



NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2012

1. GENERAL INFORMATION

Kesoram Industries Limited (the Company) is a public company domiciled and incorporated under the provisions of the The Indian Companies Act, 1913. The Company is a flagship company of the B. K. Birla group of companies. The Company is a multiproduct and multi location company. Cement and automobile tyre business are its core businesses and it also has interest in rayon and cellulose paper, cast iron spun pipes and caustic soda & allied chemicals. Its shares are listed on three stock exchanges in India (Bombay Stock Exchange, National Stock Exchange and Calcutta Stock Exchange) and its Global Depositary Receipts (GDR) are listed on Luxembourg Stock Exchange. The Company markets its automobile tyres under the brand name “Birla Tyres” and cement is marketed under “Birla Shakti” brand.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with generally accepted accounting principles in India under the historical cost convention on accrual basis, except for certain tangible assets which are being carried at revalued amounts. These financial statements have been prepared to comply in all material aspects with the Accounting Standards notified under Section 211(3C) [Companies (Accounting Standards) Rules, 2006, as amended] and the other relevant provisions of the Companies Act, 1956.

All assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Schedule VI to the Companies Act, 1956. Based on the nature of products and the time between the acquisition of assets for processing and their realisation in cash and cash equivalents, the Company has ascertained its operating cycle as 12 months for the purpose of current non current classification of assets and liabilities

2.2 Tangible Fixed assets and Depreciation

- (a) Fixed Assets, except land, building and certain items of plant and machineries, are stated at acquisition cost, net of accumulated depreciation and accumulated impairment losses, if any. The cost comprises of purchase cost, borrowing costs if capitalisation criteria are met and other directly attributable cost of bringing the assets to its working conditions for intended use. The cost also comprises of exchange differences arising on translation settlement of long term foreign currency monetary items pertaining to acquisition of such depreciable assets. Any trade discounts and rebates are deducted in arriving at the purchase price.
- (b) Land, buildings and certain plant and machineries of Rayon and Transparent Paper Unit as at 31st March, 1982 and of Cement (at Basantnagar) and Spun Pipes & Foundries Units as at 31st March, 1983 are stated at valuation made by the professional valuers in 1982 83 at the then current value.



- (c) Subsequent expenditure related to an item of fixed asset is added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance.
- (d) Capital work in progress is stated at cost [including borrowing cost, where applicable and adjustment for exchange difference referred to in Note 2.8 below], incurred during construction/ installation/ pre operative period relating to items or projects in progress.
- (e) Losses arising from the retirement of and gains and losses arising from disposal of fixed assets which are carried at cost are recognised in the Statement of Profit and Loss.
- (f) Depreciation on revalued items of fixed assets referred to in 2.2 (b) above is calculated on their respective revalued amounts at rates considered applicable by the valuers on straight line method as against the methods/ rates/ bases which would have otherwise been adopted for the purpose of the annual accounts of the Company and accordingly includes additional depreciation charge. An amount equivalent to the aforesaid additional depreciation charge is transferred to the credit of the Statement of Profit and Loss from Revaluation Reserve.
- (g) Depreciation on fixed assets acquired up to 31st March, 1983 and not covered by revaluations referred to in 2.2 (b) above pertaining to Transparent Paper Division of Rayon & Transparent Paper Unit is calculated under reducing balance method at applicable rates as per Schedule XIV to the Companies Act, 1956 as revised during 1993 94.
- (h) Depreciation on fixed assets acquired up to 31st March, 1993 other than items covered in 2.2 (f) and 2.2 (g) above is calculated under straight line method at the rates considered adequate to amortise the depreciable book value over the remaining part (as at 1st April, 1993) of the specified period recomputed by applying the Schedule XIV rates as revised during 1993 94 in keeping with the Circular No.14/93 dated 20th December, 1993 of the Department of Company Affairs, Government of India.
- (i) Depreciation on additions to fixed assets from 1st April, 1993 [except for deferral of annual depreciation charge for three years from 1999 2000 to 2001 2002 on certain fixed assets of Cement Units as indicated in 2.2(j) below], is calculated under straight line method at applicable rates as per Schedule XIV to the Companies Act, 1956 as amended during 1993 94.
- (j) Pursuant to Central Government's approval under Section 205(2)(c) of the Companies Act, 1956 depreciation not provided in 1999 2000, 2000 2001 and 2001 2002 accounts on certain fixed asset items of Cement Units are amortised over the remaining part of specified period (as at 1st April, 2000, 1st April, 2001 and 1st April, 2002 respectively) based on the prescribed rates.
- (k) Leasehold land is amortised over the lease period.



2.3 Intangible assets and Amortisation

Intangible asset is capitalised where it is expected to provide future enduring economic benefits and amortised on a straight line basis over a period of three years from the date of capitalisation. Capitalisation costs include license fees and the cost of implementation/ system integration services. The Costs are capitalised in the year in which the relevant software is implemented for use.

2.4 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in Statement of Profit and Loss in the period in which they are incurred.

2.5 Impairment

Cash generating units/ assets are assessed for possible impairment at Balance Sheet date based on external and internal sources of information. Impairment losses, if any, are recognised as an expense in the Statement of Profit and Loss.

2.6 Investments

Investments that are readily realisable and are intended to be held for not more than one year from the date, on which such investments are made, are classified as current investments. All other investments are classified as long term investments. Current investments are carried at cost or fair value, whichever is lower. Long term investments are carried at cost. However, provision for diminution is made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

2.7 Inventories

Inventories are stated at lower of cost and net realisable value. Cost is determined on weighted average / first in, first out (FIFO) basis, as considered appropriate by the Company. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Provision is made for obsolete/slow moving/defective stocks, wherever necessary.

2.8 Foreign Currency Translation

Transactions in foreign currency are accounted for at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities related to foreign currency transactions remaining unsettled at the end of the year are translated at year end exchange rates. Gains/losses (other than relating to reporting of long term foreign currency monetary items)



arising out of fluctuations in the exchange rates are recognised in Statement of Profit and Loss in the period in which they arise. Exchange differences arising on reporting of long term foreign currency monetary items (i) relating to acquisition of depreciable capital assets is adjusted to the carrying amount of such assets (to be depreciated over the balance life of the related asset) and (ii) in other cases accumulated in a 'Foreign Currency Monetary Item Translation Difference Account' (to be amortised over the balance period of the related long term monetary asset/liability). Differences between the forward exchange rates and the exchange rates at the date of transactions are accounted for as income/expense over the life of the contracts.

2.9 Derivative Contracts

In respect of derivative contracts (other than forward exchange contracts covered under Accounting Standard 11 on 'The Effects of Changes in Foreign Exchange Rates'), gains/losses on settlement and marked to market loss (net) relating to outstanding contracts as at the Balance Sheet date is recognised in the Statement of Profit and Loss.

Refer Note 2.8 above for forward exchange contracts covered under Accounting Standard 11 on 'The Effects of Changes in foreign Exchange Rates'.

2.10 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Sales of goods

Sales are recognised when the substantial risks and rewards of ownership in the goods are transferred to the buyer as per the terms of the contract and are recognised net of trade discounts/allowance, sales return and sales taxes/value added tax.

2.11 Other Income

Interest: Interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

Dividend: Dividend income is recognised when the right to receive dividend is established.

2.12 Employee Benefits

Short term Employee Benefits (i.e. benefits payable within one year) are recognised in the period in which employee services are rendered.

Contributions towards superannuation at rates specified in related approved scheme covering eligible employees are recognised as expense and funded.



Provident Fund: Contribution towards provident fund for certain employees is made to the regulatory authorities, where the Company has no further obligations. Such benefits are classified as defined contribution schemes as the Company does not carry any further obligations, apart from the contributions made on a monthly basis.

In respect of certain employees, Provident Fund contributions are made to a Trust administered by the Company. The Company's liability is actuarially determined (using the Projected Unit Credit method) at the end of the year and any shortfall in the fund size maintained by the Trust set up by the Company is additionally provided for. Actuarial losses/ gains are recognised in the Statement of Profit and Loss in the year in which they arise.

Gratuity: The Company provides gratuity, a defined benefit plan (the 'Gratuity Plan') covering eligible employees in accordance with the Payment of Gratuity Act, 1972. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on respective employee's salary and the tenure of employment. The Company's liability is provided and funded on the basis of year end Actuarial valuation (using the Projected Unit Credit method). Actuarial losses/ gains are recognised in the Statement of Profit and Loss in the year in which they arise.

Compensated Absences: Accumulated compensated absences which are expected to be availed or encashed within 12 months from the year end are treated as short term employee benefits. The obligation towards the same is measured at the expected cost of accumulating compensated absences as the additional amount expected to be paid as a result of the unused entitlements as at the year end.

Accumulated compensated absences which are expected to be availed or encashed beyond 12 months from the year end are treated as other long term employee benefits. The Company's liability is actuarially determined (using the Projected Unit Credit method) at the end of each year. Actuarial losses/ gains are recognised in the Statement of Profit and Loss in the year in which they arise. The Company presents the entire leave as a current liability in the balance sheet, since it does not have a unconditional right to defer its settlement for 12 months after the reporting date.

Contributions to the Central Government administered Employees' State Insurance Scheme for eligible employees is recognised as a charge in the Statement of Profit and Loss in the year in which they arise.

2.13 Taxes on income

Tax expense comprises current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income tax Act, 1961.

Deferred taxes reflect the impact of timing differences between taxable income and accounting income originating during the current year and reversal of timing differences of earlier years.

As at the balance sheet date, unless there is evidence to the contrary, deferred tax assets pertaining to business losses are only recognised to the extent that there are deferred tax liabilities offsetting them.

Minimum Alternative Tax credit is recognised as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. Such asset is reviewed at each Balance Sheet



date and the carrying amount of the MAT credit asset is written down to the extent there is no longer convincing evidence to the effect that the Company will pay normal income tax during the year.

2.14 Government Grants

Grants of Capital nature and related to specific Fixed Assets are deducted from gross value of assets. Other grants of Capital nature are credited to Capital Reserve. Grant related to revenue are recognised in the statement of Profit and Loss on a systematic basis to match them with related costs.

2.15 Lease

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance lease. Such assets acquired are capitalised at fair value of the asset or present value of the minimum lease payments at the inception of the lease, whichever is lower. Lease payments under operating leases are recognised as an expense on a straightline basis in the statement of profit and loss over the lease term.

2.16 Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, demand deposits with banks, other short term highly liquid investments with original maturities of three months or less.

2.17 Earnings Per Share

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. Earnings considered in ascertaining the Company's earnings per share is the net profit/(loss) for the period after deducting preference dividends if any and any attributable tax thereto for the period. The weighted average number of equity shares outstanding during the period and for all periods presented is adjusted for events, such as bonus shares, other than the conversion of potential equity shares, that have changed the number of equity shares outstanding, without a corresponding change in resources. For the purpose of calculating diluted earnings per share, the net profit/(loss) for the period attributable to equity shareholders and the weighted average number of equity shares outstanding during the period is adjusted for the effects of all dilutive potential equity shares.

2.18 Provisions and Contingent Liabilities

Provisions: Provisions are recognised when there is a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and there is a reliable estimate of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the Balance Sheet date and are not discounted to its present value.

Contingent Liabilities: Contingent liabilities are disclosed when there is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events where



it is either not probable that an outflow of resources will be required to settle or a reliable estimate of the amount cannot be made, is termed as a contingent liability.

2.19 Segment reporting

Identification of segments

The company's operating businesses are organised and managed separately according to the nature of products, with each segment representing a strategic business unit that offers different products and serves different markets. The Company operates predominantly within the geographical limits of India and accordingly secondary segments have not been considered.

Inter-segment transfers

The Company accounts for intersegment sales and transfers at cost.

Unallocated items

Unallocated items include general corporate income and expense items which are not allocable to any business segment.

Segment accounting policies

The Company prepares its segment information in conformity with the accounting policies adopted for preparing and presenting the Financial Statements of the Company as a whole.

2.20 Measurement of EBITDA

As permitted by the Guidance Note published by the Institute of Chartered Accountants of India on the Revised Schedule VI to the Companies Act, 1956, the Company has elected to present earnings before interest, tax, depreciation and amortisation (EBITDA) as a separate line item on the face of the Statement of Profit and Loss. The Company measures EBITDA on the basis of profit/ (loss) from continuing operations. In its measurement, the Company does not include depreciation & amortisation expense, finance costs and tax expense.

2.21 Use of estimates

The presentation of Financial Statements in conformity with Indian GAAP requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. Although these estimates are based on the management's best knowledge of current events and actions, uncertainty about these assumptions and estimates could result in the outcomes requiring a material adjustment to the carrying amounts of assets or liabilities in future periods.