedule III prescribes a uniform format for presenting financial statements, including the Statement of Profit and Loss, with the objective of ensuring consistency and comparability. Yet, despite this standardised framework, variations in interpretation, classification, and supplemental performance measures continue to create divergence in how financial performance is understood in practice.

The proposed Standard Ind AS 118, aligned with IFRS 18, seeks to reset this equilibrium.

At first glance, the Standard appears to address presentation - a reshuffling of line items and subtotals. In reality, its implications are far more consequential. It challenges the flexibility companies have historically exercised in narrating financial performance and replaces it with a structured, disciplined framework anchored in consistency and transparency. In doing so, it shifts the centre of gravity from management-defined, non-comparable non-GAAP measures to standardised and auditable performance metrics.

For investors, this represents a move toward sharper insight and reduced noise. For directors and audit committees, it raises the bar on oversight and accountability. And for India's capital markets, it marks a critical step toward greater credibility in an increasingly global and scrutinised investment landscape.

Why This Matters

This reform is particularly timely. India's capital markets have witnessed a surge in retail participation in recent years, with investors increasingly relying on headline metrics such as EBITDA, operating margins, and "adjusted" earnings. Concurrently, companies have broadened their use of management-defined performance measures to shape financial narratives—often without consistent reconciliation or standardisation, a common example being the widespread use of "exceptional items." The result is an environment where narrative-driven interpretations increasingly overshadow the underlying financial statements, influencing investor perception more than the reported numbers themselves.

Ind AS 118 seeks to correct this imbalance by introducing clearly defined categories—operating, investing, and financing—along with mandatory subtotals such as operating profit. By reducing flexibility in classification and presentation, it enhances comparability across companies within sectors. For investors, this translates into a more reliable basis for benchmarking performance and making informed capital allocation decisions.

A particularly significant change is the introduction of **Management Performance Measures (MPMs)**. Adjusted metrics—such as adjusted EBITDA, adjusted EPS, and constant currency growth—must now be explicitly disclosed, reconciled to Ind AS-defined numbers, and explained. This introduces long-overdue discipline and enables users of financial statements to distinguish between sustainable performance and management adjustments.

Sectoral Implications

The impact of these changes becomes clearer when viewed through the lens of specific sectors in India.

One of the most significant, yet less discussed, implications of the proposed Ind AS 118 for India relates to the **presentation of expenses**, particularly in the manufacturing sector.

A large number of Indian manufacturing companies currently incur expenses **by nature**, with a significant portion of key production-related costs aggregated under "Other Expenses." This often obscures visibility into cost structures and makes it difficult for investors to derive critical metrics such as Gross profits, Gross margins and Cost of goods sold (COGS).

Under the framework proposed by Ind AS 118, there is likely to be a **shift towards presentation by function**. This will enable clearer identification of the cost of sales, distribution expenses, administrative overheads, etc.

This shift allows for direct computation of gross margins—bringing Indian manufacturing reporting in line with global norms and significantly strengthening comparability across companies.

In the IT sector, companies frequently report adjusted operating margins and growth metrics that exclude one-offs or currency effects. While useful, these have lacked standardisation.

With MPM disclosures, such adjustments will now be reconciled and explained, allowing investors to assess whether exclusions are genuinely non-recurring or form part of a recurring pattern that inflates performance.

In infrastructure and capital-heavy sectors, the distinction between operating performance and financing costs is critical. Significant borrowing and interest costs can often blur true performance. The clearer segregation mandated under the proposed Ind AS 118 improves visibility into Core operating efficiency and Leverage-driven returns. This is particularly valuable for both equity investors and lenders assessing risk and sustainability.

Large, diversified conglomerates in India present another interesting case. With operations spanning multiple sectors, including manufacturing, energy, infrastructure, retail and financial, the classification of income and expenses can significantly influence how performance is perceived. Ind AS 118's requirement for structured categorisation will enhance transparency, enabling stakeholders to better understand the underlying drivers of profitability.

Governance Perspective

From a governance standpoint, Ind AS 118 significantly elevates expectations for boards and audit committees.

With SEBI already tightening oversight around disclosures, investor communication, and transparency, this standard reinforces regulatory intent by embedding discipline into financial reporting. Audit committees will need to focus more closely on the definition and consistency of MPMS, the rationale for adjustments and the alignment between reported numbers and investor messaging.

The role of regulator is expected to remain central in this transition. Heightened scrutiny of earnings presentations and adjusted metrics is likely, and over time, regulatory guidance on MPM usage may emerge. This will further strengthen the linkage between audited financials and market communication, reducing the risk of selective or misleading disclosures.

Implementation Challenges

Despite its benefits, the implementation of Ind AS 118 in India will not be without challenges. Companies will need to reconfigure their chart of accounts and reporting systems, enhance data granularity for classification and disclosure and revisit internal KPIs and performance reporting frameworks.

Equally important is the cultural shift required. Many organisations have historically relied on EBITDA and similar metrics as primary performance indicators. Moving toward standardised operating profit as a central metric will require change across finance functions, leadership teams, and investor relations.

Certain sectors—such as financial services and platform-based businesses—may also face interpretational complexities requiring additional guidance.

However, these challenges should be viewed in the context of the broader transformation that the standard enables. By enhancing comparability, tightening discipline around performance measures, and improving the clarity of financial statements, Ind AS 118 strengthens the overall credibility of financial reporting in India.

Conclusion

Ind AS 118 represents far more than a change in presentation—it is a **shift toward comparability-driven capital discipline** in Indian markets.

As the standard takes hold, the gap between “reported performance” and “explained performance” will narrow. Investors will rely less on adjusted narratives and more on standardised, audited numbers. Boards will face greater accountability for how performance is measured and communicated. And regulators will have a stronger foundation for ensuring consistency and fairness.

Looking ahead, this could trigger a deeper transformation. Over time, companies that rely excessively on adjustments may find it harder to sustain credibility, while those with strong underlying economics will stand out more clearly. Financial reporting, in effect, will become less about persuasion and more about precision.

Further, one of the emerging considerations in the Indian context is whether Schedule III of the Companies Act, 2013, would require amendments to align with the principles proposed to be introduced under Ind AS 118, or whether the existing framework already provides sufficient flexibility to accommodate these requirements. While Schedule III prescribes a structured format for presentation, its ability to absorb the enhanced classification and disclosure principles under Ind AS 118 remains a subject of discussion. Preparers of financial statements would therefore need to closely monitor regulatory developments in this area to ensure timely and compliant implementation.

The next phase of Indian capital markets will not be defined by how well companies tell their story—but by how transparently their numbers speak for themselves.