

Teamwork • Technology • Trust



CENTUM RAKON INDIA PRIVATE LIMITED

Annual Report 2013 - 14

QUALITY POLICY

All our products and activities shall meet the expectations of our customers and stakeholders in quality, technology and value.

This commitment is achieved through effective teamwork of every employee, supplier and customer.

We shall develop, maintain and continuously improve the documented systems and enhance quality of all our products, processes and services and promote customer trust and satisfaction.

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Centum Rakon India Private Limited

Board of Directors

Apparao V Mallavarapu, Director

S. Krishnan, Director

Brent John Robinson, Director

Darren Paul Robinson, Director

Manager

P M Unnikrishnan, GM - Operations

Statutory Auditors

BSR & Co. LLP

Internal Auditors

Ernst & Young Co. LLP

Bankers

State Bank of India - SMC Branch
No.97, Railway Parallel Road, Bangalore.

Citi Bank N.A.
M.G. Road, Bangalore.

Registered office

No. 44, KHB Industrial area,
Yelahanka New Township,
Bangalore- 560 106.
CIN: U32109KA2007PTC044692

Directors' Report

Your Directors have pleasure in presenting their Seventh Annual Report on the business and Operations of your Company and the audited Statement of Accounts for the period ended 31st March 2014.

FINANCIAL HIGHLIGHTS

		Rs.Millions
Year ended 31 March	2014	2013
Turnover	1398.43	1078.73
Profit before Depreciation and Interest	388.54	324.20
Depreciation	85.25	79.14
Interest	16.86	17.24
Profit before tax	286.43	227.82
Provision for tax	92.19	74.42
Profit after tax	194.24	154.15

PERFORMANCE

During the Seventh year of the operations, the Company posted a turnover of Rs. 1398.43 million and Profit before Tax of Rs. 286.43 million.

DIVIDEND

A dividend of Rs. 20/- per share on the paid up capital of the company is recommended. The dividend payout is Rs 112.00 million and the tax on the said dividend is Rs. 19.03 million.

EMPLOYEES

The human capital has been recognized as a vital factor in achieving the goals and objectives of the organization. Emphasis is placed to build a network of dedicated and experienced professionals who would strive for organizational growth by maximizing the effectiveness while the policies and practices would foster employees' satisfaction, retention and productivity.

There are no employees whose details are required to be mentioned under the provisions of Section 217(2AA) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975.

DIRECTORS

There were no changes that had occurred in the composition of the Board of Directors.

Mr. Apparao V Mallavarapu, Director shall retire by rotation and being eligible, offers himself for re-appointment.

The re-appointment of the aforesaid director has been included as an item in the notice convening ensuing Annual General Meeting.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to Section 217(2A) of the Companies Act, 1956, the Directors confirm that:

- i. in the preparation of annual accounts for the year ended 31st March 2014, the applicable Accounting Standards had been followed along with proper explanation relating to material departures;
- ii. accounting policies were adopted and applied consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st

March 2014 and of the profit of the Company for year ended on that date;

- iii. proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
- iv. the Directors had prepared the annual accounts on a going concern basis.

AUDITORS

M/s BSR & Co. LLP, Chartered Accountants, Statutory Auditors of the company will retire at the ensuing annual general meeting and are being eligible for re-appointment. Your Directors recommend the re-appointment of the above Statutory Auditors.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, RESEARCH & DEVELOPMENT AND FOREIGN EXCHANGE EARNINGS AND OUTGO.

The particulars prescribed under section (1) (e) of Section 217 of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 are given in the annexure included in this report.

ACKNOWLEDGEMENTS

Your Directors thank the customers for their continued patronage and the investors, bankers and vendors for their continued support.

Your Directors acknowledge and thank the invaluable contributions of all the employees, who have demonstrated their skill, teamwork and commitment through their competence, hard work, cooperation and support.

Your Directors would also like to place on record the support received from, the Electronic Hardware Technology Park, the Customs and Excise Departments, the Reserve Bank of India, and all the other Central and State Governmental agencies.

For and on behalf of the Board

Place: Bangalore
Date: 27 May, 2014

Apparao V Mallavarapu
Director

S Krishnan
Director

Annexure to the Directors' Report

INFORMATION PURSUANT TO THE SECTION 217(1)(e) OF THE COMPANIES ACT, 1956.

1. CONSERVATION OF ENERGY

The Company continues to accord priority to energy conservation. Company's 'energy saving' team is committed to minimize the energy consumption and is implementing several energy saving projects. Consistent efforts are being made for identifying potential areas for energy saving.

Some of the measures your company had undertaken during the period under report in the high priority area of Energy Conservation are:

- Provided energy efficient water cooled Vatron m/c thus the efficiency of Vatron m/c was increased.
- Incoming power quality was continuously monitored and ensured stable power supply in coordination with BESCOM.
- Optimized the compressed air pressure setting by increasing the efficiency of Air Compressor.
- Increased the Power factor from 0.97 to 0.99 by replacing aged and inefficient capacitors.
- Chiller Temperature increased from 7 to 8 degree without effecting the production resulting in the reduction in power consumption.
- Chemical descaling of all the AHU'S cooling coil was carried out and improved the efficiency of Centralized AC system.
- Cooling tower sprinkler design was changed and improved the efficiency.
- Replaced the process chilled water circuit with CPVC pipe with insulation & improved the efficiency.

2. TECHNOLOGY ABSORPTION, RESEARCH AND DEVELOPMENT

a. Technology Absorption

- Co-developed with Rakon the new Measurement systems for Monitoring frequency and Micro jumps to improve the efficiency of measurement and improve the throughput.
- Established manufacturing process for High frequency SC cut crystals using HC45 packages.
- Reliability setup established to verify the performance of the product over time and also for few critical components
- Working with external institutes to absorb new capabilities and to improve the process.
- High Frequency OCXO developed for Radar Application.

b. Research and Development (R&D) and benefits derived thereon

(1) Specific areas in which R&D carried out by the Company.

The main areas of focus of developmental activities were

- Designed HIGH Frequency TCXO for widest temperature range of -55deg to 125deg and Launch Vehicle application covering up to 455MHz.
- Working on High Frequency clock oscillator in miniature package for Space application.
- Development of low power & low profile OCXOs for telecom applications.
- Development of OCXOs for defense applications with stringent phase noise requirements under vibration.
- Development of High frequency clock oscillator for Space application.
- Successful development of low profile OCXO for Space application.
- High performance OCXO product developed for SDR application in DIL package for extended temperature range of -40 to 85deg.
- Successful qualification of new type of crystal covering new packages covering up to 40MHz SC cut crystals
- Successfully established HC37 crystals manufacturing processes at Centum Rakon to cater to all OSC 2 OCXO requirements.

(2) Benefits derived as result of the above R&D

- As a result of the above developmental activities, successfully developed & sampled various types of OCXO, TCXO, VCXO and SPXO products to customers and qualified.
- By using these indigenously developed oscillator products, Indian space agencies will be able to meet their requirements through indigenization rather than importing these products.
- Capability to design and manufacture SC cut crystals in India and eliminating dependency on imports.
- Availability of indigenously developed OCXOs for Radar applications by various defense undertakings.

(3) Future Plan of Action

Future plan on design and developmental activities

- Development of SC cut crystals in HC45 cold weld package for High frequency application
- Developing OCXOs with built-in ageing compensation.
- Development of MEMs based oscillator products.
- Optimizing gold deposition parameters to improve crystal performance.
- Optimizations of quartz crystal and OCXO manufacturing processes to improve OCXO ageing performance by working with external consultants.
- Development of High Frequency and High power oscillator (>1 Watt) for IFF application.
- Development of Space grade crystals for OCXO's .

(4) Expenditure on R & D

Rs in Millions

For the year ended 31st March	2014	2013
A. Capital	8.94	1.16
B. Recurring	19.38	33.38
C. Total	28.32	34.54
Total R&D expenditure as a % of total turnover	2%	3%

3. FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign Exchange Earnings and Outgo are reported in Notes to Accounts No. 38 & 39 and forming part of the Balance Sheet and Profit and Loss Account for the year ended 31st March, 2014.

For and on behalf of the Board

Place: Bangalore
Date: 27 May, 2014

Apparao V Mallavarapu
Director

S Krishnan
Director

Independent Auditor's report

To the Members of Centum Rakon India Private Limited

Report on the financial statements

We have audited the accompanying financial statements of Centum Rakon India Private Limited ("the Company") which comprise the balance sheet as at 31 March 2014, the statement of profit and loss and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for 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 Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the balance sheet, of the state of affairs of the Company as at 31 March 2014;
- (b) in the case of the statement of profit and loss, of the profit for the year ended on that date; and
- (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

Report on other legal and regulatory requirements

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order"), as amended, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by section 227(3) of the Act, we report that:
 - (a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (b) in our opinion proper books of account as required by law have been kept by the Company so far as 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;
 - (d) in our opinion, the balance sheet, the statement of profit and loss and the cash flow statement comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013; and
 - (e) on the basis of written representations received from the directors as on 31 March 2014, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2014, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.

for BSR & Co. LLP
Chartered Accountants
Firm registration number: 101248W

Supreet Sachdev
Partner
Membership No. 205385

Bangalore
Date: 27 May, 2014

Annexure to the Auditors' Report

Annexure referred to in our report to the Members of Centum Rakon India Private Limited ("the Company") for the year ended 31 March 2013. We report that:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) No fixed assets were disposed off during the year. Thus, paragraph 4(i)(c) of the Order is not applicable to the Company.
- (ii) (a) The inventory, except materials-in-transit, has been physically verified by the Management during the year. In our opinion, the frequency of such verification is reasonable.
- (b) The procedures for the physical verification of inventories followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- (iii) The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- (iv) In our opinion and according to the information and explanations given to us, and having regard to the explanation that purchases of certain items of inventories and fixed assets are for the Company's specialised requirements and similarly certain goods sold are for the specialised requirements of the buyers and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, with regard to purchase of inventories and fixed assets and with regard to the sale of goods. The Company's operations do not involve sale of services. We have not observed any major weakness in the internal control system during the course of the audit.
- (v) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that Section.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements and exceeding the value of Rs 5 lakhs with each party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time except for purchases of certain items of inventories and fixed assets which are for the Company's specialised requirements and similarly for sale of certain goods for the specialised requirements of the buyers and for which suitable alternative sources are not available to obtain comparable quotations. However, on the basis of information and explanations provided, the same appear reasonable.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

Annexure to the Auditors' Report (contd...)

(viii) We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records.

(ix) (a) 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, Service tax, Sales-tax, Customs duty, Excise duty and other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities. As informed to us, the Company did not have any dues on account of Investor Education and Protection Fund and Wealth tax.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Service tax, Sales tax, Customs duty, Excise duty and other material statutory dues were in arrears as at 31 March 2014 for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us, there are no dues of Service tax, Sales tax, Custom duty and Excise duty which have not been deposited with the appropriate authorities on account of any dispute. According to the information and explanations given to us, the following dues of Income-tax have not been deposited by the Company on account of disputes:

Name of the statute	Nature of dues	Amount (Rs)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income-tax and interest	28,736,553	Previous Year 2008-09	Dispute Resolution Panel, Bangalore

(x) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.

(xi) In our opinion and according to the information and explanation given to us, the Company has not defaulted in repayment of its dues to any banks during the year. The Company did not have any outstanding dues to any financial institution or debenture holders during the year.

(xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund /nidhi/ mutual benefit fund/ society.

(xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.

(xvi) In our opinion and according to the information and explanations given to us, the term loans taken by the Company have been applied for the purposes for which they have been raised.

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- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money by public issues during the year.
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

for BSR & Co. LLP
Chartered Accountants
Firm registration number: 101248W

Bangalore
Date: 27 May, 2014

Supreet Sachdev
Partner
Membership No. 205385

Balance Sheet

(Amount in Rs.)

	NOTE	As at 31 March 2014	As at 31 March 2013
EQUITY AND LIABILITIES			
SHAREHOLDERS' FUNDS			
Share capital	2	56,000,000	56,000,000
Reserves and surplus	3	394,245,650	331,040,992
		450,245,650	387,040,992
Non-current liabilities			
Long-term borrowings	4	-	3,435,897
Deferred tax liabilities, net	5	11,496,641	17,307,893
Long-term provisions	6	5,057,018	4,673,586
		16,553,659	25,417,376
Current liabilities			
Short-term borrowings	7	212,921,435	224,890,917
Trade payables	8	100,259,212	158,727,375
Other current liabilities	9	82,018,467	119,261,352
Short-term provisions	10	134,836,784	176,773,137
		530,035,898	679,652,781
		996,835,207	1,092,111,149
ASSETS			
Non-current assets			
<i>Fixed assets</i>			
Tangible assets	11	384,620,613	387,912,398
Intangible assets	11	200,432	194,693
Capital work-in-progress		732,682	208,338
		385,553,727	388,315,429
Long-term loans and advances	12	10,002,556	28,341,777
		395,556,283	416,657,206
Current assets			
Inventories	13	247,933,003	181,635,175
Trade receivables	14	245,696,598	440,689,347
Cash and bank balance	15	77,299,329	33,654,964
Short-term loans and advances	16	30,349,994	19,474,457
		601,278,924	675,453,943
		996,835,207	1,092,111,149
Significant accounting policies	1		

The notes referred to above form an integral part of the Balance Sheet.

As per our report of even date attached

for **BSR & Co. LLP**
Chartered Accountants
Firm Registration No. 101248W

Supreet Sachdev
Partner
Membership No. 205385

Place : Bangalore
Date : 27 May, 2014

for **Centum Rakon India Private Limited**

Apparao V. Mallavarapu **S Krishnan**
Director Director

P M Unnikrishnan
GM - Operations (Manager)

Statement of Profit and Loss

(Amount in Rs.)

	NOTE	For the year ended 31 March 2014	For the year ended 31 March 2013
INCOME			
Revenue from operations	17	1,396,246,766	1,070,241,633
Less : excise duty		920,278	375,599
		<u>1,395,326,488</u>	<u>1,069,866,034</u>
Other income	18	3,106,701	8,866,017
		<u>1,398,433,189</u>	<u>1,078,732,051</u>
Expenses:			
Cost of materials consumed	19	806,728,337	540,727,766
Changes in inventories of work-in-progress	20	(47,977,321)	57,700
Employee benefits expense	21	95,503,534	81,008,645
Finance costs	22	18,648,782	18,746,281
Depreciation and amortisation	11	85,247,834	79,134,708
Other expenses	23	153,854,216	131,240,866
		<u>1,112,005,382</u>	<u>850,915,966</u>
Profit before taxation		286,427,807	227,816,085
Income taxes:			
- Current tax		98,000,000	86,000,000
- Deferred tax credit		(5,811,251)	(8,701,182)
- Minimum alternate tax credit entitlement for earlier years		-	(3,628,600)
Profit for the year		194,239,058	154,145,867
Earnings per share (par value Rs 10 each)	26		
Basic and diluted		34.69	27.53
Weighted average number of equity shares - basic and diluted		5,600,000	5,600,000
Significant accounting policies	1		

The notes referred to above form an integral part of the statement of profit and loss.

As per our report of even date attached

for **BSR & Co. LLP**
Chartered Accountants
Firm Registration No. 101248W

Supreet Sachdev
Partner
Membership No. 205385

Place : Bangalore
Date : 27 May, 2014

for **Centum Rakon India Private Limited**

Apparao V. Mallavarapu **S Krishnan**
Director Director

P M Unnikrishnan
GM - Operations (Manager)

Notes to Accounts

Note 1. Significant Accounting Policies:

1. Background

Centum Rakon India Private Limited (“the Company”) was incorporated as a private limited company on 7 December 2007 under the Companies Act, 1956. The Company has its registered office in Bangalore.

The Company has been formed principally for the manufacture and supply of electronic products including frequency control products and resistor networks catering to the communications, military, aerospace and industrial electronics markets.

2. Basis of preparation of financial statements

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 (‘the Act’) which as per a clarification issued by the Ministry of Corporate Affairs continue to apply under section 133 of the Companies Act 2013 (which has superseded section 211(3C) of the Companies Act 1956 w.e.f. 12 September, 2013) and the provisions of the Companies Act, 2013 (to the extent notified and applicable) and the Companies Act, 1956 (to the extent applicable).

3. Cash flow statement

Cash flow statement is reported using the indirect method, whereby net 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 arising from operating, investing and financing activities of the Company are segregated.

4. Use of estimates

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP) in India, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods.

5. Fixed assets

Fixed assets are carried at cost of acquisition less accumulated depreciation. The cost of fixed assets includes freight, duties, taxes and other incidental expenses related to the acquisition or construction of the respective assets. Intangible assets are recorded at their acquisition cost. Machinery spares which are specific to a particular item of fixed asset are capitalized at the time of their purchase.

The cost of fixed assets not ready for their intended use before such date, are disclosed as capital work-in-progress.

6. Depreciation and amortisation

Depreciation is provided on the straight-line method from the date the asset is ready for use.

The rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 are considered as the minimum rates. However, where management’s estimate of the useful life of a fixed asset at the time of acquisition of the fixed asset or of the remaining useful life on a subsequent review is shorter than that envisaged in the aforesaid schedule, depreciation is provided at a higher rate based on management’s estimate of the useful life/ remaining useful life.

Depreciation on assets has been provided at the rates based on the following estimated useful lives of fixed assets:

Asset categories	Years
Plant and machinery (including the related intellectual property)	5 - 9 years
Computers	4 - 6 years
Software	4 - 6 years
All other assets	On straight line basis at the rates prescribed under Schedule XIV to the Companies Act, 1956.

Leasehold improvements are being amortised over the useful life or lease term whichever is shorter.

For assets acquired/disposed during the year, depreciation is provided from/ upto the date the assets are acquired/disposed. Assets individually costing Rs 5,000 or less are depreciated at the rate of 100%.

Machinery spares are depreciated on a systematic basis over the period of the remaining useful life of the fixed asset for which they are utilized.

7. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of inventories comprises purchase price and all incidental expenses (other than those subsequently recoverable by the enterprise from the tax authorities) incurred in bringing the inventory to its present location and condition. The basis of determining cost is set out below:

Stores and spares	Weighted average cost method
Raw materials and components	Weighted average cost method
Raw materials in transit	At actual cost
Work-in-progress and finished goods	Weighted average cost including costs of conversion.

Fixed production overheads are allocated on the basis of normal capacity of production facilities.

8. Revenue recognition

Revenue from the sale of finished goods is recognized on transfer of all significant risks and rewards of ownership to the buyer. Sales are accounted inclusive of excise duty and exclude sales tax and trade and quantity discounts and are net of sales returns. Revenue from sale of manufactured goods has been presented both gross and net of excise duty.

Interest on deployment of funds is recognized using the time proportionate method, based on the underlying interest rates.

9. Foreign currency transactions

Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the respective transactions. Exchange differences arising on foreign exchange transactions settled during the period are recognized in the statement of profit and loss for the period.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date, the resultant exchange differences are recognized in the statement of profit and loss.

10. Employee benefits

Contributions payable to the recognised provident fund, which is a defined contribution scheme, are charged to the statement of profit and loss on accrual basis.

Gratuity costs, which are defined benefit scheme, is accrued based on actuarial valuation at the balance sheet date, carried out by independent actuary.

The expected cost of short-term employee benefits in the form of accumulating compensated absences are recognized as the additional amount that the enterprise expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

11. Earnings per share

The basic earnings per share is computed by dividing the net profit attributable to equity shareholders for the period by the weighted average number of equity shares outstanding during the year. The Company did not have any potentially dilutive equity shares outstanding during the year.

12. Provisions and contingent liabilities

The Company recognizes a provision when there is a present obligation as a result of an obligating 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. Where there is a possible obligation or a present

Notes to the Financial Statements (contd...)

obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions for onerous contracts, i.e. contracts where the expected unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, are recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of an obligating event, based on a reliable estimate of such obligation.

13. Taxation

Income-tax expense comprises current tax (i.e. amount of tax for the period determined in accordance with the income-tax law) and deferred tax charge or credit (reflecting the tax effects of timing differences between accounting income and taxable income for the period). 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 recognised only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets/liabilities are reviewed as at each balance sheet date and written down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

Assets and liabilities representing current and deferred tax are disclosed on a net basis when there is a legally enforceable right to set off and management intends to settle the asset and liability on a net basis.

Minimum Alternate Tax ('MAT') 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. In the year in which the MAT credit becomes eligible to be recognised as an asset in accordance with the recommendations contained in the guidance note issued by Institute of Chartered Accountants of India ('ICAI'), the said asset is created by way of a credit to the statement of profit and loss. The company reviews the same at each balance sheet date and writes down the carrying amount of MAT credit entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income-tax during the specified period.

14. Research and development

Research costs are expensed as incurred. Product development costs are expensed as incurred unless technical and commercial feasibility of the project is demonstrated, future economic benefits are probable, the Company has an intention and ability to complete and use or sell the product and the costs can be measured reliably.

15. Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that an asset or a group of assets comprising a cash generating unit may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. For an asset or group of assets that does not generate largely independent cash in flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. 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 recognised 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 depreciable historical cost. An impairment loss is reversed only to the extent that the carrying amount of asset does not exceed the net book value that would have been determined; if no impairment loss had been recognised.

16. Stock compensation expense

The Company accounts for stock based compensation expense based on the intrinsic value method as prescribed by the Guidance Note on Accounting for Employee Share-based Payments issued by Institute of Chartered Accountants of India.

17. Borrowing costs

Borrowing costs directly attributable to the acquisition/ construction of the qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

(Amount in Rs.)

Particulars	As at 31 March 2014	As at 31 March 2013
2. Share capital		
Authorised		
7,000,000 (previous year: 7,000,000) equity shares of Rs 10 each	<u>70,000,000</u>	<u>70,000,000</u>
Issued, subscribed and paid-up		
5,600,000 (previous year: 5,600,000) shares of Rs 10 each, fully paid up	<u>56,000,000</u>	<u>56,000,000</u>
	<u>56,000,000</u>	<u>56,000,000</u>

Out of the above 2,855,999 (previous year: 2,855,999) equity shares of Rs 10 each are held by Centum Electronics Limited, the holding company, 2,744,000 (previous year: 2,744,000) equity shares of Rs 10 each are held by Rakon (Mauritius) Limited and the balance 1 (previous year: 1) equity share is held by Mr. Apparao V Mallavarapu as a beneficial owner on behalf of Centum Electronics Limited.

Reconciliation of equity shares outstanding at the beginning and at the end of the reporting period

	As at 31 March 2014		As at 31 March 2013	
	Number	Amount	Number	Amount
Number and value of shares at the beginning of the year	5,600,000	56,000,000	5,600,000	56,000,000
Number of shares issued during the year	-	-	-	-
Number and value of shares outstanding at the end of the year	<u>5,600,000</u>	<u>56,000,000</u>	<u>5,600,000</u>	<u>56,000,000</u>

Details of equity shareholders holding more than 5% shares in the company

Name of the shareholder	As at 31 March 2014		As at 31 March 2013	
	Number	% of holding	Number	% of holding
Centum Electronics Limited	2,855,999	51%	2,855,999	51%
Rakon (Mauritius) Limited	2,744,000	49%	2,744,000	49%

Rights, preferences and restrictions attached to equity shares

The Company has only one class of share referred to as equity share having par value of Rs 10. Each holder of the equity share, as reflected in the records of the Company, is entitled to one vote in respect of each share held for all matters submitted to vote in the shareholders' meeting. The Company declares and pays dividend in Indian rupees. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting.

During the year ended 31 March 2014, the amount of per share dividend recognised as distributions to equity shareholders is Rs 20 (previous year: Rs 20). The total dividend appropriation for the year ended 31 March, 2014 amounted to Rs 112,000,000 (previous year: Rs 112,000,000) excluding corporate dividend tax of Rs 19,034,400 (previous year: Rs 19,034,400).

In the event of liquidation of the Company, the holders of equity shares will be entitled to receive any of the remaining assets of the Company after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

Buy back of shares, issue of bonus share and share allotted as fully paid up pursuant to contract(s) without payments being received in cash.

There have been no buyback of shares, issue of bonus shares and issue of shares pursuant to contract without payment being received in cash for the period of five years immediately preceding the balance sheet date.

Notes to the Financial Statements (contd...)

(Amount in Rs.)

Particulars	As at 31 March 2014	As at 31 March 2013
3. Reserves and surplus		
Securities premium account		
Opening balance	235,482,400	235,482,400
Add: Additions during the year	-	-
Closing balance	235,482,400	235,482,400
General reserve		
Opening balance	15,414,587	-
Addition during the year	19,423,906	15,414,587
Closing balance	34,838,493	15,414,587
Surplus in statement of profit and loss		
Opening balance	80,144,005	72,447,125
Add: Profit for the year	194,239,058	154,145,867
Less: Appropriations		
Proposed final dividend	112,000,000	112,000,000
Corporate dividend tax	19,034,400	19,034,400
Transfer to reserves	19,423,906	15,414,587
Closing balance	123,924,757	80,144,005
	394,245,650	331,040,992

4. Long -Term Borrowings**Term loans***Secured*

From bank	-	3,435,897
	-	3,435,897
	-	3,435,897

Term loans from bank were secured by exclusive charge on the entire moveable fixed assets of the company financed by the term loan.

The term loan from bank was a foreign currency loan carrying an interest of LIBOR plus 600 basis points per annum on the outstanding amount of the loan. The interest were payable quarterly along with the principal repayment. The sanction limit of the term loan was Rs 105,000,000.

The term loan was repayable in nine equal quarterly instalments over thirty six months commencing from 27 September 2012. The above loan was repaid during the year.

There is no continuing default in repayment of the principal and interest amount.

(Amount in Rs.)

Particulars	As at 31 March 2014	As at 31 March 2013
5. Deferred tax liabilities, net		
Deferred tax (assets)		
Provision for doubtful debts and advances	(369,672)	(352,869)
Provision for retirement benefits	(2,802,707)	(2,553,980)
	(3,172,379)	(2,906,849)
Deferred tax liabilities		
Fixed assets	14,669,020	20,214,742
	14,669,020	20,214,742
Deferred tax liabilities, net	11,496,641	17,307,893
6. Long-term provisions		
Provision for gratuity (refer note 27)	5,057,018	4,673,586
	5,057,018	4,673,586
7. Short-term borrowings		
<i>Secured</i>		
Short term loans from banks		
Cash credit	852,369	1,405,416
Packing credit	212,069,066	223,485,501
	212,921,435	224,890,917

Short term loans from banks are secured by the following securities:

- a) Cash credit obtained from bank is secured by way of hypothecation of inventories and book debts of the Company. Additionally, it is secured by way of collateral charge on plant and machinery.
- b) Packing credit obtained from bank is secured by way of hypothecation of inventories and book debts of the Company. Additionally, it is secured by way of collateral charge on plant and machinery.

There is no continuing default in the repayment of the principal and interest amounts.

Notes to the Financial Statements (contd...)

(Amount in Rs.)

Particulars	As at 31 March 2014	As at 31 March 2013
8. Trade payables		
- Dues to micro and small enterprises*	357,560	659,576
- Dues to others	99,901,652	158,067,799
	100,259,212	158,727,375
*Refer note 33 for details of dues to micro and small enterprises.		
9. Other current liabilities		
Current maturities of long-term debt*	-	52,322,731
Interest accrued but not due	203,039	684,980
Advance from customers	14,558,790	755,977
Other payables		
- withholding and other taxes and duties payable	2,304,638	4,135,865
- for expenses	63,538,333	57,675,494
- for purchase of fixed assets	1,413,667	3,686,305
	82,018,467	119,261,352
*refer note 4 for details with respect to terms and conditions of term loans from bank.		
10. Short-term provisions		
Provision for gratuity (refer note 27)	545,638	431,769
Provision for compensated absences	1,599,861	1,333,025
Proposed final dividend	112,000,000	112,000,000
Corporate dividend tax	19,034,400	19,034,400
Provision for taxation, net of advance tax	1,656,885	43,973,943
	134,836,784	176,773,137

Notes to the Financial Statements (contd...)

11 FIXED ASSETS

Particulars	(Amount in Rs.)											
	GROSS BLOCK					ACCUMULATED DEPRECIATION AND AMORTISATION					NET BLOCK	
	As at 1 April 2013	Additions during the year	As at 31 March 2014	Charge for the year	As at 31 March 2014	As at 1 April 2013	As at 31 March 2014	As at 31 March 2014	As at 31 March 2014	As at 31 March 2013	As at 31 March 2013	
Tangible assets, owned												
Leasehold improvements	24,409,697	2,531,346	26,941,043	5,521,084	15,790,156	10,269,072	5,521,084	15,790,156	11,150,887	14,140,625	14,140,625	
Plant and machinery	659,525,204	73,058,026	732,583,230	73,660,800	406,302,581	332,641,781	73,660,800	406,302,581	326,280,649	326,883,423	326,883,423	
Electrical installations	52,150,836	2,022,716	54,173,552	4,061,444	19,702,422	15,640,978	4,061,444	19,702,422	34,471,130	36,509,858	36,509,858	
Computers	7,198,396	2,203,195	9,401,591	1,174,694	6,361,863	5,187,169	1,174,694	6,361,863	3,039,728	2,011,227	2,011,227	
Office equipment	3,251,525	1,334,932	4,586,457	158,710	874,395	715,685	158,710	874,395	3,712,062	2,535,840	2,535,840	
Furniture and fixtures	8,567,266	665,973	9,233,239	531,241	3,267,082	2,735,841	531,241	3,267,082	5,966,157	5,831,425	5,831,425	
Total (A)	755,102,924	81,816,188	836,919,112	85,107,973	452,298,499	367,190,526	85,107,973	452,298,499	384,620,613	387,912,398	387,912,398	
Intangible assets, owned												
Computer software	1,994,066	145,600	2,139,666	139,861	1,939,234	1,799,373	139,861	1,939,234	200,432	194,693	194,693	
Total (B)	1,994,066	145,600	2,139,666	139,861	1,939,234	1,799,373	139,861	1,939,234	200,432	194,693	194,693	
Total (A) + (B)	757,096,990	81,961,788	839,058,778	85,247,834	454,237,733	368,989,899	85,247,834	454,237,733	384,821,045	388,107,091	388,107,091	
Previous year	720,674,421	36,422,569	757,096,990	79,134,708	368,989,899	289,855,191	79,134,708	368,989,899	388,107,091	388,107,091	388,107,091	

Centum Rakon India Private Limited
Notes to the Financial Statements (contd...)

(Amount in Rs.)

Particulars	As at 31 March 2014	As at 31 March 2013
12. Long-term loans and advances		
<i>Unsecured, considered good</i>		
Capital advances	3,015,970	-
Security deposits	4,997,767	3,805,000
Prepaid expenses	344,614	500,936
Balance with government authorities	1,644,205	23,596,871
Advance tax, net of provision for tax	-	438,970
	10,002,556	28,341,777
13. Inventories		
Raw materials	95,768,794	77,448,287
[includes raw material in transit Rs 18,534,042] (previous year: Rs 6,214,182)]		
Work-in-progress	152,164,209	104,186,888
	247,933,003	181,635,175
14. Trade receivables*		
<i>Unsecured</i>		
Debts due for a period exceeding six months		
- considered good	3,383,706	3,393,156
- considered doubtful	43,582	43,582
	3,427,288	3,436,738
Other debts		
- considered good	242,312,892	437,296,191
	242,312,892	437,296,191
Less: Provision for doubtful debts	43,582	43,582
	245,696,598	440,689,347

* Includes an amount of Rs 227,725,909 (previous year: Rs 430,909,962) receivable from companies where directors of the Company are also directors/ members.

(Amount in Rs.)

Particulars	As at 31 March 2014	As at 31 March 2013
15. Cash and bank balances		
Cash and cash equivalents		
Cash on hand	93,543	308,217
Balance with banks		
- in current accounts	475,379	274,549
- in exchange earners foreign currency account	73,070,931	29,672,198
	73,639,853	30,254,964
Other bank balances		
- in margin money accounts *	3,659,476	3,400,000
	77,299,329	33,654,964
*Margin money is against bank guarantees issued in favour of customers and statutory authorities.		
16. Short-term loans and advances		
<i>Unsecured, considered good</i>		
Advances to suppliers	2,113,474	4,432,984
Staff advances	711,288	485,546
Prepaid expenses	2,292,782	1,687,381
Balances with government authorities	25,041,653	12,745,442
Interest accrued but not due	190,797	123,104
	30,349,994	19,474,457
<i>Unsecured, considered doubtful</i>		
Advances to suppliers	1,044,008	1,044,008
	1,044,008	1,044,008
Less: Provision for doubtful advances	1,044,008	1,044,008
	30,349,994	19,474,457

Notes to the Financial Statements (contd...)

(Amount in Rs.)

Particulars	For the year ended 31 March 2014	For the year ended 31 March 2013
17. Revenue from operations		
Sale of products, gross*	1,396,246,766	1,070,241,633
Less: Excise duty	920,278	375,599
Sale of products, net	<u>1,395,326,488</u>	<u>1,069,866,034</u>
*Refer note 36 for details related to sale of manufactured products.		
18. Other Income		
Interest on bank deposits	590,962	992,945
Foreign exchange gain, net	-	6,697,360
Other non-operating income	2,515,739	1,175,712
	<u>3,106,701</u>	<u>8,866,017</u>
19. Cost of materials consumed*		
Inventory of materials at the beginning of the year	77,448,287	75,912,759
Add: Purchases	825,048,844	542,263,294
Less: Inventory of materials at the end of the year	95,768,794	77,448,287
	<u>806,728,337</u>	<u>540,727,766</u>
*refer note 34 and 35 for details of items of raw materials and components consumed.		
20. Changes in inventories of work-in-progress		
<i>Opening Stock</i>		
Work in progress	104,186,888	104,244,588
	<u>104,186,888</u>	<u>104,244,588</u>
<i>Closing Stock</i>		
Work in progress	152,164,209	104,186,888
	<u>152,164,209</u>	<u>104,186,888</u>
Decrease/(increase) in inventories of work in progress	<u>(47,977,321)</u>	<u>57,700</u>
21. Employee benefits expense		
Salaries, wages and allowances	83,068,353	70,304,021
Contribution to provident and other funds	5,588,600	4,578,610
Staff welfare expenses	6,846,581	6,126,014
	<u>95,503,534</u>	<u>81,008,645</u>

(Amount in Rs.)

Particulars	For the year ended 31 March 2014	For the year ended 31 March 2013
22. Finance costs		
Interest expense	16,864,904	17,244,367
Other borrowing costs	1,783,878	1,501,914
	18,648,782	18,746,281
23. Other expenses		
Rent	9,410,053	8,032,848
Rates and taxes	371,411	505,716
Power and fuel	24,346,444	16,774,333
Repairs and maintenance		
- Building	234,445	77,244
- Plant and machinery	11,482,992	5,574,425
Insurance	2,731,690	1,968,200
Professional and consultancy	59,260,373	63,223,649
Selling and marketing expenses	9,166,377	82,000
Provision for doubtful advances	-	330,000
Travelling and conveyance	4,244,137	2,345,366
Purchase of services	14,712,354	15,209,221
Printing and stationery	1,585,793	1,446,449
Directors sitting fees	8,000	16,000
Bank charges	2,601,899	3,020,830
Freight outwards	6,071,973	10,406,775
Foreign exchange loss, net	3,912,495	-
Miscellaneous expenses	3,713,780	2,227,810
	153,854,216	131,240,866

Notes to the Financial Statements (contd...)

24. Capital commitments and contingent liabilities

(Amount in Rs.)

Particulars	As at 31 March 2014	As at 31 March 2013
Capital commitments:		
Estimated amount of contracts remaining to be executed on capital account (net of advances)	9,411,654	1,539,957

The Company received an order dated 5 April 2013 from the income tax authorities with respect to the assessment year 2009-2010. As per the assessment order, the carried forward loss for the assessment year 2009-2010 has been assessed as Rs 40,704,558 by the assessing officer as against the carried forward loss of Rs 87,137,017 claimed by the Company. The decrease in carried forward tax loss represents the transfer pricing adjustment carried out by the Transfer Pricing Officer on the transfer pricing margin under Section 92CA of the Income-tax Act, 1961. The Company has filed an appeal against the transfer pricing adjustment before the Commissioner of Income-tax (Appeal) and management believes that its position is likely to be upheld in the appellate process. Accordingly, no provision has been made in the financial statements with respect to the aforesaid assessment order received.

Further, the Company received an order dated 22 February 2014 from the income tax authorities with respect to the assessment year 2010-2011. As per the assessment order, the taxable income has been assessed as Rs 66,669,084 by the assessing officer as against the taxable income declared by company amounting to Rs 20,118,108. The increase in taxable income represents the transfer pricing adjustment carried out by the Transfer Pricing Officer on the transfer pricing margin under Section 92CA of the Income-tax Act, 1961. The Company has filed an appeal against the transfer pricing adjustment before the Dispute Resolution Panel and management believes that its position is likely to be upheld in the panel process. Accordingly, no provision has been made in the financial statements with respect to the aforesaid assessment order received.

25. Auditors' remuneration excluding service tax (included under professional and consultancy)

Particulars	For the Year ended 31 March 2014	For the Year ended 31 March 2013
Audit fees	500,000	500,000
Out of pocket expenses reimbursed	44,342	42,862
	544,342	542,862

26. Earnings per share

The computation of earnings per share is set out below:

Particulars	For the Year ended 31 March 2014 Rs	For the Year ended 31 March 2013 Rs
Profit for the year	194,239,058	154,145,867
Weighted average number of equity shares outstanding at the beginning of the year (in numbers)	5,600,000	5,600,000
Face value of equity shares	10	10
Earnings per share - basic and dilutive	34.69	27.53

The Company has no potentially dilutive equity shares.

27. The following table sets out the status of the gratuity plan as required under AS 15.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

Particulars	(Amount in Rs.)	
	As at 31 March 2014	As at 31 March 2013
Change in projected benefit obligations		
Obligations at year beginning	5,105,355	3,631,868
Service cost	861,620	692,437
Past service cost	-	-
Benefits paid	(680,272)	(259,015)
Interest cost	457,211	359,283
Liabilities assumed on acquisition / (settled on divestiture)	-	(120,719)
Actuarial loss/ (gain)	(141,258)	801,501
Obligations at year end	5,602,656	5,105,355
Change in plan assets		
Plans assets at year beginning, at fair value	-	-
Expected return on plan assets	-	-
Actuarial gain / (loss)	-	-
Contributions	680,272	259,015
Benefits paid	(680,272)	(259,015)
Plans assets at year end, at fair value	-	-
Reconciliation of present value of the obligation and the fair value of the plan assets:		
Fair value of plan assets at the end of the year	-	-
Present value of the defined benefit obligations at the end of the year	5,602,656	5,105,355
Asset/ (liability) recognised in the balance sheet	(5,602,656)	(5,105,355)
Gratuity cost for the year		
Service cost	861,620	692,437
Interest cost	457,211	359,283
Expected return on plan assets	-	-
Actuarial loss/ (gain)	(141,258)	801,501
Past service cost	-	-
Net gratuity cost	1,177,573	1,853,221
Assumptions:		
Discount rate	9.10%	7.95%
Expected rate of return on plan assets	Not applicable	Not applicable
Expected rate of salary increase	7%	7%
Attrition rate	1%-15%	1%-15%
Retirement age	58 years	58 years

The estimate of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

Notes to the Financial Statements (contd...)

28. Employee stock options:

The company has two stock option plans.

Centum employee stock option plan 2007

Certain employees of the Company are entitled to the shares of Centum Electronics Limited (parent company) under the Centum ESOP plan 2007. Options will be issued to employees of the Company at an exercise price, which shall not be less than the market price immediately preceding the date of grant. The equity shares covered under these options vest over a period ranging from twelve to forty eight months from the date of grant. The exercise period is ten years from the date of vesting.

Option activity during the year ended 31 March 2014 and the related weighted average exercise price of stock options under the Centum ESOP plan 2007 is presented below:

Particulars	For the year ended 31 March 2014		For the year ended 31 March 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding at the beginning of the year	69,830	51.55	75,777	51.70
Granted during the year	-	-	-	-
Exercised during the year	10,800	31.60	-	-
Forfeited / lapsed during the year	5,899	39.37	5,947	53.45
Options outstanding at the end of the year	53,131	56.95	69,830	51.55
Exercisable at the end of the year	29,907	57.66	25,158	48.64

The options outstanding as at 31 March 2014 had an exercise price of Rs 56.95 and the weighted average remaining contractual life of 9.90 years.

Centum employee stock option plan 2013

Certain employees of the Company are entitled to the shares of Centum Electronics Limited (parent company) under the Centum ESOP plan 2013. Options will be issued to employees of the Company at an exercise price, which shall not be less than the market price immediately preceding the date of grant. The equity shares covered under these options vest over a period ranging from twelve to forty eight months from the date of grant. The exercise period is ten years from the date of vesting.

Option activity during the year ended 31 March 2014 and the related weighted average exercise price of stock options under the Centum ESOP plan 2013 is presented below.

Particulars	For the year ended 31 March 2014		For the year ended 31 March 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding at the beginning of the year	-	-	-	-
Granted during the year	47,177	71.25	-	-
Exercised during the year	-	-	-	-
Forfeited / lapsed during the year	-	-	-	-
Options outstanding at the end of the year	47,177	71.25	-	-
Exercisable at the end of the year	-	-	-	-

The options outstanding as at 31 March 2014 had an exercise price of Rs 71.25 and the weighted average remaining contractual life of 11.85 years.

The Company applies the intrinsic value method of accounting for determining compensation cost for its stock based compensation plan. The Company has therefore adopted the pro forma disclosure provisions as required by the Guidance Note on "Accounting for Employee Share Based Payments" issued by the Institute of Chartered Accountants of India with effect from 1 April 2005.

Had the compensation been determined using the fair value approach described in the aforesaid Guidance Note, the Company's net profit and basic and diluted earnings per share as reported would have reduced to the pro forma amounts as indicated:

	For the year ended 31 March 2014	For the year ended 31 March 2013
Profit for the year	194,239,058	154,145,867
Add: Stock based compensation expense determined under the intrinsic value method	-	-
Less: Stock based compensation expense determined under the fair value method	417,415	-
Adjusted net profit	<u>193,821,643</u>	<u>154,145,867</u>
Basic earnings per share as reported	34.69	27.53
Pro forma basic earnings per share	34.61	27.53
Diluted earnings per share as reported	34.69	27.53
Pro forma diluted earnings per share	34.61	27.53

The fair value of each option under the 2007 plan is estimated by management on the date of grant using the Black - Scholes model with the following assumptions:

Particulars	Year ended 31 March 2014	Year ended 31 March 2013
Dividend yield %	10%	10%
Expected life	1-4 years	1-4 years
Risk free interest rate	5.7 - 9.1%	5.7 - 8.6%
Volatility	63.43%	64.89%

29. The Company's foreign currency exposure on account of foreign currency denominated payables not hedged as on 31 March 2014:

Particulars	As at 31 March 2014		As at 31 March 2013	
	Amount (foreign currency)	Amount (INR)	Amount (foreign currency)	Amount (INR)
USD	4,138,296	248,463,304	6,235,082	336,345,928
EUR	985,725	81,341,991	1,267,794	89,886,583
GBP	1,386	138,299	888	74,456
JPY	2,420,750	1,460,681	10,064,245	5,927,840
CHF	1,687	116,704	6,422	373,028
	331,520,979		432,607,835	

The Company's foreign currency exposure on account of foreign currency denominated receivables not hedged as on 31 March 2014:

Particulars	As at 31 March 2014		As at 31 March 2013	
	Amount (foreign currency)	Amount (INR)	Amount (foreign currency)	Amount (INR)
USD	4,881,866	292,423,784	8,236,074	440,218,165
EUR	65,026	5,354,891	268,298	18,284,502
JPY	8,207,500	4,697,973	1,156,278	654,685
GBP	15,377	1,531,395	27,767	2,244,394
	304,008,043		461,401,746	

Notes to the Financial Statements (contd...)

30. Leases

The Company has taken factory premises and computer equipments under cancellable operating lease. The Company intends to renew such leases in the normal course of business. Total lease rentals recognized in the statement of profit and loss for the year ended 31 March 2014 with respect to the above is Rs 4,114,053 (previous year: Rs 3,216,848).

The Company has taken factory premises under non-cancellable operating lease. The Company intends to renew such leases in the normal course of business. Total lease rentals recognised in the profit and loss account for the year ended 31 March 2014 with respect to the above is Rs 5,296,000 (previous year: Rs 4,816,000).

The total future minimum lease payments under noncancellable operating lease as at 31 March 2014 are as follows: (Amount in Rs.)

	For the year ended 31 March 2014	For the year ended 31 March 2013
Not later than one year	5,820,000	5,296,000
Later than one year and not later than five years	2,000,000	7,820,000
	<u>7,820,000</u>	<u>13,116,000</u>

31. Segment Information

The Company operates in only one segment i.e. Components business (Frequency Control Products) and accordingly there are no primary segment disclosures. (Amount in Rs.)

Geographic segment	For the year ended 31 March 2014	For the year ended 31 March 2013
Revenues		
India	33,697,565	30,199,638
Europe	1,359,310,998	1,035,333,293
Rest of the world	2,317,925	4,333,103
	<u>1,395,326,488</u>	<u>1,069,866,034</u>
Segment assets		
India	765,157,491	658,307,649
Europe	230,940,847	433,006,530
Rest of the world	736,869	796,970
	<u>996,835,207</u>	<u>1,092,111,149</u>

32. Related party disclosures**A. Parties where control exists:**

Centum Electronics Limited - Holding Company ('CEL')

B. Venturer in respect of which the Company is a joint venture:

Rakon (Mauritius) Limited

C. Other related parties where transactions have taken place during the year:

Party having significant influence

Rakon Limited - [ultimate holding company of Rakon (Mauritius) Limited]

Parties under common control

Rakon France SAS

Rakon UK Limited

Centum Industries Private Limited

D. Key management personnel

Apparao V Mallavarappu

S. Krishnan

Darren Robinson

Brent Robinson

E. The following is a summary of transactions with related parties by the Company:

Particulars	(Amount in Rs.)	
	For the year ended 31 March 2014	For the year ended 31 March 2013
Long-term borrowings repaid		
<i>Holding company</i>		
Centum Electronics Limited	-	60,222,989
<i>Joint venture partner</i>		
Rakon (Mauritius) Limited	-	115,895,405
Professional and consultancy		
<i>Holding company</i>		
Centum Electronics Limited	51,987,845	44,896,717
<i>Parties under common control</i>		
Rakon France SAS	-	16,517,957
Rent		
<i>Holding company</i>		
Centum Electronics Limited	3,032,400	3,032,400
Interest expense		
<i>Holding company</i>		
Centum Electronics Limited	-	3,335,755
<i>Joint venture partner</i>		
Rakon (Mauritius) Limited	-	2,503,982
Sale of products		
<i>Holding company</i>		
Centum Electronics Limited	365,281	959,784
<i>Parties under common control</i>		
Centum Industries Private Limited	-	60,300
Rakon France SAS	1,317,601,743	988,008,296
Rakon UK Limited	27,929,304	34,124,363
<i>Parties having significant influence</i>		
Rakon Limited	2,303,925	4,224,438
Purchase of goods and services		
<i>Holding company</i>		
Centum Electronics Limited	8,880,044	8,915,154
<i>Parties under common control</i>		
Centum Industries Private Limited	1,267,831	637,734
Rakon France SAS	312,726,501	203,534,483
Rakon UK Limited	5,592,885	2,680,257
<i>Parties having significant influence</i>		
Rakon Limited	801,220	591,976
Reimbursement of expenses		
<i>Holding company</i>		
Centum Electronics Limited	10,415,223	2,521,793
<i>Parties under common control</i>		
Rakon France SAS	6,135,995	-
Centum Industries Private Limited	26,470	-
<i>Parties having significant influence</i>		
Rakon Limited	857,646	1,117,835
Purchase of fixed assets		
<i>Parties under common control</i>		
Rakon France SAS	4,629,656	1,551,242
<i>Parties having significant influence</i>		
Rakon Limited	21,497,807	4,396,344

Notes to the Financial Statements (contd...)

F. The balances receivable from and payable to related parties are as follows:

Particulars	(Amount in Rs.)	
	As at 31 March 2014	As at 31 March 2013
Trade receivables		
<i>Holding company</i>		
Centum Electronics Limited	1,902,811	1,787,970
<i>Parties under common control</i>		
Rakon France SAS	217,766,661	421,068,553
Rakon UK Limited	7,768,480	7,186,355
Rakon Limited	289,421	795,526
Centum Industries Private Limited	-	159,808
Trade payables		
<i>Holding company</i>		
Centum Electronics Limited	3,218,734	6,976,146
<i>Parties under common control</i>		
Centum Industries Private Limited	52,973	26,593
Rakon France SAS	57,113,708	99,770,773
Rakon UK Limited	1,183,400	1,582,155
Rakon Limited	11,075,688	657,740
Other current liabilities		
<i>Parties under common control</i>		
Rakon France SAS	34,951,478	-
<i>Parties under common control</i>		
Centum Industries Private Limited	88,250	-

33. The Ministry of Micro, Small and Medium Enterprises has issued an office memorandum dated 26 August 2008 which recommends that the Micro and Small Enterprises should mention in their correspondence with its customers the Entrepreneurs Memorandum Number as allocated after filing of the Memorandum in accordance with the 'Micro, Small and Medium Enterprises Development Act, 2006' ('the Act'). Accordingly, the disclosure in respect of the amounts payable to such enterprises as at 31 March 2014 has been made in the financial statements based on information received and available with the Company. Further in view of the Management, the impact of interest, if any, that may be payable in accordance with the provisions of

the Act is not expected to be material. The Company has not received any claim for interest from any supplier as at the balance sheet date. (Amount in Rs.)

Particulars	For the Year ended 31 March 2014	For the Year ended 31 March 2013
The principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year;	357,560	659,576
The amount of interest paid by the Company along with the amounts of the payment made to the supplier beyond the appointed day during the year;	54,315	-
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act;	-	-
The amount of interest accrued and remaining unpaid at the end of the year;	-	32,070
The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise.	-	-

34. Particulars of raw materials and components consumed

Components	For the Year ended 31 March 2014	For the Year ended 31 March 2013
Crystals	294,531,901	119,041,309
Integrated circuits	72,484,613	62,376,122
Others	84,007,830	133,536,933
	<u>451,024,344</u>	<u>314,954,364</u>

Raw materials	For the Year ended 31 March 2014	For the Year ended 31 March 2013
Blanks	115,183,831	68,688,054
Base	89,421,051	63,678,497
PCB	38,697,146	30,958,259
Others	112,401,965	62,448,593
	<u>355,703,993</u>	<u>225,773,403</u>

Note: No other individual item of raw materials and components consumed account for 10% or more of the total consumption during the year.

Notes to the Financial Statements (contd...)

35. Particulars of raw materials and components consumed

(Amount in Rs.)

Particulars	For the year ended 31 March 2014		For the year ended 31 March 2013	
	%	Amount	%	Amount
Components				
Imported	91%	409,690,886	86%	269,352,615
Indigenous	9%	41,333,458	14%	45,601,749
		<u>451,024,344</u>		<u>314,954,364</u>
Raw materials				
Imported	98%	349,589,596	98%	221,003,314
Indigenous	2%	6,114,397	2%	4,770,088
		<u>355,703,993</u>		<u>225,773,402</u>

36. Particulars in respect of sale of manufactured products (including excise duty)

(Amount in Rs.)

Particulars	For the Year ended 31 March 2014	For the Year ended 31 March 2013
Frequency control products	1,396,246,766	1,070,241,633
	<u>1,396,246,766</u>	<u>1,070,241,633</u>

37. CIF value of imports

(Amount in Rs.)

Particulars	For the Year ended 31 March 2014	For the Year ended 31 March 2013
Capital goods	68,168,052	24,018,155
Raw materials and components (including goods in transit)	782,536,667	453,790,323
	<u>850,704,719</u>	<u>477,808,478</u>

38. Expenditure in foreign currency (on payment basis)

(Amount in Rs.)

Particulars	For the Year ended 31 March 2014	For the Year ended 31 March 2013
Travel	1,889,244	1,174,794
Interest on long-term borrowings	2,587,660	8,204,665
Professional and consultancy	-	12,198,269
	<u>4,476,904</u>	<u>21,577,728</u>

39. Earnings in foreign currency

(Amount in Rs.)

Particulars	For the Year ended 31 March 2014	For the Year ended 31 March 2013
Sale of manufactured goods	1,361,628,923	1,039,666,396
	<u>1,361,628,923</u>	<u>1,039,666,396</u>

40. Expenditure on research and development

Particulars	(Amount in Rs.)	
	For the Year ended 31 March 2014	For the Year ended 31 March 2013
Capital	8,935,309	1,157,276
Recurring (including depreciation)	19,381,619	33,379,067
	28,316,928	34,536,343

41. The Company has established a comprehensive system of maintenance of information and documents as required by the transfer pricing legislation under sections 92-92F of the Income-tax Act, 1961. Since the law requires existence of such information and documentation to be contemporaneous in nature, the Company has completed the process of updating the documentation for the international transactions entered into with the associated enterprises relating to the previous year. Further, the Company is in the process of updating the documentation for the international transactions entered into with the associated enterprises during the financial year and expects such records to be in existence latest by the date of filing its income tax return, as required by law. The management is of the opinion that its international transactions are at arm's length so that the aforesaid legislation will not have any impact on the financial statements, particularly on the amount of tax expense and that of provision for taxation.

42. Dividend remitted in foreign currency

Relating to the year ended	(Amount in Rs.)	
	31 March 2013	31 March 2012
Number of non-resident shareholder	1	1
Number of equity shares held (Rs 10 per share)	2,744,000	2,744,000
Amount remitted	54,880,000	-

As per our report of even date attached.

for **BSR & Co. LLP**
Chartered Accountants
Firm Registration No. 101248W

Supreet Sachdev
Partner
Membership No. 205385

Place : Bangalore
Date : 27 May, 2014

for **Centum Rakon India Private Limited**

Apparao V. Mallavarapu **S Krishnan**
Director Director

P M Unnikrishnan
GM - Operations (Manager)

Cash Flow Statement

(Amount in Rs.)

	For the year ended 31 March 2014	For the year ended 31 March 2013
Cash flow from operating activities		
Profit before tax	286,427,807	227,816,085
Adjustments		
Depreciation and amortisation	85,247,834	79,134,708
Interest expenses	18,648,782	18,746,281
Effect of exchange differences on translation of foreign currency monetary balances	27,052,457	4,555,249
Provision for doubtful advances	-	330,000
Interest income	(590,962)	(992,945)
Operating cash flows before working capital changes	416,785,918	329,589,378
Changes in trade receivables	194,992,749	(197,635,166)
Changes in inventories	(66,297,828)	(1,477,828)
Changes in loans and advances	10,108,377	(6,364,923)
Changes in liabilities and provisions	(39,869,601)	45,716,312
Changes in other bank balances	(259,476)	1,457,462
Cash generated from operations	515,460,139	171,285,235
Income taxes	(139,878,088)	(28,123,353)
Net cash generated from operating activities	375,582,051	143,161,882
Cash flow from investing activities		
Interest income	523,269	919,803
Purchase of fixed assets	(87,774,740)	(31,659,076)
Net cash used in investing activities	(87,251,471)	(30,739,273)
Cash flow from financing activities		
Short term loan from bank, net	(32,236,397)	100,400,726
Interest paid	(19,130,723)	(19,909,621)
Proceeds from long-term borrowings	-	50,566,659
Repayment of long-term borrowings	(62,544,171)	(37,826,983)
Repayment of term loan from related party	-	(178,093,524)
Dividend and dividend tax paid	(131,034,400)	-
Net cash used in financing activities	(244,945,691)	(84,862,743)
Effect of exchange differences on translation of foreign currency cash and cash equivalent	-	(183)
Net increase in cash and cash equivalents	43,384,889	27,559,866
Cash and cash equivalents at the beginning of the year	30,254,964	2,695,281
Cash and cash equivalents at the end of the year (refer note 15)	73,639,853	30,254,964

This is the cash flow statement referred to in our report attached.

As per our report of even date attached.

for **BSR & Co. LLP**
Chartered Accountants
Firm Registration No. 101248W

Supreet Sachdev
Partner
Membership No. 205385

Place : Bangalore
Date : 27 May, 2014

for **Centum Rakon India Private Limited**

Apparao V. Mallavarapu **S Krishnan**
Director Director

P M Unnikrishnan
GM - Operations (Manager)



Regd. & Corporate Office
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Bangalore - 560 106. India