KARNATAKA ANTIBIOTICS AND PHARMACEUTICALS LIMITED
NOTES ON FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2022

1.1 Company Overview:

Karnataka Antibiotics and Pharmaceuticals Limited ('KAPL') is a government company domiciled in India and is incorporated under the provisions of the Companies Act applicable in India with CIN No U24231KA1981GOI004145. The registered office of the company is located at Arka The Business Centre,Plot No.37,Site No.34/4,NTTF Main Road,2nd Phase,Peenya Industrial Area,Bengaluru- 560058. The Company is a Mini Ratna Category – I public sector enterprise and is under the administrative control of the Department of Pharmaceuticals, Ministry of Chemicals, Government of India.
KAPL,established in 1981, is primarily engaged in the business of manufacturing and marketing of various life saving and essential drugs. The Company's manufacturing facility at Bengaluru started its commercial production during the year 1984 for the manufacture of Dry Powder Vials, Liquid Parenterals, Tablets, Capsules, etc. The Financial Statements are authorized for issue in accordance with the resolution of board of directors on 21st July 2022.

Significant accounting policies:

1.2 Basis of preparation of financial statements

These financial statements have been prepared in accordance with Indian Accounting Standards (Ind AS) notified under the Companies (Indian Accounting Standards) Rules 2015, as amended. The financial statements have been prepared under the historical cost convention on the accrual basis of accounting except for the following material items that have been measured at fair value as required by the relevant Ind AS:

- Certain financial instruments (refer note 1.17)
- Defined Benefit and other Long term Employee Benefits (refer note 1.8).

The financial statements are presented in INR and all values are rounded to nearest lakhs, except when otherwise indicated.

1.3 Use of estimates

The preparation of financial statements in conformity with Ind AS requires management to make estimates, judgements and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods.

1.4 Revenue recognition

- Revenue from sales is recognized when the customer obtains control of the goods in terms of sales contract and in the case of loan licence conversion contracts, when the control of goods under the conversion contract is transferred to the customer. Accordingly,

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i) in the case of " F.O.R. Destination" sale contracts, where acknowledgements from customer/certificate of delivery are not on hand, sale is recognized based

on the estimated average time taken for the consignment to reach the destination. In respect of sale transactions nearing the end of the financial year, actual delivery evidenced by acknowledgement from customers/certificate of delivery is also considered.

ii) in the case of " FOB " sale contracts, sale is recognised based on the date of shipment of goods on Board.

iii) Sales returns are accounted for in the year of return.

iv) Sales are stated net of returns, GST and applicable trade discounts and allowances.

v) In case of consignment sale, sale is recognized upon the end customer obtains the control of the product.

- Interest income is recognized using the effective interest rate method (EIR). EIR is the rate that exactly discounts the estimated future cash receipts over the expected useful life of the financial instrument or a shorter period where appropriate, to the gross carrying amount of the financial asset.

1.5 Property, Plant & Equipment (PPE)

- PPE are carried at the cost of acquisition or construction less accumulated depreciation and accumulated impairment loss, if any. The cost comprises of purchase price, non-refundable taxes and duties, borrowing cost if capitalization criteria are met and other directly attributable cost for bringing the asset to its working condition for the intended use.

- All direct expenses identifiable to the project during the construction period are capitalized. In respect of project activities which are carried on concurrently with production, expenses on administration and supervision incurred (the bifurcation of which between production and construction is not ascertainable) are charged to revenue.

- Depreciation on PPE is provided on Straight Line Method over the useful life of the assets as prescribed under Part C of schedule II of the Companies Act, 2013 except in case of certain used assets purchased for which useful life has been determined based on technical advice. Depreciation is calculated on pro-rata basis from the date of installation till the date the asset is sold or otherwise disposed.

- Assets individually costing Rs.10,000/- or less are fully depreciated in the year of purchase.

- Depreciation is calculated from the date of installation till the date the assets are sold or disposed off. Where cost of an item of PPE are significant and have different useful lives, they are treated as separate components and depreciated over their estimated useful lives.

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- Capital work-in-progress comprises the cost of PPE that are not yet ready for their intended use at the reporting date. Advances paid towards the acquisition of PPE as at the balance sheet date are disclosed under "Other Non-Current Assets".

- Any gain or loss arising out of derecognition of an asset is included in the Statement of Profit and Loss.

1.6 Government Grant

a. Government grants are recognized only when there is reasonable assurance that the conditions attached to them shall be complied with, and the grants will be received.
b. Government grants related to revenue are recognized on a systematic basis in the statement of profit and loss.
c. Government grants related to assets are recognized by deducting grant while in arriving at the carrying amount of the asset.

1.7 Valuation of Inventories

a. Raw materials are valued at lower of cost and net realisable value. Materials held for use in the production of finished goods are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. The cost is determined on First-in-First out basis. Cost includes taxes, duties and freight and is net of Goods and Services Tax (GST). Raw materials identified as obsolete are provided for.

b. Work in progress is valued at lower of cost and net realisable value. Cost represents material cost plus fixed percentage of direct labour and appropriate fixed and variable production overheads.

c. Finished goods are valued at lower of cost and net realisable value. Cost represents materials, direct labour and appropriate fixed and variable production overheads.

d. Stock of spares and tools of unit value Rs.5, 000/- and above (based on materiality) is valued at landed cost and reckoned as at the end of the year.

e. Closing stock of Physician samples is valued as NIL. The value of Physician samples is accounted under material consumption.

1.8 Employee Benefits:

a) **Defined Contribution Plan:** Company's contribution paid/payable for the year to defined contribution schemes such as contributions payable to recognised Provident Fund are charged to Statement of Profit and Loss on accrual basis. The company has no further obligations under this plan beyond its monthly contributions.

b) **Defined Benefit Plan:** Gratuity and Long Term Benefits such as Leave and Sickness Benefits, which are defined benefits, are accrued based on an actuarial valuation using the projected unit credit method at the balance sheet date, carried out by an independent

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actuary. Remeasurements, comprising of actuarial gains and losses are recognised immediately in the balance sheet with a corresponding debit or credit to retained

earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

In case of funded plans, the fair value of the plan assets is reduced from the gross obligations under the defined benefit plan to recognise the obligation on net basis.

c) **Short Term Employee benefits:** Expenses in respect of other short-term benefits is recognised on the basis of amount paid or payable for the period during which the employee renders service.

d) **Post-Retirement Medical Scheme :** In pursuance of orders of Govt. of India ,company has introduced a scheme called "KAPL Post Superannuation Health Insurance Scheme" for employees retired or spouses of employees (Employees died in service) after 01.01.2017. As per the order maximum contribution is 1.50% of PBT.Accordingly, company is providing for Expenses each year based on the profitability.

1.9 Foreign exchange transactions

- **Initial Recognition**:

  On initial recognition, transactions in foreign currencies entered into by the company are recorded in the functional currency (i.e. Indian Rupees), by applying the foreign currency amount, the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. Exchange differences arising on foreign exchange transactions settled during the year are recognized in the Statement of Profit and Loss.

- **Measurement of Foreign Currency Items at reporting Date:**
  Foreign Currency monetary items of the Company are translated at the closing exchange rates. Exchange differences arising out of these transactions are recognized in the Statement of Profit & Loss.

  Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

1.10 Taxation

Income-tax expense comprises current tax (i.e. amount of tax for the year determined in accordance with the income-tax law applicable) and deferred tax charge or credit (reflecting the tax effects of timing differences between accounting income and taxable income for the year). Current Income Tax and deferred taxes relating to items recognized outside profit or loss is recognized outside profit or loss (either in other comprehensive income or in equity).
The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax

assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be

utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The Company offsets the current (on a year on year basis) and deferred tax assets and liabilities, where it has a legally enforceable right and the deferred taxes relate to the same taxation authority.

1.11 Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of equity shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

1.12 Provisions and contingencies

The Company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources or which cannot be measured reliably. Where there is a past obligation or present obligation in respect of which the likelihood of outflow of resource is remote, no provision or disclosure is made. Contingent Assets are not recognized in the financial statements. However, disclosure is made in the financial statements when the inflow of economic benefits is probable.

1.13 Impairment of Non-Financial Assets

The Company assesses at each Balance Sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the Statement of Profit and Loss. If at the Balance Sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

1.14 Leases

<u>As a Lessee:</u>

Identification of a lease requires significant judgement.Contract is,or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The determination of whether an arrangement is (or contains) a lease is based on the substance of the

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arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

At the date of commencement of the lease, the company recognizes a Right-of-Use asset ("ROU") and a corresponding lease liability for all lease arrangements in which it is a lessee, except for leases with a term of twelve months or less (short-term leases) and low value leases. For these short-term and low value leases, the Company recognizes the lease payments as an expense. The right-of-use assets are initially recognised at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or prior to the commencement date of the lease plus any initial direct costs less any lease incentives. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated from the commencement date on a straight-line basis over the lease term and useful life of the underlying asset. The lease liability is initially measured at amortised cost at the present value of the future lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if not readily determinable, using the incremental borrowing rates in the country of domicile of these leases. Lease liabilities are remeasured with a corresponding adjustment to the related right of use asset if the Company changes its assessment if whether it will exercise an extension or a termination option. Lease liability and ROU asset have been separately presented in the Balance Sheet and lease payments have been classified as financing cash flows.

1.15 Cash and Cash equivalents

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 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.

1.16 Cash flow statement

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from operating, financing and investing activities of the Company are segregated.

1.17 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-Derivative financial instruments consist of:

- Financial assets, which include cash and cash equivalents, trade receivables, employee and other advances and eligible current and non-current assets;

  Financial assets are derecognized when substantial risks and rewards of ownership of the financial asset have been transferred. In cases where substantial risks and rewards of ownership of financial assets are neither transferred nor retained, financial assets are derecognized only when the Company has not retained control over the financial asset.
- Financial liabilities, which include long and short term loans and borrowings, bank overdrafts, trade payables, eligible current and non-current liabilities.

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Initial recognition and measurement

The company recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are recognized at fair value on initial recognition, except for trade receivables which are initially measured at transaction price. Transaction cost that are directly attributable to the acquisition or issue of financial assets and financial liabilities that are not at fair value through profit or loss, are added to the fair value on initial recognition.

Subsequent measurement

For purposes of subsequent measurement, financial instruments are classified in four categories:

a) Financial assets carried at amortized cost
b) Financial assets at fair value through other comprehensive income (FVTOCI)
c) Financial assets at fair value through profit or loss (FVTPL)
d) Financial liabilities

a) Financial assets carried at amortized cost

'Financial assets' is subsequently measured at amortized cost if both the following conditions are met:

i) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows, and
ii) Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method.

b) Financial assets at FVTOCI

'Financial assets' is carried at FVTOCI if both of the following criteria are met:

i) The objective of the business model is achieved both by collecting contractual cash flows and selling the financial assets, and
ii) The asset's contractual cash flows represent SPPI.

Further, in cases where the company has made an irrevocable election based on its business model, for its investments which are classified as equity instruments, the subsequent changes in fair value are recognized in other comprehensive income.

c) Financial assets at FVTPL

A financial asset which is not classified in any of the above categories is subsequently fair valued through profit or loss.

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d) Financial Liabilities

Financial liabilities are subsequently carried at amortised cost using the EIR.

Impairment of financial assets

In accordance with Ind AS 109, the company applies expected credit loss (ECL) model for measurement and recognition of impairment loss.

The company follows 'simplified approach' for recognition of impairment loss allowance on:

- Trade receivables or contract revenue receivables; and
- All lease receivables resulting from transactions within the scope of Ind AS 17

The application of simplified approach does not require the company to track changes in credit risk. Rather, it recognizes impairment loss allowance based on lifetime ECLs at each reporting date, right from its initial recognition.

Derecognition of financial instruments

The company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition under IND AS 109. A Financial liability (or a part of financial liability) is derecognized from the company's balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

1.18 Agriculture Activity

The Company recognizes agricultural produce when, and only when, the Company controls the assets as a result of past events, if it is probable that future economic benefits associated with such assets will flow to the Company and the fair value of the assets can be measured reliably.

A biological asset is measured on initial recognition as wel as at the end of each reporting period at its fair value less cost to sell. Agricultural produce harvested from an entity's biological assets is measured at its fair value less costs to sell at the point of harvest.

A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell is included in Statement of Profit and Loss for the period in which it arises.

As on date the company growing a small volume of Medicinal plants at Kadabagere Land. Company will start recognizing the biological Assets once the revenue contribution crosses the amount of Rs 10.00 lakhs.

1.19 Re classification/ Regrouping

To provide more reliable and relevant information about the effect of certain items in the Balance Sheet and Statement of Profit and Loss, the Company has changed the classification of certain items. Previous year figures have been re-grouped or reclassified, to confirm to such current year's grouping / classifications. There is no impact on Equity or Net profit/(Loss) due to these regrouping /reclassifications.

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