

Karnataka Neeravari Nigam Limited
(A Government of Karnataka Enterprise)
No.1, Coffee Board Building, 4th Floor, Dr B R Ambedkar Veedhi, Bangalore 560 001



Statement of un-audited Financials Results for half year ended 31st, March 2015

(Amount ₹ in lakhs)

Sl. No.	Particulars	6 months ended 31.03.2015	Year to date figures for Current year ended 31.03.2015	Year to date figures for Current year ended 31.03.2014
		Unaudited	Unaudited	Audited
1	(a) Net Sales / Income from Operations	569.32	1,011.01	642.80
	(b) Other Operating Income	-	-	-
2	Expenditure			
	(a) Employee Remuneration and Benefits	3,811.02	6,871.57	5,491.32
	(b) Depreciation	4,985.23	9,186.26	6,678.32
	(c) Repairs and Maintenance (Irrigation Assets)	11,685.87	15,426.62	8,354.47
	(d) Expenditure on GOK Scheme	39,351.87	47,282.14	29,628.26
	(e) Other expenditure	2,619.18	3,353.53	14,009.43
	(f) Total	62,453.17	82,120.12	64,161.80
3	Profit (+) / Loss (-) from Operations before Other Income interest and Exceptional items	-61,883.85	-81,109.11	-63,519.00
4	Other Income	53,276.95	66,858.77	34,260.06
5	Profit (+) / Loss (-) before interest and Exceptional items	-8,606.90	-14,250.35	-29,258.93
6	Interest	3,024.06	5,727.34	297.11
7	Exceptional Items	-	-	-
8	Profit (+) / Loss (-) from Ordinary Activities before tax	-11,630.97	-19,977.71	-29,556.04
9	Tax expense	-	-	2.50
10	Profit (+) / Loss (-) from Ordinary Activities after tax	-11,630.97	-19,977.71	-29,558.54
11	Extraordinary Items		0.00	0.00
12	Net Profit (+) or Loss (-) for the period	-11,630.97	-19,977.71	-29,558.54
13	Paid-up equity share capital (Rs. 1,000/- each)	18,08,839.96	18,08,839.96	13,76,660.03
14	Paid up Debt Capital	1,05,214.00	1,05,214.00	48,147.25
15	Reserves excluding Revaluation Reserves as per balance sheet of previous accounting year	-1,16,772.64	-1,16,772.64	-96,794.94
16	Debenture Redemption Reserve	-	-	-
17	Earnings Per Share (EPS) - Basic (Face value of Rs.1,000/- per share)	-6.43	-6.43	-21.47
18	Earnings Per Share (EPS) - Diluted	-6.13	-6.13	-18.00
19	Debt Equity Ratio	0.06	0.06	0.03
20	Debt Service Coverage Ratio	-1.18	-1.18	-65.24
21	Interest Service Coverage Ratio	-1.20	-1.20	-76.00

R. Rudriah
Managing Director
DIN: 06453760



K.S. Raveendra Prasad
General Manager - Finance

As per our Review Report of even date attached
(Un-audited)
For B.P. Rao & Co.,
Chartered Accountants
Firm Reg No. 003116S

B.Satish Rao
Partner
M. No.24559



Place: Bangalore
Date: 28/05/2015

Notes:

1. The above results have been reviewed and taken on record and approved by the Audit Committee of the Board of Directors in their meeting held on 28th May, 2015. The statutory Auditors have subjected the same for Limited Review.
2. The above financial results have been prepared on the basis of same accounting policies and practices followed by the Company in preparation of financial statements for the year ended 31st March 2014.
3. The Company is a Special Purpose Vehicle set up with the specific objective of implementing new irrigation projects as also completing certain ongoing irrigation projects without profit motive. The Government of Karnataka (GOK) has entrusted to the Company, implementation of certain major and medium irrigation projects in the Krishna Basin, Varahi Project (west flowing river), Six Minor Irrigation works of Uttar Kannada District etc.,. The Government has also transferred the Engineering division and establishments of Malaprabha and Ghataprabha, Command Area Development Authority (M&GP - CADA) to the Company to execute the works of field irrigation channels (FIC's) under M&GP – CADA. Further, the Company has also undertaken to execute FIC works under Shimoga and Gulbarga CADA. The Government has also entrusted the work of providing irrigation and other facilities to backward classes of the society through Special Component Plan (SCP), Tribal Sub Plan (TSP), "Nammura Bandaras" scheme and "Namma Hola Namma Raste" scheme.
4. The Statutory Auditors have expressed qualified opinion on:
 - a. Non Provision for liability in respect of additional quantity of works executed by the contractors, crop compensation to farmers and land owners, worker welfare cess prior to 1st November 2006 and New defined contributory Pension Scheme;
 - b. The incorrect apportionment of administrative charges, other general overheads and actual date of capitalization; non allocation of expenses up to the date of capitalization;
 - c. The incorrect charging of depreciation on assets transferred from the Government and the life of assets capitalized during the year (other than moveable assets) and added to the original assets;
 - d. Non provision on the basis of estimated recoveries in respect of "demands" for water charges;
 - e. The allocation of EDC on those assets completed and put to use in earlier years but capitalized uniformly on 1st April 2014;
 - f. Charging of depreciation on assets held on behalf of Government of Karnataka;
 - g. Non provision for Impairment of Assets;
 - h. Non recognition of revenue from KPTCL;
 - i. Wrong allocation of borrowing costs;
 - j. Provision for leave encashment on estimated basis,
 - k. Non provision of depreciation based on useful life in accordance with Schedule II of Companies Act 2013 which will be adhered during finalization of accounts for 31st March 2015;The rectifications on account of the impact of the above, if any, will be carried on after due review and assessment.



5. The Other Incomes includes revenue grants received from Government of Karnataka towards interest payment on term loans for Rs. 28,25,65,293 and Rs. 1,30,41,813 for Interest on Application money and towards Assets maintenance Rs 72,45,75,000 and Rs. 381,36,58,022 towards SCP/TSP works.
6. The Company is involved only in executing various irrigation projects in the State of Karnataka there are no reportable segments as per AS 17.
7. The Board of Directors had allotted 337,49,740 shares of Rs. 1,000 each aggregating to Rs. 3,374,97,40,000 to GOK which was annulled in the EGM held on 24.02.2015. Further, in the said EGM allotment of 432,17,993 shares of Rs. 1,000 each aggregating to Rs. 4,321,79,93,000 to GOK.
8. The deed of Hypothecation/ mortgage in respect of Term loan of Rs.650 Crores from various bankers has been executed in April, 2015.
9. The repayment of term loans and interest thereon are guaranteed by Government of Karnataka.
10. The Company has issued 5,000 Secured Series VIII Regular Return 8.75% bonds of Rs. 10,00,000/- each aggregating to Rs. 500 crores during March, 2015 for which the trust deed has been executed during April, 2015. The tenure of bonds is 10 years repayable at the end of 9th and 10th year equally on 31st March. The bonds are covered 1.25 times of mobilized amount and the charge is created on the fixed assets of the company. Further, the bonds are guaranteed by the Government of Karnataka and have allocated the budgetary support for the entire tenure of the bonds for interest payment and principal repayment.
11. The Company has not prepared the Unaudited Financial Results in FY 2013-14, hence the corresponding figures for 6 months ending 31st March, 2014 have not been provided.
12. Provision for Deferred Tax Assets/ Liabilities as required by the Accounting Standard 22 issued by ICAI has not been made due to uncertainty of recovery of the same in view of huge accumulated unabsorbed losses.
13. The previous period/ year figures have been regrouped/ reclassified wherever necessary.
14. Formula used for computation of coverage ratios-
 - a) $DSCR = \frac{\text{Profits before Interest and Depreciation less tax}}{\text{Interest plus Principle repayment of Long term Debts}}$
 - b) $ISCR = \frac{\text{Profits before Interest and Depreciation less tax}}{\text{Interest}}$

(R Rudraiah)
Managing Director
DIN:06453760

(K.S. Raveendra Prasad)
General Manager – Finance

Place: Bangalore
Date: 28.05.2015

As per our Review Report of even date attached
(Un-audited)
For B.P. Rao & Co.,
Chartered Accountants
Firm Reg No.003116S
B. Satish Rao
Partner
M.No. 24559



B.P.RAO & CO.
CHARTERED ACCOUNTANTS

No.5, POORNA PRASAD ROAD,
HIGH GROUNDS, BANGALORE –560001.
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The Board of Directors,
Karnataka Neeravari Nigam Ltd.,
Coffee Board Building,
Bangalore - 560 001.

INTRODUCTION

1. We have reviewed the accompanying Statement of unaudited financial results of Karnataka Neeravari Nigam Limited for the half year ended 31-03-2015. This Statement is the responsibility of the company and has been taken on record and approved by the Audit Committee of Board of Directors.

SCOPE OF REVIEW

2. We have conducted our review in accordance with Standards on Review Engagement (SRE) 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Institute of Chartered Accountants of India. A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BASIS FOR QUALIFIED CONCLUSION

3. Attention is drawn to Notes 2 to the unaudited financial results, that these results have been prepared following the same Accounting Policies as were applicable while preparing the financial statements for the financial year ended 31st March 2014. We are of the opinion that the following Accounting Policies/practices of the company require review:
 - a) Non Provision for liability in respect of additional quantity of works executed by the contractors, crop compensation to farmers and land owners, worker welfare cess prior to 1st November 2006 and New defined contributory pension scheme;
 - b) The apportionment of administrative charges, other general overheads and actual date of capitalization which is not in accordance with Accounting Standard 10 on

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Accounting for Fixed Assets issued under the Companies (Accounting Standards) Rules, 2006;

- c) The apportionment of the administrative charges and other general overheads preliminarily on the basis of consolidated assets in progress which is not in accordance with its Accounting Policy and Accounting Practices of apportioning over completed assets and assets in progress.
- d) The non allocation of expenses during construction period up to the date of capitalization which is not in accordance with the Accounting policy of the Company;
- e) For the purposes of depreciation, the life of assets transferred from the Government and the life of assets capitalized during the year (other than moveable assets) and added to the original assets, have been considered as if these were new at the time of capitalization which policy requires review as depreciation in terms of Accounting Standard 6 is to be provided over the residual useful life of the asset;
- f) The company is making provision in the books in respect of “demands” for water charges outstanding for collection more than 3 years. It is however observed that the recoveries are not significant vis-a-vis the demand and hence as a prudent measure the provision in our opinion ought to have been based on the estimated recoveries;
- g) The excess allocation of EDC which is not quantifiable, on those assets amounting to Rs.550.67 Crores, completed and put to use in earlier years but capitalized during the period uniformly on 1st April 2014;
- h) The charging of depreciation by the Company on Assets held for transfer to Government -Harinala Project. We are of the opinion that as “assets held for transfer” is not assets held by the company for the purpose of its business, accordingly depreciation charged up to 31.03.2015: Rs.514.97 Lakhs including depreciation for the period Rs.37.04 Lakhs made in the accounts requires to be reversed by credit to the appropriate accounts;
- i) The Company states that it is not possible to ascertain whether there is an Impairment loss and make necessary provision in the accounts. We are of the opinion that the “value in use” has to be established, as the present cash flow from supply of water does not meet the cost of operations and as there is no precedence of the transfer of Irrigation Infrastructure in an arm's length transaction;

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- j) The non recognition of revenue due from KPTCL in the absence of an agreement.
- i) The allocation of borrowing costs to the qualifying assets as on date instead of to the qualifying assets of the year in which the borrowings are made, is not in Compliance with Accounting Standard 16 on Borrowing cost issued under the Companies (Accounting Standards) Rules, 2006.

4. Attention is also drawn to following notes to the results


- a) Note 4(i) that provision towards leave encashment made on estimated basis, the adequacy of which could not be determined.
- b) Note 4(k) that the depreciation based on useful life of asset as per schedule II of the Companies Act 2013 will be adhered to only while finalizing the accounts for the year ending 31-03-2015, the consequential effect of which could not be ascertained.

QUALIFIED CONCLUSION

5. Based on our review, with the exception of the matters described in the preceding paragraphs 3 and 4, the effect of which could not be quantified, nothing has come to our attention that causes us to believe that the accompanying statements of unaudited financial results is not prepared in all material aspects, in accordance with the Companies (Accounting Standards) Rules, 2006, applicable accounting practices and policies and clause 29 of standard listing agreement for debt securities including the manner in which the information needs to be presented and disclosed, or that it contains any other misstatement.

Place : Bangalore
Date : 28th May 2015

For B. P. Rao & Co
Chartered Accountants
Firm Reg No. 003116S



B. Satish Rao
Partner
Membership No.024559

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