

Price Waterhouse Chartered Accountants LLP

Review Report

To
The Board of Directors
Tejas Networks Limited,
5th Floor, J P Software Park,
Plot No. 25, Sy.No.13,14,17,18,
Konnapana Agrahara Village,
Begur Hobli, Bengaluru - 560100

1. We have reviewed the unaudited financial results of Tejas Networks Limited (the "Company") for the quarter and the half year ended September 30, 2020 which are included in the accompanying 'Statement of Unaudited Standalone Financial Results for the quarter and six months ended September 30, 2020', 'Unaudited Standalone Statement of Assets and Liabilities as at September 30, 2020' and 'Unaudited Standalone Statement of cash flows for the six months ended September 30, 2020' together with the notes thereon (the "Standalone Statement"). The Standalone Statement has been prepared by the Company pursuant to Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended (the "Listing Regulations, 2015"), which has been initialled by us for identification purposes.
2. This Standalone Statement, which is the responsibility of the Company's Management and approved by the Board of Directors, has been prepared in accordance with the recognition and measurement principles laid down in Indian Accounting Standard 34 "Interim Financial Reporting" ("Ind AS 34"), prescribed under Section 133 of the Companies Act, 2013, and other accounting principles generally accepted in India. Our responsibility is to express a conclusion on the Standalone Statement based on our review.
3. We conducted our review of the Standalone Statement in accordance with the Standard on Review Engagements (SRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Institute of Chartered Accountants of India. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the Standalone Statement is free of material misstatement. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
4. Based on our review conducted as stated in paragraph 3 above, nothing has come to our attention that causes us to believe that the Standalone Statement has not been prepared in all material respects in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India and has not disclosed the information required to be disclosed in terms of Regulation 33 of the Listing Regulations, 2015 including the manner in which it is to be disclosed, or that it contains any material misstatement.
5. We draw your attention to Note 9 to the Standalone Statement regarding overdue receivables (due for more than 180 days from the due date for payment), aggregating to Rs. 164.53 crores (net of provision), included in 'trade receivables' as at September 30, 2020. The Company believes that the aforesaid receivables are fully recoverable and no additional allowances for credit losses are considered necessary. Our conclusion is not modified in respect of this matter.



Price Waterhouse Chartered Accountants LLP, 5th Floor, Tower 'D', The Millenia, 1 & 2 Murphy Road, Ulsoor
Bangalore - 560 008
T: +91 (80) 4079 5000, F: +91 (80) 4079 5222

Registered office and Head office: Sucheta Bhawan, 11A Vishnu Digambar Marg, New Delhi 110 002

Price Waterhouse (a Partnership Firm) converted into Price Waterhouse Chartered Accountants LLP (a Limited Liability Partnership with LLP identity no: LLPIN AAC-5001) with effect from July 25, 2014. Post its conversion to Price Waterhouse Chartered Accountants LLP, its ICAI registration number is 012754N/N500016 (ICAI registration number before conversion was 012754N)

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6. We draw attention to Note 10 to the Standalone Statement which explains the uncertainties and the management assessment of the financial impact due to the lock-downs and other restrictions and conditions related to the COVID-19 pandemic situation, for which a definitive assessment of the impact in the subsequent period is highly dependent upon the circumstances as they evolve. Our opinion is not modified in respect of this matter.

For Price Waterhouse Chartered Accountants LLP
Firm Registration Number: 012754N/N500016



Pradip Kanakia
Partner
Membership Number: 039985
UDIN: 20039985AAAACT8049

Place: Bengaluru
Date: October 21, 2020



Tejas Networks Limited

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Statement of Unaudited Standalone Financial Results for the quarter and six months ended September 30, 2020

| Particulars | (Rs. in crore except per share data) | | | | | |
|--|--------------------------------------|--------------------------------|-------------------------------------|--|--|------------------------------|
| | Quarter ended September 30, 2020 | Quarter ended June 30, 2020 | Quarter ended September 30, 2019 | Six months ended September 30, 2020 | Six months ended September 30, 2019 | Year ended March 31, 2020 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Audited |
| I Revenue from operations | 109.89 | 78.73 | 85.76 | 188.62 | 246.32 | 386.20 |
| II Other Income (Refer Note - 11) | 8.09 | 4.32 | 6.89 | 12.41 | 13.94 | 33.71 |
| III Total income (I + II) | 117.98 | 83.05 | 92.65 | 201.03 | 260.26 | 419.91 |
| IV EXPENSES | | | | | | |
| (a) Cost of materials consumed | 58.97 | 35.18 | 35.22 | 94.15 | 129.04 | 203.58 |
| (b) Employee benefit expense | 24.61 | 24.93 | 21.38 | 49.54 | 46.28 | 103.22 |
| (c) Finance costs | 0.99 | 0.91 | 2.47 | 1.90 | 5.88 | 7.57 |
| (d) Depreciation and amortization expense | 11.84 | 13.78 | 18.24 | 25.62 | 35.83 | 77.05 |
| (e) Impairment of non-current assets | - | - | - | - | - | 69.87 |
| (f) Allowance for expected credit loss (Refer Note - 8) | (0.82) | 4.02 | 1.73 | 3.20 | 2.59 | 18.81 |
| (g) Other expenses | 17.88 | 14.11 | 20.00 | 31.99 | 36.90 | 77.42 |
| Total expenses (IV) | 113.47 | 92.93 | 99.04 | 206.40 | 256.52 | 557.52 |
| V Profit/(Loss) before tax (III - IV) | 4.51 | (9.88) | (6.39) | (5.37) | 3.74 | (137.61) |
| VI Income tax expense/(benefit) | | | | | | |
| (1) Current tax expense/(benefit) | - | - | (1.54) | - | 0.66 | - |
| (2) Deferred tax expense/(benefit) | - | - | (1.55) | - | 0.61 | 98.55 |
| Total tax expense/(benefit) | - | - | (3.09) | - | 1.27 | 98.55 |
| VII Profit/(Loss) after tax (V - VI) | 4.51 | (9.88) | (3.30) | (5.37) | 2.47 | (236.16) |
| VIII Other comprehensive income/(loss) | | | | | | |
| Items that will not be reclassified to profit or loss | | | | | | |
| Remeasurements of the defined benefit obligation | 0.75 | (0.05) | 0.24 | 0.70 | 0.19 | (1.07) |
| Income tax relating to above | - | - | (0.01) | - | - | - |
| IX Total comprehensive income/(loss) for the period (VII + VIII) | 5.26 | (9.93) | (3.07) | (4.67) | 2.66 | (237.23) |
| X Earnings/(Loss) per equity share | | | | | | |
| Equity shares of par value Rs. 10 each | | | | | | |
| (1) Basic | 0.49 | (1.07) | (0.36) | (0.58) | 0.27 | (25.66) |
| (2) Diluted | 0.49 | (1.07) | (0.36) | (0.58) | 0.26 | (25.66) |





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Unaudited Standalone Statement of Assets and Liabilities as at September 30, 2020

| Particulars | (Rs. in crore) | |
|--|--------------------|-----------------|
| | As at | |
| | September 30, 2020 | March 31, 2020 |
| | Unaudited | Audited |
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 28.82 | 30.55 |
| Right-of-use assets | 18.64 | 21.29 |
| Intangible assets | 32.98 | 26.81 |
| Intangible assets under development | 39.50 | 26.99 |
| Investments in subsidiaries | 10.87 | 10.87 |
| Financial assets | | |
| (i) Investments* | 0.00 | 0.00 |
| (ii) Trade receivables | 74.64 | 80.28 |
| (iii) Loans | 5.32 | 5.58 |
| (iv) Other financial assets | 1.51 | 1.11 |
| Current Tax Asset (net) | 55.55 | 47.80 |
| Deferred Tax Assets | 41.70 | 41.70 |
| Other non-current assets | 6.76 | 6.97 |
| Total non - current assets | 316.29 | 299.95 |
| Current assets | | |
| Inventories | 233.10 | 251.99 |
| Financial assets | | |
| (i) Investments | 77.55 | 50.97 |
| (ii) Trade receivables | 338.47 | 364.24 |
| (iii) Cash and cash equivalents | 61.55 | 66.05 |
| (iv) Bank balances other than (iii) above | 49.20 | 76.71 |
| (v) Loans | 0.68 | 1.07 |
| (vi) Other financial assets | 109.66 | 91.40 |
| Other current assets | 40.44 | 37.46 |
| Total current assets | 910.65 | 939.89 |
| Total assets | 1,226.94 | 1,239.84 |
| EQUITY AND LIABILITIES | | |
| Equity | | |
| Equity share capital | 95.82 | 95.48 |
| Other equity | 984.56 | 984.28 |
| Total equity | 1,080.38 | 1,079.76 |
| Liabilities | | |
| Non-current liabilities | | |
| Financial liabilities | | |
| (i) Lease Liabilities | 19.62 | 21.91 |
| Provisions | 0.88 | 0.59 |
| Total non - current liabilities | 20.50 | 22.50 |
| Current liabilities | | |
| Financial liabilities | | |
| (i) Trade payables | | |
| (a) Total outstanding dues of micro enterprises and small enterprises | 9.63 | 10.96 |
| (b) Total outstanding dues of creditors other than micro enterprises and small enterprises | 69.03 | 66.96 |
| (ii) Lease Liabilities | 5.46 | 5.97 |
| (iii) Other financial liabilities | 30.84 | 39.59 |
| Provisions | 6.26 | 7.08 |
| Other current liabilities | 4.84 | 7.02 |
| Total current liabilities | 126.06 | 137.58 |
| Total liabilities | 146.56 | 160.08 |
| Total equity and liabilities | 1,226.94 | 1,239.84 |

* Amount below the rounding off norm adopted by the Company



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Unaudited Standalone statement of Cash Flows for the six months ended on September 30, 2020

| Particulars | (Rs. in crore) | |
|---|--------------------|----------------|
| | Period ended | Year ended |
| | September 30, 2020 | March 31, 2020 |
| | Unaudited | Audited |
| Cash flows from operating activities | | |
| Profit before tax | (5.37) | (137.61) |
| Adjustments to reconcile net profit to net cash generated from operating activities: | | |
| Depreciation and amortization expense | 25.62 | 77.05 |
| Impairment of product development | - | 32.77 |
| Impairment of Intangible assets under development | - | 37.10 |
| Allowance for expected credit loss (net) | 3.20 | 18.79 |
| Bad Debts written off | - | 0.07 |
| Interest Income | (9.58) | (11.94) |
| (Gain)/Loss on current investment carried at fair value through statement of profit and loss | (0.14) | 0.10 |
| (Gain)/Loss on sale of current investment carried at fair value through statement of profit and loss | (1.50) | (4.08) |
| Finance costs recognized in profit or loss | 1.90 | 7.57 |
| Unrealised Exchange Difference (Net) | 3.81 | (7.26) |
| Loss/ (profit) on sale of property, plant and equipment | - | (0.02) |
| Expense recognized in respect of equity-settled share-based payments | 3.24 | 11.20 |
| | 21.18 | 23.74 |
| Movements in working capital: | | |
| (Increase)/decrease in inventories | 18.89 | (70.60) |
| (Increase)/decrease in trade receivables | 23.32 | 194.15 |
| (Increase)/decrease in loans | 0.68 | (1.39) |
| (Increase)/decrease in other financial assets | 4.76 | 4.86 |
| (Increase)/decrease in other assets | (3.26) | (16.79) |
| Increase/(decrease) in trade and other payables | 2.30 | (86.02) |
| Increase/(decrease) in provisions | 0.03 | (3.73) |
| Increase/(decrease) in other financial liabilities | (8.70) | (30.43) |
| Increase/(decrease) in other liabilities | (2.18) | (2.40) |
| Cash generated from operations | 57.02 | 11.39 |
| Income taxes paid | (2.61) | (10.87) |
| a) Net cash generated from operating activities | 54.41 | 0.52 |
| Cash flows from investing activities | | |
| Expenditure on property, plant and equipment | (5.01) | (20.63) |
| Expenditure on intangible assets (including under development) | (34.94) | (72.14) |
| Sale proceeds of property, plant and equipment | - | 0.03 |
| Investments in Deposits with banks and financial institutions not considered as cash and cash equivalents | (89.06) | (255.17) |
| Withdrawals of Deposits with banks and financial institutions not considered as cash and cash equivalents | 93.16 | 358.63 |
| Investments in liquid mutual funds | (232.50) | (727.05) |
| Redemption of liquid mutual funds | 207.56 | 766.61 |
| Interest received | 4.38 | 21.00 |
| b) Net cash generated from/(used in) investing activities | (56.41) | 71.28 |
| Cash flows from financing activities | | |
| Proceeds from exercise of restricted stock units/employee stock options | 2.05 | 2.82 |
| Dividend paid (including Tax on dividend) | - | (11.08) |
| Repayment of borrowings | - | (1.19) |
| Principal payment of lease liabilities | (2.80) | (5.58) |
| Interest payment of lease liabilities | (1.21) | (2.78) |
| Interest paid | (0.54) | (4.35) |
| c) Net cash (used in) financing activities | (2.50) | (22.16) |
| d) Net increase/(decrease) in cash and cash equivalents | (4.50) | 49.64 |
| Cash and cash equivalents at the beginning of the period | 66.05 | 16.41 |
| Cash and cash equivalents at the end of the period | 61.55 | 66.05 |





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Notes

- 1 These financial results have been prepared in accordance with Companies (Indian Accounting Standard) Rules, 2015 (as amended) [Ind AS] prescribed under section 133 of the Companies Act, 2013 read with relevant rules, issued thereunder, and other recognised accounting practices and policies and in terms of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended) ['Listing Regulations'].
- 2 The Company's operations comprise of only one segment viz. Networking equipment.
- 3 In July, 2017, the Income Tax Department (Department) initiated proceedings under Section 132 of the Income tax Act, 1961 (IT Act) and in March 2018, also sent a show cause notice to the company under Section 276(C) of the IT Act. The Company and its officials fully co-operated with the Department. During FY 2018-19, the Company and certain officers of the Company had received Summons under various sections of the IT Act from the Special Court for Economic Offences, to which the Company has responded. Post the ongoing proceedings initiated by the Department, during FY 2019-20 and in the current financial year, certain other agencies sent notices as part of their preliminary inquiries, which were duly responded by the Company and its officials. During FY 2019-20, the Company received notices of demand from the Department for additional tax payable amounting to Rs. 25.62 crore for AY 2017-18 (after adjusting the carried forward losses from earlier years) under Section 156 of the IT Act after making additions of various items to taxable income as per assessment orders issued under Section 143(3) read with Section 153A of the IT Act. The Department also issued show cause notices for initiating penalty proceedings under Section 274 read with Section 270A/ 271(1)(c)/ 271AAB(1A) of the IT Act and the Company has filed a stay application against the penalty proceedings. The Company had also received a demand order for AY 2018-19 for additional tax payable amounting to Rs. 0.48 crore. Following the Company's application for rectification of apparent computation errors in the aforesaid demand notices, during the quarter ended September 30, 2020 the Company has received rectification orders u/s 154 of the IT Act for AY 2012-13 to AY 2018-19 under which the Company now has a cumulative net refund position for AY 2017-18 and AY 2018-19, after corrections were made by the Assessing Officer to the amounts of carry forward losses and TDS in respect of earlier assessment years. The Company has also challenged the orders passed by the Assessing Officer (AO) by filing an appeal with the Commissioner of Income Tax (Appeals) against additions of various items to taxable income for the relevant earlier assessment years. The Company is of the view that the outcome of these proceedings/ notices/ summons will not have any material adverse impact on the Company's financial results.
- 4 On July 4, 2018, the Company had received an Order from the Customs Excise and Service Tax Appellate Tribunal (CESTAT) with respect to applicability of excise duty on the software used as part of the Multiplexer products during FY from 2002-03 to 2009-10. The aforesaid CESTAT Order dealt with an earlier Order received during the FY 2010-11 with associated demand of Rs. 11.87 crore and various show cause notices on a similar matter received in earlier financial years leading to an additional demand of Rs. 24.88 crore i.e. a total demand of Rs. 36.75 crore. The aforesaid CESTAT Order was a culmination of the various appeals filed by both the Company and the Department of Central Excise in respect of both the earlier order and the show cause notices mentioned above that were heard by the Commissioner of Central Excise and CESTAT. According to the aforesaid CESTAT Order, the value of software is to be included for the purpose of arriving at the assessable value for calculating the excise duty liability on the product. Accordingly, CESTAT had remanded the matter back to the adjudicating authority in June 2018 for quantifying the differential duty liability, interest and penalties. The adjudicating authority vide its order dated October 31, 2019 passed an order quantifying the differential duty liability and penalty amounting to Rs. 42.92 crore (which includes the demand of Rs. 36.75 crore by CESTAT as mentioned above) and ordering recovery of appropriate interest. Additionally, the adjudicating authority has also imposed penalty on certain officers of the Company amounting to Rs. 0.90 crore. The total demand, in respect of this matter, as per the Order of the adjudicating authority, aggregates to Rs. 43.82 crore. The Company had earlier filed a Miscellaneous Application with CESTAT on August 19, 2018 challenging the aforementioned CESTAT Order passed in July 2018. Pursuant to the quantification order of the adjudicating authority in October 2019 as stated above, the Miscellaneous Application has been withdrawn by the Company as the Company has filed a fresh appeal dated February 6, 2020 before the CESTAT against the order of the adjudicating authority dated October 31, 2019. The Company had also filed a Civil Application on September 24, 2018 under section 35L of the Central Excise Act, 1944 along with a stay application before the Hon'ble Supreme Court of India against the aforesaid CESTAT order passed in June 2018. The same continues to remain pending for final hearing. The Company had, in previous years, also received show cause notices, from the Department of Central Excise in respect of FY 2010-11 to 2013-14 on a similar matter amounting to Rs. 3.01 crore which are not part of the orders discussed above and for which the company had provided its response. Based on Management's assessment, supported by an external legal opinion, Management has concluded that the Company has a strong case to defend its position in the above matters and accordingly, no provision has been made in these financial results.
- 5 a) The Company has, at various grant dates issued Restricted Stock Units (RSUs) to its employees at face value of the Company's share, which were approved by the Nomination and Remuneration Committee and the Board of Directors. For the quarter ended September 30, 2020, an amount of Rs. 1.49 crore (September 30, 2019: Rs. 3.52 crore) has been recorded as employee share expenses based on accounting as per Ind AS 102, 'Share-based payments'. The RSUs granted and outstanding as at September 30, 2020, aggregates to 13,55,113 (September 30, 2019: 17,10,233).
b) The Company has, at various grant dates in the earlier years issued stock options under different Employee Stock Option Plans to its employees at different exercise prices. For the quarter ended September 30, 2020, an amount of Rs. 0.01 crore (September 30, 2019: Rs. 0.15 crore) has been recorded as employee share expenses based on accounting as per Ind AS 102, 'Share-based payments'.
- 6 The Company has from time to time in the normal course of business entered into factoring agreements on a non-recourse basis with bankers/factoring institution for some of the trade receivables. As at September 30, 2020 the trade receivables do not include receivables amounting to Rs. 8.29 crore (September 30, 2019: Rs. 56.73 crore) which have been derecognised in accordance with Ind AS 109, 'Financial Instruments', pursuant to such factoring arrangements entered in the current quarter.
- 7 The Company and its overseas subsidiary had filed a claim against a vendor for recovery of outstanding amount (net), which comprises amount payable by the Company and amount receivable by the Company's overseas subsidiary. The Company had also received a counter claim from the said vendor. There has been no business with this vendor for more than 3 years. Subsequent to the quarter ended September 30, 2020, the Company and its overseas subsidiary have entered into a settlement with the vendor pursuant to which the vendor has agreed to a settlement amount, payable over a period of 2 years. Management does not expect any additional charge in the statement of profit and loss on account of this settlement.
- 8 Expected credit loss represents an allowance for life-time expected loss on the carrying value of trade receivables, which has been recognised in accordance with the simplified approach as permitted by Ind AS 109, 'Financial Instruments'.
- 9 Trade receivables as at September 30, 2020 includes overdue receivables of more than 180 days, aggregating to Rs. 164.53 crore (net of provision) of which the amount from public sector customers (including from BSNL for Bharatnet project) is Rs. 133.17 crore. Management has taken the necessary steps to expedite collections from the concerned customers. Having regard to the good past history of collections from such customers, Management believes that the aforesaid net receivables as at September 30, 2020 are fully recoverable and hence no additional allowances for credit losses are considered necessary.





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10 Impact of COVID-19 Pandemic

The spread of COVID-19 continues to impact businesses around the globe and has led to disruption in regular business operations due to lock-downs, disruptions in transportation, supply chain, travel restrictions, quarantines, social distancing and other measures. The Company is in the business of providing optical and data transmission equipment to telecom service providers. While the COVID 19 related uncertainties has impacted the Company's financial performance in the current financial year, Management believes that the demand for the company's products will continue to rise in line with higher investments that telecom operators are making to address the demand for fiber-based home broadband connections and to upgrade their network capacities, to cater to higher data traffic arising from increasing trend of work-from-home, learn-from-home and other data-intensive services. Since telecom networks have been identified as an essential service, the Company has been able to provide continued delivery of products and technical support to its customers in India and worldwide, so that their network uptime remains high. During the quarter, the Company continued to encounter delays in fulfilling certain customer orders in hand, delays in collection of certain trade receivables and delays in closing business from new customers, although the situation is gradually improving. The Company has made an assessment of its liquidity position for the next one year and of the recoverability and carrying values of its assets comprising Property, Plant and Equipment, Intangible assets, Trade receivables, Inventory, and Investments as at the quarter ended September 30, 2020, and has concluded that there are no material adjustments required in these consolidated financial results. Management believes that it has taken into account all the possible impact of known events arising from COVID 19 pandemic in the preparation of the standalone financial results. However, the impact assessment of COVID 19 is a continuing process given the uncertainties associated with its nature and duration. The eventual outcome of the impact of the pandemic may be different from that estimated by the management as on the date of the approval of these financial results. The company will continue to monitor any material changes to future economic conditions.

- 11 Other income includes interest on income tax refunds of Rs. 5.14 crore for the quarter ended September 30, 2020 (quarter ended September 30, 2019: Rs. Nil).
- 12 The Code on Social Security 2000 (the 'Code') relating to employee benefits during employment and post employment benefits was approved by the Parliament and received Presidential Assent in September 2020. The Code has also been published in the Gazette of India. However, the effective date and the rules pertaining to the Code are yet to be notified/framed. The Company will assess the impact of the Code when it is made effective and will record the related financial impact, if any, in the period in which the Code becomes effective.
- 13 Previous period's figures have been regrouped/reclassified where necessary, to conform with the current period's presentation for the purpose of comparability.
- 14 The above statement of standalone financial results was reviewed and recommended by the Audit Committee of the Board and subsequently approved by the Board of Directors at their respective meetings held on October 21, 2020 respectively.

For and on behalf of the Board of Directors


Sanjay Nayak
CEO and Managing Director
(DIN: 01049871)



Place: Bengaluru
Date: October 21, 2020

