TECHNICAL GUIDE ON DISCLOSURE AND REPORTING OF KEY PERFORMANCE INDICATORS (KPIs) IN OFFER DOCUMENTS

The Institute of Cost Accountants of India
(Statutory body set up under an Act of Parliament)
HQ: CMA Bhawan, 12, Sudder Street, Kolkata-700 016
Delhi Office: CMA Bhawan, 3, Institutional Area,
Lodhi Road, New Delhi-110 003
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Prologue

This Technical Guide has been prepared in accordance with the provisions contained in the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 [hereinafter referred to as "ICDR Regulations"], as amended to date, with regard to the disclosures for 'Basis for Issue Price' made by an Issuer Company in its Offer Document.

In addition, following documents shared by the Securities and Exchange Board of India (SEBI) with the Institute of Cost Accountants of India [hereinafter referred to as "the Institute"] have also been relied upon:

1. Consultation Paper issued by SEBI on February 18, 2022 relating to Disclosures for 'Basis for Issue Price' section in offer document under ICDR Regulations

2. List of illustrative Key Performance Indicators (KPIs) disclosed in the offer documents

3. Supplementary Note giving broad details of following four types of KPIs

    a. GAAP Financial Measures
    b. Non-GAAP Financial Measures
    c. Non-Financial Measures (part of financial reporting)
    d. Operational Measures (not part of financial reporting)

Further, this Technical Guide is based on the following amendment inserted in ICDR Regulation by issue of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2022, w-e-f 21.11.2022, that shall be applicable for all issues where Red Herring Prospectus is filed with the Registrars of Companies on or after the 21.11.2022.

> *"KPIs disclosed in the offer document shall be certified by the statutory auditor(s) or Chartered Accountants or firm of Charted Accountants, holding a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India or by Cost Accountants, holding a valid certificate issued by the Peer Review Board of the Institute of Cost Accountants of India."*

As per the aforesaid amendment, SEBI has recognized the scope of services that may be rendered by the Cost Accountants in practice who holds a valid peer review certificate issued by the Peer Review Board of the Institute of Cost Accountants of India (ICAI) for verification & certification of Key Performance Indicators (KPIs) disclosed by the Issuer Company in its Offer Document. Hence, the Institute felt necessary to issue a Technical Guide for the benefit of its Members in practice who may get engaged in rendering the abovementioned services to the issuer companies.

The members should utilize this Technical Guide in light of his/her professional judgement and facts and circumstances involved in each particular case for verification/ certification of KPIs disclosed in the offer documents by issuer companies. The Council of the Institute disclaims any responsibility or liability that may occur, directly or indirectly, as consequence of the use and application of this Technical Guide.

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Chapter 1 INTRODUCTION

About SEBI

The Securities and Exchange Board of India was constituted as a non-statutory body on April 12, 1988 through a resolution of the Government of India.

The Securities and Exchange Board of India was established as a statutory body in the year 1992 and the provisions of the Securities and Exchange Board of India Act, 1992 (15 of 1992) came into force on January 30, 1992

The basic functions of the Securities and Exchange Board of India is "to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto"

ICDR Regulations

The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 were notified on 11th September, 2018. Since then, these regulations were amended from time-to-time, the latest being on November 21, 2022.

All entities intending to issue offer documents to make an initial public offer, further public offer, rights issue offer, preferential issue offer, or bonus issue etc. are required to comply with the extant provisions of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended to date.

Why this Technical Guide

SEBI has amended its ICDR Regulations with respect to disclosure of Key Performance Indicators (KPIs) in the offer documents and has included "Cost Accountants" holding a valid peer review certificate issued by the Peer Review Board of the Institute of Cost Accountants of India ("the Institute") for audit, verification and certification of various financial, non-financial & operational performance parameters and key performance ratios/indicators.

Hence, the Institute has issued this Technical Guide for the benefit of its Members in practice who may get engaged in rendering the abovementioned services to the issuer companies.

Applicability

The Technical Guide on Disclosure and Reporting of Key Performance Indicators (KPIs) in Offer Documents, as issued by the Institute, is applicable to the following stakeholders, subject to the overriding applicability of ICDR Regulations in respect of the Initial Public Offers (IPOs), Follow-up Public Offers (FPOs), etc.:

a) Issuer company with respect to their responsibilities and obligations to comply with the disclosure and reporting of Key Performance Indicators (KPIs) in the offer documents in compliance with the provisions of ICDR Regulations.

b) Lead Managers with respect to their responsibilities and obligations to undertake due diligence and ensure compliance of all requirements by the issuer company with respect to the disclosure and reporting of Key Performance Indicators (KPIs) in the offer documents in accordance with the provisions of ICDR Regulations.

c) "Statutory Cost Auditors", "Independent Cost Accountants" or "Firm of Independent Cost Accountants" that holds a valid peer review certificate issued by the Peer Review Board of the Institute, who are engaged in the audit, verification and certification of financial, non-financial, and operational Key Performance Indicators (KPIs) as disclosed & reported by the issuer company in its offer documents in compliance with the provisions of ICDR Regulations.

Notes:

1. *This Technical Guide shall not be applicable to the sale/issue of shares or securities to pre-IPO Indian and/or Foreign Investors.*
2. *For the purpose of this Technical Guide, the terms "Statutory Cost Auditors", "Independent Cost Accountant" or "Firm of Independent Cost Accountants" that holds a valid peer review certificate issued by the Peer Review Board of the Institute, shall be hereinafter collectively referred to as "CMAs in Practice".*

Important Appendices

Before accepting and executing any assignment relating to the verification and certification of KPIs disclosed by the issuer company in its offer document, Members are advised to study and fully familiarize with the applicable provisions of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, and the Companies Act, 2013, as amended to date. Members should also update themselves with any further amendments issued in these and other related legislative documents, after the date of publication of this Technical Guide. In addition, they should become fully conversant with the notified Generally Accepted Accounting Principles (GAAP), Indian Accounting Standards (Ind AS), and Accounting Standards (AS). For quick reference, following extracts are given in a separate document which is available on the Institute's website. Members can access this by clicking on the link https://icmai.in/TG/KPIs/Appendices

- Appendix-I: Brief extracts of the relevant provisions of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.
- Appendix-II: Relevant provisions of the Companies Act, 2013 as applicable to the issue/sale of shares & securities.
- Appendix-III: Brief notes on the Generally Accepted Accounting Principles (GAAP), Indian Accounting Standards (Ind AS), and Accounting Standards (AS).

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Chapter 2 Key Performance Indicators (KPIs)

What are KPIs

KPIs are numerical measures of the issuer company's historical financial or operational performance and financial positions. They are quantified measurements that reflect the critical success factors of the issuer company and disclose progress towards achieving a particular objective or objectives. KPIs which comprise non-financial or operational metrics are identified and tracked by companies to measure performance, over and above the traditional financial metrics.

KPIs provide meaningful/valuable insight about the entity's business. Investors may find the KPIs useful to analyse/assess the company's performance, its business valuation and comparability of results to others in the industry.

Identification of a metric as a KPI by the management of a company depends on various factors, including the nature of the company's business, the industry in which it operates, and the company's business model

In terms of para 9(K) of Schedule VI of ICDR Regulations, in the chapter titled "Basis for Issue Price", the issuer is required to disclose critical accounting ratios viz. earnings per share, price to earnings, return on net worth and net asset value of the company for the past three financial years, as indicated below, including comparison of such accounting ratios with its peers i.e. companies of comparable size in the same industry.

(a) Earnings Per Share (EPS) and Diluted Earnings Per Share, pre-issue, for the last three years (as adjusted for changes in capital).

(b) Price to Earnings (P/E) ratio pre-issue.

(c) Average Return on Net Worth (RoNW) in the last three years.

(d) Net Asset Value per share based on the last balance sheet.

(e) Net Asset Value (NAV) per share after the issue and comparison thereof with the issue price.

(f) Comparison of accounting ratios of the issuer as mentioned above with the industry average and with the accounting ratios of the peer group (i.e. companies of comparable size in the same industry), indicating the source from which industry average and accounting ratios of the peer group has been taken.

(g) The fact of dilution of financial ratios consequent upon issue of bonus shares, if any, and justification of the issue price after taking into account the diluted ratios with reference to the expanded capital.

These parameters are typically descriptive of companies / issuers which are profit making and do not generally relate to a company / issuer that is loss making. Thus, these parameters may not aid investors in taking investment decisions with respect to loss making issuers.

Regulators, globally, follow a disclosure-based regime and prohibit any future projections for marketing of the issue. Thus, issue price should be based on following factors:

a) Traditional valuation/performance parameters such as Price to Earnings ratio, Net Asset Value etc.,
b) Trends in Key Performance Indicators (KPIs) over the past years,
c) Valuations at the earlier rounds of fund raising, and
d) Market conditions.

Historically as well, KPIs have been included in offer documents for non-new age tech company (NATC) Issuers, such as selected statistical information for financial services companies, manufacturing capacity and utilisation data for manufacturing companies, and metrics such as stock keeping units (SKUs) and same store sales growth for traditional brick and mortar retail businesses. Globally, issuer companies use KPIs to reflect their business performance in their offer documents. Similarly, KPIs that are important metrics for NATC Issuers and potential investors to assess the businesses and performance of the companies have been presented in their offer documents.

Identification of KPIs

KPIs are identified by the management of the company based on the data which is tracked and monitored by the management. Given the nuances involved in each business, the management of each issuer company is best placed to identify the KPIs.

Similar to other issuers, NATC typically maintain these metrics through enterprise resource planning (ERP) and customer relationship management (CRM) systems, other internal management information system sheets for various business and operations departments as well as certain third-party sources such as Google Analytics (in the context of web-based or app-based businesses).

Recent Amendments in ICDR Regulations with respect to Disclosure of KPIs

As required under the heading "(K) Basis for Issue Price" of Schedule VI of ICDR Regulations, the issuer company shall make disclosures on the Key Performance Indicators (KPIs) of its business that have been considered to have a bearing on the issue price. The issuer company shall provide & ensure compliance with the following:

1. KPIs disclosed in the offer document and the terms used in KPIs shall be defined consistently and precisely in the "Definitions and Abbreviations" section of the offer document using simple English terms /phrases so as to enable easy understanding of the contents.

2. Technical terms, if any, used in explaining the KPIs shall be further clarified in simple terms.

3. KPIs disclosed in the offer document shall be approved by the Audit Committee of the Issuer Company.

4. KPIs disclosed in the offer document shall be certified by the statutory auditor(s) or Chartered Accountants or firm of Charted Accountants, holding a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India or by Cost Accountants, holding a valid certificate issued by the Peer Review Board of the Institute of Cost Accountants of India.

5. Certificate issued with respect to KPIs shall be included in the list of material documents for inspection.

6. For each KPI being disclosed in the offer document, the details thereof shall be provided for period which will be co-terminus with the period for which the restated financial information is disclosed in the offer document.

7. KPIs disclosed in the offer document should be comprehensive and explanation shall be provided on how these KPIs have been used by the management historically to analyse, track or monitor the operational and/or financial performance of the Issuer Company.

8. Comparison of KPIs over time shall be explained based on additions or dispositions to the business, if any. For e.g. in case the Issuer Company has undertaken a material

acquisition or disposition of assets / business for the periods that are covered by the KPIs, the KPIs shall reflect and explain the same.

9. Disclosure of all the KPIs pertaining to the Issuer Company that have been disclosed to its investors at any point of time during the three years preceding to the date of filing of the DRHP / RHP.

10. Confirmation by the Audit Committee of the Issuer Company that verified and audited details for all the KPIs pertaining to the Issuer Company that have been disclosed to the earlier investors at any point of time during the three years period prior to the date of filing of the DRHP / RHP are disclosed under 'Basis for Issue Price' section of the offer document.

11. Issuer Company in consultation with the lead merchant banker may make disclosure of any other relevant and material KPIs of the business of the Issuer Company as it deems appropriate that have a bearing for arriving at the basis for issue price.

12. Cross reference of KPIs disclosed in other sections of the offer document to be provided in the 'Basis for Issue Price' section of the offer document.

13. For the KPIs disclosed under the 'Basis for Issue Price' section, disclosure of the comparison with Indian listed peer companies and/ or global listed peer companies, as the case may be (wherever available). The set of peer companies shall include companies of comparable size, from the same industry and with similar business model (if one to one comparison is not possible, appropriate notes to explain the differences may be included).

14. The Issuer Company shall continue to disclose the KPIs which were disclosed in the 'Basis for Issue Price' section of the offer document, on a periodic basis, at least once in a year (or for any lesser period as determined by the Issuer Company), for a duration that is at least the later of (i) one year after the listing date or period specified by the Board; or (ii) till the utilization of the issue proceeds as per the disclosure made in the objects of the issue section of the prospectus. Any change in these KPIs, during the aforementioned period, shall be explained by the Issuer Company. The ongoing KPIs shall continue to be certified by a member of an expert body as per clause 3(c).

In brief, following principles shall be followed in respect of disclosure of KPIs:

- Issuer company should determine the KPIs in consultation with the lead managers & industry experts.
- KPIs used by the management in measuring development, performance and position of the business of the issuer.
- KPIs made before the pre-IPO Investors during the three years prior to the IPO.
- KPIs should be separately disclosed on standalone as well as on consolidated basis.
- Usefulness of each KPI to the analysts and investors should be clearly substantiated with reasons.
- KPIs to be defined clearly, consistently and precisely in clear and readily understandable style.
- KPIs should be accurate, and monitorable.

- KPIs should not be misleading and confusing and should use commonly used & understood terminologies.
- KPIs should be compared with the Indian/ global listed peer companies (wherever available).
- KPIs should be approved by the Audit Committee/ Board of Directors of the company.
- KPIs should be certified/audited by an independent professionals or other expert, in accordance with the provisions of ICDR Regulations.

Purpose of KPIs

Over the period, many experts and regulatory bodies have held a consistent view that besides providing relevant financial numbers, disclosure of important KPIs in the offer documents is necessary to provide meaningful insight to the valuers, analysts, investors, and all other stakeholders to correctly understand, and rightfully assess the issuer company's business operations and their sustainability in the medium & long term. In addition, it also gives an easy window to compare the issuer company's performance with its peers in the industry in India and abroad.

Therefore, the underlined purpose of disclosure of significant KPIs is to enable the

- valuers to do right valuation;
- business analysts & industry experts to critically examine the company's performance and vouch for its acceptability & sustainability;
- existing investors to evaluate the company's performance and progress towards achieving the given KPIs;
- perspective investors to participate & accept the issuer

company's offer at the given valuations;

- banks, financial institutions & debt fund managers to look for the company as a viable client; and
- management to monitor the company's performance on given KPIs. In many cases, even the management incentives & payouts are linked to these KPIs.

Tenets governing Disclosure of KPIs in offer documents

By understanding the extant provisions in the ICDR Regulations with respect to the requirement for disclosure of KPIs in the offer documents and the purpose of KPIs as indicated above, basic tenets governing the disclosure of KPIs in offer documents are briefly indicated below:

- ❖ An issuer company should provide disclosures of all relevant KPIs with fully clarity, precise definition, and clear methodology of their calculation/ computation. While doing so, the company should not use same or similar titles or descriptions for the non-GAAP financial measure, non-financial measure or operational measure, as used for the GAAP financial measures. Further, any change in methodology of calculation/ computation should be appropriately disclosed with reasons.
- ❖ The company's KPIs should enable any other competent person not connected with its business, including its peers & competitors, to understand the company's performance with the application of generally accepted business evaluation analytics so as to understand the significant matters arising during their analysis and professional judgments made in arriving at the given valuations.
- ❖ In determining what KPIs are relevant & should be disclosed, the issuer company should take guidance from the lead

managers, industry experts, market research agencies, rating agencies, market analysts, etc. These KPIs should be in line with those used by the industry analysts for the existing listed and non-listed companies.

- All such KPIs that are used by the management to monitor & assess the company's performance should be included in the offer documents. It should also include all those KPIs that are shared with the existing pre-IPO investors during the three years prior to the date of filing the DRHP/RHP. However, the issuer company may change existing KPI for various reasons, but the company should provide appropriate disclosure stating the reason for such changes in the KPIs and their effect on the basis for issue price.

- The issuer company should clearly disclose the purpose of each KPI to facilitate the investors and analysts to correctly understand its relevance. In other words, the justification for the use of given KPI and its significance & linkage to the basis for issue price should be adequately substantiated. In addition, the risk(s) associated with the disclosed KPIs, if any, should also be presented. Any overlapping disclosures should be avoided.

- If the issuer company has engaged any relevant industry expert or other professional for reporting on financial, non-financial or operational KPIs, the report of such industry expert/professional should be included in the offer documents along with KPIs.

Understanding the additional Requirements

In addition to the basic tenets governing disclosure of KPIs in offer documents as briefly indicated above, other relevant requirements to comply are as under:

- KPIs should be presented for the periods for which the restated financial statements and related data/information has been included in the offer documents.
- KPI should not be disclosed on the basis of unaudited or proforma financial statements.
- KPIs should not be presented for any such interim period(s) for which no separate audit opinion has been issued by the statutory financial auditors.
- No KPIs should be reported for the periods beyond the last audited period.
- KPIs should be separately disclosed by the issuer company on standalone and consolidated basis.
- Where it is not feasible to disclose certain KPIs on consolidated basis due to wide variation in the nature of business, the issuer company may present the KPIs based on reportable business segments as identified and reported in its consolidated financial statements.

Classification of KPIs

KPIs can be broadly classified into following categories:

GAAP FINANCIAL MEASURES

GAAP Financial measures are numerical measures which are disclosed by the issuer company in accordance with the Generally Accepted Accounting Principles (GAAP) applicable for the issuer company i.e., measures disclosed in accordance with Indian Accounting Standards ("Ind AS") or Accounting Standards ("AS") notified in accordance with Section 133 of the Companies Act, 2013, as amended (the "Act"). These measures are disclosed in the financial statements of the issuer company. Few of the examples of such GAAP Financial measures are given below:

i. Revenue from operations
ii. Profit after tax
iii. Cash flows from operating activities
iv. Cash flows from investing activities
v. Cash flows from financing activities
vi. Cash and cash equivalents
vii. Financial liabilities
viii. Financial assets

NON-GAAP FINANCIAL MEASURES

Non-GAAP Financial measures are numerical measures of the issuer company's historical financial performance, financial position, or cash flows that:

i. Exclude amounts, or are subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measures calculated and presented in accordance with GAAP in the financial statements of the issuer company; or

ii. Include amounts or are subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measures so calculated and presented.

Such adjustment items should be based on the audited line items in the financial statements. These Non-GAAP Financial measures are items which are not defined under Ind AS or AS, as applicable.

Generally, If the issuer company takes a commonly understood or defined GAAP amount and removes or adds a component of that amount that is also presented in the financial statements, the resulting amount is considered a Non-GAAP Financial measure. A simple example, if the issuer company discloses net income less restructuring charges and loss on debt extinguishment (having determined all amounts in accordance with GAAP), the resulting performance amount, which may be labeled "Adjusted Net Income," is a Non-GAAP Financial measure. Some of the examples of Non-GAAP Financial measures are given below:

i. Earnings before interest, taxes, depreciation, and amortization (EBITDA)
ii. Operating income that excludes one or more expense items
iii. Adjusted revenues
iv. Adjusted profit after tax
v. Gross margin
vi. EBITDA margin
vii. Contribution margin
viii. Working capital
ix. Net profit margin Net worth

Apart from the above, Ministry of Corporate Affairs (MCA), vide its notification dated March 24, 2021 has issued certain amendments to the schedule III of the Act, wherein below ratios are also required to be presented in the financial statements of the companies:

a) ***Current Ratio*** – Current ratio indicates a company's overall liquidity position. It is widely used to advance working capital credit. It is equal to Current Assets divided by Current Liabilities.

b) ***Debt-Equity Ratio*** – Debt-to-equity ratio compares a Company's total debt to shareholders equity. It is derived by dividing Total Debt with Shareholder's Equity.

c) ***Debt Service Coverage Ratio*** – Debt Service coverage ratio is used to analyse the firm's ability to pay-off current interest and principal instalments of total debt. It is equal to total earnings available for servicing debt service divided by total serviceable debt. Here the earnings for servicing debt comprise of cash profit after taxes plus interest and total serviceable debt includes interest & lease payments plus principal repayments.

d) ***Return on Equity Ratio*** – It measures the profitability of equity funds invested in the Company. It is computed as net profits after tax less preference dividend (if any) divided by average shareholder's equity.

e) ***Inventory turnover ratio*** – Inventory turnover ratio, also known as stock turnover ratio, is worked out by dividing the cost of goods sold or sales during the period with average inventory held during that period. Average inventory is opening + closing balance / 2.

f) ***Trade Receivables turnover ratio*** – It measures the efficiency at which the company is managing the receivables. It is equal to net (net of returns) credit sales divided by average accounts receivable i.e. average of opening & closing balances.

g) ***Trade payables turnover ratio*** – It indicates the number of times sundry creditors have been paid during a period. It is calculated by dividing the net credit purchases by average creditors.

h) ***Net capital turnover ratio*** – It indicates a company's effectiveness in using its working capital. The working capital turnover ratio is calculated by dividing net sales by the average amount of working capital during the same period.

i) ***Net profit ratio*** – It measures the relationship between net profit and sales of the business. It is thus equal to net profit after tax divided by net sales minus sales returns.

j) ***Return on Capital employed*** – Return on capital employed (ROCE) indicates the ability of a company's management to generate returns for both the debt holders and the equity holders. Higher the ratio, more efficiently is the capital being employed by the company to generate returns. It is worked out by dividing the earnings before interest and taxes with total capital employed, which is equal to tangible net worth + total debt + deferred tax liability.

k) ***Return on investment*** – Return on investment (ROI) is a financial ratio used to calculate the returns earned on total investment made. The higher the ratio, the greater the benefit earned. It is calculated by finding difference in value of the enterprise during the given period divided by the base value at the beginning of this period. It should be annualized if the period is not equal to a year. Alternatively, it can be worked out by dividing the net profits with the cost of investment made.

Few other terms used above are briefly explained below:

- Earnings Per Share (Basic and Diluted): These ratios are calculated as per the provisions of Ind AS 33, "Earnings Per Share" or Accounting Standard (AS) 20, "Earnings Per Share", as applicable.

- Return on Net Worth: Section 2(57) of the Companies Act 2013 defines net worth as the aggregate value of the paid-up share capital and all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation. Return can be considered as profit or loss attributable to owners or equity holders.

- Net Asset Value Per Share: Net asset means total assets minus total liabilities. Generally, this ratio is calculated excluding revaluation reserves. Further, this ratio should be presented for both existing outstanding number of shares and considering dilutive number of shares as denominators.

- EBIDTA: EBITDA stands for earnings before interest, taxes, depreciation and amortization. Issuer company should ensure that the term 'EBITDA' is appropriately defined in the offer document and reconciled with the line items used in the restated financial information.

NON-FINANCIAL MEASURES (PART OF FINANCIAL REPORTING)

Non-Financial measures are quantitative information that have been obtained from accounting records and have been subjected to controls similar to controls over the amounts reported in the financial statements. Non-Financial measures could be based on GAAP measures with a relationship of such Non-Financial measures which may or may not be a part of financial reporting. Few examples (illustrative and not exhaustive) of Non-Financial measures which may satisfy the above criteria are given below. However, such items need to be evaluated on case-to-case basis based on the facts and circumstances:

i. Number of permanent employees as at the reporting date

ii. Per permanent employee cost (total employee cost/average number of employees during the period)

iii. Number of units sold during the period

iv. Average selling price (sales/number of good sold during the period) [This should be provided for major products/services.]

v. Average operating profit per unit sold (Profit before interest and tax/number of goods sold during the period) [This should be provided for major products/services.]

vi. Number of room nights sold during the period

vii. Number of sales stores as at the reporting date

viii. Average sale per store (total sales/average number of stores during the period)

ix. Number of loans disbursed during the period and average size of loans

x. Amount of loans disbursed during the period

xi. Number of insurance policies sold during the period

xii. Average invoice value during the period

xiii. Average purchase value during the period

xiv. Number of customers to whom sales have been made during the period and the total sales to largest ten customers as a percentage of total revenue

xv. Number of vendors from whom purchases have been made during the period and total purchases from largest ten vendors as a percentage of total purchases

xvi. Number of active mobile/transmission towers as of the reporting date

xvii. Number of active set top boxes as of the reporting date

xviii. Number of paid subscribers as of the reporting date

[The above list should be examined as some of the information is not a part of financial statements but is usually reported in the board of directors' report.]

OPERATIONAL MEASURES (NOT PART OF FINANCIAL REPORTING)

Operational measures are measures that have been obtained from records of the issuer company, which are not required to be part of financial reporting process and, hence, have not been subjected to controls similar to controls over financial reporting.

Few examples (illustrative and not exhaustive) of such Operational measures are given below:

i. Followers on social media

ii. Customer satisfaction index

iii. Number of application downloads

iv. Customer generated content (count of reviews, ratings and photos posted by customers)

v. Covers (Number of people for whom a table was reserved through issuer company)

vi. Traffic on online website

vii. Footfall in the store

viii. Customer success rate

Sector/Industry Specific KPIs

Depending upon the sector or industry, there can be several other financial, non-financial or operational KPIs. Few are indicated below. Every company is free to add & disclose any other additional KPIs, in addition to mandatory disclosure & reporting in accordance with the provisions contained in ICDR Regulations.

- *Network Effects* – network in terms of the number of registered buyers, sellers, or users.
- *New Leads* – number of new leads generated in a month or year.
- *Conversion Rate* – the rate at which lead convert to clients or customers.
- *Number of Subscribers* – the total number of subscribers by type of connection, i.e. direct to home (DTH) and cable.
- *Click-through Rate* – number of people who click on the company's advertisement to visit its website.
- *Hit Rate* – number of queries recorded to the total sales in a given period.
- *Customer Penetration Rate* – Penetration rate measured by taking the number of products sold to each customer on an annual basis.
- *Service Renewable Rate* – number of customers or clients who renew their subscription.
- *Total Addressable Market* – value of total likely market size in terms of opportunity and customer potential.
- *Market Share* – the proportion of the market controlled by the company.

- *Market Share Growth Rate* – difference between the market shares of two- consecutive periods, divided by the total market share.
- *Reserves* – value of commercially recoverable proven and probable reserves.
- *Total Contract Value* – total value of all the contracts currently with the company.
- *Customer Value* – active or non-active users, number and frequency of transactions, gross merchandise value or gross order value, average order value, gross transaction value, etc.
- *Cohort Retention Rate* – number of active users from the same cohort divided by the number of total users of the cohort.
- *Returning Customers' Orders* – number of orders cancelled, or products returned, pre- or post-delivery.
- *Cart Abandonment Rate* – number of people who add a product to cart but then leave the website without confirming the order.
- *Average Delivery Time* – average number of days, hours, or minutes taken to deliver the product.
- *Average Revenue per User* – total revenue generated in a period divided by the total number of active users during that time frame by major product segments, e.g. pre-pay and post-pay customers.
- *Revenue from New Products* – percentage of revenue from new products launched over the past two years over total revenue for the year.

- *Customer Lifetime Value* – total amount of revenue that a business expects to generate from a customer during the period he stays with it.
- *Customer Acquisition Costs* – total cost incurred in the form of advertisement, marketing & discounts to acquire a new customer.
- *Average Cost per Customer* – total cost occurred divided by the number of customers.
- *Net Promoter Score* – rate at which a customer recommends the company's product to a friend or relative.
- *Customer Satisfaction* – tracking customer experience in navigating and measuring satisfaction coefficient.
- *Churn Rate* – percentage of customers/users a business loses compared to the total number of customers/users, in a given period.
- *Asset Utilization* – total revenue earned vis-à-vis the total value of assets the company owns.
- *Product Cycle Time* – time taken to manufacture the product.
- *Workforce Productivity* – value generated per employee and per rupee of employee cost.
- *Employee Retention Rate* – percentage of employees retained from one period to the next.
- *Innovation Rate* - technology-supported changes to business models, product offerings, systems and processes to enhance customer value, reduce costs and secure growth.
- *Cost Performance Index* – total revenue earned divided by the total cost.

- *Cost Management Index* – for each cost component vis-à-vis existing revenues.
- *Operating Expenses and Contribution Margin* – relationship of operating expenses to new revenue produced.
- *CO_2 emissions* – CO_2 emissions, being on-site greenhouse gas emissions measured in millions of tonnes of CO_2 equivalents.
- *Fiscal Benefits* – effect of fiscal benefits on the sustainability of the company.

Diligence and Verification of KPIs

An independent, peer-reviewed chartered/cost accountant or firm of chartered/cost accountants, or other relevant entity (for instance, IT experts, architects or engineers), depending on the nature of the metrics to be certified, is appointed to undertake the KPI verification process. They issue a certificate addressed to the issuer company, with copy to the lead manager at the DRHP and RHP filing stage, confirming the accuracy of relevant KPIs included in the offer documents on the basis of the agreed upon procedures undertaken on the KPIs. In addition, the lead managers also undertake a due diligence of internal controls on KPIs reporting. The relevant documents that can be relied upon include:

- the restated financial information or accounting records and schedules;
- records and registers including invoices, management reports and relevant records of the issuer company and subsidiaries of the issuer company, as applicable;
- reports used for periodic MIS reporting, including from digital / computerized ERP and CRM systems as well as third party sources such as Google Analytics; and

- sales reports, company order management system reports and ad-sales data.

Indicative KPI Data

An illustrative list of KPIs from some of the recently filed offer documents issued by NATC Issuers highlighting the key metrics, and the due diligence conducted, is given below:

Sl.	KPI Source/ due-diligence process	KPI Source/ due-diligence process
1	**Number of Orders/ Transactions/ Bookings**	Source: • Order history data • Company ledgers/ System generated reports/ MIS Due Diligence Process: • Tally the number of orders / transactions / bookings for the required periods from the historical data as reflected in the MIS • Obtain an understanding of the financial and other reporting procedures and systems of the company involved in generating the information provided in the MIS • Analyze data trend provided by the company's management, discuss observations with the company's management and obtain explanations for the same
2	**Gross Order Value (GOV)/ Gross Merchandise Value (GMV) / Gross Transaction value (GTV) / Gross Booking Value**	Source: • Order history data • Company ledgers/ System generated reports/ MIS • Restated financial information Due Diligence Process:

Sl.	KPI Source/ due-diligence process	KPI Source/ due-diligence process
	(GBV)	• Tally the GOV/ GMV/ GTV/ GBV for the required periods from the historical data as reflected in the MIS • Inquire with the company's management regarding the method for computation of GOV/ GMV/ GTV/ GBV • Analyze revenue and take-rate (as applicable to the respective issuer companies) over the periods for validating GOV/ GTV/ GMV/ GBV • Analyze data trend provided by the company's management, discuss observations with the company's management and obtain explanations for the same
3	**Number of Users**	Source: • Company MIS including system generated reports of the respective issuer company Due Diligence Process: • Inquire with the company's management as to how they define and track user data • Tally information received from the company's management with public sources or third-party reports • Discuss and seek explanations from the company's management regarding the data trends, and process followed for data compilation • Further data verification through sample checks on company systems
4	**Number of Supply Partners (restaurants, hotels, merchants etc.)**	Source: • Company MIS including system generated reports of the respective issuer company Due Diligence Process:

Sl.	KPI Source/ due-diligence process	KPI Source/ due-diligence process
		• Inquire with the company's management as to how they define and track supplier data • Tally number of supply partners from the historical data as reflected in the MIS • Obtain an understanding of the financial and other reporting procedures and systems of the company involved in generating the information regarding the number of supply partners and process followed for data compilation • Analyze data trend provided by the company's management, discuss observations with the company's management and obtain explanations for the same • Further data verification through sample checks on company systems
5	**Cohort-wise Retention / Engagement Performance as applicable to the respective issuer**	Source: • Company MIS including system generated reports of the respective issuer company Due Diligence Process: • Discuss and seek explanations from the company's management regarding the data trends, and process followed for data compilation • Verify the factual consistency of the data with the information provided by the company's management
6	**Unit Economics/ Contribution Margin**	Source: • Company MIS including system generated reports of the respective issuer company • Restated financial statements Due Diligence Process:

Sl.	KPI Source/ due-diligence process	KPI Source/ due-diligence process
		• Reconcile the values of key line items that goes into the computation of unit economies / contribution margin with the restated financial information for the company and corresponding company MIS/system generated reports • Verify the factual consistency of the data with the information provided by the company's management • Discuss and seek explanations from the company's management regarding the data trends, and process followed for data compilation
7	**Take Rate as applicable to respective issuer company**	Source: • Company MIS including system generated reports of the respective issuer company • Restated financial statements Due Diligence Process: • Reconcile the values of key line items that goes into the computation of take rate with the restated financial information for the company and corresponding company MIS/system generated reports • Discuss and seek explanations from the company's management regarding the data trends, and process followed for data compilation

Chapter 3 Role & Responsibilities

Role & Responsibilities of the Issuer Company

The Issuer Company shall, inter alia, be responsible for the following:

- The issuer company shall prepare the draft 'Offer Document' in compliance with various provisions of ICDR Regulations.
- The issuer company shall ensure that the draft offer document and offer document shall contain all material disclosures which are true and adequate to enable the applicants to take an informed investment decision.
- The issuer company shall identify, define, prepare and disclose all necessary KPIs that are relevant, appropriate and sufficient to explain the basis for issue price and are in compliance with the ICDR Regulations. For determining the disclosure of KPIs, the issuer company shall consider the following key aspects:
    - Relationship of the KPIs with the company's business model, goals & objectives;
    - Advice of lead managers and other industry experts;
    - Reliability of source data for each KPI and its measurability; and
    - Consistency of each KPI used & reported to the management in performance monitoring & evaluation.
- The issuer company shall appoint one or more accounting & other experts, as per the requirements prescribed in ICDR Regulations, to audit, verify, and certify the GAAP Financial KPIs, Non-GAAP Financial KPIs, Non-Financial KPIs, and

Operational KPIs. For this purpose, the issuer shall provide access to such experts, all data, information, books, records, documents, etc. including those available in e-form that is relevant to the verification of KPIs.

- The issuer company shall ensure that all KPIs included in the offer document are approved by its Audit Committee/ Board of Directors.
- The issuer company shall ensure compliance with all the applicable provisions of the Companies Act, 2013 in respect of issue of offer document for sale/issue of shares or securities.

Role & Responsibilities of the Lead Manager(s)

Lead manager means a merchant banker registered with the Board and appointed by the issuer to manage the issue and in case of a book-built issue, the lead manager(s) appointed by the issuer shall act as the book running lead manager(s) for the purposes of book building. The issuer company shall appoint one or more merchant bankers as lead manager(s) to the issue.

The lead manager(s) shall, inter alia, be responsible for the following:

- The lead manager(s) shall perform due diligence to ensure relevance, adequacy, completeness and sufficiency of disclosure of all necessary KPIs by the issuer company.
- The lead manager(s) shall ensure that the material disclosures made in the draft offer document are true and adequate to enable the investors to make a well-informed decision as to the investment in the proposed issue and such disclosures are in accordance with the requirements of the Act, the ICDR Regulations, and other applicable legal requirements.

- The lead manager(s) shall ensure that the information contained in the draft offer document and offer document and the particulars as per restated audited financial statements in the offer document are not more than six months old from the issue opening date.

Role & Responsibilities of the CMAs in Practice

The CMAs in Practice shall, inter alia, be responsible for the following:

- CMAs in Practice shall ensure that their engagement/ appointment by the Issuer Company is in conformity with the provisions of ICDR Regulations, clearly defining the objectives & scope of engagement, their responsibilities & that of the issuer company, and lead manager(s) and identification of KPIs for providing certification & assurance as to their accuracy, & consistency.

- CMAs in Practice shall comply with ICDR Regulations as well as with this Technical Guide in performing verification & certification process of various KPIs included in the offer document.

- CMAs in Practice shall acquire sufficient knowledge & expertise in the preparation, presentation and understanding of financial statements as per Schedule-III of the Companies Act, 2013.

- CMAs in Practice shall acquire sufficient knowledge & expertise in the GAAP, Ind AS, and AS notified under the Companies Act, 2013. Details of applicable GAAP, Ind AS, and AS are given in Appendix-III.

- CMAs in Practice shall verify and certify only those KPIs for which they possess the required skill & expertise and in support of which the CMA in Practice has obtained sufficient appropriate evidence.

- CMAs in Practice shall not verify and certify such KPIs that are purely based on the management representation and for which sufficient appropriate evidence is not made available by the issuer company.
- CMAs in Practice may rely on the work done & certifications provided by other CMAs or other professionals/experts in respect of the subsidiaries, associates and joint ventures of the issuer company.
- CMAs in Practice shall not certify those KPIs that require such expert knowledge that is outside their domain, or require help of an expert/specialist, say an IT or industry expert. The issuer company should be asked to engage such an expert/specialist to support the CMA in Practice.
- CMAs in Practice shall certify only such financial KPIs depicting GAAP & non-GAAP financial measures that are based on the audited financial statements.
- CMAs in Practice shall not certify any such financial, non-financial or operational KPI that has already been certified any other professional or expert engaged by the issuer company.
- CMAs in Practice shall not perform any other function or certify any such document for which he is not authorized to do so under the extant provisions of ICDR Regulations.
- CMAs in Practice shall comply with the draft of KPI Certification format as provided at Chapter-4 of this Technical Guide.

- In case of any default, CMAs in Practice should become fully familiar with the applicable legal & penal provisions under the Companies Act 2013 and also under the SEBI Act, 1992. For the benefit of CMAs in Practice, relevant provisions under the Companies Act, 2013 have been reproduced in Appendix-II. Further, for the sake of quick reference, the penal provisions in case of any misstatement etc. are given in sections 34, 35, 36 & 38 read with section 447.

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Chapter 4 KPIs Certification Report

Draft Format of KPIs Certification Report to be issued by the CMAs in Practice

To

The Board of Directors,

____________________________________ [*write name of company*],

___________________________________ [*write address of company*]

We .... [*write name of the CMA in Practice*], having been appointed by .... [*name of the issuer company*] having its registered office at .... [*write registered office address of the company*] (hereinafter referred to as "the issuer company") to verify and certify the Key Performance Indicators (KPIs) disclosed & reported in the Offer Document prepared by the issuer company for issue/sale of its equity shares, in accordance with the applicable provisions of the Companies Act, 2013 read with the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 [hereinafter referred to as “ICDR Regulations”] have verified the accompanying KPIs prepared by the management of the issuer company for the years [*mention the years covered*] and submit our report hereunder.

Management’s Responsibility

The Management of the issuer company is responsible for the following:

(a) Preparation of draft 'Offer Document' in compliance with various applicable provisions of Companies Act 2013, ICDR Regulations, and other regulatory requirements;

(b) To ensure that the draft offer document contain all material disclosures which are true and adequate to enable the applicants to take an informed investment decision;

(c) To identify, define, prepare and disclose all necessary KPIs that are relevant, appropriate and sufficient to explain the basis for issue price and are in conformance with the ICDR Regulations;

(d) Disclosure all relevant KPIs including material KPIs made before the pre-IPO Investors during the three years prior to the IPO, alongwith the explanation of how these KPIs contribute to form the basis for issue price. Further, to provide adequate explanation & reasons for not considering those KPIs which the issuer company deems not relevant for the proposed IPO;

(e) Disclosure all such KPIs that are consistently used in evaluating its performance, are part of Management Information System (MIS), and are regularly reported to the company's Board;

(f) To ensure that KPIs are described and defined clearly, consistently and precisely and none of the KPIs are misleading and confusing; Technical terms, if any, used in explaining the KPIs have been further clarified in simple terms.

(g) To ensure that KPIs disclosed in the offer document have been approved by the Audit Committee of the Issuer Company. Further, the Audit Committee has confirmed that verified and audited details for all the KPIs pertaining to the

Issuer Company that have been disclosed to the earlier investors at any point of time during the three years period prior to the date of filing of the DRHP / RHP are disclosed under 'Basis for Issue Price' section of the offer document.

(h) To ensure that KPIs are based on reliable & verifiable inputs and internal financial & non-financial control systems in place, and all KPIs are accurate, and monitorable;

(i) To ensure that any change in the working/computation methodology for any KPI, at any point of time during the three years prior to the IPO, has been duly explained with reasons alongwith its effect on the company's performance and/or the basis for issue price;

(j) To clearly explain usefulness of each KPI to the investors and shareholders, including the purpose for which management assesses & makes their use, and its significance/relevance to the basis for issue price;

(k) To determine all KPIs in consultation with the industry experts & analysts and align with those used by the peers, within India or abroad;

(l) To disclose KPIs for each business segment and separately on standalone basis and on consolidated basis;

(m) To compare KPIs with the Indian listed peer companies and/or global listed peer companies (wherever available) and explain such comparison;

(n) To design, implement and maintain adequate internal controls that were operating effectively, including accounting and other records in relation to all KPIs included in the offer document;

(o) To ensure that KPIs disclosed in the offer document have been certified by the statutory auditor(s) or Chartered Accountants or firm of Charted Accountants, holding a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India or by Cost Accountants, holding a valid certificate issued by the Peer Review Board of the Institute of Cost Accountants of India.

(p) To ensure that the Certificate issued with respect to KPIs has been included in the list of material documents for inspection.

(q) Provide access to the accounting and other records to the CMAs in Practice including information and explanations required for reporting on the KPIs; and

(r) To ensure compliance with the applicable provisions of Companies Act 2013, ICDR Regulations, and other regulatory requirements. and other conditions, instructions and advices issued by the Board and other relevant statutes relating to an issue.

Responsibility of the CMAs in Practice

(a) In compliance with the applicable provisions of the ICDR Regulations, we are responsible to obtain limited assurance from the issuer company and conclude as to whether the financial details provided in the offer document agree with the audited financial statements, audited by the statutory auditors.

(b) We are not responsible to identify, define, compute and include any KPI in the offer document, beyond what has been included by the management of the issuer company.

(c) We are responsible to verify and certify that all the KPIs included in the offer document are mathematically accurate.

In order to provide this assurance, we are responsible to obtain sufficient appropriate evidence in support of all KPIs.

(d) We are responsible to conduct our examination of the KPIs in accordance with the Technical Guide on Disclosure and Reporting of Key Performance Indicators (KPIs) in Offer Documents and comply with the Code of Ethics issued by the Institute of Cost Accountants of India ("the Institute").

(e) The procedures that we have performed do not constitute an audit as per the notified auditing standards.

(f) We have not performed any procedures on the KPIs of the following branches, subsidiaries, associates and joint ventures included in the offer document. These were performed by other professionals/experts as indicated below. We have relied upon their reports as furnished to us by the management. Our conclusions on the KPIs of the Group are based on the procedures performed by us and the reports of other professionals/experts.

[*add the list of branches, subsidiaries, associates and joint ventures included in the offer document alongwith the details of other professionals/experts who performed the required procedures*]

(g) We shall not be responsible for the conclusions drawn by the users of offer document for taking any investment decisions or otherwise. We accept no liability on this account, whatsoever.

(h) We do not provide any assurance about the usefulness and/or continued performance [or non-performance] of any or all the KPIs included in the offer document.

(i) Our report is solely based on the data, information, and other facts disclosed to us by the management of the issuer company and our obtaining the sufficient appropriate evidence in support, till the date of this report.

Report of the CMAs in Practice

Based on the limited procedures performed by us and based on the reports issued by other professionals/experts, as above, and the information and explanations given to us, nothing has come to our attention that causes us to believe that (i) the financial details provided in the offer document are not in agreement with the audited financial statements; and (ii) the KPIs included in the offer document are not mathematically accurate.

We further reiterate that this report is provided to the issuer company in compliance with the ICDR Regulations for limited purpose of including in the offer document. This report should neither be used by any other person or for any other purpose nor it should be relied upon by the users of offer document for taking any investment decisions or otherwise. Accordingly, we accept no liability on this account, whatsoever.

For ____
[*mention name of the CMA in Practice*]
Cost Accountants
(Firm Regd. No. _______________)
Seal of the firm

(Signature of the Partner signing the Report)
(Name of the Partner)
Partner
(Membership No. _____________)
(UDIN _______________)

Place:
Date: