Notes to consolidated financial statements for the year ended March 31, 2018

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 45 and 46 for further disclosures.

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Group estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision against obsolete and slow-moving items. The Group reassesses the estimation on each balance sheet date.

Impairment of financial assets

The Group assesses impairment based on expected credit losses (ECL) model on trade receivables.

The Group uses a provision matrix to determine impairment loss allowance on the portfolio of trade receivables. The provision matrix is based on its histroically observed default rates over the expected life of the trade receivable and is adjusted for forward looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, associates and joint venture as at 31 March 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are entities controlled by the Group. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed off during the year are included in the consolidated financial statements from the date the Group gains control and until the date the Group ceases to control the subsidiary.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

The financial statements of each of the subsidiaries, associates and joint ventures, other than Polycoat Technologies 2010 Limited, Sinagro Produtos Agropecuarios SA. Group, 3SB Produtos Agricolas SA and Serra Bonita Sementes SA used for the purpose of consolidation are drawn up to same reporting date as that of the Company, i.e., year ended on 31 March. The audited consolidated financial statements of Sinagro Produtos Agropecuarios SA. Group, audited financial statements of 3SB Produtos Agricolas SA,Serra Bonita Sementes SA and Polycoat Tecnologies 2010 Limited for the year ended 31st December 2017 have been considered for the purpose of consolidation after making necessary adjustments for the effects of significant transactions or events, if any that occur till the reporting date of the group i.e. March 31.

Consolidation procedure:

(a) Combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries. For this purpose, income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date.