HCL Comnet Systems and Services Limited

Financial Statements

For the year ended 31 March 2020 and March 2019

HCL Comnet Systems and Services Limited
Balance Sheet as at 31 March 2020
(All amounts in thousands of ₹)

	Note No.	As at 31 March 2020	As at 31 March 2019
I. ASSETS			
(1) Non-current assets			
(a) Property, plant and equipment	**2.1**	32,494	40,965
(b) Capital work in progress		10	458
(c) Other intangible assets	**2.2**	-	316
(d) Deferred tax assets (net)	**2.19**	-	85,751
(e) Other non-current assets	**2.3**	326	4,458
(2) Current assets			
(a) Financial Assets			
(i) Investments	**2.4**	175,914	124,679
(ii) Trade receivables	**2.5**	155,132	166,854
(iii) Cash and cash equivalents	**2.6**	5,435	4,429
(b) Current tax assets (net)		163,368	126,649
(c) Other current assets	**2.7**	22,044	40,444
TOTAL ASSETS		**554,723**	**595,001**
II. EQUITY			
(a) Equity share capital	**2.8**	12,800	12,800
(b) Other equity		16,176	173,859
TOTAL EQUITY		**28,976**	**186,659**
III. LIABILITIES			
(1) Non - current liabilities			
(a) Financial liabilities			
(i) Borrowings	**2.9**	176	375
(b) Provisions	**2.10**	1,880	1,389
(2) Current liabilities			
(a) Financial Liabilities			
(i) Borrowings	**2.9**	236,700	-
(ii) Trade payables	**2.11**		
1. Dues of micro enterprises and small enterprises	**2.27**	-	264
2. Dues of creditors other than micro enterprises and small enterprises		5,092	19,898
(iii) Others	**2.12**	279,572	377,229
(b) Provisions	**2.10**	538	513
(c) Other current liabilities	**2.13**	1,789	8,674
TOTAL EQUITY AND LIABILITIES		**554,723**	**595,001**
Summary of significant accounting policies	**1**		

The accompanying notes are an integral part of the financial statements

As per our report of even date

FOR B S R & Co. LLP
Firm's Registration No.: 101248W/W-100022
Chartered Accountants

RAKESH DEWAN Digitally signed by RAKESH DEWAN Date: 2020.08.24 18:53:02 +05'30'

Rakesh Dewan
Partner
Membership Number: 092212

Gurugram, India
Date: 24 August 2020

For and on behalf of the Board of Directors
of HCL Comnet Systems and Services Limited

SWAPAN JOHRI Digitally signed by SWAPAN JOHRI Date: 2020.08.24 18:07:56 +05'30'

Swapan Johri
Director

GOUTAM RUNGTA Digitally signed by GOUTAM RUNGTA Date: 2020.08.24 18:07:34 +05'30'

Goutam Rungta
Director

Noida (UP), India
Date: 24 August 2020

HCL Comnet Systems and Services Limited
Statement of Profit and Loss for the year ended 31 March 2020
(All amounts in thousands of ₹)

		Note No.	Year ended 31 March 2020	Year ended 31 March 2019
I	**Revenue**			
	Revenue from operations	**2.14**	335,617	465,792
	Other income	**2.15**	2,514	6,758
	Total income		**338,131**	**472,550**
II	**Expenses**			
	Employee benefits expense	**2.16**	11,417	15,831
	Finance costs	**2.17**	12,379	838
	Depreciation and amortization expense	**2.1 & 2.2**	15,585	7,556
	Outsourcing costs		13,998	15,828
	License and transponder fees		282,252	331,768
	Other expenses	**2.18**	76,165	42,150
	Total expenses		**411,796**	**413,971**
III	**Profit / (loss) before tax**		**(73,665)**	**58,579**
IV	**Tax expense**			
	Current tax		(1,864)	15,285
	Deferred tax charge/(credit)		85,791	(2,633)
	Total tax expense	**2.19**	83,927	12,652
V	**Profit / (loss) for the year**		**(157,592)**	**45,927**
VI	**Other comprehensive loss**			
	Defined benefit plan actuarial gains/(loss)		(131)	(216)
	Income tax effect		40	50
	Total other comprehensive loss		**(91)**	**(166)**
VII	**Total comprehensive income/(loss) for the year**		**(157,683)**	**45,761**
	Earnings per equity share of ₹ 10,000 each	**2.20**		
	Basic (in ₹)		(123,119)	35,880
	Diluted (in ₹)		(123,119)	35,880
	Summary of significant accounting policies	**1**		

The accompanying notes are an integral part of the financial statements

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Rakesh Dewan
Partner
Membership Number: 092212

Gurugram, India
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Swapan Johri
Director

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Goutam Rungta
Director

Noida (UP), India
Date: 24 August 2020

HCL Comnet Systems and Services Limited

Statement of Changes in Equity for the year ended 31 March 2020

(All amounts in thousands of ₹, except share data and as stated otherwise)

	Equity share capital		Other equity		
			Reserves and Surplus		
	Number of Shares	Share capital	Retained earnings	Capital redemption reserve	Total other equity
Balance as at 1 April 2018	1,280	12,800	48,098	80,000	128,098
Profit for the year	-	-	45,927	-	45,927
Other comprehensive loss	-	-	(166)	-	(166)
Total comprehensive income for the year	**-**	**-**	**45,761**	**-**	**45,761**
Balance as at 31 March 2019	**1,280**	**12,800**	**93,859**	**80,000**	**173,859**
Loss for the year	-	-	(157,592)	-	(157,592)
Other comprehensive loss	-	-	(91)	-	(91)
Total comprehensive loss for the year	**-**	**-**	**(157,683)**	**-**	**(157,683)**
Balance as at 31 March 2020	**1,280**	**12,800**	**(63,824)**	**80,000**	**16,176**

Nature & purpose of reserves

Capital redemption reserve:- The company recognizes cancellation of the company's own equity instruments to capital redemption reserve.

Refer note 1 for summary of significant accounting policies

The accompanying notes are an integral part of financial statements

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Rakesh Dewan
Partner
Membership Number: 092212

Gurugram, India
Date: 24 August 2020

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Swapan Johri
Director

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Goutam Rungta
Director

Noida (UP), India
Date: 24 August 2020

HCL Comnet Systmes and Services Limited
Statement of cash flows
(All amounts in thousands of ₹)

		Year ended 31 March 2020	Year ended 31 March 2019
A. Cash flows from operating activities			
Profit / (loss) before tax		(73,665)	58,579
Adjustment for:			
Depreciation and amortization		15,585	7,556
Loss on disposal of property plant and equipment		19	-
Income on sale of current investments carried at fair value through profit and loss		(2,514)	(6,000)
Interest expenses		11,105	59
Provision for other non current and current assets		19,900	
Provision for doubtful debts written off		29,149	13,559
Other non-cash items		-	(263)
Operating profit/(loss) before working capital changes		**(421)**	**73,490**
Movement in Working Capital			
(Increase) decrease in trade receivables		(17,427)	92,452
(Increase) decrease in other financial assets and other assets		2,632	(31,724)
Increase (decrease) in trade payables		(15,069)	(9,770)
Increase (decrease) in provisions, other financial liabilities and other liabilities		(112,968)	27,816
Cash generated from operations		**(143,253)**	**152,264**
Direct taxes paid		(34,857)	(124,110)
Net cash flow from/(used in) operating activities	**(A)**	**(178,110)**	**28,154**
B. Cash flows from investing activities			
Purchase of investments in securities		(445,000)	(596,500)
Proceeds from sale of investments in securities		396,278	565,148
Purchase of property,plant and equipment, including capital work in progress and capital advances		(8,636)	(2,137)
Net cash used in investing activities	**(B)**	**(57,358)**	**(33,489)**
C. Cash flows from financing activities			
Repayment of long term borrowing during the year		(182)	(166)
Proceeds from short term borrowing during the year		236,700	-
Interest paid		(44)	(59)
Net cash flow from/(used in) financing activities	**(C)**	**236,474**	**(225)**
Net increase (decrease) in cash and cash equivalents (A+B+C)		1,006	(5,560)
Cash and cash equivalents at the beginning of the year		4,429	9,989
Cash and cash equivalents at the end of the year as per note 2.6		**5,435**	**4,429**
Summary of significant accounting policies (Note 1)			

The accompanying notes are an integral part of financial statements

As per our report of even date attached

FOR B S R & Co. LLP
Firm's Registration No.: 101248W/W-100022
Chartered Accountants

RAKESH DEWAN Digitally signed by RAKESH DEWAN Date: 2020.08.24 18:55:25 +05'30'

Rakesh Dewan
Partner
Membership Number: 092212

Gurugram, India
Date: 24 August 2020

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Swapan Johri
Director

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Goutam Rungta
Director

Noida (UP), India
Date: 24 August 2020

ORGANIZATION AND NATURE OF OPERATIONS

HCL Comnet Systems & Services Limited ('hereinafter referred to as the "Company"') is primarily engaged in providing bandwidth services. The Company was incorporated under the provisions of the Companies Act applicable in India in December 1993, having its registered office at 806, Sidharth,96, Nehru Place, New Delhi-110019.

The financial statements for the year ended 31 March 2020 were approved and authorized for issue by the Board of Directors on 24 August 2020.

1. Significant accounting policies

a) Basis of preparation

The financial statements of the company have been prepared in accordance with recognition and measurement principles laid down in Indian Accounting Standards (Ind AS) prescribed under section 133 of the Companies Act, 2013 read with the Companies (Indian Accounting Standards) Rules as amended from time to time and presentation requirements of Schedule III (Division II) to the Companies Act, 2013, as applicable to the financial statements.

The net worth of the company has significantly declined due to losses incurred in the current year. In order to meet the capital requirements, HCL Technologies Limited, the holding Company, has confirmed its intention to provide financial and operational support to the Company, for a period of not less than 12 months from the date of financials closure of the company. Accordingly, the financial statements are prepared on a going concern basis with an assumption that Company will continue to be in operational existence for the foreseeable future and the Company will be able to use or realize its assets at least at the recorded amounts and discharge its liabilities in the usual course of business.

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous year except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy.

All assets and liabilities have been classified as current and non-current as per the company's normal operating cycle of 12 months. The statement of cash flows has been prepared under indirect method.

The Company uses the Indian Rupee ('₹') as its reporting currency.

b) Use of estimates

The preparation of financial statements in conformity with Ind AS requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and other comprehensive income (OCI) that are reported and disclosed in the financial statements and accompanying notes. These estimates are based on the management's best knowledge of current events, historical experience, actions that the Company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. Significant estimates and assumptions are used for, but not limited to, accounting for costs expected to be incurred to complete performance under allowance for uncollectible accounts receivables, income taxes, future obligations under employee benefit plans, the useful lives of property, plant and equipment, intangible assets, and other contingencies and commitments. Changes in estimates are reflected in the financial statements in the year in which the changes are made. Actual results could differ from those estimates.

c) Foreign currency and translation

The financial statements of the Company are presented in Indian Rupee (₹) which is also the Company's functional currency. For each foreign operation, the Company determines the functional currency which is its respective local currency.

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date of the transaction. Foreign-currency denominated monetary assets and liabilities are translated to the relevant functional currency at exchange rates in effect at the balance sheet date. Exchange differences arising on settlement or translation of monetary items are recognized in the statement of profit and loss. Non-monetary assets

and non-monetary liabilities denominated in a foreign currency and measured at historical cost are translated at the exchange rate prevalent at the date of the initial transaction. Non-monetary assets and non-monetary liabilities denominated in a foreign currency and measured at fair value are translated at the exchange rate prevalent at the date when the fair value was determined.

Transaction gains or losses realized upon settlement of foreign currency transactions are included in determining net profit/(loss) for the year in which the transaction is settled. Revenue, expenses and cash-flow items denominated in foreign currencies are translated into the relevant functional currencies using the exchange rate in effect on the date of the transaction.

d) Fair value measurement

The Company records certain financial assets and liabilities at fair value on a recurring basis. The Company determines fair value based on the price it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The Company holds certain fixed income securities which must be measured using the guidance for fair value hierarchy and related valuation methodologies. The guidance specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about current market conditions. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The prescribed fair value hierarchy and related valuation methodologies are as follows:

Level 1 - Quoted inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are directly or indirectly observable in active markets.

Level 3 - Valuations derived from valuation techniques, in which one or more significant inputs are unobservable inputs which are supported by little or no market activity.

In accordance with Ind AS 113, assets and liabilities are to be measured based on the following valuation techniques:

a) Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

b) Income approach – Converting the future amounts based on market expectations to its present value using the discounting method.

c) Cost approach – Replacement cost method.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant who would use the asset in its highest and best use.

e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses if any. Cost comprises the purchase price and directly attributable cost of bringing the asset to its working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. The Company identifies and determines separate useful lives for each major component of the property, plant and equipment, if they have a useful life that is materially different from that of the asset as a whole.

Subsequent expenditure related to an item of property, plant and equipment is added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard or period of performance. All other expenses on existing property, plant and equipment, including day-to-day repairs, maintenance expenditure and cost of replacing parts, are charged to the statement of profit and loss for the year during which such expenses are incurred.

Gains or losses arising from derecognition of assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit and loss when the asset is derecognized.

Property, plant and equipment under construction and cost of assets not ready for use at the year-end are disclosed as capital work- in- progress.

Depreciation on property, plant and equipment is provided on the straight-line method over their estimated useful lives, as determined by the management. Depreciation is charged on a pro-rata basis for assets purchased/sold during the year.

The management's estimates of the useful lives of various assets for computing depreciation are as follows:

Asset description	Existing Asset life (In years)	Revised Asset life (in years)
Plant and equipment (including air conditioners, electrical installations)	10	3-10
Office equipment	5	3-5
Computers	4-5	3-5
Furniture and fixtures	7	7
Vehicles	5	5

The useful lives as given above best represent the period over which the management expects to use these assets, based on technical assessment. The estimated useful lives for these assets are therefore different from the useful lives prescribed under Part C of Schedule II of the Companies Act 2013.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

During the year the management has reassessed the useful life of assets and therefore, the impact includes charging of Rs. 7,283 thousand as additional depreciation on account of revision of useful life of assets.

f) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit and loss.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit and loss when the asset is derecognized.

The intangible assets are amortized over the estimated useful life of the assets as under:

Asset description	Asset life (in years)
Software	3

g) Impairment of non financial assets

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are evaluated for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the CGU to which the asset belongs. If such assets are considered to be impaired, the impairment to be recognized in the statement of profit and loss is measured by the amount by which the carrying value of the asset exceeds the estimated recoverable amount of the asset.

h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing cost also includes exchange differences to the extent regarded as an adjustment to the borrowing costs.

i) Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i. **Financial assets**

All financial assets are recognized initially at fair value. Transaction costs that are attributable to the acquisition of the financial assets (other than financial assets at fair value through profit and loss) are added to the fair value measured on initial recognition of financial asset. Purchase and sale of financial assets are accounted for at trade date.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash in bank which are subject to an insignificant risk of changes in value.

Financial instruments at amortized cost
A financial instrument is measured at the amortized cost if both the following conditions are met:
a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows, and
b) Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method. Amortized cost is calculated by taking into account any discount or
premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in other income in the statement of profit and loss. The losses arising from impairment are recognized in the statement of profit and loss. This category includes cash and bank balances, loans, unbilled revenue, trade and other receivables.

Financial instrument at Fair Value through Other Comprehensive Income (OCI)
A financial instrument is classified and measured at fair value through OCI if both of the following criteria are met:
a) The objective of the business model is achieved both by collecting contractual cash flows and selling the financial assets, and
b) The asset's contractual cash flows represent solely payments of principal and interest.

Financial instruments included within the OCI category are measured initially as well as at each reporting date at fair value. Fair value movements are recognized in OCI. On derecognition of the asset, cumulative gain or loss previously recognized in OCI is reclassified from OCI to statement of profit and loss.

Financial instrument at Fair Value through Profit and Loss
Any financial instrument, which does not meet the criteria for categorization at amortized cost or at fair value through other comprehensive income, is classified at fair value through profit and loss. Financial instruments included in the fair value through profit and loss category are measured at fair value with all changes recognized in the statement of profit and loss.

Derecognition of financial assets
A financial asset is primarily derecognized when the rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset.

Impairment of financial assets
The Company recognizes loss allowances using the expected credit loss (ECL) model for the financial assets which are not fair valued through profit and loss. Lifetime ECL allowance is recognized for trade receivables with no significant financing component. For all other financial assets, expected credit losses are measured at an amount equal to the 12-month ECL, unless there has been a significant increase in credit risk from initial recognition in which case they are measured at lifetime ECL. The amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date is recognized in the statement of profit and loss.

ii. **Financial liabilities**

All financial liabilities are recognized initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade payables, borrowings including other payables.

Financial liabilities at amortized cost
After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest rate (EIR) method. Gains and losses are recognized in the statement of profit and loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit and loss.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

j) Revenue recognition

Revenue is recognized when, or as, control of a promised service transfers to a customer, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those services. To recognize revenues, the following five step approach is applied: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenues when a performance obligation is satisfied. Contract is accounted when it is legally enforceable through executory contracts, approval and commitment from all parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Revenue related to contracts providing maintenance and support services, are recognized based on our right to invoice for services performed for contracts in which the invoicing is representative of the value being delivered. If our invoicing is not consistent with value delivered, revenues are recognized as the service is performed based on the cost to cost method described above.

Incentive revenues, volume discounts, or any other form of variable consideration is estimated using either the sum of probability weighted amounts in a range of possible consideration amounts (expected value), or the single most likely amount in a range of possible consideration amounts (most likely amount), depending on which method better predicts the amount of consideration realizable. Transaction price includes variable consideration only to the extent it is probable that a significant reversal of revenues recognized will not occur when the uncertainty associated with the

variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price may involve judgment and are based largely on an assessment of our anticipated performance and all information that is reasonably available to us.

k) Retirement and other employee benefits

i. Provident fund: Employees of the Company receive benefits under the provident fund, a defined benefit plan. The employee and employer each make monthly contributions to the plan. A portion of the contribution is made to the provident fund trust managed by the Company and fellow subsidiary of the company or Government administered provident fund; while the balance contribution is made to the Government administered pension fund. For the contribution made by the Company to the provident fund trust managed by the Company, the Company has an obligation to fund any shortfall on the yield of the Trust's investments over the administered interest rates. The liability is actuarially determined (using the projected unit credit method) at the end of the year. The funds contributed to the Trust are invested in specific securities as mandated by law and generally consist of federal and state government bonds, debt instruments of government-owned corporations and other eligible market securities.

ii. Gratuity liability: The Company provides for gratuity, a defined benefits plan (the "Gratuity Plan") covering eligible employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's base salary and the tenure of employment (subject to a maximum of ₹ 20 lacs per employee). The liability is actuarially determined (using the projected unit credit method) at the end of each year. Actuarial gains/losses are recognized immediately in the balance sheet with a corresponding debit or credit to retained earnings through other comprehensive income in the year in which they occur.

iii. Compensated absences: The employees of the Company are entitled to compensated absences which are both accumulating and non-accumulating in nature. The employees can carry forward up to the specified portion of the unutilized accumulated compensated absences and utilize it in future periods or receive cash at retirement or termination of employment. The expected cost of accumulating compensated absences is determined by actuarial valuation (using the projected unit credit method) based on the additional amount expected to be paid as a result of the unused entitlement that has accumulated at the balance sheet date. The expense on non-accumulating compensated absences is recognized in the statement of profit and loss in the year in which the absences occur. Actuarial gains/losses are immediately taken to the statement of profit and loss and are not deferred.

iv. State Plans: The contribution to State Plans, a defined contribution plan namely Employee State Insurance Fund and Employees' Pension Scheme for the Company are charged to the statement of profit and loss.

l) Income taxes

Income tax expense comprises current and deferred income tax.

Income tax expense is recognized in statement of profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current income tax for current and prior periods is recognized at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Provision for income tax includes the impact of provisions established for uncertain income tax positions.

Deferred tax assets and liabilities are recognized for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect of changes in tax rates on deferred income tax assets and liabilities is recognized as income or expense in the period that includes the enactment or the substantive enactment date. A deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

m) Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders by the weighted average number of equity shares outstanding during the year.

Diluted EPS amounts are computed by dividing the net profit attributable to the equity holders of the Company by the weighted average number of equity shares considered for deriving basic earnings per share and also the weighted average number of equity shares that could have been issued upon conversion of all dilutive potential equity shares. The diluted potential equity shares are adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares). Dilutive potential equity shares are deemed converted as at the beginning of the year, unless issued at a later date. Dilutive potential equity shares are determined independently for each year presented.

n) Provisions and contingent liabilities

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows.

The company uses significant judgement to disclose contingent liabilities. Contingent liabilities are disclosed when there is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company or a present obligation that arises from past events where it is either not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount cannot be made. Contingent assets are neither recognized nor disclosed in the financial statements.

HCL Comnet Systems and Services Limited
Notes to financial statements for the year ended 31 March 2020
(All amounts in thousands of ₹, except share data and as stated otherwise)

2. Notes to financial statements

2.1 Property, plant and equipment

The changes in the carrying value for the year ended 31 March 2020

	Buildings	Plant and equipment	Office equipment	Computers	Furniture and fixtures	Vehicles #	Total
Gross block as at 1 April 2019	-	54,843	250,917	33,732	223	1,126	**340,841**
Additions	-	924	950	4,944	-	-	**6,818**
Disposals	-	494	96	10,310	-	-	**10,899**
Gross block as at 31 March 2020	**-**	**55,273**	**251,771**	**28,366**	**223**	**1,126**	**336,760**
Accumulated depreciation as at 1 April 2019	-	20,747	248,752	29,671	217	489	**299,877**
Charge for the year	-	12,230	267	2,541	6	225	**15,269**
Deduction/other adjustments	-	494	96	10,291	-	-	**10,880**
Accumulated depreciation as at 31 March 2020	**-**	**32,483**	**248,923**	**21,921**	**223**	**714**	**304,266**
Net block as at 31 March 2020	**-**	**22,790**	**2,848**	**6,445**	**-**	**412**	**32,494**

Also refer footnote 1 of note 2.9

The changes in the carrying value for the year ended 31 March 2019

	Buildings	Plant and equipment	Office equipment	Computers	Furniture and fixtures	Vehicles #	Total
Gross block as at 1 April 2018	369	54,843	250,917	31,829	223	1,126	**339,307**
Additions	-	-	-	3,231	-	-	**3,231**
Disposals	369	-	-	1,328	-	-	**1,697**
Gross block as at 31 March 2019	**-**	**54,843**	**250,917**	**33,732**	**223**	**1,126**	**340,841**
Accumulated depreciation as at 1 April 2018	369	14,897	248,744	29,970	207	264	**294,451**
Charge for the year	-	5,850	8	1,029	10	225	**7,122**
Deduction/other adjustments	369	-	-	1,328	-	-	**1,697**
Accumulated depreciation as at 31 March 2019	**-**	**20,747**	**248,752**	**29,671**	**217**	**489**	**299,876**
Net block as at 31 March 2019	**-**	**34,096**	**2,165**	**4,061**	**6**	**637**	**40,965**
Net block as at 1 April 2018	**-**	**39,946**	**2,173**	**1,859**	**16**	**862**	**44,856**

Also refer footnote 1 of note 2.9

HCL Comnet Systems and Services Limited
Notes to financial statements for the year ended 31 March 2020
(All amounts in thousands of ₹, except share data and as stated otherwise)

2.2 Other intangible assets

The changes in the carrying value for the year ended 31 March 2020

	Software
Gross block as at 1 April 2019	14,995
Additions	-
Disposals	-
Gross block as at 31 March 2020	**14,995**
Accumulated depreciation as at 1 April 2019	14,679
Charge for the year	316
Deduction	-
Accumulated depreciation as at 31 March 2020	**14,995**
Net block as at 31 March 2020	**-**

The changes in the carrying value for the year ended 31 March 2019

	Software
Gross block as at 1 April 2018	14,995
Additions	-
Disposals	-
Gross block as at 31 March 2019	**14,995**
Accumulated depreciation as at 1 April 2018	14,245
Charge for the year	434
Deduction	-
Accumulated depreciation as at 31 March 2019	**14,679**
Net block as at 31 March 2019	**316**
Net block as at 1 April 2018	**750**

HCL Comnet Systems and Services Limited
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2.3 Other non- current assets

	As at	
	31 March 2020	**31 March 2019**
Unsecured, considered good		
Others		
Prepaid expenses	4,107	4,458
Less: Provision for other non current assets	(3,781)	-
	326	**4,458**

2.4 Investments

	As at	
	31 March 2020	**31 March 2019**
Financial assets		
Current		
Unquoted investments		
Carried at fair value through profit and loss		
Investment in mutual fund	175,914	124,679
	175,914	**124,679**

2.5 Trade receivable

	As at	
	31 March 2020	**31 March 2019**
Unsecured, considered good	173,730	178,396
Trade receivable which have significant increase in credit risk	44,483	23,263
Trade receivable-credit impaired	3,720	2,847
	221,933	**204,506**
Impairment allowance for bad and doubtful debts	(66,801)	(37,652)
	155,132	**166,854**

2.6 Cash and bank balances

	As at	
	31 March 2020	**31 March 2019**
Cash and cash equivalent		
Balance with banks		
- in current accounts	5,435	4,429
	5,435	**4,429**

2.7 Other current assets

	As at	
	31 March 2020	**31 March 2019**
Unsecured , considered good		
Advances other than capital advances		
Security deposits	34	33
Advances to suppliers	4,364	3,754
Others		
Prepaid expenses	578	933
Prepaid expenses-related parties(refer note 2.24)	-	149
Goods and service tax receivable	384	-
Other receivables-related parties(refer note 2.24)	16,642	35,069
Other advances	42	505
	22,044	**40,444**
Unsecured , considered doubtful		
Others		
Goods and service tax receivable	16,119	-
Less: Provision for other current assets	(16,119)	-
	-	-
	22,044	**40,444**

2.8 Share capital

	As at	
	31 March 2020	31 March 2019
Authorized		
20,000 (31 March 2019, 20,000) equity shares of ₹ 10,000 each	200,000	200,000
5,500,000(31 March 2019, 5,500,000) redeemable preference shares of ₹ 100 each	550,000	550,000
Issued, subscribed and fully paid up		
1,280 (31 March 2019, 1,280) equity shares ₹ 10,000 each	12,800	12,800

Terms/ rights attached to equity shares

The Company has only one class of shares referred to as equity shares having a par value of ₹10,000/-. Each holder of equity shares is entitled to one vote per share.

In the event of liquidation of the Company, the holders of equity shares will be entitled to receive 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.

Reconciliation of the number of shares outstanding at the beginning and at the end of the financial year

	As at			
	31 March 2020		31 March 2019	
	No. of shares	₹ in Thousands	No. of shares	₹ in Thousands
Number of shares at the beginning	1,280	12,800	1,280	12,800
Add: Shares issued during the year	-	-	-	-
Number of shares at the end	1,280	12,800	1,280	12,800

Equity shares held by holding/ultimate holding company and/or their subsidiaries/associates

Out of equity shares issued by the Company, shares held by its holding company are as below:-

	As at			
	31 March 2020		31 March 2019	
	No. of shares	% holding in the class	No. of shares	% holding in the class
HCL Technologies Limited				
Equity shares of ₹ 10,000 each fully paid	1,280	100%	1,280	100%

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

Name of the shareholder	As at			
	31 March 2020		31 March 2019	
	No. of shares	% holding in the class	No. of shares	% holding in the class
Equity shares of ₹ 10,000 each fully paid				
HCL Technologies Limited, the holding company	1,280	100%	1,280	100%

As per the records of the Company, including its register of shareholders/members and other declarations received from shareholders regarding beneficial interest, the above shareholding represents both legal and beneficial ownership of shares.

There were no bonus shares issued, no shares issued for consideration other than cash and no shares bought back during the year (31 March 2019 Nil).

Capital management

The primary objective of Company's capital management is to support business continuity and growth of the company while maximizing the shareholder value. The Company determines the capital requirement based on annual operating plans and long term and other strategic investment plans. The funding requirements are generally met through operating cash flows generated and borrowing from related party.

2.9 Borrowings

	Non-current		Current	
	As at		As at	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Long term borrowings				
Secured				
Term loan from banks(refer note 1 below)	176	375	199	182
	176	**375**	**199**	**182**
Current maturity of long term borrowings disclosed under note 2.12 "Other financial liabilities"	**-**	**-**	**(199)**	**(182)**
	176	**375**	**-**	**-**
Short term borrowings				
Unsecured				
From related parties (refer note 2 below and 2.24)			236,700	**-**
	-	**-**	**236,700**	**-**

Note 1 :The Company has availed a term loan of ₹ 375 thousand (31 March 2019, ₹ 557 thousand) secured by hypothecation of gross vehicles of ₹ 1,126 thousand (31 March 2019, ₹ 1,126 thousand) at an interest ranging from 8.75% to 10.2%. The loans are repayable over a period of two years on a monthly basis.

Note 2 :The Company has availed a short term loan of ₹ 236,700 thousand (31 March 2019,Nil) at an interest from 9%. The borrower shall repay the principal sum to the Lendor no later than twelve months from the effective date of the loan agreement.

2.10 Provisions

	As at	
	31 March 2020	31 March 2019
Non - current		
Provision for employee benefits		
Provision for gratuity (refer note 2.23)	1,373	1,011
Provision for leave benefits	507	378
	1,880	**1,389**
Current		
Provision for employee benefits		
Provision for gratuity (refer note 2.23)	367	363
Provision for leave benefits	171	150
	538	**513**

2.11 Trade payables

	As at	
	31 March 2020	31 March 2019
Trade payables (refer note 2.27)	3,044	17,910
Trade payables-related parties (refer note 2.24)	2,048	2,252
	5,092	**20,162**

2.12 Other financial liabilities

	As at	
	31 March 2020	**31 March 2019**
Current		
Carried at amortized cost		
Current maturities of long term borrowings	199	182
Interest accrued on borrowings-related parties (refer note 2.24)	9,955	-
Others		
Liabilities for expenses	257,632	356,597
Liabilities for expenses-related parties (refer note 2.24)	8,809	14,948
Accrued salaries and benefits		
- Employee bonuses accrued	919	1,162
- Other employee costs	1,059	1,075
Capital accounts payables	999	3,265
	279,572	**377,229**

2.13 Other current liabilities

	As at	
	31 March 2020	**31 March 2019**
Contract liabilities (refer note 2.14)	-	3,639
Others		
- Goods and services tax payable	1,518	4,818
- Withholding tax payable	271	217
	1,789	**8,674**

2.14 Revenue from operations

	Year ended	
	31 March 2020	**31 March 2019**
Sale of services		
Bandwidth and other services	335,617	465,792
	335,617	**465,792**

Disaggregate Revenue Information

The disaggregated revenue from contracts with the customers by contract type is as follows:

	Year ended 31 March 2020	Year ended 31 March 2019
Fixed price	335,617	465,792
	335,617	**465,792**
Geography wise		
India	335,617	465,792
	335,617	**465,792**

Remaining performance obligations

As at 31 March 2020, the company does not have any amount of transaction price allocated to remaining performance obligations as per the requirements of Ind AS 115 after the exclusions of below:

a) Contracts for which we recognize revenues based on the right to invoice for services performed,

b) Variable consideration allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation,or

c) Variable consideration in the form of a sales-based or usage-based royalty promised in exchange for a license of intellectual property.

2.14 Revenue from operations(continued)

Contract balances

Contract assets : A contract asset is a right to consideration that is conditional upon factors other than the passage of time. Contract assets are recognized where there is excess of revenue over the billings. Revenue recognized but not billed to customers is classified either as contract assets or unbilled receivable in the balance sheet. Contract assets primarily relate to unbilled amounts on fixed price contracts using the cost to cost method of revenue recognition. Unbilled receivable represents contracts where right to consideration is unconditional (i.e. only the passage of time is required before the payment is due).

The company does not have any contract assets as on 1 April 2019.

Contract liablities : A contract liability arises when there is excess billing over the revenue recognized.

The below table discloses the movement in contract liabilities :

	Year ended	
	31 March 2020	**31 March 2019**
Balance as at 1 April 2019	3,639	53,828
Additional amounts billed but not recognized as revenue	-	1,693
Deduction on account of revenues recognized during the year	(3,639)	(51,882)
Balance as at 31 March 2020	**-**	**3,639**

Deferred contract cost : Deferred contract cost represents the contract fulfilment cost and cost for obtaining the contract.The company does not have any deferred contract cost as on 31 March 2020(31 March 2019, Nil)

The company has evaluated the impact of COVID-19 resulting from (a) increase in cost budget of fixed price projects due to additional efforts; (b) penalties for not meeting SLAs; (c) termination/deferment of projects to ensure that revenue is recognised after considering all these impacts to the extent known and available currently. We would continue to assess COVID-19 impact as we go along due to uncertainties associated with its nature and duration.

2.15 Other income

	Year ended	
	31 March 2020	**31 March 2019**
Income on investments carried at fair value through profit and loss		
- Unrealized gains/(loss) on fair value changes on mutual funds	(388)	692
- Profit on sale of mutual funds	2,902	5,308
Exchange differences (net)	-	494
Provisions no longer required written back (net)	-	263
Miscellaneous income	-	1
	2,514	**6,758**

2.16 Employee benefits expense

	Year ended	
	31 March 2020	**31 March 2019**
Salaries, wages and bonus	10,900	15,380
Contribution to provident fund and other employee funds	434	424
Staff welfare expenses	83	27
	11,417	**15,831**

2.17 Finance cost

	Year ended	
	31 March 2020	**31 March 2019**
Interest		
- on loan from bank	44	59
- on loans from related party (refer note 2.24)	11,061	-
Bank charges	1,274	779
	12,379	**838**

2.18 Other expenses

	Year ended	
	31 March 2020	**31 March 2019**
Rent	3,430	4,367
Power and fuel	12,438	14,933
Communication costs	1,402	629
Travel and conveyance	1,919	3,559
Legal and professional charges	4,162	1,216
Provision for doubtful debts/ bad debts written off	29,149	13,559
Provision for other non current and current assets	19,900	-
Exchange differences (net)	506	-
Loss on disposal of property, plant and equipment	19	-
Miscellaneous expenses	3,240	3,887
	76,165	**42,150**

2.19 Income taxes

	Year ended	
	31 March 2020	**31 March 2019**
Income tax charged to statement of profit and loss		
Current income tax charge	(1,864)	15,285
Deferred tax charge (credit)	85,791	(2,633)
	83,927	**12,652**
Income tax charged to other comprehensive income		
Expense (benefit) on re-measurements of defined benefit plans	(40)	(50)
	(40)	**(50)**

The reconciliation between the Company's provision for income tax and amount computed by applying the statutory income tax rate in India is as follows:

	Year ended	
	31 March 2020	**31 March 2019**
Profit before income tax	(73,665)	58,579
Statutory tax rate in India	26.00%	27.82%
Expected tax expense	(19,153)	16,297
Other permanent differences	624	587
Income tax at lower / higher rate	-	(4,700)
Unrecognised tax benefit	18,529	-
Reversal of deferred tax(net)	85,751	-
Reversal of prior year provision	(1,864)	389
Others	40	79
Total taxes	**83,927**	**12,652**
Effective income tax rate	**(114)%**	**21.60%**

Components of deferred tax assets and liabilities as on 31 March 2020

	Opening balance	**Recognized in profit and loss**	**Recognised in / reclassified from OCI**	**Closing balance**
Deferred tax assets				
Business losses	-	267	-	267
MAT credit entitlement	13,588	(13,588)	-	-
Provision for doubtful debts	10,475	(10,475)	-	-
Accrued employee costs	670	(670)	-	-
Depreciation and amortization	11,826	(11,826)	-	-
Others	49,622	(49,622)	-	-
Gross deferred tax assets (A)	**86,181**	**(85,914)**	**-**	**267**
Deferred tax liabilities				
Others	430	(123)	(40)	267
Gross deferred tax liabilities (B)	**430**	**(123)**	**(40)**	**267**
Net deferred tax assets (A-B)	**85,751**	**(85,791)**	**40**	**-**

Components of deferred tax assets and liabilities as on 31 March 2019

	Opening balance	**Recognized in profit and loss**	**Recognised in / reclassified from OCI**	**Closing balance**
Deferred tax assets				
Business losses	5,783	(5,783)	-	-
MAT credit entitlement	15,534	(1,946)	-	13,588
Provision for doubtful debts	6,401	4,073	-	10,475
Accrued employee costs	1,009	(339)	-	670
Depreciation and amortization	13,142	(1,315)	-	11,826
Others	41,476	8,146	-	49,622
Gross deferred tax assets (A)	**83,345**	**2,836**	**-**	**86,181**
Deferred tax liabilities				
Others	278	202	(50)	430
Gross deferred tax liabilities (B)	**278**	**202**	**(50)**	**430**
Net deferred tax assets (A-B)	**83,067**	**2,633**	**50**	**85,751**

Deferred tax assets (net) primarily related to carried forward losses and other temporary differences amounting to ₹ 104,280 thousands was not recognized as per applicable accounting standards. These tax losses amounting to ₹ 56,833 thousands can be carried forward till March 2028.

2.20 Earnings per share

	Year ended	
	31 March 2020	**31 March 2019**
Profit for the year attributable to shareholders of the Company	(157,592)	45,927
Weighted average number of shares outstanding in calculating basic EPS	1,280	1,280
Weighted average number of shares outstanding in calculating dilutive EPS	1,280	1,280
Nominal value of equity shares (in ₹)	10,000	10,000
Earnings per equity share (in ₹)		
- Basic	(123,119)	35,880
- Diluted	(123,119)	35,880

2.21 Financial instruments

(a) Financial assets and liabilities

The carrying value of financial instruments by categories as at 31 March 2020 is as follows:

	Fair value through profit and loss	**Amortized cost**	**Total carrying value**
Financial assets			
Investments	175,914	-	175,914
Trade receivables	-	155,132	155,132
Cash and cash equivalents	-	5,435	5,435
Total	**175,914**	**160,567**	**336,481**
Financial liabilities			
Borrowings	-	236,876	236,876
Trade payables	-	5,092	5,092
Others (refer note 2.12)	-	279,572	279,572
Total	**-**	**521,540**	**521,540**

The carrying value of financial instruments by categories as at 31 March 2019 is as follows:

	Fair value through profit and loss	**Amortized cost**	**Total carrying value**
Financial assets			
Investments	124,679	-	124,679
Trade receivables	-	166,854	166,854
Cash and cash equivalents	-	4,429	4,429
Total	**124,679**	**171,283**	**295,962**
Financial liabilities			
Borrowings	-	375	375
Trade payables	-	20,162	20,162
Others (refer note 2.12)	-	377,229	377,229
Total	**-**	**397,766**	**397,766**

Fair value hierarchy

The assets and liabilities measured at fair value on a recurring basis as at 31 March 2020 and the basis for that measurement is as below:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
Investments carried at fair value through profit and loss	175,914	175,914	-	-

There have been no transfers between Level 1 and Level 2 during the year

The following table discloses the assets and liabilities measured at fair value on a recurring basis as at 31 March 2019 and the basis for that measurement:

	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
Investments carried at fair value through profit and loss	124,679	124,679	-	-

There have been no transfers between Level 1 and Level 2 during the year.

Valuation methodologies

Quoted market prices in active markets are available for investments in securities and, as such, these investments are classified within Level 1.

Investments: The Company's investments consist primarily of investment in debt linked mutual funds. Fair values of investment securities classified as fair value through profit and loss are determined using quoted prices for identical assets or liabilities in active markets and are classified as Level 1.

The Company assessed that fair value of cash, trade receivables, trade payables other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Financial assets measured using level 1 inputs primarily include investment in mutual funds and the fair value being marked to an active market which factors the impact of COVID-19, we do not expect material volatility in these financial assets.

(b) Financial risk management

The Company is exposed to credit risk and liquidity risk which may impact the fair value of its financial instruments. The Company has a risk management policy to manage & mitigate these risks.

Credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and bank balances, trade receivables and mutual funds. The cash resources of the Company are invested with mutual funds after an evaluation of the credit risk. By their nature, all such financial instruments involve risks, including the credit risk of non-performance by counterparties.

The customers of the Company are primarily corporations based in India and accordingly trade receivables are concentrated in India. The Company periodically assesses the financial reliability of customers, taking into account the financial condition, current economic trends, analysis of historical bad debts and ageing of trade receivables.

The allowance for lifetime expected credit loss on customer balances is as below:

	As at	
	31 March 2020	**31 March 2019**
Balance at the beginning of the year	37,652	24,358
Additional provision during the year	30,863	18,183
Deductions on account of write offs and collections	(1,714)	(4,624)
Effect of Foreign Exchange	-	(265)
Balance at the end of the year	**66,801**	**37,652**

Trade receivables have been valued after making reserve for allowances based on the expected credit loss method, considering factors like ageing, likelihood of increased credit risk and expected realizability, nature of customer verticals, considering impact of COVID – 19 impact on customers and related customer verticals.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. The investment philosophy of the Company is capital preservation and liquidity in preference to returns. The Company consistently generates sufficient cash flows from operations and has access to multiple sources of funding to meet the financial obligations and maintain adequate liquidity for use.

Maturity profile of the Company's financial liabilities based on contractual payments is as below:

	Year 1 (Current)	Year 2	Year 3	Year 4-5	Total
As at 31 March 2020					
Borrowings	246,881	183	-	-	247,064
Trade payables	5,092	-	-	-	5,092
Others	279,572	-	-	-	279,572
Total	**531,545**	**183**	**-**	**-**	**531,728**
As at 31 March 2019					
Borrowings	226	226	183	-	635
Trade payables	20,162	-	-	-	20,162
Others	377,229	-	-	-	377,229
Total	**397,616**	**226**	**183**	**-**	**398,026**

2.22 Segment reporting

Operating segments are defined as components of an enterprise for which discrete financial information is available and their results are reviewed regularly by the chief operating decision maker (CODM), for allocation of resources and assessing performance. The Company is providing bandwidth services under a license from the Department of Telecommunications ("DOT"), Government of India. As per the management of the Company, it evaluates the performance of the Company as one business segment operating in a single geography . Hence there is only one reportable segment of the Company, as envisaged under Indian Accounting Standards - 108 "Operating segments notified under section 133 of the Companies Act, 2013. Accordingly, no disclosure for segment reporting has been included in the financial statement.

2.23 Employee benefits

A. Defined contribution plans and state plans

The Company has calculated the various benefits provided to employees as given below:
Employer's contribution to Employee State Insurance
Employer's contribution to Employee Pension Scheme

During the year the Company has recognized the following amounts in the statement of profit and loss:-

	Year ended	
	31 March 2020	**31 March 2019**
Employer's contribution to Employee's State Insurance	69	135
Employer's contribution to Employee's Pension Scheme	220	295
Total	**289**	**430**

B. Defined benefit plans

a) Gratuity
b) Employer's contribution to provident fund

Gratuity

The following table sets out the status of the gratuity plan:

Statement of profit and loss

	Year ended	
	31 March 2020	**31 March 2019**
Current service cost	205	(380)
Interest cost	90	175
Net benefit expense	295	**(205)**

Balance sheet

	Year ended	
	31 March 2020	**31 March 2019**
Defined benefit obligation	1,740	1,374
Fair value of plan assets	-	-
Less: Unrecognized past service cost	-	-
Net plan liability	**1,740**	**1374**
Current defined benefit obligation	367	363
Non-current defined benefit obligation	1,373	1,011

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Changes in present value of defined benefit obligation

	Year ended	
	31 March 2020	**31 March 2019**
Opening defined benefit obligations	1,374	2,173
Current service cost	205	(380)
Interest cost	90	175
Re-measurement gains/(losses) in OCI		
Actuarial changes arising from changes in demographic assumptions	2	36
Actuarial changes arising from changes in financial assumptions	188	59
Experience adjustments	(59)	121
Benefits paid	(60)	(810)
Closing defined benefit obligations	**1,740**	**1,374**

The principal assumptions used in determining gratuity for Company's plan are shown below:

	Year ended	
	31 March 2020	**31 March 2019**
Discount rate	6.95%	7.50%
Estimated rate of salary increase	8.00%	7.00%
Employee turnover	37.00%	32.00%
Expected rate of return on assets	NA	NA

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

Discount rate and future salary escalation rate are the key actuarial assumptions to which the defined benefit obligations are particularly sensitive. The following table summarizes the impact on defined benefit obligations as at 31 March 2020 arising due to increase / decrease in key actuarial assumptions by 50 basis points:

	Discount rate	**Salary escalation rate**
Impact of increase	(4)	4
Impact of decrease	4	(4)

The sensitivity analysis presented may not be representative of the actual change in the defined benefit obligations as sensitivities have been calculated to show the movement in defined benefit obligations in isolation and assuming there are no other changes in the market conditions. There have been no changes in the methods and assumptions used in preparing the sensitivity analysis.

The defined benefit obligations are expected to mature after 31 March 2020 as follows:-

Year ending 31 March,	**Cash flows**
- 2021	367
- 2022	221
- 2023	152
- 2024	142
- 2025	117
- Thereafter	5999

The weighted average duration of these cash flows is 7.70 years.

Employer's contribution to provident fund

The Company contributes to HCL Comnet Systems and Services Limited and HCL Comnet Limited Employee Trust which is maintained jointly by HCL Comnet Systems and Services Limited and HCL Comnet Limited. The disclosure of plan assets cannot be provided as the plan assets are not attributable to its participants. The actuary has provided a valuation and based on the assumption mentioned below there is no shortfall as at 31 March 2020 and 31 March 2019.

Assumptions used in determining the present value of obligations of interest rate guarantee under the Deterministic Approach.

	As at	
	31 March 2020	**31 March 2019**
Government of India bond yield	5.60%	6.85%
Remaining term of maturity	6.35 years	6.35 years
Expected guaranteed interest rate	8.50%	8.65%

During the year ended 31 March 2020, the Company has contributed ₹ 145 thousand (31 March 2018, ₹ 199 thousand) towards employer's contribution to provident fund.

2.24 Related party transactions

a) Holding Company

- HCL Technologies Limited

b) Related parties with whom transactions have taken place during the year

Fellow Subsidiaries

- HCL Comnet Limited
- HCL Software Products Limited

Significant influence

- HCL Avitas Private Limited

HCL Comnet Systems and Services Limited
Notes to financial statements for the year ended 31 March 2020

(All amounts in thousands of ₹, except share data and as stated otherwise)

Transactions with related parties during the normal course of business	Holding Company		Fellow subsidiaries		Significant influence	
	Year ended		Year ended		Year ended	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Reimbursement of expenses	149	74	-	-	-	-
Payment for use of facilities	12,438	14,933	1,649	2,586	-	-
Interest on short term borrowings	-	-	11,061	-	-	-
Proceeds from short term borrowing	-	-	236,700	-	-	-
Other expenses	-	-	-	-	-	8

Outstanding balances	Holding Company		Fellow subsidiaries		Significant influence	
	As at		As at		As at	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Other receivable	240	116	16,401	34,953	-	-
Prepaid expenses	-	149	-	-	-	-
Trade payables	372	398	1,676	1,854	-	-
Borrowings	-	-	236,700	-	-	-
Interest accrued on borrowings	-	-	9,955	-	-	-
Liabilities for expense	8,443	14,933	353	-	13	15

Material related party transactions	Year ended	
	31 March 2020	31 March 2019
Borrowings		
HCL Comnet Limited	150,000	-
HCL Software Products Limited	86,700	-

Material related party balances	Year ended	
	31 March 2020	31 March 2019
Borrowings		
HCL Comnet Limited	150,000	-
HCL Software Products Limited	86,700	-

2.25 Commitments and contingent liabilities

	As at	
	31 March 2020	**31 March 2019**
i) Capital and other commitments		
Capital commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	-	4850
ii) Contingent liabilities	1,330,198	-
	1,330,198	**4,850**

The company had received a demand from Department of Telecommunications (DoT) in February 2015 for FY 2011-12 and FY 2013-14 for an amount of ₹ 1,330,198 thousands, including penalty, interest and interest on penalty. It had received provisional assessment orders for all the prior years with no demand. Demand is primarily due to DoT including IT Services revenues and related exchange gains in Adjusted Gross Revenue (AGR). The company had obtained stay in 2015 and its petition is pending adjudication at the Hon'ble Telecom Disputes Settlement and Appellate Tribunal ("TDSAT"). The IT Services business had been demerged from the company with effect 1 April 2012. The Hon'ble Supreme Court has pronounced its ruling on the AGR matter relating to Unified Access Service License on 24 October 2019. Subsequent to this ruling, the Company has obtained legal opinion and is of the view that it should be able to defend its position in the above matter.

However, this indicates that there is a material uncertainty in the event this liability materializes requiring cash outflow that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company is involved in various lawsuits, claims and proceedings that arise in the ordinary course of business, the outcome of which is inherently uncertain. Certain of these matters include speculative and frivolous claims for substantial or indeterminate amount of damages. The Company records a liability when it is both probable that a loss has been incurred and the amount can be reasonably estimated. Significant judgement is required to determine both probability and the estimated amount. The Company reviews these provisions at least quarterly and adjust these provisions accordingly to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and updated information. The Company believe that the amount or estimated range of reasonably possible loss, will not, either individually or in the aggregate, have a material adverse effect on its business, financial position, results of operations, or cash flows with respect to loss contingencies for legal and other contingencies as of 31 March 2020.

2.26 Payment to auditors

	Year ended	
	31 March 2020	**31 March 2019**
As auditors		
Statutory audit fee	280	400
Tax audit fee	70	100
	350	**500**

2.27 Micro and small enterprises

As per information available with the management, the dues payable to enterprises covered under "The Micro, Small and Medium Enterprises Development Act, 2006" are as follows:

	For the year ended 31 March 2020		For the year ended 31 March 2019	
	Principal	**Interest**	**Principal**	**Interest**
Amount due to Vendor	-	-	264	-
Principal amount paid beyond the appointed date	-	-	-	-
Interest under normal credit terms				
Accrued and unpaid during the year	-	-	-	-
Total interest payable	-	-		3
Accrued and unpaid during the year	-	-	-	3

This has been determined on the basis of responses received from vendors on specific confirmation sought by the Company.

As per our report of even date

FOR B S R & Co. LLP
Firm's Registration No.: 101248W/W-100022
Chartered Accountants

RAKESH DEWAN Digitally signed by RAKESH DEWAN Date: 2020.08.24 18:56:53 +05'30'

Rakesh Dewan
Partner
Membership Number: 092212

Gurugram, India
Date: 24 August 2020

For and on behalf of the Board of Directors
of HCL Comnet Systems and Services Limited

SWAPAN JOHRI Digitally signed by SWAPAN JOHRI Date: 2020.08.24 18:10:23 +05'30'

Swapan Johri
Director

GOUTAM RUNGTA Digitally signed by GOUTAM RUNGTA Date: 2020.08.24 18:10:46 +05'30'

Goutam Rungta
Director

Noida (UP), India
Date: 24 August 2020