

भारत सरकार / Government of India
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण / National Financial Reporting Authority

7th-8th Floor, Hindustan Times House,
Kasturba Gandhi Marg, New Delhi

No. NF-23/47/2021

Date: 29.03.2023

**Order under Section 132 of the Companies Act 2013 and NFRA Rules, 2018 in respect of
Complaint made by Brigadier Vivek Chhatre against Mahindra Holidays Resorts India
Limited**

This order is being passed pursuant to the orders dated 18.01.2023 of Hon. High Court of Delhi in WP (C) 12985/2022 & CM APPLs.52792/2022, 2271/2023 in Vivek Kashinath Chhatre vs. National Financial Reporting Authority & Others. In short, the petitioner Vivek Kashinath Chhatre (VKC) had petitioned the Hon. High Court seeking expeditious disposal of his complaint against the Mahindra Holiday and Resorts India Limited (MHRIL hereafter) alleging various irregularities, including accounting and auditing irregularities in the functioning of the MHRIL. NFRA had filed an affidavit in the Hon. High Court that the relevant issues raised in the complaint were under consideration. Paragraphs 6 of the orders of the Hon. High Court dated 18th January 2023 are reproduced below for context:

“6. Considering this stand of NFRA, the NFRA is directed to dispose of the complaint by 31 March 2023. The NFRA would take into consideration the pleadings and the documents in this writ as also the documents annexed with the two fresh applications filed by the Petitioner”

2. We have perused the writ filed by the petitioner VKC and the attached documents as also the documents annexed with the two fresh applications by the petitioner. VKC has made representations on a host of issues covering accounting and consumer protection issues. NFRA's mandate has been defined in Section 132 of the Companies Act 2013 (CA-2013 hereafter) and includes monitoring and enforcement of compliance with the accounting standards and auditing standards. Therefore, this order is restricted to the issues raised by the petitioner that directly or potentially pertain to the accounting and auditing standards.

3. The companies are required to keep their books of account based on which they are required to prepare their financial statements, which must give a true and fair view of the state of affairs of the company (s.128 of CA-2013). Section 129 of CA-2013 requires companies to comply with the accounting standards notified by the Central Government under section 133 of the CA-2013; the failure to comply with section 129 may entail punishment with imprisonment and fine. The accounts have to be audited by the auditors appointed under section 139 of CA-2013. The auditor has to comply with auditing standards prescribed by the Central Government under section 143 (10) of CA-2013. The SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, (LODR hereafter), require the listed companies like MHRIL to prepare and disclose information in accordance with applicable standards of accounting and financial disclosure. The relevant accounting standards, known as Indian

Accounting Standards or Ind AS, have been notified by the Central Government in 2015. All listed companies including MHRIL are required by law to follow the Ind AS in preparing their accounts. The management of a company is responsible for preparing the accounts and certifying that they present a True and Fair view of the operations of the entity. According to Ind AS 1, the application of Ind AS, with additional disclosures when necessary, is presumed to result in financial statements that present a True and Fair view (para 15) and an entity shall not describe financial statements as complying with Ind AS unless they comply with all the requirements of Ind ASs. The statutory auditors appointed under section 143 of the CA-2013 audit the accounts and present their opinion on the accounts. In auditing the accounts, the statutory auditor is required to follow the Standards on Auditing (SAs), the non-compliance with which is professional misconduct rendering him liable to penal action by NFRA under the provisions of Section 132 of CA-2013.

4. In passing this order, we have given careful consideration to the pleadings and documents in the said writ petition filed in the Hon. High Court of Delhi as well as other documents filed with two fresh applications filed by VKC. In addition, in the interest of natural justice, we invited both the counterparties (VKC and MHRIL) for an in-person meeting on 3.3.2023. The list of the persons who attended these meetings are annexed to this order (Annex 1). On the request of MHRIL, the in-person meetings on 3.3.2023 were conducted separately with VKC and MHRIL, following the latter's request to protect its corporate information. Post the in-person meeting, MHRIL submitted a written response on 11.3.2023 and was given another hearing on 17.3.2023 to offer further clarification on the points raised during the meeting on 3.3.2023. The meeting on 17 March 2023 was also attended by its Managing Director and CEO, Mr Kavinder Singh (List of persons who attended is at Annex II). VKC has also submitted some additional information and documents subsequent to the in-person meeting on 3.3.2023. The documents and information submitted by both counterparties have been duly considered while passing this order.

The issues raised in the complaint

5. In brief, the complainant is a Member of the MHRIL, which entitles him to a week's vacation at different resorts of MHRIL, subject to availability and entitlement. For being eligible, the Members have to pay a one-time (or in instalments) Membership Fees (MF) and recurring Annual Subscription Fee (ASF), in addition to charges on food and beverages actually consumed during the vacation stay. MHRIL has averred that it follows a mixed-business model wherein non-members, called Free Inward Travelers (FITs), can also stay in their resorts if there is no demand for rooms from the Members during the said period. VKC has inter alia raised the following issues that potentially relate to the implementation of accounting standards:

- (a) MHRIL raises substantial revenues through the ASF but does not report it as a separate Operating Segment, as required by Ind AS 108. Because of this, there is a lack of transparency in the operation of the ASF, especially the basis of determining the ASF charges and its utilization.

- (b) MHRIL does not meet its promised obligation of providing the assured one week's vacation to the members, on the ground of non-availability of rooms, even though the rooms for the same duration could be booked through other channels as non-members.

In our view, both these issues impact the implementation of accounting standards (Ind AS), and therefore we proceed to deal with these in the following paragraphs.

I. Implementation of Ind AS 108: Operating Segments

6. Briefly, the contention of the complainant is that the MHRIL does not report the ASF as a separate segment in its financial statements, even though the ASF constitutes a significant portion of MHRIL's revenues. The position of the MHRIL has been that the ASF is not a separate or distinct business activity and it does not meet the conditions set out for being treated as an Operating Segment in paragraph 5 of the Ind AS 108, the applicable standard on Operating Segments. MHRIL submits that it, therefore, does not require to report the ASF separately as an Operating Segment.

7. MHRIL has submitted that both ASF and Membership Fee are treated as a package and none of these can be sold independently; that management cannot make any decisions on resource allocation and performance of the business only on the basis of ASF, nor can it maintain separate accounts relating to ASF.

8. The Core Principle of Ind AS 108, as stated in paragraph 1, is that "an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates."

9. Paragraph 5 of Ind AS 108 reads as under:

"An operating segment is a component of an entity: (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available."

10. NFRA had examined the matter in the past in response to a reference from the Central Consumer Protection Authority (CCPA) and, based on the information and explanations provided by MHRIL at that time, had taken the position that ASF is not a separate reporting segment. Subsequently, however, NFRA has reviewed copies of MHRIL's statutory filings made to the Ministry of Corporate Affairs (MCA) in Form MGT-9 and made available to NFRA by VKC. These filings show that for the years ended 31 March 2015 to 2020, MHRIL has consistently disclosed three principal business activities of the company (disclosed as main products/ services) viz., Income from sale of Vacation Ownership (VO), Annual Subscription

Fee (ASF) from VO members, and Income from sale of Food and Beverages, each of them accounting for more than 10% of the total turnover in the respective years, which is the threshold prescribed in Ind AS 108 for an Operating Segment to become a Reportable Segment. MHRIL responded that merely because it had shown ASF as a separate activity in its statutory filing (MGT-9) to the MCA, the ASF cannot be treated as a separate operating segment unless it meets the criteria of an operating segment laid down in paragraph 5 of Ind AS 108 (quoted in paragraph 8 of this Order above).

11. In this regard, while responding to the issues raised by VKC on the ASF being a separate Operating and Reportable segment, M/s BSR & Co. LLP, the Statutory Auditor of MHRIL, had stated in their letter dated 30th October 2021 addressed to the Assistant Registrar of Companies that ASF is not a business activity in itself, but is a revenue arising from a business activity. However, it was seen that neither BSR nor the MHRIL has analysed further whether the business activity underlying the ASF can qualify as an operating segment on the criteria prescribed in paragraph 5 of Ind AS 108. During the in-person meeting, VKC clarified that what he actually meant was that the activities connected with ASF be reported separately, as the ASF was being charged exclusively from the business activities related to the Members, as distinct from the FITs who do not have to pay ASF.

12. MHRIL stated that it follows a mixed use model which provides “non-members access to the unutilized apartments on a per-night-tariff basis. This enables us to enhance our revenues through optimum occupancy and sales from our restaurants and other services.” (Page 6 of MHRIL’s reply dated 11 March 2023). It is evident that MHRIL deals with two distinct category of customers, the Members and FITs, of which the former constitute the major portion of business and the latter, according to MHRIL, have contributed less than 10% of the occupancy in the past. MHRIL has different contracts with both categories of customers, who have different payment obligations and service privileges. While the Members have to pay a lump sum Membership Fee (MF) and an ASF every year, in lieu of which they are entitled to a week’s vacation stay free of cost, the FITs have to pay on a per-night-tariff basis.

13. It is prima facie evident that MHRIL is dealing with two distinct categories of customers that entail different contractual obligations and privileges. MHRIL was asked if they had considered Members and FITs as separate segments. MHRIL gave the following reasons for not reporting FITs as a separate segment (page 9 of MHRIL reply dated 11 March 2023):

- (a) The revenue generated from FIT is in effect incremental in nature arising from the rooms in the resorts booked for them that OTHERWISE remain unoccupied;
- (b) No separate resources are allocated for FIT. Thus, the question of “review of operating results by the entity’s Chief Operating Decision Maker (CODM) to make decision about resources to be allocated to the segment and assess its performance” is not applicable;
- (c) The expenses for services provided to the FIT and the members holidaying at the resorts are common;
- (d) In the last 5 years, the revenue from FIT (Room from Rentals) has been in the range of 2% and 4.8% of the total turnover. To say the least this is insignificant.

- (e) The operating results pertaining to FIT are not regularly reviewed by the CODM (Board) of the Company to make decisions about resources to be allocated to the same and assess its performance (Condition b of para 5 of IND AS 108 not being fulfilled);
- (f) No discrete financial information pertaining to expenses of FIT is available with the Company, except for the revenue earned from them (Condition c of para 5 of IND AS 108 not being fulfilled).

14. We are of the view that some of these statements by MHRIL (no separate resources are allocated for FITs; the operating results of FITs are not regularly reviewed by the Board; and no discrete information pertaining to expenses of FITs is available) appear extraordinary, raising questions about the accounting systems put in place by MHRIL, which should ideally be geared to capture basic unit level information on revenues and expenses, especially in a business where the revenues and expenses can be traced back to each discrete traveller, be it a Member or FIT, and which in turn also provides a valid basis for pro-rating common expenses like the maintenance, security etc. It is also difficult to understand why a listed company like MHRIL, which is expected to proactively disclose information to improve the transparency of its accounts, should be consistently resisting requests of its Members for additional disclosures. It is also noteworthy that while MHRIL's arguments primarily focus on the non-applicability of the Operating Segment criteria in case of FIT, the applicability of these criteria on Members as a separate Operating Segment has never been discussed by MHRIL. This is important as under Ind AS 108, the reportability of an operating segment that meets the threshold of 10% is not affected by the fact that another operating segment does not meet the reporting threshold of 10%.

15. It is instructive to recapitulate the provisions of Ind AS 108 in this regard. While paragraph 1 (Core Principle) of Ind AS 108 mandates disclosure of information to enable users of financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates, paragraph 11 makes it mandatory to report information about each operating segment that: (a) has been identified in accordance with paragraphs 5-10 or results from aggregating two or more of those segments in accordance with paragraph 12, and (b) exceeds the quantitative thresholds in paragraph 13. Two or more operating segments may be aggregated if they are similar or have similar economic characteristics. A quantitative threshold of 10 % has been prescribed in paragraph 13 for a segment to become reportable. Segments that do not meet the quantitative thresholds can be combined with other segments that do not meet the quantitative thresholds to produce a reportable segment subject to their being similar and meeting the aggregation criteria (paragraph 14). Needless to say, the presence of operating segments that do not meet the quantitative thresholds, does not affect the reportability of a reportable segment that otherwise meets the reporting threshold. The information that needs to be disclosed while reporting segments has been prescribed in paragraphs 20-24 and includes the general information (paragraph 22), information about a reported segment's profit or loss, including revenues and expenses, and assets and liabilities.

Evidently, the Ind AS 108 places an onerous responsibility on the Company to not only determine the operating segments, and their reportability or otherwise after applying the prescribed aggregation measures, but also to make necessary disclosures, including the profit and loss and revenues and expenses for the reportable segments. It follows that the

determination of Operating Segments cannot be an arbitrary process depending on the whims and fancies of the Company but has to follow a process because once an Operating Segment has been determined it is obligatory to report it, subject to it meeting the reportability threshold. It is in this light that we proceed to examine the position obtaining in the MHRIL.

16. We have noted earlier that MHRIL has, in its statutory filings with the MCA for the years ending 31 March 2015 to 31 March 2020, in Form No. MGT-9, identified three main products/ services viz.,

- (1) Income from sale of vacation ownership (VO) (32.74-56.01% of total turnover) ,
- (2) Annual Subscription Fees from VO members (17.97-28.09% of total turnover), and
- (3) Income from sale of food and beverages (10.59-13.89% of total turnover)

17. Notwithstanding the above classification of its products and services, where ASF has been identified as a separate product/ service consistently over the period 2014-15 to 2019-20 (MHRIL discontinued filing the report in MGT-9 pursuant to notification issued by MCA with effect from 28 August 2020), the MHRIL has not produced evidence of any analysis and consideration by the CODM whether these three distinct products/ services qualify for being operating segments, although each of these would appear to meet the reportability threshold of 10% under Ind AS 108. We note that the mainstay of VKC's demand has been to report the ASF as a separate segment.

18. In its submission dated 11 March 2023, MHRIL has stated that the disclosure made in MGT-9 was not with an intent that income from ASF is a primary and independent business activity/ segment, separate from sale of vacation ownership. (We note that the disclosure in MGT-9 gives no such hint, of an intent different from what was disclosed i.e., three different products/ services). MHRIL has further stated that since revenue from ASF is inextricably connected with membership alone, expenses for the same form part and parcel of the expenses towards membership services; and that the same cannot therefore be treated as a separate segment. This position was in contrast to the disclosures made by MHRIL in its MGT-9 filings, referred to earlier, where ASF was shown as a distinct product/ service. The different positions taken by MHRIL in its treatment of ASF creates a rather piquant situation in dealing with the important subject of operating segments.

19. MHRIL has stated that it follows a mixed- use business model wherein both Members and FITs have access to its facilities. MHRIL has referred to its membership rules stating that the members specifically agree to such mixed-business model. We have perused the said rules. Rule 13.4 states that certain Club Mahindra Notified Resorts (CMNR) may have some rooms (FIT rooms) earmarked exclusively for FITs and Member agrees to the same. It further says that the FIT rooms will generally not have the same amenities and facilities as the rooms provided to the members such as kitchenette, sofa cum bed etc.; that FIT rooms may be made available by MHRIL to Members opting for it depending on availability; that the Member agrees not to make any claim whatsoever against MHRIL on the ground that such rooms do not have similar amenities and facilities as the rooms provided to members. It is quite clear from this that the room types and the associated amenities and facilities provided to the Members and the FITs are different and are distinguishable from each other, as are their

payment obligations. Being so distinct from each other there may be a strong case for evaluating them as separate operating segments, and also evaluate their reportability after applying the prescribed reporting thresholds. It certainly does not sound convincing, in view of their differences, to aggregate them together as the same or homogeneous products or services.

20. Despite being specifically asked if the CODM had applied the parameters of operating segment to the two distinct categories viz., Members and FITs, MHRIL has not produced any verifiable evidence apart from stating that the revenues from FITs cannot be considered as a separate segment. In the process, MHRIL has made certain sweeping statements that would seem to defy prudent or even common business sense. These include statements like “No separate resources are allocated to FITs”, “The operating results pertaining to FITs are not regularly reviewed by the CODM (Board) and “No discrete information pertaining to the expenses of FITs is available with the Company”. These statements raise questions about the way the business is operated and the way the accounts are kept by MHRIL. For example, if separate resources are not allocated for FITs, then how the business related to FITs is managed? Or, if the operating results are not reviewed, then how does the CODM know if the business is worth it? Similarly, the statement that no discrete information pertaining to expenses of FITs is available is curious in light of the fact that FITs are discrete units for which a majority of the services consumed should be identifiable and those that cannot be directly attributable to the discrete units can be allocated on some rational basis. In any event, as stated before, the reportability or otherwise of the FITs as a separate business segment should not affect the reportability of the Members as a separate operating segment if this category otherwise meets the prescribed criteria. A similar argument can be advanced about Food and Beverages, which have consistently accounted more than 10% of MHRIL’s total turnover. Our review shows that it is quite common for entities in similar business to report Vacation Ownership as a separate segment, and the business entities that are part of a Vacation Exchange networks show Vacation Exchange as a separate reportable segment. Incidentally, VKC has submitted that MHRIL is a member of the vacation exchange programme with RCI but does not disclose it as a separate segment.

II. Recognition of revenue from contracts

21. VKC has also raised the point that MHRL has not been meeting its commitment, stated in its public pronouncements, of the Members First policy, and that he has evidence that he did not get booking as a Member but got it as FIT for the same date. The Members First policy has been stated in MHRIL’s prospectuses issued in 2009 and 2013 at the time of public issues. It is understood that the rooms for FITs were available for booking only 15 or less days before the date of accommodation. A perusal of the Confirmation Vouchers (CVs) issued by MHRIL to FITs, of which copies were provided by MHRIL, shows that the accommodation booked by a FIT can be cancelled 45 or more days in advance without any cancellation charges. This means that a FIT can book an accommodation even more than 45 days in advance. MHRL’s position is that it was not bound to stick to its position stated in the 2009 and 2013 prospectuses, and that the policy stated by it was a dynamic one, liable to be changed as per the business requirements.

22. We believe that this issue has accounting implications inasmuch as this can potentially breach the Members First policy and therefore have implications for the recognition of revenue from the Members. MHRIL has formal contracts with its Members that lay down the terms and conditions of their payment obligations and services entitlements. For example, a Member is not entitled to the promised services if he fails to make payment for the ASF, even if he has paid the membership fees. A totally different set of contractual conditions exists in respect of the FITs, who are in the nature of walk-in customers who pay and stay. In terms of the accounting standards, Ind As 115 provides the framework for recognition of revenue from contracts. We discuss below some of its possible implications and applicability to the MHRIL's case.

23. The main features of recognition of revenue from contracts under Ind AS 115 are:

- a. Para 4 specifies the accounting for an individual contract with a customer and provides for aggregation (portfolio of contracts or performance obligations) of contracts with similar characteristics if the effects on the financial statements would not differ materially.
- b. Paragraph 22 requires an entity to assess, at contract inception, the goods or services promised in the contract and identify each promise as a performance obligation.
- c. Paragraph 24 states that the performance obligation include not only the goods or services explicitly stated in the contract but also those implied by the entity's customary business practices, published policies or specific statements if those promises create a valid expectation that the entity will transfer a good or service to the customer.
- d. Paragraph 31 states that an entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer.
- e. Apart from the above, various stipulations in Ind AS 115 provide detailed disclosure requirements. Paras 117, 119(a), 123(a) and 124 (b) are worth mentioning in the context of this Order.

24. MHRIL has admitted that the terms of the contract with its Members are subject to change, the business model is dynamic and there are verbal communications between the customer and the company at the time of onboarding. MHRIL also admits that the Customer enjoys "large choices" while booking their entitled rooms. In this scenario, the conditions specified in para 24 of Ind AS 115, i.e., promises in contracts with customers, written, expected and otherwise communicated, may differ at different times and may raise questions on how MHRIL ensures compliance with the principles in para 4 of Ind AS 115 that the effects on the financial statements of applying this Standard to the portfolio of Vacation Ownership would not differ materially from applying this Standard to the individual contracts with the members.

25. In addition, as per para 31, an entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when (or as) **the customer obtains control of that asset**. Para 33 further explains that Goods and services are assets, even if only momentarily when they are received and used. Control of an asset refers to the ability to direct the use of, and obtain

substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. In the case of vacation ownership, the members are able to obtain control when they are able to get a confirmed booking of accommodation at their option or when they are able to direct the use of the accommodation as per the contract. The mere availability of rooms is not necessarily an indication of control if an eligible Member is denied accommodation for some reason. However, as per MHRIL's explanation, revenue is recognised even when a customer (Member) is unable to obtain accommodation on the ground of unavailability of rooms, while vacant rooms are available with the Company. In such a scenario recognition of revenue by MHRIL, while the control criterion in para 31 is not satisfied, may be questionable and the MHRIL could not provide any satisfactory reply how it ensures that this criterion is satisfied. This issue would be particularly relevant when a Member does not get an accommodation but a FIT gets it for the same date. MHRIL did not demonstrate what controls it has in place to ensure that revenue is not recognised when this situation is encountered; and the statutory auditor of MHRIL could also not demonstrate how this control, if instituted, has been tested by them in their statutory audits.

26. Para 110 of Ind AS 115 states that the objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Para 15 of Ind AS 1 states that Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity. Presentation of a true and fair view requires faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of Ind ASs, with additional disclosure, when necessary, is presumed to result in financial statements that present a true and fair view. Regulation 4 (2) of SEBI LODR requires that a listed entity shall implement the prescribed accounting standards in letter and spirit in the presentation of financial statements taking into consideration the interest of all stakeholders and shall also ensure that the annual audit is conducted by an independent, competent and qualified auditor. The preceding discussion shows that there are many lingering questions in respect of the accounting policies and practices followed by MHRIL, especially as they relate to Ind AS 108 and Ind AS 115, resulting in representation by its Members to various forums (including NFRA) and filing of court cases. MHRIL will be well advised to address these questions in a convincing manner and adhere to the accounting standards in true spirit.

Conclusion and directions

27. It is usual for the regulators internationally, to question the preparers of financial statements (like MHRIL) about the basis and rationale for their segment reporting policies and practices. The FASB Statement No. 131 [AC section S30], for example, requires that public business enterprises report certain information about products and services, geographic areas, and major customers regardless of whether that information is used by management in assessing segment performance. Similar provision exists in paragraph 22 (a) of Ind AS 115 which requires an entity to disclose general information about factors used to identify its

reportable segments, including whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated.

28. We also note¹ some recent fact patterns internationally, indicating that the Management/CODM were reviewing the operating results at a more disaggregated, granular level but had identified only one operating segment. We note that a regulatory nudge led to more operating segments being reported in such cases. We are of the view that a proactive approach by the management/CODM, in the true spirit of the accounting standards, will result in more positive disclosures improving the quality and transparency of accounts.

29. In the case of MHRIL, in addition to the two broad categories at the customer type level (Members and FITs) we have noted existence of other product differentiations like CMH, Bliss and GoZest and the different colour categories of membership (Purple, Blue, Red and White) MHRIL has not presented any evidence of a proactive application of the prescribed criteria for operating segments. In the present context, it is desirable for the CODM of MHRIL to take note of the international developments and practices and also adopt a proactive stance in its disclosures, taking a cue also from the SEBI LODR that expects the entities to follow the disclosure norms in letter and spirit.

30. In summary, based on the facts and circumstances of the case and evidence presented in this proceeding, and as discussed in the preceding paragraphs we find that the current accounting policies and practices of MHRIL need review in application of the Ind AS 108-Segment Reporting. The internal controls, disclosures and policies with respect to Ind AS 115-Recognition of Revenue from Contracts also require review. To recapitulate, MHRIL's Consolidated Financial Statements do not provide disaggregated segment reporting for the one distinct category at the customer type level i.e. Members. Therefore, in this regard, the reporting by MHRIL is found deficient in application of Ind AS 108. Further the Consolidated Financial Statements do not take into account a number of other potential segments like Vacation Ownership, ASF, and Food & Beverages (all three described as main products/services in its MGT-9 filings), or the types of Membership (Purple, Blue, Red and White or CMH, Bliss and GoZest), or the other categories of customers such as FIT, and MHRIL has not produced any evidence of testing the criteria of operating segment as per Ind AS 108 on these potential segments. Further, in respect of Ind AS 115, the company needs to show demonstrable controls in recognition of revenue related to performance obligations in respect of contract with customers as discussed in the above paragraphs.

¹ <https://dart.deloitte.com/USDART/home/publications/deloitte/heads-up/2022/aicpa-conference-sec-pcaob-developments-accounting-reporting>

Accordingly, and in compliance of the orders of the Hon. High Court of Delhi dated 18th January 2023, and in exercise of our powers under section 132 of the Companies Act 2013 and the NFRA Rules made thereunder we pass the following directions to the MHRIL and its auditor:

1. MHRIL shall, going forward, thoroughly and proactively review its accounting policies and practices in respect of segment reporting, as they relate to application of Ind AS 108; and also Ind AS 115, keeping in mind our above findings relating to deficiencies in accounting disclosures. Following such a review, MHRIL shall take necessary measures to address the deficiencies pointed out in the foregoing paragraphs and effect changes in the disclosures in its financial statements in the letter and spirit of the disclosure as required under the Companies Act and the SEBI LODR. MHRIL shall complete this process by 30th June 2023.
2. MHRIL's review and the changes brought in its accounting practices and reporting should be properly documented, especially with respect to the CODM's exercise of monitoring and control, both at the aggregated and disaggregated, granular level, and such documentation shall be verified by MHRIL's statutory auditor who shall complete this process by 31st July 2023.
3. MHRIL and its statutory auditor shall report separately to NFRA the results of their review and the changes effected in the MHRIL's accounting policies and practices. Based on its own review of the reports of MHRIL and its statutory auditor, NFRA will take further course of action as provided under the existing provisions of the CA-2013 and the NFRA Rules.

Accordingly, by passing this Order, the complaint of VKC is also disposed of.

Signed
(Dr Ajay Bhushan Prasad Pandey)
Chairperson, NFRA

Signed
(Praveen Kumar Tiwari)
Member, NFRA

Signed
(Smita Jhingran)
Member, NFRA

Authorised for issue by the National Financial Reporting Authority


(Vidhu Sood)
Secretary

Date: 29 March 2023
Place: New Delhi

साचिव / Secretary
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण
National Financial Reporting Authority
नई दिल्ली / New Delhi

To:

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Annex I

List of attendees on 03.03.2023 during the in-person meeting at NFRA

A. On behalf of the Complainant

Sr. No	Name	Designation
1	Brig. Vivek Chhatre (Through VC)	Complainant
2	Dr. Sudhir Kumar	Complainant Representative
3	Mr. Amit Sharma	Complainant Representative

B. On behalf of MHRIL

Sr. No	Name of the official	Designation
1.	Mr.Ram Mundra	Head, Corporate Finance
2.	Mr.Gopal Meghnani	Chief Legal Officer
3.	Mr.Amit Nijhawan	Corporate Manager, Legal
4.	Mr. Karun Mehta	Advocate -Khaitan & Co
5.	Mr. Yugam Taneja	Advocate -Khaitan & Co
6.	CA Koosai Leher of BSR & Co LLP	Statutory Auditor of MHRIL

Annex II

List of attendees on 17.03.2023 during the in-person meeting at NFRA

A. On Behalf of MHRIL

Sr. No	Name of the official	Designation
1	Mr.Kavinder Singh	MD & CEO
2	Mr.Ram Mundra	Head, Corporate Finance
3	Mr.Gopal Meghnani	Chief Legal Officer
4	Mr.Jaiminikumar Shah	Head, Legal
5	Mr.Amit Nijhawan	Corporate Manager, Legal
6	Mr.Karun Mehta	Advocate -Khaitan & Co
7	Mr.Yugam Taneja	Advocate -Khaitan & Co
8	CA Koosai Leheri of BSR & Co LLP	Statutory Auditor of MHRIL