Annexure - B

Annexure to Directors' Report

Management Reply to the comment of the Comptroller and Auditor General of India received from AG Office, Ahmedabad under Section 143(6)(b) of the Companies Act, 2013 on the Accounts of the Dakshin Gujarat Vij Company Limited, Vadodara for the year ended March 31, 2019.

Comment of the Comptroller and Auditor General of India	Management Reply
1) Balance Sheet, Equity and Liabilities, **Deferred Government Grants, Subsidies and Contribution (Note No.17) ₹ 1612.12 crore** With effect from 01 April 2016, the Company has changed the method of computing the grants/consumer contribution received against depreciable assets to be recognized in Statement of Profit and Loss from reducing balance method to the straight line method and consequently the rates at which grant is recognized in the Statement of Profit and Loss. The Company has determined that the change to recognize grants in proportion of the depreciation expenses is a change in accounting estimates and is to be applied prospectively. As per Accounting Standard-12, Grants related to depreciable assets are treated as deferred income which is recognised in the Profit and Loss Statement on a systematic and rational basis over the useful life of the asset. Indian Accounting Standard-20 also state that, grants related to depreciable assets are recognised in Profit or Loss over the periods and in the proportions in which depreciation expense on those assets is recognized. The above change in method was made by the Company as there was a mismatch of the grants recognized in the Statement of	C&AG's comment is on the financial position i.e. Balance Sheet, particularly Equity and Liabilities in relation to Deferred Government Grants, Subsidies and Consumer Contributions. At the outset, it may be pointed out here that, the subject matter of the comment has no impact on the profitability of the Company for FY 2018-19. Also, the subject matter of the comment does not/would not have any impact on the profitability of the Company in the future financial years also. It is emphasized here that, Deferred Government Grants, Subsidies and Consumer Contributions is a deferred income and not a deferred liability, as can be noted from Balance Sheet presentation where this is reflected right before liabilities are presented. Deferred Government Grants are a part of the Company's Net Worth as this is already earned and any income recognition through Statement of Profit & Loss each year, only has the ultimate impact of reducing Deferred Government Grants' balance and increasing the Retained Earnings. There is no change in the Net Worth of the Company. Hence, there is no impact on the financial position in terms of the Net Worth of the Company. However, having said the above, as communicated earlier, C&AG's contention that the change in method of recognition of Grants in Profit & Loss Statement from Reducing Balance Method (WDV) to Straight Line Method (SLM) was to correct an error. This infact is completely in contradiction to the audited financial

Profit and Loss versus the related depreciation expense. Thus, the Company has changed the method of recognition of deferred income in order to align the recognition of deferred income with the related depreciation expense. As the provision for treatment of deferred income to be recognised in the Profit and Loss Statement on a systematic and rational basis over the useful life of the asset are same in AS-12 and Ind AS 20, the change was not mandated by Ind AS 20. **Hence, the Company changed the method in order to correct an error.** Since the depreciable assets related to which grants/ consumer contribution received have been capitalized in the books of accounts, the effect of such change should have been worked out retrospectively and accounted for in the opening balance of Deferred Government Grants, Subsidies and Consumer contribution. This has resulted in overstatement of retained earnings and understatement of balances of Deferred Government Grants, Subsidies and Consumer Contribution towards Capital Assets by ₹ 293.44 crore as at 31 March 2017. Despite being pointed out in the year 2016-17 and 2017-18, no corrective action has been taken by the Company during 2018-19.	statements of the earlier years noting compliance with the relevant accounting standards in each year. The Grants recognized is an income for the Company which have been deferred to be recognized over the period of the related depreciable assets on a systematic basis as per the applicable Accounting Standards. The grants were and are being recognized in the Statement of Profit & Loss based on a systematic method as accepted to be relevant and compliant with Accounting Standard–AS 12 including the new Accounting Standard–IndAS 20. This compliance with Accounting Standards was noted by the auditors including C&AG in each year. Even, the current method used as a systematic basis, has been noted by the auditors as well as by C&AG to be in compliance with Accounting Standards and hence has no impact on the profitability of the Company. C&AG's view is that the change in the method (although the changed method is in compliance with the accounting standards), needs to be applied retrospectively, as the changed method is a correction of an error. This change is not a change in Accounting Policy but a change in Method i.e. a change in Accounting Estimate. It may be further pointed out that, as per IndAS, the use of reasonable estimates is an essential part of the preparation of Financial Statements and does not undermine their reliability. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not a correction of an error. Hence, the Company is of the firm view that the change from WDV Method to SLM Method for recognition of Govt. Grants is perfectly appropriate in terms of generally accepted Accounting Principles - both IndAS and previous GAAP & therefore cannot be construed as a correction of error by any means.

	Notwithstanding our view as above, based on C&AG's comment in FY 2016-17 & FY 2017-18, the Company has inserted a detailed disclosure in the Notes to the Financial Statements of FY 2018-19 indicating the impact of the change on the financial statements, if the Company was to adopt C&AG's view. As can be noted from the disclosure, there is no impact on the profitability of the Company nor is there any impact on the Net Worth of the Company.
For & On behalf of the Comptroller & Auditor General of India **sd/-** **(H.K.Dharmadarshi)** **Principal Accountant General** **(E&RSA),Gujarat** Place: Ahmedabad Dated: 13.12.2019	**For & On behalf of the Board of Directors, Dakshin Gujarat Vij Company Limited,** **(Shahmeena Husain,IAS)** **Chairperson (DIN:03584560)** Place: Vadodara Dated: 18.12.2019