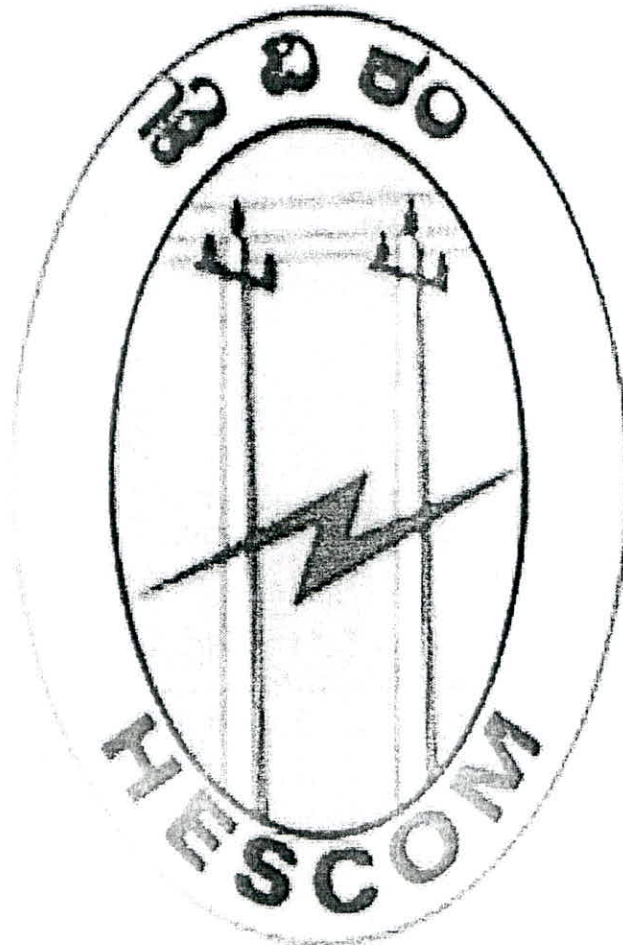


HUBLI ELECTRICITY SUPPLY COMPANY LIMITED



After AG Audit

Annual Accounts
FY 2020-21



[Signature]
CONTROLLER (A&R)
HESCOM HUBLI.

हसकॉम हबली
ऑडिटर जनरल (अ&र)

REVISED INDEPENDENT AUDITORS' REPORT

To

The Members of HUBLI ELECTRICITY SUPPLY COMPANY LIMITED.
Hubli

Report on the Audit of the financial statements

We have audited the accompanying financial statements of HUBLI ELECTRICITY SUPPLY COMPANY LIMITED ("the Company"), which comprise the Balance Sheet as at March 31, 2021, and the Statement of Profit and Loss and statement and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. (Hereinafter referred to as "financial statements"). In consideration of the revised financial statements which were adopted by the Board of Directors on 28.10.2021, we are issuing this revised report, which supersedes our earlier report dated 25.08.2021.

The Board approved revision to the financial statements in the light of the observations made by the Comptroller and Auditor General of India, which resulted in decrease in loss by Rs.124.42 Crores as disclosed by the Company vide Note No.31-11.

In our opinion, except for the effect on the financial statements of the matter described in the basis of qualified opinion paragraph, and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Companies Act, 2013 ('Act') in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2021, its losses and cash flows for the year ended on that date.

Basis of Qualified Opinion:

The company has disclosed certain deviations in its notes to accounts and accounting policies, subject to the notes to accounts and the accounting policies, we further report the following points as basis for qualified opinion:

Loans & Borrowings:

1. The company has loans borrowed from Power Finance Corporation (PFC) towards RAPDRP scheme which has to be treated as Grants per the Government order. The company continues to show this as long term borrowings and interest accrued are accounted to capitalisation of assets. The company awaits confirmation of the grant amount from PFC and it continues to repay the principal and interest amount. The result of future communication of such loans to grants is not clarified and may result in reversal of interests and principal amounts repaid.
2. The company in its financials has not disclosed the project wise costs and loans borrowed and its own margin.




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Security deposit from consumers

3. The company's ledger balance relating to security deposit from customers is amounting to Rs 924.69 crores whereas the subsidiary ledgers party wise maintained in the software namely (R-APDRP & N soft) is showing a balance of only Rs 646.73 crores. The company has to undertake effective reconciliations of these balances. The company is carrying an excess of Rs 277.96 crores as security deposits in its books of accounts and also excess provision of interest on these balances are made.

Long term provisions and short term provisions:

4. The company makes delayed payments to pension and gratuity trusts towards which provision for interest on delayed payments are not made in books of accounts. This has resulted in increase in percentage of contributions year on year to be paid to the Pension and Gratuity trust. It is also observed that the company is providing services of payments of pension and gratuity to its retired employees towards which the cost of administration is not claimed from the trust.

Trade Payable:

5. The company has not obtained balance confirmations from its suppliers and also other ESCOMS.
6. The company has provided for energy consumption entries in its books of accounts based on the provisional statement submitted by SLDC and PCKL. The balances may undergo change as per the final statement to be submitted by SLDC and PCKL. It is observed the company is relying on the statements provided by sources of SLDC and PCKL and does not carry any internal checks or internal records for the readings of electricity consumptions or usages.
7. In respect of interest on delayed payment of power purchase, company is accounting the interest as and when the interest demand is received from the vendors. The power purchase agreement specifies interest should be paid for delayed payment after the credit period. The company should identify the delays and make provision for the interest on delayed payments as per the power purchase agreements .
8. The company is charged with O & M expenses for services received from SLDC (KPTCL) and PCKL . It is observed that these expenses are not invoiced to the company from KPTCL and PCKL. Audit is of the opinion that the company should obtain the basis of arriving of these costs and should also provide for tds under the Income tax act and also provide for GST under reverse charge mechanism on these costs.
9. As per the Honourable APTEL order dated 5/10/2020 in relation to Tannirbhavi Power Purchase cost , the company is liable to pay RS 329.92 crores to KPTCL for change in tariff rates retrospectively. The payment is to be made in the duration of 5 years . The company has not made provision for the same and has reported in its notes to accounts that the amount will be accounted as and when demand will be raised by KPTCL. Hence the current liabilities , long term liabilities and power purchase costs are understated to the tune of Rs 329.92 crores and loss is understated by Rs 329.92 crores.



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Other Current liabilities:

10. The TDS payable on the expenses and contract works are made when the payments are made and not accrual system.
11. The interest payable on security deposits is provided in excess as compared to the accounts maintained in the software and as per the DCB. A difference of Rs 11.91 crores is provided in excess in the books of accounts of the company as compared to the actual discharge of interest as per the software adopted for billing by the company. Hence the interest expense is overstated, interest payable is overstated and losses are overstated.
12. Advance from SPPCC towards UI Charges / Admin charges is long outstanding with credit balances and the company has to reconcile and identify the disposal of liability to the tune of Rs 27.87 crores.
13. The company is obtaining and providing materials/services to different ESCOMS towards which the invoicing and discharge of GST is not being undertaken. The company has to assess the GST and TDS liability and make necessary provisions in the books of accounts for discharge of any such liability which is not determined for the current period.
14. The company is carrying old balances of Sales Tax deducted at source towards which provision for interest or penalty is not made in the books of accounts.

Fixed Assets and Capital work in Progress:

15. The company is charging depreciation from the month of capitalisation. Any related grant received during the year for the assets capitalised are reduced from the gross block during the year. The reversal of depreciation on the grant amount is effected in the following year, hence depreciation on the assets capitalised during the year is claimed in excess. The amount is not quantifiable since the capitalisation and depreciation is undertaken in the divisions, whereas the grants received are apportioned to fixed assets by the Head office.
16. It is observed that CWIP is reduced by contribution from customer only. Whereas if CWIP includes project cost against which grants are received, these grants are reduced from fixed assets without asset being capitalised. The company to segregate the grants related to those assets which are in capital Works in progress and not reduce the fixed assets. The present practise results in fixed assets being under stated and depreciation is under claimed.
17. As per Note No 2.6.1 of the Notes forming part of the financial statements, the fixed assets are shown at their historical costs with corresponding accumulated depreciation and Note 2.6.6 states that the valuation of Capital Work-in-progress in case of company-generated assets is valued at standard rate, which is not in accordance with Accounting Standard 10, [which recommends the valuation of Asset at cost]. Hence in our opinion the accounting for valuation of Capital Work-in-progress and fixed assets by the Company in consonance with note no 2.6.6 and contradictory to Accounting Standard 10.



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18. The company has not assessed the existence of impairment, if any, of its assets, including assets withdrawn from active use and assets scrapped as at the Balance Sheet date and consequently we are unable to comment on the existence of impairment loss.
19. The company has to conduct legal audit of all its Land and Buildings from an empanelled advocate to ascertain the ownership of the present status of its land and building along with any overdues on taxes to be paid.
20. The capital work in progress includes very old entries and the status of such WIP is not identifiable by the company. A proper reconciliation and treatment of such accounts should be undertaken by the company.

Investment:

21. The company has made an Investment of Rs 14 crores in Priyadarshini Jural Project. This project is not yielding any returns and the company is paying fixed charges without drawing necessary power from the project. The company has to make efforts to withdraw the investments as it is resulting in fixed expenses without any benefits. The company has also not obtained share certificates from the said project.

Other non-current assets:

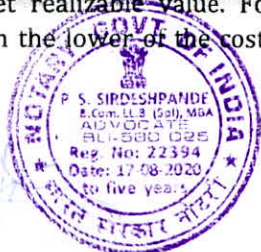
22. It is observed that an amount of Rs.27.03 crores is shown as subsidy receivable from Govt of Karnataka in respect of Hukkeri Co-Operative society pertaining to FY 2005-06 to 2009-10. As this amount is not confirmed by Govt of Karnataka, ultimate recovery of the same is doubtful and needs suitable provision. The effect of this would result in overstatement of profit by Rs 27.03 crores (Account Code: 28.621)
23. In respect of amount receivable from Karnataka Power Loom Department, it is observed that the claim submitted by the company is Rs 6.73 crores as against a book balance of Rs 9.38 crores. The company has not made any provision for the shortfall or proper reconciliation has to be adopted.

Regulatory Asset- KERC:

24. It is observed that the company has reversed an amount of Rs 1286.46 crores related to tariff variance arising from revenues of 2020-21. This amount belonged to the deficit of purchase costs and approved purchase costs related to Financial Year 2018-19. The company has not considered the factor of matching principle in terms of revenue whether achieved as per the projections and actuals. The company in its current financial year 2020-21 has not achieved its sales in terms of units due to unavoidable circumstances of floods and covid situations.

Inventories:

25. As per the accounting policy (note 2.3 of the Notes forming part of the financial statements), the Company is following Standard rate, determined by the Company, from time to time based on the previous purchase price and prevailing market rates in valuing inventories which is not in accordance with Accounting Standard 2. The accounting standard prescribes that the inventories should be valued at the lower of the cost and net realizable value. For want of details, we are unable to quantify the difference in the lower of the cost price or net realizable value and the standard rate



adopted by the Company and its effect on the financial performance and position of the Company.

26. The inventory balances includes the Capital assets which is not segregated in the books of accounts and hence not quantifiable the effect on the financial statements.
27. The inventory carried by the company is not insured and the provision for any loss is not made in the books of accounts.

Trade Receivable:

28. The total subsidy receivable from the Government of Karnataka is subject to confirmation and reconciliations.

Other Current Assets

29. The company does not carry any insurance for its cash holding and has not made provision for any loss on such cash holdings.
30. The collection bank account reconciliations are not prepared as per the prescribed format and confirmation of balances from the banks are not obtained by the company. The balance in these current account balances are subject to confirmation.
31. Service Tax claim settled by HESCOM to be recovered from Consumer/Contractor is pending under accounting code 28.852 amounting to Rs. 7.02 crores. The same is pending since 2018. Company to make the provisions for write off since the recovery rate is very low and the follow up on receivables is not in place effectively.
32. The inter unit accounts of the company shows huge balances outstanding individually in different accounts which will have an impact on the balances of many other account heads either in the profit and loss account or the statement of affairs. Long pending entries in below accounting codes to be identified and reconciled to pass necessary effects in the books of accounts.

Non-reconciliation of inter unit accounts amounting to Rs.18.51 crores (net credit) shown under "Other Current Assets". The effect of adjustments in the financial statements on account of non-reconciliation of inter unit account is presently not ascertainable / quantifiable. This may result in understatement or over statement of inventories, cash, bank balances, fixed assets and other liabilities, which is not ascertainable due to long pending unreconciled items in the Inter unit accounts.

33. The company undertakes several CSR works through contracts. These works cost executed under Ganga Kalyana scheme will be reimbursed by Government departments like Karnataka Backward Classes Development Corporation, Karnataka Minorities Development Corporation, Karnataka State SC / ST Development Corporation, Dr. B.R. Ambedkar Development Corporation. It is observed that the claims outstanding as per the Project Management department is at Rs 39.60 crores as against the receivables shown in the books of accounts at Rs 142.73 crores. The receivables are over stated to the extent of Rs 103.13 crores and either the Fixed Assets/ Capital Work in progress or the expenses is understated.



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Statutory Compliance

34. The Company is to make provision for GST liability along with interest and penalty amounting to Rs.5.83 crores towards Interest and penalty as per the calculation made in response to summons issued by GST department for the FY 2017-18, 2018-19 and 2019-20. Further the company has made representations for waiver of Interest and penalty.

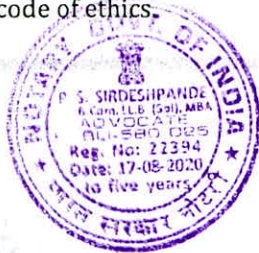
Income:

35. We observed difference between sales as per software and sales as per books of accounts. The company has to undertake proper reconciliations to match the demands as per books of accounts and the software which generates the bills. Manual intervention in the software is also observed due to certain features like FAC, LT 7 and few of HT installations that are not completely billed through the software. The resultant factor of understatement or overstatement of sales is not determinable since the same is not identifiable.
36. Provision for differential power purchase billing to Hukkeri Rural Electrification Cooperative Society (HRECS) is not made for the 2019-20 and 2020-21. The invoices are raised at rates lesser than the applicable tariffs. The differential amounts are claimed as and when the KERC tariff is decided particularly for HRECS. For the year 2019-20 the company has an excess outstanding differential balance of Rs 2.33 crores which is not accounted in the books of accounts as on 31st March 2021.

Miscellaneous:

37. Internal check and internal control system existing in the company needs to be thoroughly verified and to be strengthened, in respect of various audit points covered in this report. And Internal Audit department needs to be improved.
38. Certain balances as on 31st March 2021 under trade receivables/Payables, advances paid/received, Deposits paid/received, Trade deposits, Loans and Advances, Deposits, Bank Balances held in Divisions, Sub divisions, Zones, Circles, Government loans including accrued interest thereon are subject to confirmation. These includes certain old balances needing review and reconciliation. Though provision exists against certain trade receivables and advances, adequacy of the same is not ascertained. Hence further provisions/adjustments if any, required against these balances have not been ascertained and made. Consequential impact on the accounts is unascertainable.

We conducted our audit in accordance with the standards on auditing specified under section 143 (10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the code of ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the rules there under, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the code of ethics.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Matter of Emphasis:

1. Delays (spanning even more than one accounting period) in capitalisation of assets (put to use out of items included in capital work in progress) have been observed. This result in understatement of fixed assets and of corresponding depreciation charged. The manner of calculation of depreciation from the date of capitalizing the assets in the books instead of the date on which the assets are actually put to use resulting in misstatement of depreciation charged and the carrying amount of fixed assets. During our test check of the statement of on-going works, we observed incomplete details about the estimated amount as per work order, work orders references, date of last material drawn, the status of the works as at the year-end etc. We feel, there is a necessity to carry out periodical review of on-going works. Due to this, the cumulative effect of the above deviations on depreciation charged and carrying amount of fixed assets & capital work in progress in the financial statements is presently not quantifiable.
2. At present, only operations relating to billing and collection from consumers (other than High Tension consumers) have been computerized. In respect of other processes, transactions/records are maintained partly manual and partly through MS-excel work sheets. As MS-excel is not an accounting software, there is a need for maintaining financial accounts in a proper accounting software, under proper supervision and with adequate security measures. It is also observed that the company has not implemented its ERP software though the contract for development is placed several years ago.

3. Branch Audits:

The system of transactions undertaken is majorly through divisions and zonal offices. It is observed that the company does not undertake the Branch Audits separately and the scope of work and time limitation towards statutory audit will also include the coverage of Branch Audits.

It is recommended that the company has to undertake a separate exercise of Branch audits towards audit of financial statements year on year through experienced Audit firms in all divisions as a separate exercise in order to obtain more accuracy and fairness on the books of accounts of the company.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reporting of key audit matters as per SA 701, Key Audit Matters are not applicable to the Company as it is an unlisted company.




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Management's responsibility for the financial statements

The Company's board of directors are responsible for the matters stated in section 134 (5) of the Act with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the accounting standards specified under section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The board of directors are also responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are not responsible for expressing our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the **Companies (Auditor's Report) Order, 2016** ("the Order"), issued by the Central Government of India in terms of sub-section (11) of section 143 of the Companies Act, 2013, we give in the Annexure "A", a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

As required by Section 143(3) of the Act, we report that:

- a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
- c) The balance sheet, the statement of profit and loss, and the cash flow statement dealt with by this report are in agreement with the books of account;




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HESCOM. HUBLI.

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- d) In our opinion, the aforesaid financial statements comply with the accounting standards specified under section 133 of the Act, read with rule 7 of the Companies (Accounts) Rules, 2014;
- e) On the basis of the written representations received from the directors as on March 31, 2021 taken on record by the board of directors, none of the directors is disqualified as on March 31, 2021 from being appointed as a director in terms of Section 164 (2) of the Act;
- f) with respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate report in "Annexure B"; and
- g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us;
- a. The Company does not have any pending litigations which would impact its financial position;
- b. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses; and
- c. There is no amounts required to be transferred to the Investor Education and Protection Fund by the Company.

for Rao and Emmar
Chartered Accountants
Firm Registration NO: 003084S


B J Praveen
Partner

Membership No: 215713
Date: 28th October 2021
Place: Hubli
UDIN: 21215713AAAATA9091



Annexure "A" to the Independent Auditor's Report

(Referred to in paragraph 1 under 'Report on other legal and regulatory requirements' section of our report to the members HUBLI ELECTRICITY SUPPLY COMPANY LIMITED of even date)

1. The Company has not maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

The company has not undertaken the physical verification of Fixed Assets during the year, however the company has the system of physically verifying only T&P items but the discrepancies couldn't be identified in absence of quantity and geographical situation of fixed assets.

On the basis of our examination of the records of the Company, title deeds of certain immovable properties in the name of the erstwhile company which the company has succeeded are yet to be transferred in the name of the company. The Company has to build-up the fixed asset register along with the details of date of acquisition, cost incurred, measurements etc. for each immovable property. The original title deeds of the property were not made available for verification.

2. We are informed that the physical verification of inventories has been carried out once in a year at divisional level by the management and the discrepancies noticed on such verification were not material. However, no consolidated report of discrepancies in stock was available at company level for our review.
3. As informed to us, the company has not granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Act. However, the details about related party disclosures in specific contracts and service providers, were not maintained. In our opinion and according to the information and explanations given to us, the Company has not given loans, made investments or given guarantees which are covered by the provisions of section 185 and 186 of the Act.
4. In our opinion and according to the information and explanations given to us, the company has not given loans, made investments, or given guarantees which are covered by the provisions of section 185 and 186 of the act.
5. In our opinion and according to the information and explanations given to us, the company has not accepted any deposits from public and hence the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Act and the rules framed there under are not applicable to the Company
6. We have broadly reviewed the books of accounts made and maintained by the company pursuant to the rules made by the Central Government for the maintenance of Cost records under section 148(1) of the Act, and are of the opinion that prima facie, the prescribed accounts and records for the year need to be updated. We have, however, not made a detailed examination of the records with a view to determining whether they are accurate or complete.

7. In respect of Statutory dues



- i. According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales- tax, service tax, goods and service tax, duty of customs, duty of excise, value added tax, cess and other material statutory dues have been generally regularly deposited during the year by the company with the appropriate authorities except in the following case as mentioned below:

SL. No.	Particulars	Amount Rs in Crores	Remarks
1	Sales Tax deducted at Source	1.88	Old Balances yet not paid
2	Service Tax Payable	0.01	Old Balances yet not paid
3	Electricity Tax	60.61	To be adjusted with Subsidy receivable from GOK
4	Income Tax TDS- Short Payments	1.34	Short payments are as per traces, company has paid the amounts and is in process of reconciling the differences.

8. We observe that, the Company has many litigations / claims filed against it, at various forums. As reported by the Management, there are 131 legal cases related to revenue. Total value of the claim is Rs 6.12 crores. This requires to be shown as contingent liability as per AS 29 - 'Provisions, Contingent Liabilities and Contingent Assets (revised 2016)', issued by ICAI, New Delhi. Due to the complex legal issues involved, different forums and the large number of cases, it is not possible to quantify the financial impact of the same.
9. In our opinion and according to the information and explanations given to us, the company has an outstanding dues to KREDL to an extent of Rs 210 crores. The company is paying additional penal interest of 2 percent regularly on the overdue amount.
10. The Company did not raise any money by way of initial public offer or further public offer (including debt instruments). As informed to us, the term loans were applied for the purposes for which those are raised.
11. According to the explanations given to us, fraud [Cash misappropriation] on the company by its officers / employees has been noticed / reported during the year. The details of the same are as under.

Cash misappropriation for the year 2020-21	Rs 2,69,460/-
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12. Being Government Company Section 197 of Companies Act, 2013 does not apply to the Company.
13. In our opinion and according to the information and explanations given to us, the



Company is not a nidhi company. Accordingly, paragraph 3(xii) of the Order is not applicable.

14. According to the information and explanations given to us and based on our examination of the records of the Company, transactions with the related parties are in compliance with sections 177 and 188 of the Act where applicable but details of such transactions have not been disclosed in the financial statements as required by the applicable accounting standards.
15. According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year.
16. According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not entered into non-cash transactions with directors or persons connected with him. Accordingly, paragraph 3(xv) of the Order is not applicable.
17. As informed to us, the Company is not required to be registered under section 45 -IA of the Reserve Bank of India Act 1934.

for Rao and Emmar
Chartered Accountants
Firm Registration NO: 003084S



B J Praveen
Partner
Membership No: 215713
Date: 28th October 2021
Place: Hubli
UDIN: 21215713AAAATA9091




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Annexure B - to the Independent Auditor's Report

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls over financial reporting of HUBLI ELECTRICITY SUPPLY COMPANY LIMITED ("the Company") as of 31 March 2021 in conjunction with our audit of the financial statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Controls:

The Company's Management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India (ICAI). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditor's Responsibility:

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing, issued by the ICAI and deemed to be prescribed under Section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

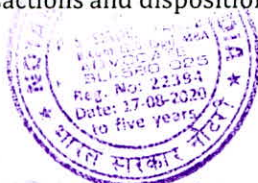
Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls over financial reporting.

Meaning of Internal Financial Controls over Financial Reporting:

A Company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Company's internal financial control over financial reporting includes those policies and procedures that:

a) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;



b) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Basis of Qualified Opinion:

According the information and explanation given to us and based on our audit, the following material weaknesses have been identified as at March 31st 2021.

1. The company does not have operational functionalities in place to determine the budgeted collections, sales and completion of projects.
2. The company has in-house internal audit setup and as informed to us all the transactions are subjected to internal audit process. However, in our opinion and based on our checks, the coverage of present internal audit system is inadequate and is not commensurate with the size of the company.
3. The Company does not have an appropriate internal control system with regard to maintenance of accounts as internal audit has noticed revenue leakage and excess payments and payments without proper approval during the transaction audit of divisions and corporate office.
4. The high risk involved in use of excel sheets for generating trial balances, absence of proper accounting software to generate general ledgers, subsidiary ledgers and trial balances.
5. Absence of control processes like physical verification of fixed assets and documents thereof, setting off of balances in similar account codes with other divisions and periodic review of bank reconciliations in case of non-operative accounts.
6. The company does not have suitable computerised system in respect of Financial Accounting, Payroll, Inventory, Capex etc. Impacting reliability, grouping, and adequate disclosure of financial transactions.
7. There was no evaluation of Internal financial controls and risk management systems by audit committee of the company as required by section 177(4) of Companies act 2013.
The company does not have risk management policy.



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8. The company does not have the procedure of obtaining confirmation of balances from parties in respect of Debtors, Creditors, Advances and Receivables. In view of this, we are not in a position to verify the correctness or otherwise of the balance of Debtors, Creditors, Advances and Receivables
9. The company does not have the procedure of adequate disclosures in respect of Loans and Investments as required by Schedule III to the Companies Act, 2013.
10. The company does not have the procedure of updating of the accounts manual adopted / followed and laying down comprehensive procedures for accounting.
11. The company does not have the procedure of adequate design / design and implementation of controls and procedures to ensure adherence to mandatory accounting standards / generally accepted accounting principles having a material impact on the financial statements as below:

- Accounting Standard 2 on valuation of Inventories due to application / adoption of standard rates in valuing inventory.
- Accounting Standard 10 "Property, Plant & Equipment" having an effect on depreciation charged and carrying amount of fixed assets in the financial statements due to:
 - Substantial delays (spanning even more than one accounting period) in capitalisation and non-capitalisation of assets put to use included in capital work in progress have been observed. For instance, a sum of Rs 14.97 crores was given to Ms ABB Ltd, for supply and erection of load dispatch and communication items, about 9 years back. As informed to us, the service provider has installed part of the equipment and they are operational. The balance work has not been undertaken and it seems the balance project is abandoned. In such a situation, it would not be correct to carry the amount under Capital work in Progress for any number of years. Depreciation is also not being provided since the date of put to use of the asset. Due to inadequacy of information, we are not in a position to quantify the depreciation not provided for all these years and its effect on the profit/loss of the company.
 - An amount of Rs 89.98 crores included in CWIP remains to be related to opening balances and no expenditures are incurred during the current financial year 2020-21.
 - Depreciation on any adjustments to the historical cost of the fixed assets is not charged prospectively over the residual life of the asset and is charged prospectively considering as though such adjustments are new assets.
 - Capitalisation of reconditioned assets at the carrying cost of the original asset (at which such assets were transferred to current asset) when retired from active use initially.
 - Application of standard rates in respect of materials capitalized in project assets.
 - Non-compliance of Accounting Standard 28 on Impairment of Asset due to non-assessment at the Balance Sheet date of the existence of any impairment of its assets



12. Inadequate design of internal control over a significant account or process due to the following:
- Accounting for accessories / components items forming part of the released transformers, i.e., oil and coil items (based on schedule of rates) under other current assets and correspondingly crediting the miscellaneous receipts account at the time of withdrawal from the fixed assets instead of the carrying amount of the released asset.
 - Non-recognition and measurement of regulatory assets.
13. It is observed that the company doesn't have the internal control system of verifying the bills received from ESCOMS, PCKL, KPCL and KPTCL for its correctness and completeness. The invoices or orders received are accounted as expenses or income without having internal judgement or internal audit on those invoices or orders.

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In our opinion, , the Company has maintained, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively except for the points stated above in paragraph Basis for qualified opinion as of March 31, 2021, based on "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India".

Audit is of the opinion that the company has to undertake a separate exercise to identify its internal control process, document these processes and evolve more controls along with implementation of ERP. It is observed that many departments information is un-reconciled and several gaps exist in the complete information gathering. The company has to arrive at its Risk Control Matrices to arrive at the risk if internal controls and its mitigating factors.

for Rao and Emar
Chartered Accountants
Firm Registration NO: 003084S




B J Praveen
Partner
Membership No: 215713
Date: 28th October 2021
Place: Hubli
UDIN: 21215713AAAATA9091

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ANNEXURE C

Hubli Electricity Supply Company Limited

Report on Directions issued by Comptroller & Auditor General of India under section 143(5) of Companies Act 2013

Sl. No.	Directions	Response
1	Whether the company has system in place to process all the accounting transactions through IT system? If yes, the implications of processing of accounting transactions outside IT system on the integrity of the accounts along with the financial implications, if any, may be stated.	The company doesn't have a system in place to process all accounting transactions through IT system. The accounting system is maintained in Excel macros and consolidated at HO level.
2	Whether there is any restructuring of an existing loan or cases of waiver/write off to debts/loans/interest etc. made by a lender to the company due to the company's inability to repay the loan? If yes, the financial impact may be stated.	There is no restructuring of an existing loan or cases of waiver/write off to debts/loans/interest etc., made by a lender to the company due to the company's inability to repay the loan. During the year the company has not repaid a loan amount of Rs. 210 crores to KREDL which is overdue for a year. The company during the year due to covid reasons has obtained moratorium of interest from Power Finance Company. In other cases the company has been regularly repaying its principal and interest amounts.
3	Whether funds received/receivable for specific schemes from Central/State agencies were properly accounted for/utilized as per its term and conditions? List the cases of deviation.	Yes. Funds received/receivable for specific schemes from Central/State agencies were properly accounted for/utilized as per its term and conditions. It is observed that the company doesn't maintain separate Bank accounts for the funds received from Central/State government. Also the company does not maintain project wise track in the books of accounts. The utilization certificates submitted to the Government authorities don't reconcile with the books of accounts maintained.



[Signature]
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Additional Company Specific Directions:

Sl. No.	Directions	Response
a	All the items with regard to Cash and Bank balances as in the Annexure-1 shall be verified and report the cases of specific non-compliances. Details of unexplained balances/balances operated under suspense head may also be examined.	No such cases of suspense head is observed . The other points as per the Annexure -1 is reported.
b	Report on the efficacy of the system of billing and collection of revenue in the Company. Whether tamper proof meters have been installed for all consumers? If not then, examine how accuracy of billing was ensured.	<p>The system of billing and collection of revenue is considered to be reasonably efficient. Delay of a few days in the updation of collections in the areas covered under Restructured Accelerated Power Development & Reforms Programme (RAPDRP) is noticed. As informed to us, tamper proof meters have been installed for all consumers and Automated Meter Reading systems have been installed for all DTC / HT installations. But, Automated Meter Reading have not been installed in respect of LT categories. The accuracy of the billing is ensured thorough periodic test check undertaken by Section Officers/Sub-Divisional Officers</p> <p>It is observed that the internal audit is covering the revenue process but as yet only until 2018-19 billings are verified.</p>
c	Comment on the confirmation of the balances of receivables and payables and advances and other similar balances and whether an effective mechanism for reconciliation of the same exists.	<p>Periodic reconciliations of receivables / payable balances have not been documented and hence we are unable to comment on the same.</p> <p>We observe huge differences between the balances as per Books of accounts and as per the statements wherever received from the generation, distribution and transmission companies</p>
D	Whether the Company recovers and accounts, the State Electricity Regulatory Commission (SERC) approved Fuel and Power Purchase Adjustment Cost (FPPCA) ?	As per the KERC order an amount of Rs 36.51 crores has been raised as demand for the year 2020-21 as per the billing period.




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E	Whether system of monitoring the execution of works in case of sub-stations and lines vis-à-vis the milestone stipulated in the agreement is in existence and the impact of cost escalation, if any, abandoned projects, if any , revenues/losses from contracts, etc., have been properly accounted for in the books.	The company does not have a monitoring system for recognising such events . On occurring of any such event the company is accounting the same in the books.
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for Rao and Emar
Chartered Accountants
 Firm Registration No: 0030845




B J Praveen
Partner
 Membership No: 215713
 Date: 28th October 2021
 Place: Hubli
 UDIN: 21215713AAAATA9091




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Annexure-1

S.N	Items in Check list	Remarks
1	Whether all Banks Accounts /Fixed Deposits have been opened with banks/proper authorization and approvals as per the aforesaid delegation of powers?	FD is maintained only towards margin money for Letter of Credit facilities. The Delegation of power is silent on the authorized persons.
2	Whether there was a periodical system of preparation of Bank reconciliation statement and whether they were produced for verification to audit?	Yes, the Resource Department of the company periodically prepares the BRS. The sub division and divisions at all levels are maintaining BRS and duly verified by Internal Auditor. The BRS were produced for verification to audit in HO and Division levels. The sub division BRS are relied upon the certification by the Internal Auditors.
3	Whether Bank reconciliation of the Main account and all subsidiary bank accounts were done?	Yes
4	Was the authorization to operate the bank accounts were given to a single signatory?	In divisions the operations are done by Accounts officer and Assistant Accounts officer , In HO the operations are done by DCA and AO
5	Whether the interest for the entire duration of Fixed Deposits was accounted in the books of accounts?	Yes
6	Whether physical verification of cash has taken place periodically?	As per information provided the cash is physically verified by the internal audit team and any shortages is reported for recovery and action
7	Whether the cash in hand as shown in the Balance Sheet tallies with the certificate of physical verification of cash?	There is no such system in existence except for providing balance confirmation from the respective division through AO.
8	Is there a register of Fixed Deposits showing amounts, maturity dates, rates of interest and dates for payment of interest?	NO such register is maintained and reliance of Bank statements is very high.
9	Is there a follow-up system to ensure that interest on Fixed Deposits is received on due dates?	Yes.
10.	Is there a follow-up system to ensure that transfer of matured amount of Fixed Deposits is done without any delay?	No such cases in the current period of audit.
11.	Whether bank confirmation statements are obtained periodically from the banks for all accounts: SB accounts, Current Accounts and Fixed deposits?	Yes
12.	Whether confirmations of balances in respect of all bank balances tally with the Bank statements?	Yes , any differences are reconciled .
13.	Whether Fixed Deposits and interest as per Fixed Deposits Register tally with the confirmation /certificate issued by the bank?	Register not maintained.
14.	Whether the confirmation statements	Yes



	received from banks are authenticated and in the letter head by the bank?	
15.	In case of any difference observed in the above check, whether the same was adjusted in the subsequent year?	The differences are reconciled and adjusted or taken up for rectification with bank.
16.	Whether external confirmations were obtained from Banks in the test checked cases, if so details thereof with.	No such external confirmations were obtained by us and we have relied on the confirmations obtained by the company and based our opinion on the internal audit certifications also.
17.	Whether any of the aforesaid lapses were brought out in the Report of the Internal Financial controls by the Statutory Auditor, if not, whether Audit Enquiry was issued ?	In case of differences in balances, the audit has identified the events and has brought into the knowledge of the company through audit enquiry. The same is either rectified or company has issued letters for follow up with banks for rectifications.






M/s. HUBBLI ELECTRICITY SUPPLY COMPANY LIMITED
PB ROAD, NAVANAGAR, HUBBALLI - 580 025.
Balance Sheet as at 31 March, 2021

SL No	Particulars	Note No.	As at 31st Mar, 2021	As at 31st Mar, 2020
			Rs	Rs
A	EQUITY AND LIABILITIES			
1	Shareholders' funds			
	(a) Share Capital	3	15,54,23,78,000	15,54,23,78,000
	(b) Reserves and Surplus	4	(50,76,91,19,081)	(25,86,84,68,397)
			(35,22,67,41,081)	(10,32,60,90,397)
2	Share Deposit pending allotment		4,81,58,93,080	2,05,62,00,080
3	Non-Current Liabilities			
	(a) Long-Term Borrowings	5	70,17,00,95,114	46,32,75,36,207
	(b) Other Long-Term Liabilities	6	9,88,25,32,300	9,34,44,91,374
	(c) Long-Term Provisions	7	1,55,06,90,322	1,28,98,55,135
			81,60,33,17,736	56,96,18,82,716
4	Current Liabilities			
	(a) Short-Term Borrowings	8	2,95,66,92,571	3,35,08,14,040
	(b) Trade Payables	9	53,93,36,31,569	59,06,48,25,694
	(c) Other Current Liabilities	10	18,52,83,59,688	20,90,85,02,571
	(d) Short-Term Provisions	11	30,83,93,532	29,05,95,524
			75,72,70,77,360	83,61,47,37,829
	TOTAL		1,26,91,95,47,095	1,32,30,67,30,228
B	ASSETS			
1	Non-Current Assets			
	(a) Fixed Assets			
	(a) Tangible Asset	12A	45,94,90,71,273	38,63,45,94,761
	(b) Capital Work-in-Progress	12B	3,44,14,45,954	6,79,56,47,552
	(c) Intangible Assets	12C	6,65,30,486	7,59,95,224
			49,45,70,47,713	45,50,62,37,537
	(d) Non-Current Investments	13	14,01,00,000	14,01,00,000
	(e) Deferred Tax Assets (net)	13A	1,48,34,29,129	-
	(f) Long-Term Loans and Advances	14	1,64,93,74,356	2,37,06,95,623
	(g) Other Non-Current Assets	15	6,29,76,78,724	19,58,20,13,858
			59,02,76,29,922	67,59,90,47,018
2	Current Assets			
	(a) Current Investments	16	-	-
	(b) Inventories	17	1,58,13,48,378	1,51,63,61,468
	(c) Trade Receivables	18	18,30,58,93,305	17,23,32,39,140
	(d) Cash and Bank Balances	19	81,12,93,296	41,83,53,856
	(e) Short-Term Loans and Advances	20	7,94,39,861	4,36,55,811
	(f) Other Current Assets	21	47,11,39,42,333	45,49,60,72,935
			67,89,19,17,173	64,70,76,83,210
	TOTAL		1,26,91,95,47,095	1,32,30,67,30,228
			0	0



See accompanying notes forming part of the Financial Statements.

For and on behalf of the Board of Directors

(Raghavendra Kotemane)
Company Secretary

(B. Manjunath)
Director (Finance)

(A. H. Kamble)
Director (Technical)

(D. Bharati, IAS)
Managing Director

As per our Audit Report of even date.



For Rao and Emmar
Chartered Accountants
FRN : 003084S

Praveen BJ, Partner
Membership No: 215713

CONTROLLER (A&R)
HESCOM, HUBBLI.

Place : HUBBALLI
Date : 28/10/2021

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M/s. HUBLI ELECTRICITY SUPPLY COMPANY LIMITED
PB ROAD, NAVANAGAR, HUBBALLI - 580 025.

Statement of Profit and Loss for the year ended 31st March, 2021

SI No	Particulars	Note No.	For the year ended 31st Mar,2021	For the year ended 31st Mar,2020
			Rs.	Rs.
	Revenue			
1	Revenue from Operations	22	78,30,01,62,517	77,92,25,17,551
2	Other Income	23	95,62,80,894	68,49,72,009
3	Total Revenue (1+2)		79,25,64,43,411	78,60,74,89,560
4	Expenditure			
	(a) Purchase of Power	24	68,35,49,83,367	55,84,88,80,886
	(b) Employee Benefits Expense	25	9,37,04,79,478	8,66,75,24,042
	(c) Finance Costs	26	11,29,99,91,821	5,46,33,12,378
	(d) Depreciation and Amortisation Expense	27i	2,54,08,92,785	2,23,40,76,562
	(e) Administrative and Other Expenses	27ii	2,63,20,90,671	2,98,99,11,933
	Total Expenditure (a+b+c+d+e)		94,19,84,38,122	75,20,37,05,801
5	Profit/Loss before exceptional and extraordinary items and tax (3 - 4)		(14,94,19,94,711)	3,40,37,83,759
6	Exceptional Items	28a	-	(1,02,90,00,000)
7	Prior Period Income	28	1,88,17,03,931	1,63,97,29,827
8	Prior Period Expenses	28	(46,10,59,611)	(1,01,08,30,468)
9	Profit/Loss before extraordinary items and tax (+/- 5 to 8)		(13,52,13,50,391)	3,00,36,83,118
10	Regulatory Income / Expenses	28b	(12,86,46,78,952)	(8,37,03,11,639)
11	Extraordinary items	28b	-	(1,45,55,00,493)
12	Profit/Loss before tax (9 ± 10 ± 11)		(26,38,60,29,343)	(6,82,21,29,014)
13	Tax income/expense:			
	(a) Deferred tax (Asset)	28c	1,48,34,29,129	-
14	Profit/Loss for the year (11 ± 12)		(24,90,26,00,214)	(6,82,21,29,014)
15	Earnings Per Share (of Rs. 10/- each):			
	(a) Basic & Diluted	30	(16.02)	(4.39)



See accompanying notes forming part of the Financial Statements.

For and on behalf of the Board of Directors

(Raghavendra Kotemane)
Company Secretary

(B. Manjunath)
Director (Finance)

(A.H. Kamble)
Director (Technical)

(D. Bharati, IAS)
Managing Director

As per our Audit Report on even date



For Rao and Emmar
Chartered Accountants
FRN : 003084S

Praveen BJ, Partner
Membership No:215713

CONTROLLER (A&R)
HESCOM, HUBLI

Place: Hubballi
Date: 28/10/2021



M/s. HUBLI ELECTRICITY SUPPLY COMPANY LIMITED
PB ROAD, NAVANAGAR, HUBLI - 580 025.

Cash Flow Statement for the year ended 31st March, 2021

SI No	Particulars	For the year ended 31st Mar,2021		For the year ended 31st Mar,2020	
		Rs	Rs	Rs	Rs
1	Cash flow from operating activities				
1-1	Net Profit / (Loss) before extraordinary items and tax	(26,38,60,29,343)		(6,82,21,29,014)	
1-2	Depreciation and amortisation	2,54,08,92,785		2,23,40,76,562	
1-3	Provision for Bad and Doubtful Debts	8,32,66,277		2,25,13,368	
1-4	Loss on sale of assets	66,69,813		7,50,978	
1-5	Profit on sale of assets	-		(18,325)	
1-6	Finance costs	11,29,99,91,821		5,46,33,12,378	
1-7	Provision for Leave Encashment & FBF	1,85,90,16,391		15,24,52,655	
1-8	Bonus/Exgratia Payable	6,88,59,495		6,99,65,716	
1-9	Provision for Retirement Benefits			1,91,16,55,777	
1-10	Material Cost Variance Credit	19,71,218		(40,21,69,762)	
1-10	Interest income	1,00,26,261		1,22,33,677	
	Operating profit / (loss) before working capital changes		(10,51,53,35,282)		2,64,26,44,010
2-1	Inventories	(6,49,86,910)		-	
2-2	Trade receivables	(1,15,59,20,442)		(2,25,13,368)	
2-3	Short-term loans and advances	(3,57,84,050)		-	
2-4	Long-term loans and advances	72,13,21,267		-	
2-5	Other current assets	(1,64,25,39,195)		(1,77,58,948)	
2-6	Other non-current assets	13,28,43,35,134		-	
2-7	Trade payables	(5,13,11,94,125)		-	
2-8	Other current liabilities	(4,30,80,18,769)		(2,13,40,74,148)	
2-9	Other long-term liabilities	53,80,40,926		-	
2-10	Short-term provisions	30,76,29,958		4,46,57,938	
2-11	Long-term provisions	(2,76,14,87,157)		83,42,31,685	
	Total		(24,86,03,363)		(1,29,54,56,841)
	Cash generated from operations		(10,76,39,38,645)		1,34,71,87,169
	Net cash flow from / (used in) operating		(10,76,39,38,645)		1,34,71,87,169
3-1	Capital expenditure on fixed assets, including	(6,69,97,23,127)		(12,86,28,31,107)	
3-2	Decrease in Capital WIP	(3,35,42,01,598)		-	
3-3	Proceeds from sale of fixed assets	30,64,143		24,55,637	
	Net cash flow from / (used in) investing activities		(10,05,08,60,583)		(12,86,03,75,470)
	Net cash flow from / (used in) investing activities		(10,05,08,60,583)		(12,86,03,75,470)
4-1	Proceeds from shares Deposits	2,75,96,71,312		59,15,20,698	
4-2	Proceeds from long-term borrowings	41,29,34,35,970		24,31,64,55,731	
4-3	Repayment of long-term borrowings	(17,87,87,47,010)		(10,67,48,06,236)	
4-5	Preliminary Expense	49,09,580		23,36,981	
4-6	Net increase / (decrease) in working capital / Short Term Borrowings	(2,49,41,21,469)		(2,10,00,00,000)	
4-7	Finance cost	(11,29,99,91,821)		(5,46,33,12,378)	
	Net cash flow from / (used in) financing activities		12,38,51,56,562		6,67,21,94,796
	Net cash flow from / (used in) financing activities (C-D)		12,38,51,56,562		6,67,21,94,796
	Net increase / (decrease) in Cash and cash equivalents		(8,42,96,42,666)		(4,84,09,93,505)
5	Cash and cash equivalents at the beginning of the year		41,83,53,856		1,31,85,56,000
	Cash and cash equivalents at the end of the year		(8,01,12,88,810)		(3,52,24,37,505)
	Cash and cash equivalents as per Balance Sheet (Refer Note 17)		81,12,93,296		41,83,53,856
	Net Cash and cash equivalents (as defined in AS 3 Cash Flow Statements) included in Note 17		81,12,93,296		41,83,53,856
	Cash and cash equivalents at the end of the year *		81,12,93,296		41,83,53,856
6	Cash on hand		13,34,28,037		2,17,88,051
7	In current accounts		42,97,97,620		12,23,18,880
8	In deposit accounts with original maturity of less than 3 months		24,80,67,639		27,42,46,925
			81,12,93,296		41,83,53,856

For and on behalf of the Board of Directors

(Raghavendra Kotemane)
Company Secretary

(B. Manjunath)
Director (Finance)

(A. H. Kamble)
Director (Technical)

(D. Bharati, IAS)
Managing Director

As per our Audit Report of even date

For Rao and Emmar
Chartered Accountants
FRN : 003084S

Praveen BJ, Partner
Membership No:215713

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HESCOM, HUBLI.

Place: Hubballi
Date: 28/10/2021



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M/s. HUBLI ELECTRICITY SUPPLY COMPANY LIMITED
PB ROAD, NAVANAGAR, HUBLI - 580 025.

Notes 1 & 2

Notes	Particulars
1	<p>Corporate information</p> <p>M/s. Hubli Electricity Supply Company Limited is registered with the Bangalore Registrar of Companies as a Public Limited Company on 30th April, 2002 vide Registration no. U31401KA2002SGC030437 and commenced its operation with effect from 1st June, 2002. The registered office of the company is located at PB Road, Navanagar, Hubli - 580 025. The Company is engaged in the business of Distribution of Electricity in the Seven Districts of Karnataka duly purchasing power from various Power Generators Pool Account as per the energy allocation / assigned by the Government of Karnataka as per the Government order issued from time to time. The rates followed for the allocated/assigned power purchase is based on the commercial rates/predetermined rates as approved by the PPA/ KERC/ Government of Karnataka. The Principal activities of the Company is to engage in distribution of Power .</p>
2.1	<p>Basis of accounting and preparation of financial statements</p> <p>The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP). The Company has prepared these financials statements to comply with the Companies Act, 2013 in all material respects and Accounting Standards specified under Section 133 of the Act read with Rule 7 of the the Companies (Accounts) Rules 2014. The financial statements have been prepared on accrual basis, except in respect of interest on belated payments to private power suppliers, where interest liability is provided to the extent of cases where Company expects that there will be claim from suppliers. Since the Net worth of the Company is negative for the last three financial years, IND AS is not applicable to the Company for the FY 2019-20</p>
2.2	<p>Use of estimates</p> <p>The preparation of the financial statements in conformity with Indian GAAP requires the Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Although such estimates are made on a reasonable and prudent basis taking into account all available information, actual results could differ from those estimates.</p>
2.3	<p>Inventories</p> <p>Inventories are valued at Standard Rate, which is determined by the Company from time to time based on previous purchase price and prevailing market rates (published as O&M Schedule of Rates).</p>
2.4	<p>Cash and cash equivalents (for purposes of Cash Flow Statement)</p> <p>Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short-term balances (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.</p>
2.5	<p>Cash flow statement</p> <p>Cash flows are prepared in accordance with the indirect method prescribed in Accounting Standard-3.</p>



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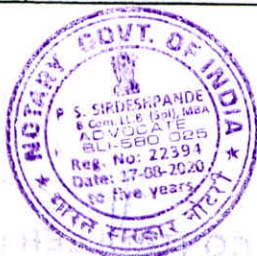
Notes	Particulars
2.6	<p>Fixed Assets</p> <p>2.6.1. Fixed assets are shown at their historical costs with corresponding accumulated depreciation. Fixed assets acquired /constructed are valued at actual cost of acquisition / construction. Materials issued to works from stores and becoming the assets are valued at standard rates. Interest and finance charges up to the stage of commissioning of fixed assets are being capitalized.</p> <p>2.6.2 Assets transferred by Karnataka Power Transmission Corporation Ltd., (KPTCL) have been stated at the cost of transfer indicated by KPTCL in the transfer document.</p> <p>2.6.3 In respect of Assets shared with KPTCL, the ownership and title vests with KPTCL and as such, they are not reflected in the books of accounts of the Company. But the share of maintenance expenditure in respect of such assets is charged to Profit & Loss Account.</p> <p>2.6.4 Consumer contribution, grants and subsidies received towards cost of capital assets are treated as reduction in the cost of Gross Fixed Assets in the Balance Sheet as per AS-10.</p> <p>2.6.5 Released assets are valued at W.D.V., Scrapped assets are valued at scrap rate indicated in the Schedule of rates.</p>
	<p>2.6.6 CAPITAL WORK-IN-PROGRESS</p> <p>Materials issued to Capital Work-in-progress are valued at Standard Rate, which is determined by the Company from time to time based on previous purchase price and prevailing market rates (published as O&M Schedule of Rates) except in respect of capital works under taken on total turnkey and partial turnkey basis where materials are accounted on purchase price.</p>
2.7	<p>Depreciation and amortisation</p> <p>2.7.1 Depreciation on all assets (except lease hold land) is provided on straight line method as per the guidelines prescribed in notification No. B/12/01 dated 29.03.2006 issued by KERC, which is the adaptation of notification No.L-7/25(5)/2003-KVN dated 26.03.2004 issued by CERC & the CERC Tariff Regulations 2009, Annexure III.</p> <p>2.7.2 Depreciation on released assets and re-issued to works and categorized as assets is charged at rates as per the rates as prescribed in notification No. B/12/01 dated 29.03.2006 issued by KERC, which is the adaptation of notification No.L-7/25(5)/2003-KVN dated 26.03.2004 issued by CERC & the CERC Tariff Regulations 2009, Annexure III.</p> <p>2.7.3 Depreciation on leasehold land is provided for the years on amortization rates arrived at on the basis of lease period.</p> <p>2.7.4 Depreciation on fixed assets is provided up to 90% of the original cost of the asset.</p> <p>2.7.5 Assets costing Rs. 500/- or below individually are fully depreciated in the year of acquisition (as against Rs. 5000/- as per the Companies Act, 2013).</p> <p>2.7.6 Depreciation is not provided on the assets created through capital grants.</p> <p>2.7.7 Depreciation is provided from the month of commissioning of the assets</p> <p>i) Depreciation on newly commissioned assets is charged for the whole month irrespective of the date of commissioning in that month.</p> <p>ii) Depreciation on released/de-commissioned assets is provided up to the end of the previous month immediately preceding the month of decommissioning of the asset.</p> <p>2.7.8 Amortization on Software is recognised on Straight Line basis over their estimated useful lives i.e., period of agreement or license term and in the absence of license the cost is amortised in 3years period.</p>



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Notes	Particulars
2.8	<p>Receivables Against Supply of Power. Receivables against supply of power activity relates Sale of Power various categories of LT, HT Consumer.</p>
2.9	<p>Revenue recognition Sale of goods Sales are recognised, net of returns and trade discounts, on transfer of significant risks and rewards of ownership to the buyer, which generally coincides with the delivery of goods to customers. Sales include excise duty but exclude sales tax and value added tax.</p> <p>Income from services Revenue from sale of energy is accounted on accrual basis. Revenue is reduced by unbilled revenue of previous year included in this year's revenue. Revenue is increased by the unbilled revenue of the current year and revenue due from consumers whose ledger accounts are yet to be opened. Rebate to consumers and Incentive for prompt payment are shown as deduction from Revenue.</p> <p>The revenue from sale of energy of HESCOM is as per the tariff fixed by Karnataka Electricity Regulatory Commission (KERC) from time to time. Revenue from sale of energy of HESCOM is as per Tariff Fixed by Karnataka Electricity Regulatory Commission (KERC) from time to time. Additional expenditure incurred in respect of Power Purchase Cost over and above the Approved Power Purchase Cost in the Tariff Orders of relevant financial years is accounted as Income of the year and treated as as receivables from consumers as Regulatory Asset in future years.</p>
2.10	<p>Other income Bank Deposit Interest income is accounted on accrual basis. Dividend income is accounted for when the right to receive it is established. Income /Fees/Collections Against Staff Welfare Activities is accounted on receipts basis.</p>
2.11	<p>Government grants, subsidies and export incentives Government grants and subsidies are recognised when there is reasonable assurance that the Company will comply with the conditions attached to them and the grants / subsidy will be received. Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire capital assets are presented by deducting them from the carrying value of the assets. Depreciation on the portion of grant is reduced from the cost of asset is not charged to Profit & Loss A/c. Government grants may become receivable by an enterprise as compensation for expenses or losses incurred in a previous accounting period. Such a grant is recognised in the income statement of the period in which it becomes receivable, as an extraordinary item if appropriate (see Accounting Standard (AS) 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies).</p>
	<p>Government grants in the nature of promoters' contribution like investment subsidy, where no repayment is ordinarily expected in respect thereof, are treated as capital reserve. Government grants in the form of non-monetary assets, given at a concessional rate, are recorded on the basis of their acquisition cost. In case the non-monetary asset is given free of cost, the grant is recorded at a nominal value.</p> <p>Other government grants and subsidies are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis.</p>



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Notes	Particulars
2.12	<p>Investments</p> <p>Investments are classified into current investments and Non-Current investments. Current investments are carried at lower of cost.</p> <p>Non-Current investments on Quoted Equity shares are carried individually at cost less provision for diminution, other than temporary, in the value of such investments. Cost of investments include acquisition charges such as brokerage, fees and duties.</p> <p>Long-term investments (excluding investment properties), are carried individually at cost less provision for diminution, other than temporary, in the value of such investments. Current investments are carried individually, at the lower of cost and fair value. Cost of investments include acquisition charges such as brokerage, fees and duties.</p> <p>Investment properties are carried individually at cost less accumulated depreciation and impairment, if any. Investment properties are capitalised and depreciated (where applicable) in accordance with the policy stated for Tangible Fixed Assets. Impairment of investment property is determined in accordance with the policy stated for Impairment of Assets.</p>
2.13	<p>Employee benefits</p> <p>a. Short term employee benefits including salaries, social security contributions, short term compensated absences (such as paid annual leave) where the absences are expected to occur within twelve months after the end of the period in which the employees render the related service, profit sharing and bonuses payable within twelve months after the end of the period in which the employees render the related services and non monetary benefits for current employees are estimated and measured on an undiscounted basis.</p> <p>b. Defined contribution plans</p> <p>The employees/officers who have joined/joining on or after 1.4.2006 are covered under New Defined Contributory Pension Scheme (NDCPS). As per this scheme, the employees/officers have to contribute 10% of the Basic Pay & Dearness Allowance and as per G. O. No.: AE 37 PEN 2019 Dtd: 31.08.2019 with effect from 01.04.2019 & Onwards 14% contribution from the company. The said contribution is being remitted with the KPTCL/ESCOMs P&G Trust for the time being pending appointment of Central Record Keeping Agency & Pension Fund Managers. The contribution and returns thereon shall be deposited in a non-withdrawable Pension Tier-I Account.</p> <p>The normal exit is at the age of superannuation for Tier-I of the Pension system. At exit, the employee shall be mandatorily required to invest 40% of pension wealth to purchase the annuity. In case of employees, the annuity shall provide for pension for the life time of the employee and his dependent parents & his spouse at the time of retirement. The individual shall receive a lump sum of the remaining pension wealth which he would be free to utilize in any manner. In the case of employees who leave the scheme before attaining the age of superannuation, the mandatory annuitisation shall be 80% of the pension wealth.</p> <p>C. Defined benefit plans</p> <p>In respect of Pension and Gratuity, contribution to KPTCL/ ESCOM's , Pension & Gratuity Trust is made based on the Actuarial Valuation.</p> <p>The pension and gratuity payment is taken care of by the Trust to eligible employees as and when they retire, as per Government notification No: DE 14 PSR 2002/31.05.2002.</p> <p>(i) Short-term employee benefits</p> <p>The undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered by employees are recognised during the year when the employees render the service. These benefits include performance incentive and compensated absences which are expected to occur within twelve months after the end of the period in which the employee renders the related service. The cost of such compensated absences is accounted as under :</p> <p>(a) in case of accumulated compensated absences, when employees render the services that increase their entitlement of future compensated absences; and</p> <p>(b) in case of non-accumulating compensated absences, when the absences occur.</p>



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Notes	Particulars
	<p>(ii) Long-term employee benefits</p> <p>Compensated absences which are not expected to occur within twelve months after the end of the period in which the employee renders the related service are recognised as a liability at the present value of the defined benefit obligation as at the Balance Sheet date less the fair value of the plan assets out of which the obligations are expected to be settled. Long Service Awards are recognised as a liability at the present value of the defined benefit obligation as at the Balance Sheet date.</p>
2.14	<p>Segment reporting</p> <p>The Company operates only in Distribution of Power supply and does not have any other segment of business. So the Segmental reporting regulations are not applicable to the company.</p>
2.15	<p>Earnings per share</p> <p>Basic earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) as adjusted for dividend, interest and other charges to expense or income relating to the dilutive potential equity shares, by the weighted average number of equity shares considered for deriving basic earnings per share and the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares. Potential equity shares are deemed to be dilutive only if their conversion to equity shares would decrease the net profit per share from continuing ordinary operations. Potential dilutive equity shares are deemed to be converted as at the beginning of the period, unless they have been issued at a later date. The dilutive potential equity shares are adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. average market value of the outstanding shares). Dilutive potential equity shares are determined independently for each period presented. The number of equity shares and potentially dilutive equity shares are adjusted for share splits / reverse share splits and bonus shares, as appropriate.</p> <p>Basic earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) by the weighted average number of equity shares outstanding during the year.</p>
2.16	<p>Taxes on income</p> <p>Current tax is the amount of tax payable on the taxable income for the year after taking into consideration the benefits /disallowances admissible under the provisions of the Income Tax Act, 1961.</p> <p>Minimum Alternate Tax paid in accordance with the tax laws, which gives future economic benefits in the form of adjustment to future income tax liability, is considered as an asset if there is convincing evidence that the Company will pay normal income tax. Accordingly, MAT is recognised as an asset in the Balance Sheet when it is probable that future economic benefit associated with it will flow to the Company.</p> <p>Deferred tax is recognised on timing differences, being the differences between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax is measured using the tax rates and the tax laws enacted or substantially enacted as at the reporting date. Deferred tax liabilities are recognised for all timing differences.</p> <p>Deferred tax assets are recognised for timing differences of other items only to the extent that reasonable certainty exists that sufficient future taxable income will be available against which these can be realised.</p> <p>Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set off. Deferred tax assets are reviewed at each Balance Sheet date for their reliability.</p>



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Notes	Particulars
2.17	<p>Research and development expenses Revenue expenditure pertaining to research is charged to the Statement of Profit and Loss. Development costs of products are also charged to the Statement of Profit and Loss unless a product's technological feasibility has been established, in which case such expenditure is capitalised. The amount capitalised comprises expenditure that can be directly attributed or allocated on a reasonable and consistent basis to creating, producing and making the asset ready for its intended use. Fixed assets utilised for research and development are capitalised and depreciated in accordance with the policies stated for Tangible Fixed Assets and Intangible Assets.</p>
2.18	<p>Provisions and contingencies A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. A disclosure of contingent liability is made, when there is a possible obligation or a present obligation that will probably not require outflow of resources or where reliable estimate of the obligation cannot be made.</p>
2.19	<p>PROVISIONS FOR BAD & DOUBTFUL DEBTS Provision for bad and doubtful debts is made on the actual amount of arrears considered as bad & doubtful on case-to-case basis</p>
2.20	<p>Share issues expenses Share issue expenses and redemption premium are adjusted against the Securities Premium Account as permissible under Section 52(2) of the Companies Act, 2013, to the extent balance is available for utilisation in the Securities Premium Account. The balance of share issue expenses is charged to Statement of Profit and loss during the year of issue of shares.</p>



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M/s. HUBLI ELECTRICITY SUPPLY COMPANY LIMITED
PB ROAD, NAVANAGAR, HUBLI - 580 025.

Note 3 Share capital

SI No	Particulars	A/C Code	As at 31st Mar, 2021		As at 31st Mar, 2020	
			Number of shares	Amount in Rs	Number of shares	Amount in Rs
3-1	Authorised Equity shares of ₹ 10 each with voting rights		2,00,00,00,000	20,00,00,00,000	2,00,00,00,000	20,00,00,00,000
3-2	Issued Equity shares of ₹ 10 each with voting rights	52.301	1,55,42,37,800	15,54,23,78,000	1,55,42,37,800	15,54,23,78,000
3-3	Subscribed and fully paid up Equity shares of ₹ 10 each with voting rights		1,55,42,37,800	15,54,23,78,000	1,55,42,37,800	15,54,23,78,000
Total			1,55,42,37,800	15,54,23,78,000	1,55,42,37,800	15,54,23,78,000

Notes:

(i) Reconciliation of the number of shares and amount outstanding at the beginning and at the end of the reporting period:

SI No	Particulars	Opening Balance	Fresh issue	Bonus	ESOP	Closing Balance
	Equity shares with voting rights Year ended 31 March, 2021					
3-1-1	- Number of shares	1,55,42,37,800	-	-	-	1,55,42,37,800
3-1-2	- Amount (Rs)	15,54,23,78,000	-	-	-	15,54,23,78,000
	Year ended 31 March, 2021					
3-1-3	- Number of shares	1,55,42,37,800	-	-	-	1,55,42,37,800
3-1-4	- Amount (Rs)	15,54,23,78,000	-	-	-	15,54,23,78,000

(ii) Details of shares held by each shareholder holding more than 5% shares:

SI No	Class of shares / Name of shareholder	A/C Code	As at 31st Mar, 2021		As at 31st Mar, 2020	
			Number of shares held	% holding in that class of shares	Number of shares held	% holding in that class of shares
3-2-1	Equity shares with voting rights Governor of Karnataka		1,55,42,37,800	99.99%	1,55,42,37,800	99.99%



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(iv) Details of Authorised Share Capital

Sl.No	Year	Authorised Share Capital	Reference
1	2002-03	1,00,00,000	Company was incorporated with a share capital of Rs. 1 Cr as part of transfer scheme approved by GOK vide: GO No: DE 8 PSR 2002 DT: 31.05.2002 & DE 48 PSR 2003 DT: 31.05.2003
2	2003-04	1,00,00,000	
3	2004-05	2,50,00,00,000	2nd AGM held on 24th Dec 2004 at 1:00 PM at Registered Office of the Company Hubli increased by Rs.249 Crores.
4	2005-06	2,50,00,00,000	
5	2006-07	2,50,00,00,000	
6	2007-08	2,50,00,00,000	
7	2008-09	2,50,00,00,000	
8	2009-10	2,50,00,00,000	
9	2010-11	2,50,00,00,000	
10	2011-12	10,00,00,00,000	9th AGM held on 28th Sep 2011 at 1:00 PM at Registered Office of the Company Hubli increased by Rs.750 Crores.
11	2012-13	10,00,00,00,000	
12	2013-14	10,00,00,00,000	
13	2014-15	10,00,00,00,000	
14	2015-16	10,00,00,00,000	
15	2016-17	20,00,00,00,000	Extraordinary General Meeting of the Share holders of the company held an 2nd Feb 2017 at 12:00 noon at Corporate office HESCOM., Hubli increased by Rs.1,000 Crores.
16	2017-18	20,00,00,00,000	
17	2018-19	20,00,00,00,000	
18	2019-20	20,00,00,00,000	
19	2020-21	20,00,00,00,000	

Scheme wise Share Capital Contribution by GoK:

Sl.No.	Scheme	Rs. In Crores
1	NJY	188.81
2	Equity contribution GoK	1,039.26
3	SDP	125.61
4	Flood Effected	25.43
5	UNIP	44.00
6	SCP/TSP	111.47
7	Implementation of Distribution and Automation system in Municipal Corporation area of Karnataka State	4.50
8	Development of Software	15.00
9	Proposed Adjustment to Net Worth	0.16
Total		1,554.24

Share Application Money pending allotment represents amount received from GoK towards Share Capital:

Sl.No.	Scheme	Rs. In Crores
1	Equity contribution GoK	365.49
2	SDP	95.55
3	SCP/TSP	20.55
Total		481.59

Note: Share deposit amount of Rs.481.59 Crs is pending for Allotment.



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