

CHAPTER 2

Disclosure and financial reporting trends arising from impact of new Labour Codes

This article aims to

Examine the financial reporting effects arising from implementation of the new Labour Codes in the December 2025 quarter results.

Background

On 21 November 2025, the Government of India implemented four new Labour Codes (the Codes), consolidating 29 existing labour laws with the objective of simplifying compliance, expanding social security coverage, and modernising workplace regulation. The Codes comprise the Code on Wages, 2019; the Industrial Relations Code, 2020; the Code on Social Security, 2020; and the Occupational Safety, Health and Working Conditions Code, 2020, effective from 21 November 2025.

The Codes, among the other changes, standardise the definition of ‘wages’ across various benefits to which employees are entitled to under all the four legislations. This is in contrast to the regulations which existed prior to 21 November 2025 where each regulation had a separate definition, and accordingly, the amount considered as wages for benefits such as gratuity, leave encashment, etc. differs from the amounts considered prior to 21 November 2025. The revised definition of wages and expanded employee coverage means that the benefits payable by companies for components such as gratuity and leave encashment will increase as compared to the amounts determined under the definitions applicable prior to 21 November 2025. These amendments to the definition of wages and consequent impact on payment of benefits to employees are required to be considered retroactively, where applicable (e.g. gratuity).

Accordingly, from a financial reporting standpoint, a key area of impact relates to measurement of employee benefit liabilities, particularly defined benefit plans such as gratuity and other employee benefits like leave encashment. Given that the accounting standards require provisions to be recognised towards the periods of service already completed by the respective employees, these effects began crystallising as early as the quarter ended 31 December 2025 for many entities. The impact of the revised definition was required to be recognised as a one-time charge as past service cost representing the cost towards the past periods of service, with costs recognised towards subsequent periods of service also being based on the revised definition.

Where the impact of the Codes is material, entities are required to assess whether the resulting costs warrant separate presentation or disclosure, including consideration of whether such expenses qualify for presentation as exceptional items in accordance with Ind AS 1, *Presentation of Financial Statements* and relevant guidance provided in the *Guidance Note on Schedule III to the Companies Act, 2013 (revised 2022)* issued by the Institute of Chartered Accountants of India’s (ICAI). Exceptional items are generally those items which meet the test of materiality (size and nature) and the test of incidence (not repetitive). Accordingly, enhanced transparency around key judgements, assumptions, and actuarial methodologies

becomes critical - not merely to report the numbers, but to explain the underlying drivers of changes in employee benefit obligations.

This article examines the financial reporting effects arising from implementing the new Labour Codes in relation to the one-time impact arising from remeasurement of provision for gratuity and leave encashment, as seen in top companies’ results for the quarter ended 31 December 2025.



Profile of companies covered

For the purpose of this article, the consolidated financial results of top 200 companies (by market capitalisation), listed on the National Stock Exchange (NSE) and the BSE Limited (BSE)¹, were analysed for the quarter ended 31 December 2025 (Q3 FY26). Of these, 177 companies were common to both exchanges, while 23 companies were listed exclusively on the NSE and 23 companies were listed exclusively on the BSE, resulting in a total population of 223 companies (referred to as covered companies). Where consolidated financial results were not applicable, standalone financial results were considered.

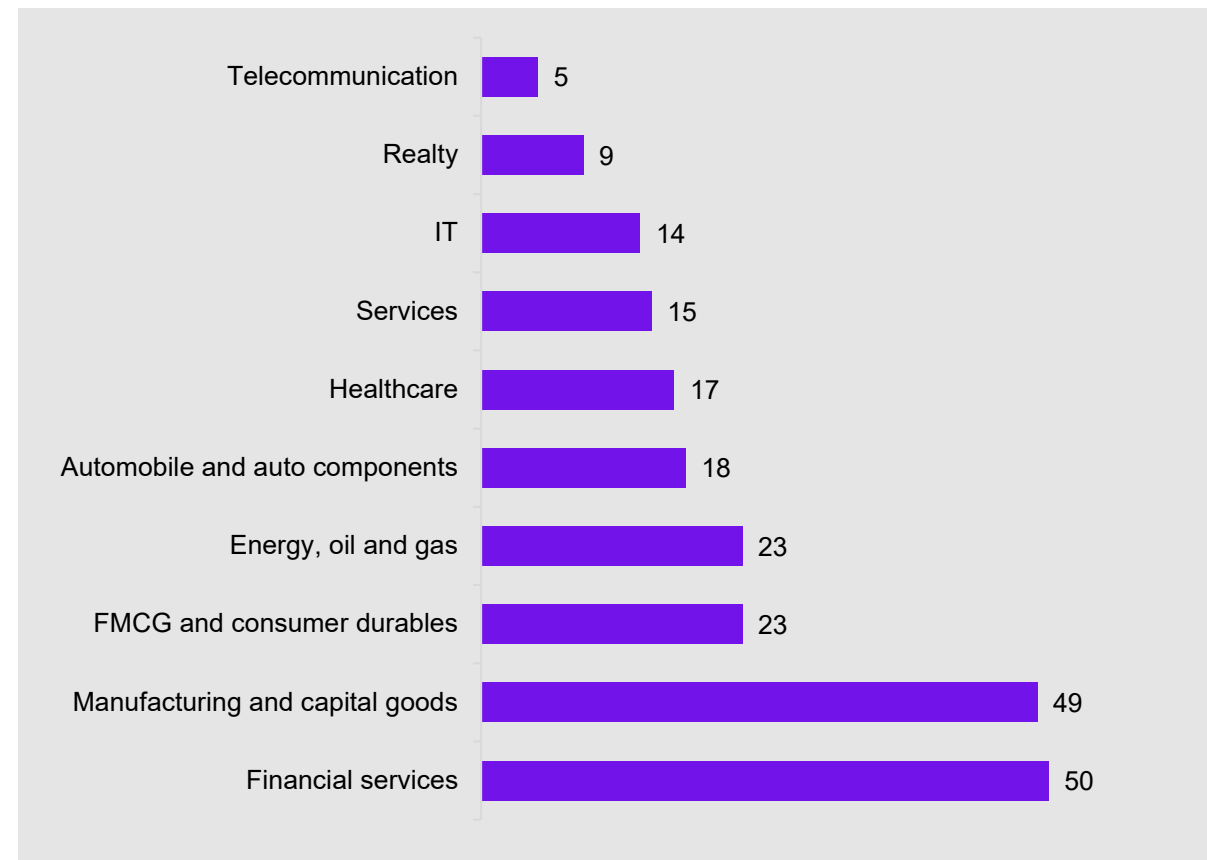
The industry analysis is structured across 10 broad industries based on the NIFTY 500 Index classification, which have been consolidated into broader categories based on KPMG in India's interpretation, for the purposes of this analysis, as outlined in the following table:

Industry as per NIFTY 500 Index classification	Industry for KPMG in India analysis
Automobile and auto components	Automobile and auto components
Energy	
Oil gas and consumable fuels	Energy, oil and gas
Power	
Financial services	Financial services
Consumer durables	
Fast Moving Consumer Goods (FMCG)	FMCG and consumer durables
Paints	
Healthcare	Healthcare
Information Technology (IT)	IT
Capital goods	
Chemicals	
Construction materials	
Infrastructure	
Metals and mining	
Textiles	
Construction	
Realty	Realty
Consumer services	
Services	Services
Telecommunication	Telecommunication

1. List extracted from NSE website as on 19 January 2026 -> Home -> Products & Services -> Capital Market -> Indices -> Broad Market Indices -> Nifty 200 Index and list extracted from BSE website as on 19 January 2026 -> Home -> Indices -> BSE 200 -> Index Constituents

Industry-wise breakup of covered companies

Below chart presents the breakup of covered companies by industry:



(Source: KPMG in India's analysis based on primary data gathered from financial results of 223 covered companies)

Overview of impact on account of the Codes

Based on the review of the published financial results of the 223 covered companies, it was noted that 30 companies did not report any specific impact on account of Codes in their Q3 FY26 results. The remaining 193 companies adopted varied approaches in presenting the impact arising from the new Labour Codes as summarised below:

- 104 companies (nearly 47 per cent) presented the impact as an exceptional item
- 59 companies presented the impact within employee benefits expense
- 27 companies did not explicitly disclose the line item under which the impact is presented in the results.
- The remaining 3 companies presented the impact across other line items.

Among the 193 companies that reported an impact, but not as an exceptional item, 14 companies indicated that their assessment in relation to the impact of the Codes is ongoing. Out of these, 5 companies stated that the impact is expected to be immaterial, while the others remained silent.

Industry-wise assessment

This section presents an industry-wise summary of the impact of the Codes, highlighting the following aspects:

- impact of the Codes relative to the profit before tax (PBT) for the quarter ended 31 December 2025 (Q3 FY26)
- impact of the Codes presented as a percentage of the previous year provisions (as at 31 March 2025) for gratuity and leave encashment²
- the number of companies that have presented the impact as an exceptional item.

2. Very few companies provided an explicit bifurcation of the impact across gratuity and leave encashment. Accordingly, the analysis focuses on the total impact reported (for gratuity and leave encashment by companies and its relative magnitude compared to previous-year provisions for such companies).

Industry-wise assessment (Contd.)

As discussed in our earlier section, out of the covered companies, 193 companies disclosed in their financial results that they were impacted by the Codes. Of these, 159 companies quantified the impact, while the remaining 37 companies remained silent on the amount of impact. Accordingly, the table below is based on the information provided by these 159 companies.

Industry	Number of companies analysed in the industry	Number of companies that reported the amount of impact	Number of companies that have presented impact as an exceptional item	Impact as a percentage of PBT for Q3 FY26 (in per cent)	Impact as a percentage of provisions as at 31 March 2025 (in per cent)
Financial services	50	30	6	3	22
Healthcare	17	15	11	11	31
Information technology (IT)	14	14	12	16	11
Realty	9	5	5	16	32
Telecommunication	5	5	4	1	28
Manufacturing and capital goods	49	36	25	6	15
FMCG and consumer durables	23	18	16	6	27
Energy, oil and gas	23	10	3	6	13
Automobile and auto components	18	16	13	10	20
Services	15	10	9	23	41
Total	223	159	104	6	17

(Source: KPMG in India's analysis based on primary data gathered from financial results of 159 covered companies)

Our analysis:

- The average impact across all industries amounted to approximately 6 per cent of PBT for Q3 FY26 and 17 per cent of previous year provisions.
- Among the industries analysed, services, IT, and realty recorded the highest impact on PBT. Realty is also the industry in which all companies presented the impact as an exceptional item.
- The financial services industry reported the lowest impact, at 3 per cent of PBT and 22 per cent of previous year provisions.
- A significant majority of companies in the FMCG and consumer durables industry and over 90 per cent companies in the services industry, which quantified the impact of the Codes, presented the impact as exceptional item.

Overall, the table highlights significant industry-wise variation in the financial impact of the Codes, with people-intensive and service-oriented industries experiencing relatively higher effects.

The next table presents the range of impact noted by the 159 companies which quantified the impact on account of the Codes, by industry, as a percentage of PBT for Q3 FY26.

Impact as a percentage of PBT for Q3 FY26	0-5 per cent	5-10 per cent	10-20 per cent	20-50 per cent	More than 50 per cent	Total
Financial services	20	3	3	2	2	30
Healthcare	4	7	1	2	1	15
Information technology (IT)	-	4	5	3	2	14
Realty	1	2	2	-	-	5
Telecommunication	3	-	1	-	1	5
Manufacturing and capital goods	13	7	12	4	-	36
FMCG and consumer durables	7	6	3	1	1	18
Energy, oil and gas	5	2	2	1	-	10
Automobile and auto components	7	4	3	1	1	16
Services	4	-	3	1	2	10
Total number of companies	64	35	35	15	10	159
Number of companies that presented the impact as an exceptional item	33	22	28	13	8	104

(Source: KPMG in India's analysis based on primary data gathered from financial results of 159 companies which quantified the impact on account of the Codes)

Our analysis:

- A majority of impacted companies (99 out of 159, or ~62 per cent) reported an impact of less than 10 per cent of PBT for Q3 FY26.
- In the financial services industry, 20 out of 30 companies experienced an impact that fell within a range of 0-5 per cent. This is in line with the fact that only 6 of the 30 companies (~20 per cent) in the industry that quantified the impact of the Codes presented the impact as exceptional item.
- In the IT industry, consistent with the high impact on PBT for Q3 FY26 noted in our earlier discussion, all companies analysed have reported an impact above 5 per cent, with 2 companies recording higher than 50 per cent impact.
- Impact in the manufacturing and capital goods industry is spread across the different ranges, while limited to under 50 per cent. This is also the general trend across industries.
- Notably, of the 104 companies that presented the impact of the Codes as an exceptional item, 55 companies reported an impact of less than 10 per cent of PBT for Q3 FY26.

Overall, the analysis indicates that there is varied practice among the covered companies. Companies differ in whether they have recognised an impact, how the impact is presented (as an exceptional item or otherwise), and the level of disclosures provided, including disclosure of the amount of impact, reasons for the impact as well as its materiality. More consistent and detailed disclosures are expected in the upcoming year-end financial statements of these companies given the evolving nature of the Codes.

Bottom line

Although the Codes are now legally effective, a substantial portion of their operational framework is still taking shape. Final Central and State Rules are yet to be notified across several areas, including bonus thresholds, overtime computation, registration and licensing formats, and reporting requirements. The notification of the 'National Floor Wage' remains a key upcoming trigger, with potential ripple effects across minimum wages, gratuity, overtime and leave encashment - particularly for multi-state employers. In parallel, the digital infrastructure for single registration and single returns continues to evolve across states, requiring many organisations to operate legacy and Code-based compliance systems simultaneously.

There are areas where clarity is awaited such as operationalisation of social security schemes for gig and platform workers, the functioning of the Worker Re-skilling Fund, and state-level notifications governing night shifts for women, etc.

Collectively, the Labour Codes story is still unfolding - shifting the focus from legal adoption to regulatory readiness, execution discipline, and ongoing financial recalibration.

As companies continue to embed the requirements of the Labour Codes into their operations and regulatory clarity further develops, disclosure practices are expected to evolve. In the interim, entities should place emphasis on robust assessments of materiality, apply well-reasoned judgements and assumptions, and ensure that the classification of such costs as exceptional items is appropriately supported and consistently applied. Clear and transparent disclosures explaining the nature and financial impact of employee-related costs arising from the Codes will be critical in enhancing the usefulness of financial statements for users.

