

B.P.RAO & CO.
CHARTERED ACCOUNTANTS

No.5, POORNA PRASAD ROAD,
HIGH GROUNDS, BANGALORE
-560001.

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FAX : 22205030.

E-MAIL: bprao@satyam.net.in

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 30-09-2015. 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 2015. 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 and worker welfare cess prior to 1st November 2006;
 - b) The apportionment of administrative charges, other general overheads and actual date of capitalization which is not in accordance with Accounting Standard 10 on Accounting for Fixed Assets as per the Accounting Standards specified under Section 133 of the Companies Act 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014;

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- 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.146.59Crores, completed and put to use in earlier years but capitalized during the period up to 30-09-2015;
- h) 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;
- 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 as per the Accounting Standards specified under Section 133 of the Companies Act 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014;
4. ***Attention is also drawn to following notes to the results***
- a) Note 2 regarding the opening balances adopted for preparation of half yearly financials which is based on the Unaudited Financials as on 31st March 2015, the consequential effect of which could not be ascertained.

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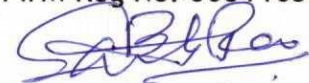
- b) Note 4(h) that provision towards gratuity and leave encashment made on estimated basis, the adequacy of which could not be determined.

QUALIFIED CONCLUSION

- j) 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, as per the Accounting Standards specified under Section 133 of the Companies Act 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014 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 : 19.11.2015

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



B. Satish Rao
Partner
Membership No. 024559



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KARNATAKA NEERAVARI NIGAM LIMITED

(A Government of Karnataka Enterprise) No.1, Coffee Board Building, 4th Floor,
Dr B R Ambedkar Veedhi, Bangalore 560 001 CIN: U85110KA1998SGC024503,
Website: www.knnlindia.com

Statement of un-audited Financials Results for half year ended 30th, September 2015

(Rupees in lakhs)

Sl. No.	Particulars	6 months ended 30.09.2015	Corresponding six months ended in the previous year 30.09.2014	Year to date for the current year ended 30.09.2015	Previous accounting year ended 31.03.2015
		Unaudited	Unaudited	Unaudited	Unaudited
1	(a) Net Sales / Income from Operations	97.47	441.69	97.47	522.90
	(b) Other Operating Income				
2	Expenditure				
	(a) Employee Remuneration and Benefits	3,379.77	3,060.55	3,379.77	8,466.44
	(b) Depreciation	8,106.15	4,201.03	8,106.15	20,342.46
	(c) Repairs and Maintenance (Irrigation Assets)	2,951.22	3,740.75	2,951.22	17,912.08
	(d) Expenditure on GOK Scheme	3,647.86	7,930.27	3,647.86	49,262.92
	(e) Other expenditure	1,255.78	734.35	1,255.78	4,943.14
	(f) Total	19,340.78	19,666.96	19,340.78	100,927.04
3	Profit (+) / Loss (-) from Operations before Other Income interest and Exceptional items	(19,243.32)	(19,225.27)	(19,243.32)	(100,404.14)
4	Other Income	14,182.04	13,581.82	14,182.04	71,088.18
5	Profit (+) / Loss (-) before interest and Exceptional items	(5,061.28)	(5,643.45)	(5,061.28)	(29,315.96)
6	Interest	5,082.16	2,703.28	5,082.16	6,366.29
7	Exceptional Items	-	-	-	-
8	Profit (+) / Loss (-) from Ordinary Activities before tax	(10,143.45)	(8,346.74)	(10,143.45)	(35,682.25)
9	Tax expense	-	0.00	0.00	3.00
10	Profit (+) / Loss (-) from Ordinary Activities after tax	(10,143.45)	(8,346.74)	(10,143.45)	(35,685.25)
11	Extraordinary Items		0.00	0.00	
12	Net Profit (+) or Loss (-) for the period	(10,143.45)	(8,346.74)	(10,143.45)	(35,685.25)
13	Paid-up equity share capital (Rs. 1,000/- each)	1,897,466.77	1,714,157.43	1,897,466.77	1,808,839.96
14	Paid up Debt Capital	161,165.00	51,848.25	161,165.00	105,214.00
15	Reserves excluding Revaluation Reserves as per balance sheet of previous accounting year	(142,623.63)	(105,141.67)	(142,623.63)	(132,480.18)
16	Debenture Redemption Reserve	-	-	-	-
17	Earnings Per Share (EPS) - Basic (Face value of Rs.1,000/- per share)	(5.45)	(4.87)	(5.45)	(25.16)
18	Earnings Per Share (EPS) - Diluted	(5.26)	(4.83)	(5.26)	(23.68)
19	Debt Equity Ratio	0.09	0.03	0.09	0.06
20	Debt Service Coverage Ratio	0.59	(0.52)	0.59	(0.55)
21	Interest Service Coverage Ratio	0.60	(0.53)	0.60	(1.20)

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 19th November, 2015. The Statutory Auditors have subjected the same for Limited Review vide their report dated 19th November 2015. 2. The above financial results have been prepared on the basis of same accounting policies and practices followed by the Company in preparation of unaudited financial statements for the year ended 31st March 2015. The financials of 2014-15 is under audit; hence the opening figures considered for preparation of Half Yearly Unaudited Financials as on 30th September 2015 may undergo change, the impact of which is not ascertainable. 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 and worker welfare cess prior to 1st November 2006; 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. Non provision for Impairment of Assets; g. Wrong allocation of borrowing costs; h. Provision for leave encashment on estimated basis. 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 and debentures for INR. 42,75,93,218/-, towards Assets maintenance INR 62,29,50,000/-. Pending receipt of Government order for treating the amount as grants towards SCP/TSP for INR 15,38,81,536/- the same has been treated as income under the said head of account. 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 88,62,681 shares of Rs. 1,000 each aggregating to INR 8,86,26,81,000 to GOK in the BOD held on 17.06.2015. 8. The deed of Hypothecation/ mortgage in respect of Term loan of INR 610 Crores from various bankers is yet to be created. 9. 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. 10. The repayment of term loans/ Debentures and interest thereon are guaranteed by Government of Karnataka. 11. 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. 12. The previous period/ year figures have been regrouped/ reclassified wherever necessary. 13. Formula used for computation of coverage ratios- a) DSCR= Profits before Interest and Depreciation less tax/ Interest plus Principle repayment of Long term Debts. b) ISCR= Profits before Interest and Depreciation less tax/ Interest.

Place: Bangalore
Date: 19-11-2015

Sd/- R. Rudriah
Managing Director

Size: 16x37