Generating green fuel for better tomorrow

वार्षिक रिपोर्ट • Annual Report • 2011-12

एचपीसीएल बॉयोफ्यूल्स लिमिटेड • HPCL Biofuels Limited

(A wholly owned subsidiary company of
Hindustan Petroleum Corporation Ltd.)

Contents

Board of Directors

Shri R. S. Pandey, Chairman
Shri B. Mukherjee
Shri K. Murali
Smt. Nishi Vasudeva

Manager & CEO

Shri Vinod Nehete

Chief Financial Officer

Shri R. Sankaran

Company Secretary

Ms. Heena Shah

Statutory Auditors

Singh Dikshit & Co.
Chartered Accountants

Bankers

State Bank of India

Union Bank of India

Registered Office:
HPCL Biofuels Limited
No. 271, Road No. 3E,
Post Box No. 126, New Patliputra
Colony, Patna - 800 013, Bihar.
www.hpclbiofuels.co.in
E-mail : info@hpclbiofuels.co.in

Generating green fuel for better tomorrow

Chairman's Message

Dear Shareholders,

On behalf of the Board of HPCL Biofuels Limited, I welcome you all to the 3nd Annual General Meeting of your Company. It is my privilege to address you all at this august occasion.

- ✓ To reduce use of fossil fuels and as part of backward integration, Hindustan Petroleum Corporation Limited, a Navaratna Public Sector Undertaking had acquired two closed Sugar mills at Sugauli & Lauriya in the East & West Champaran District of Bihar. They formed a separate company to set up integrated Sugar, Ethanol & Co-Gen power plants at these locations with total project cost of ₹727.88 crores and that's how a your company came into existence.

Although the Annual Report provides a fair description of all that happened in the year 2011-12, I wish to highlight and share the important milestones achieved.

During the year, your company commissioned both the plants at Sugauli and Lauriya to catch up with the crushing season 2011-12. Both the plants were operational for more than 100 days, which is the average crushing season in the state of Bihar. Even though it is a totally new venture, the team HBL has been able to demonstrate their ability to learn the tricks of the trade very quickly.

More than 15,000 MT of sugar was produced which was of high quality and as of now, all the free sugar has been already sold by your company. Your company has sold the entire quantity only through the NCDEX platform ensuring maximum transparency and quick collection of sales proceeds.

Similarly, 4700 kl of good quality ethanol, meeting all specifications, was produced and only about 1100 kl is yet to be sold.

The cogen units developed some technical snags during the season and hence the total power export could be only about 13000 MWhr during the season. The issues have already been taken up with the EPCC and necessary rectifications have been completed.

Your company has strongly taken up with the Government of Bihar to allotment of additional villages to each of their plants for converting them to cane cultivation. Without this effort, the availability of cane for future years to the fullest capacity of the plants cannot be ensured. Therefore, your company is taking all steps to ensure availability of reserve villages and then to increase the productivity and quality of the cane grown and supplied from those villages.

Your company is also one of the very few sugar mills who have met all their obligations towards the farmers for payment for the sugar can supplied by them. Your company has also been very successful in paying almost 90% of the amount to the farmers through e-payment, thus eliminating the cash transactions in such a large catchment area.

Credit Rating: Your company was successful in retaining the "A flat" rating by the credit rating agency Fitch Rating, which is the best for a startup sugar company in the country.

Carbon Credit: Your company is entitled to Carbon credit owing to the use of biomass & bagasse in the generation of electricity that would be exported to the state grid. The project is under validation by the accredited agencies and shortly, your company would be earning carbon credits to be traded for generating additional revenue.

Fresh Initiatives: On completion of the crushing season 11-12, your company has analysed the performance and has found out that producing ethanol directly from sugar cane juice is not economically viable as the cost of production is about ₹41 per litrr as against the selling price of ₹27 per litre. Hence with a view to improve the financial viability your company has also decided to expand the boiling house capacities in both the plants to process the entire sugar cane juice to produce sugar and manufacture ethanol only from molasses, which is quite viable. The project is being undertaking at a cost of ₹50 cr which is under way and the full benefit of the project is likely to be reaped in the next crushing season ie 13-14.

While there are milestones achieved by your company in many areas, there is a major area of concern for the company in terms of the interest burden. Your company is fervently looking into all avenues to tide over this situation and is hopeful of making a turnaround in the years to come.

Before I conclude, I sincerely thank all **our employees** including persons deputed by HPCL working in different Plants & locations of the Company, **our Contract Vendors, and Project Consultants** for their commitment, knowledge & hard work put in to bring the Company to the present state.

On behalf of Board of Directors, I wish to place on record our sincere appreciation for the valuable guidance and support from **HPCL**, Government of Bihar, Departments of Industries, Bihar State Electricity Board (BSEB), Bihar State Pollution Control Board (BSPCB) and local administration and each and every stakeholder of HPCL Biofuels Limited. I look forward to their continued support to take company to greater heights in the years to come.

Thank you.

DIRECTORS' REPORT

Dear Shareholders,

Your Directors are pleased to present the Third Annual Report and audited accounts for the financial year ended 31st March, 2012.

PHYSICAL PERFORMANCE

Highlights of the physical performance of the plants during the year 2011-12 are given below:

Particulars	Unit of Measurement	Lauriya	Sugauli
No of days operated	Days	102	103
Quantity of cane crushed	MT	152,892	175,427
Sugar manufactured	MT	8,882	6,632
Sugar Recovery	%	7.11	8.60
Ethanol manufactured	KL	2347	2,211
Power generated	MWhr	14,717	10,780
Power exported	MWhr	7,881	5,189

FINANCIAL PERFORMANCE

Summary of financial performance is given as under:

	For the year ended 31/03/2012 (₹)	For the year ended 31/03/2011 (₹)
Income from Operations	48,580,809	—
Other Income	80,008	2,879,663
Total Income	**48,660,817**	**2,879,663**
Total Expenses	253,160,788	5,13,16,793
Profit / (Loss) for the period before charging depreciation, interest, prior period items and tax	**(204,499,971)**	**(4,84,37,130)**
Less-Depreciation	133,825,398	22,850,825
Less-Interest	175,840,608	65,533
Profit / (Loss) before Prior Period Items and Tax	**(514,165,978)**	**(71,353,488)**
Less-Prior Period Item	(78,130,230)	—
Profit / (Loss) for the year before Tax	**(436,035,748)**	**(71,353,488)**
Provision/(Reversal) for Taxes	(18,530)	1,834
Profit / (Loss) for the year after Tax carried forward to Balance Sheet	**(436,017,218)**	**(71,355,322)**

DIVIDENDS

Since the company has just commissioned its both the plants during season of financial year 2011-12 and is yet to stabilize in terms of commercial operations, Directors have decided not to declare any dividend for the year.

RESULTS OF OPERATIONS

Both the units, consisting of an integrated Sugar (3500 TCD), Ethanol (60 KLPD) and Cogen (20MW) plant each, were commissioned during the season December 11 – March 12 pertaining to the financial year 2011-12. As happens with all plants during the first year of commissioning, there were some hiccups which were attended to on a priority basis. The overall plant performance has been positive, for a first year of operation. The issues that were identified have been taken up with the concerned parties, viz., the EPCC contractors etc. for rectification so that the plant is fully ready for the next season.

SUGAR PLANT

Being a most modern sugar plant with the state-of-the-art chainless hydraulic based Diffuser (of Bosh, South Africa), the performance of the plant was fairly good. There were some issues with the cane preparatory section of the plant which are being attended to after the end of the season, since the same cannot be attended to during the season. The quality of the sugar produced has been well up to the mark, which has been proven by the market absorbing the entire quota month-to-month.

ETHANOL

The Ethanol distillery has capability to process direct sugar cane juice, molasses as well as stored cane juice syrup to produce anhydrous ethanol fit for blending in petrol by the oil marketing companies. Your plants have performed quite well during the year in terms quality of the product as well as the quantity produced during the last season.

CO-GEN PLANT

Both the cogeneration plants have been commissioned. They have the turbines manufactured and supplied by Siemens, one of the most reputed turbines in the market. The turbines have performed satisfactorily and certain issues observed during the season are being attended to. The machinery suppliers have assured that this season, the co-gen plants will perform up to their design levels.

CANE MANAGEMENT

Your Company with its cane development activities has witnessed tremendous change and growth in cultivation of cane as more and more farmers have switched over to cane cultivation. As a result, cane availability for plant Sugauli was increased from 8 Lakhs Qtls in 2009-10 to 23.5 Lakhs Qtls in the year 2011-12 growth of 200%, similarly for plant Lauriya it is increased from 14 Lakhs Qtls in the year 2009-10 to 30.5 Lakhs Qtls in the year 2011-12.

Consequent to our repeated representations, GoB has increased our cane command area from 173 villages to 299 villages for Sugauli mill and for Lauriya mill from 139 to 170 villages this year. With this increase in nos. of villages the cane availability is expected to go up to 35 Lakhs Qtls for plant at Sugauli and 40 Lakhs Qtls at Lauriya in the next crushing season.

Your Company enjoys good reputation among farmers fraternity as the only company in Bihar to make prompt payment to the farmers towards cane purchases.

MARKETING

Sugar produced by your company has been marketed exclusively through the online commodity exchange NCEDX Spot and the response has been quite well. Apart from being a transparent way of sales, it also ensures participation even by small players and quick settlement. It is a matter of pride that your company is the first in the State of Bihar to sell sugar through the exchange. It has also fetched prices that are comparable with the other sugar mills in the state.

Ethanol evacuation has been quite comfortable with your promoter company uplifting the entire quantity of ethanol in stock. Your company has participated in the Expression of Interest floated by the Oil Marketing companies and the future evacuations are not a worry at all.

Power generated in season, over and above the requirements of the captive consumption, has been exported and the payments from BSEB has also been received in time.

CREDIT RATING

M/s Fitch Ratings has given National Long-Term rating of the Company as 'Fitch A (ind)' for the year 2011-12, indicating the faith of the rating agency in the inbuilt resilience of your company.

INSURANCE

Insurance for Plant & Machinery was obtained from United India Insurance Company for the period 18th January 2012 to 19th January 2013. It is noteworthy to mention that your company has got a lesser premium for this year period compared to the previous period through competitive bidding.

AUDITORS

M/s.Singh Dikshit & Company, Chartered Accountants, were appointed as Statutory Auditors by Comptroller & Auditor General of India (C&AG) and will retire at the conclusion of the ensuing Annual General Meeting.

In accordance with the guidelines issued, your company has appointed M/s. R. Nanabhoy & Co as cost auditors. The cost statements have been prepared and submitted to them for audit. The cost audit report would be filed by them within the stipulated due date.

CLEAN DEVELOPMENT MECHANISM (CDM)

As the Co-gen Power Plant will operate on Biomass fuels, the exportable power qualifies for emission trade under Clean Development Mechanism (CDM) under **KYOTO Protocol**.

In addition to that, your company has also registered with the competent authority for issue of Renewable Energy Certificates (REC) in respect of the captive consumption of power generated by its cogen operating on Bagasse / Biomass. This initiative is likely to yield considerable earnings to your company in the years to come.

AUDIT COMMITTEE

The Audit Committee of your Company has carried out its functions in accordance with section 292A of the Companies Act, 1956.

DEPOSITS

Your Company has not accepted any deposits from Public during the year .

SAFETY, HEALTH AND ENVIRONMENT

Health, Safety and Environment management is of paramount importance and it is integral part of all activities carried out at Company's both the Plants i.e. at Sugauli& at Lauriya. Your Company had accident free operations during the period under review.

Your Company has acquired all environmental approval & permission for its operations.

Our employees are biggest assets and HPCL Biofuels Limited takes care to ensure the health &well being of all employees.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to section 217(2AA) of the Companies Act, 1956, your Directors give hereunder the Director's Responsibility Statement pertaining to the accounts of the Company that:

A) In the preparation of annual accounts, applicable accounting standards have been followed and that there were no material departures.

B) The Company has selected such accounting Policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the State of Affairs of the Company as on 31st March, 2012 and of the Profit and Loss account of the Company for the year ended on that date.

C) The Company has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

D) These Accounts have been prepared on a going concern basis.

DIRECTORS

The Board of Directors of the company presently comprises of Shri R S Pandey, Chairman, Shri B Mukherjee and Shri K Murali and Smt. Nishi Vasudeva.

Smt. Nishi Vasudeva joined as additional Director on the Board in place of Shri S Roy Choudhury effective 7th September, 2012.

As per the provisions Section 256 of the Companies Act, 1956, Shri K Murali, Shri R S Pandey will be the Directors who will retire by rotation at the Annual General Meeting and are eligible for reappointment.

PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING/OUTGO AS PER COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

In accordance with the requirements of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988 statement showing the particulars with respect to conservation of energy, technology absorption and foreign exchange earnings and outgo are enclosed hereto and forms part of this report marked as Annexure "A"

PARTICULARS OF EMPLOYEES

As regards provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, **none of the employees was in receipt of remuneration exceeding the limits prescribed.**

ACKNOWLEDGEMENTS

The Directors gratefully acknowledge the valuable guidance and support extended by the HPCL, Dept. of Industries and Dept. Cane Government of Bihar, BSEB and BSPCB of Government of Bihar, MOE&F GoI, Ministry of Consumer Affairs, Food & Public Distribution (Govt. of India) and other State Government Agencies.

Your Directors also wish to place on record their appreciation of the dedicated services of the employees of the Company including those deputed by HPCL.

On behalf of the Board of Directors

Place : Mumbai
Date : 20th September, 2012.

R. S. Pandey
Chairman

ANNEXURE TO THE DIRECTOR'S REPORT

A. CONSERVATION OF ENERGY

(a) The Company is a green field project and is undertaking manufacturing of Sugar, Ethanol & Cogen Power from crushing of Sugar cane at Sugauli& Lauriya, in the State Bihar.

(b) As the plants have been commissioned just during the season of the financial year 2011-12, measures for reduction of energy consumption would be studied, implemented and their impacts would assessed in the subsequent years.

B. TECHNOLOGY ABSORPTION

1. Specific areas in which R & D carried out by the company.

   Your company has signed a MoU with Tamil Nadu Agricultural University (TNAU), Coimbatore on 20.08.2009 for Cane Development activities at Sugauli and Lauriya and carried out the following activities:

   (a) Technology for improving cane yield per hectare and its recovery

   (b) Intercropping options based on local needs

   (c) Introduction of high yielding varieties of seeds for maximizing ethanol production

   (d) Developing model farm in our captive land

   (e) Continuous education and upgradation program for farmers

   (f) Setting up of soil testing laboratory

2. Future plan action. Would embark on the scheme as the plants stabilize in commercial terms

3. Expenditure on R & D.

	2011-12	20010-11
Towards the cane development activities & seed multiplication amounting to	₹ 10 lacs	₹ 18 lacs

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Efforts in brief, made towards technology absorption, adaptation and innovation.

   The following technologies have been used in the plants and the personnel are getting trained in operating and trouble-shooting the equipments along with the technology.

   (a) Cane Diffusion Technology

   (b) Producing Ethanol directly from Sugar Cane Juice

   (c) Molecular Sieve Technology

2. Benefits derived as a result of the above efforts.

   Benefits will accrue in the coming years as the plants stabilize on commercial terms.

3. Information regarding Technology imported during the last 5 years.

   (a) Details of technology imported and year of import.

   Not Applicable

   (b) Has technology been fully absorbed, and if not fully absorbed, areas where this has not taken place, reasons thereof and future plans of action.

   Not Applicable

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

(a) Activities relating to exports; initiatives taken to increase exports;
developments of new export markets for products and services; and export plans.

-Nil-

(b) Total foreign exchange used and earned.

	(In ₹ '000s)
Total foreign exchange used	
Consultancy services/others	Nil
Total foreign exchange earnings	Nil

CORPORATE GOVERNANCE REPORT

Corporate Governance refers to a set of laws, regulations and good practices that enable an organisation to perform efficiently and ethically to generate long term wealth and create value for all its stakeholders. Hence, your Company recognizes that good corporate governance is a continuous exercise and adopts the best corporate governance practices in order to maintain transparency, accountability and ethics in line with good governance parameters set by its the promoter Company, Hindustan Petroleum Corporation Limited.

CORPORATE INFORMATION

Corporate Identity Number : U24290BR2009GOI014927

PROFILE OF DIRECTORS

The abbreviated resumes of all directors are furnished hereunder:

Shri R. S. Pandey
Non-executive Chairman

Shri R. S. Pandey is a 1972 batch Indian Administrative Service (IAS) officer, belongs to Nagaland cadre. Shri. R. S. Pandey has been the Union Petroleum Secretary and retired in January 2010. Earlier Secretary to Ministry of Steel, Government of India.

He joined HPCL Biofuels Limited effective 6th August, 2010 as Non-executive Chairman.

Besides this Shri Pandey had served various key assignments include Secretary, Ministry of Parliamentary Affairs, Additional Secretary, Department of Agriculture and Cooperation, Chief Secretary, Government of Nagaland, etc. He has also served as Joint Secretary in the Department of Education (Ministry of HRD), Govt. of India where his important assignments included being in-charge of District Primary Education Program (DPEP) and National Program Director of Basic Education Program. He was also Joint Secretary in the Member of Welfare, Govt. of India and Secretary, National Council of Education and Research and Training (NCERT). He has also held important positions in his cadre as advisor to Governor of Nagaland, Secretary, Industries and Commerce Department, Director of Education etc.

Shri S. Roy Choudhury
Non-executive Director

Shri S. Roy Choudhury is a Mechanical Engineer from the University of Assam. He commenced his career in the Petroleum Industry with Assam Oil Company, Digboi, a subsidiary of Burma Oil Company. He joined in HPCL Biofuels Limited since its inception, a backward integration journey of HPCL to form a venture to produce ethanol from Sugar Cane as Director.

Shri S. Roy Choudhury is Chairman & Managing Director of HPCL effective August 2010. Prior to this he was Director, Marketing of HPCL between May 2004 and July 2010. He has vast experience in holding various positions in Refinery, Marketing (Operations), Projects and Sales Divisions of HPCL.

Among his major achievement, he is credited with creating a Pipelines Division in HPCL and successfully completed several Pipeline Projects and was responsible for smooth transition from APM to Non-APM era in the area of Product Supplies and Distribution.

Shri B. Mukherjee
Non-Executive Director

Shri B Mukherjee is a fellow member of the Institute of Chartered Accountants of India. He joined in HPCL Biofuels Limited since its inception as Director.

He is Director Finance of HPCL since 1st February 2008. He has a wide exposure to the Petroleum Industry spanning over 30 years in the areas of Finance, Internal Audit and HR in Hindustan Petroleum Corporation Limited. He is credited with steering the major strategy initiative called Balanced Scorecard at HPCL. He is also a Director on the Board of Petronet India Ltd., a Joint Venture Company of HPCL.

Shri K. Murali
Non-Executive Director

Shri K Murali is a Chemical Engineer. He joined in HPCL Biofuels Limited since its inception as Director.

Shri K Murali is Director – Refineries of HPCL effective February 02, 2009. Prior to this he was the Executive Director (Refineries) at HPCL.

Shri Murali started his career with erstwhile Caltex Oil Company at Visakhapatnam, which was later merged with HPCL. He has wide experience in refinery operations. During his long career spanning more than 30 years, he has handled various critical positions including as head of both the refineries of HPCL at Mumbai and Visakhapatnam.

He was instrumental in strategizing and preparing the initial Detailed Project Report for Guru Gobind Refinery, a green field refinery project located at Bhatinda, Punjab.

Smt. Nishi Vasudeva
Additional Director

Smt. Nishi Vasudeva took charge as Additional Director in place of Shri S Roy Choudhury effective September 07, 2012. Presently, she is holding post of Director Marketing of HPCL.

Smt. Nishi Vasudeva is MBA from Indian Institute of Management- Kolkata. She commenced her career in the Petroleum Industry with Engineers India Ltd. She has a wide exposure to the Petroleum Industry spanning over 34 years in various streams like Marketing, Corporate, Strategy & Planning, Information System etc.

SHAREHOLDING

HPCL Biofuels Limited is wholly owned subsidiary company of Hindustan Petroleum Corporation Limited.

DETAILS OF BOARD MEETINGS

During the year ended 31st March, 2012 Ten (10) meetings of the Board of Directors took place. The Company has held at least one meeting in every quarter and the time gap between two board meetings did not exceed 120 days prescribed under Clause 49. The details of the board meetings are as follows:

Meeting No.	Date of Meeting	Total Strength of the Board	Directors Present	Duration between two Board meetings
14	26th April, 2011	4	4	
15	3rd June, 2011	4	4	37 Days
16	30th June, 2011	4	4	27 Days
17	12th August, 2011	4	4	41Days
18	31st October, 2011	4	4	79 Days
19	3rd November, 2011	4	2	2 Days
20	7th December, 2011	4	4	33 Days
21	14th December, 2011	4	3	7 Days
22	13th March, 2012	4	4	89 Days

The overall attendance of Directors at the board meetings and the AGM was 91%. It is proposed to introduce tele/ video-conferencing facilities in order to ensure more participation of directors in the deliberations of all meetings of the Board.

Conduct of Board proceedings

The day-to-day business is conducted by the CEO of the Company under the direction of the Chairman and the supervision of the Board. The Board holds periodic meetings to review and discuss the performance of the Company, review of operations and other pertinent issues relating to the Company.

DETAILS OF AUDIT COMMITTEE MEETING

Meeting No.	Date of Audit Committee	Total Strength	Members Present	Location
6	26th April, 2011	3	2	Delhi
7	12th August, 2011	3	2	Delhi
8	14th December, 2011	3	2	Delhi
9	21st January, 2012	3	2	Delhi

Compliance

The Company monitors the compliance of applicable laws, regulations and rules including the Companies Act, 1956 and all applicable corporate laws and places confirmation of such compliance before the Board at regular interval.

Last Annual General Meeting

Meeting No.	Meeting Date	Location
2	16th September, 2011	Patna

AUDITOR'S REPORT

TO, THE MEMBERS OF HPCL BIOFUELS LIMITED

1. We have audited the attached Balance Sheet of **M/s HPCL Biofuels Limited** as at 31^{st} March, 2012 the Profit & Loss Account and also the Cash Flow Statement of the company for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956 we enclose in the Annexure a statement on the matters specified in Paragraph 4 & 5 of the said order.

4. Further to our comments in the Annexure referred to above, we report that:

   (i) The accounts adopted by the Board on 28th May, 2012 have been revised as given in Para 48 of the Notes on account. This is the revised report on revised accounts;

   (ii) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

   (iii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;

   (iv) The Balance sheet and Profit & Loss A/c and Cash Flow Statement dealt with by this report are in agreement with the books of account;

   (v) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in Sub Section (3C) of Section 211 of Companies Act, 1956, subject to the disclosure regarding non-compliance of AS-22 given in Notes to Account forming part of Financial Statements.

   (vi) On the basis of written representations received from the Directors, as on March, 2012 and taken on record by the Board of Directors, we report that none of the Directors are disqualified as on 31^{st} March, 2012 from being appointed as Director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

   (vii) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true & fair view in conformity with the accounting principles generally accepted in India.

   (a) In the case of the Balance Sheet of the state of affairs of the Company as at 31^{st} March, 2012.

   (b) In the case of Statement of Profit & Loss, of the profit and loss for the year ended on that date.

   (c) In the case of Cash Flow Statements the cash flow statement for the year ended on that date.

For **SINGH DIKSHIT & CO.**
Chartered Accountants.

(RANJISH VISHWAKARMA)
Partner

Membership No.: 404363
Firm's ICAI Reg. No. : 007555C

Place : Mumbai
Date : 20^{th} September, 2012.

ANNEXURE TO THE AUDITOR'S REPORT

(Referred to in Paragraph 3 of our report of even date for the year ended 31st March 2012)

1. (a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

   (b) As explained to us the assets have been physically verified by the management during the year, there is a regular program of verification which in our opinion is reasonable having regard to the size of the company and the nature of its assets. No material discrepancies were noticed on such verification.

   (c) No Plant & Machinery has been disposed off by the company during the year which would affect the going concern status of the company.

2. (a) The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.

   (b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.

   (c) The company is maintaining proper records of inventory. The inventory produced during trial run period has been treated as capital nature which has reduced cost of construction.

3. (a) The company has not taken any loan from parties covered in the register maintained under section 301 of the Companies Act, 1956.

   (b) The company had not given loan to parties covered in the register maintained under section 301 of the Companies Act, 1956.

4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.

5. The company has not entered into any contract which is required to be entered into the register maintained under section 301 of the Companies Act, 1956.

6. The company has not accepted any deposit from public within the provisions of section 58A and 58AA of the Companies Act, 1956 and the Companies (Acceptance to Deposits) Rules, 1975.

7. Internal audit of the company is conducted by the internal audit department of Hindustan Petroleum Corporation Ltd., the holding company. The internal audit system commensurate with the size and nature of its business.

8. The company is regular in depositing with appropriate authorities undisputed statutory dues. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty, excise duty and cess were in arrears, as at 31.03.2012 a period of more than six months from the date they became payable. According to the information and explanation given to us, there are no dues of sales tax, income tax, customs duty, wealth tax, excise duty and cess which have not been deposited on account of any dispute.

9. In our opinion the company has made and maintained cost records under section 209 (1)(d) of the Companies Act, 1956.

10. As the company has been registered for a period less than five years, the provisions of para 4(x) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.

11. In our opinion and according to the information and explanations given to us, the company has not defaulted in repayment of dues to a financial institution, bank or debenture holder.

12. In our opinion, the company is not a chit fund or a nidhi mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.

13. In our opinion, the company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.

14. Based on documents and records produced to us the company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

15. According to information and explanation given to us, the company has given corporate guarantee to State Bank of India for supporting credit facilities to sugar cane farmers. In our opinion, the terms and conditions are not prejudicial to the interest of the company.

16. The company has applied and obtained working capital loans during the year from Union Bank of India, for Sugauli and Lauriya units and the total outstanding balance of loan as on 31st March 2012 is ₹ 34.27 Crores.

17. According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that the no funds raised on short-term basis have been used for long-term investment. No long-term funds have been used to finance short-term assets except permanent working capital.

18. According to the information and explanations given to us, the company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act.

19. According to the information and explanations given to us, during the period covered by our audit report, the company has not issued any debentures during the year.

20. We have verified that no fund have been raised through public issue.

21. According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the course of our audit.

For **SINGH DIKSHIT & CO.**
Chartered Accountants.

(RANJISH VISHWAKARMA)
Partner

Membership No.: 404363
Firm's ICAI Reg. No. : 007555C

Place : Mumbai
Date : 20th September, 2012.

Balance Sheet as at 31st March, 2012

PARTICULARS	Note No.	As at 31.03.12 Amount (₹)	As at 31.03.2011 Amount (₹)
I EQUITY AND LIABILITIES			
Shareholders' Funds			
(a) Share Capital	3	2,055,200,000	2,055,200,000
(b) Reserves & Surplus	4	(534,724,760)	(98,707,542)
(c) Money Received against Share Warrants		—	—
Share Application Money Pending Allotment			
Non-Current Liabilities			
(a) Long-Term Borrowings	5	4,339,970,776	2,899,222,744
(b) Deferred Tax Liabilities	32	—	—
(c) Other Long Term Liabilities	6A	—	—
(d) Long-Term Provisions	6B	824,674	—
Current Liabilities			
(a) Short-Term Borrowings	7	1,417,287,484	1,074,600,000
(b) Trade Payables	8	126,941,285	93,864,646
(c) Other Current Liabilities	9A	925,482,031	770,199,688
(d) Short-Term Provisions	9B	—	—
TOTAL		**8,330,981,490**	**6,794,379,536**
II ASSETS			
Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets	10	6,967,514,391	908,262,685
(ii) Intangible Assets	10	3,496,588	—
(iii) Capital Work-in-Progress	11	—	4,932,373,022
(iv) Intangible Assets under Development	10	—	—
(v) Fixed Assets Held for Sale	10	—	—
(b) Non-Current Investments	12	—	—
(c) Deferred Tax Assets	32	—	—
(d) Long-Term Loans & Advances	13	451,492,066	173,677,042
(e) Other Non-Current Assets	14	—	—
Current Assets			
(a) Current Investments	15	—	—
(b) Inventories	16	687,746,013	24,779,595
(c) Trade Receivables	17	31,146,822	—
(d) Cash & Cash Equivalents	18	94,071,446	326,780,044
(e) Short-Term Loans & Advances	19	84,087,233	428,507,148
(f) Other Current Assets	20	11,426,931	—
TOTAL		**8,330,981,490**	**6,794,379,536**

The Accompanying Notes are Integral Part of the Financial Statements

As per our report of even date attached
For **Singh Dikshit & Co**
Chartered Accountants

(C. A. Ranjish Vishwakarma)
Partner
Membership No.404363
Firm's ICAI Reg.No. 007555C

Place : Mumbai
Date : 20th September, 2012.

For and on behalf of the Board

(B. Mukherjee)
Director

(R. S. Pandey)
Director

(R. Sankaran)
Chief Finance Officer

(Vinod Nehete)
CEO & Manager

(Heena Shah)
Company Secretary

Profit and Loss Account for the year ended 31st March, 2012

PARTICULARS	Note No.	For the Year ended 31/03/2012 Amount (₹)	For the Year ended 31/03/2011 Amount (₹)
Income			
I. Revenue from Operations (Gross)	21A	49,274,947	—
Less: Excise Duty		694,138	—
Revenue from Operations (Net)		48,580,809	—
II. Other Operating Income	21B	80,008	2,879,663
Total Revenue (I+II)		**48,660,817**	**2,879,663**
Expenses			
Cost of Materials Consumed		713,150,298	—
Purchases of Stock-in-Trade		—	—
Packages Consumed		2,689,900	9,162,733
Excise Duty on Inventory Differential		—	—
Transhipping Expenses		—	—
Changes in Inventories of Finished Goods, WIP & Stock in Trade	22	(669,519,933)	(8,989,032)
Employee Benefits Expense	23	33,894,227	41,211,983
Exploration Expenses		—	—
Finance Costs	24	175,840,608	65,533
Depreciation & Amortization Expense		133,825,398	22,850,825
Other Expenses	25	172,946,296	9,931,109
Total Expenses		**562,826,795**	**(74,233,151)**
Profit / (Loss) Before Exceptional & Extraordinary Items and Tax		**(514,165,978)**	**(71,353,488)**
Less: Prior Period Items	26	**(78,130,230)**	—
Profit / (Loss) Before Extraordinary Items & Tax		**(436,035,748)**	**(71,353,488)**
Extraordinary Items		—	—
Profit / (-Loss) Before Tax		**(436,035,748)**	**(71,353,488)**
Tax Expense			
(1) Current Tax Expense for Current Year		—	—
(2) (Less); MAT Credit		—	—
(3) Provision for Tax for Earlier year Written off/provided for		(18,530)	1,834
(4) Deferred Tax		—	—
(5) Current Tax Expenses Pertaining to Prior Years		—	—
Net Current Tax		—	—
Profit / (Loss) from Continuing Operations		**(436,017,218)**	**(71,355,322)**
Profit / (Loss) from Discontinuing Operations (Before Tax)		—	—
Tax Expense on Discontinuing Operations		—	—
Profit/(Loss) from Discontinuing Operations (After Tax)		—	—
Profit / (Loss) for the Year		**(436,017,218)**	**(71,355,322)**
Earnings per Equity Share (of ₹ 10/- each) :			
(1) Basic		(2.12)	(0.35)
(2) Diluted		(2.12)	(0.35)

The accompanying Notes Are Integral Part of the Financial Statements

As per our report of even date attached
For **Singh Dikshit & Co**
Chartered Accountants

For and on behalf of the Board

(C. A. Ranjish Vishwakarma)
Partner
Membership No.404363
Firm's ICAI Reg.No. 007555C

(B. Mukherjee)
Director

(R. S. Pandey)
Director

Place : Mumbai
Date : 20th September, 2012.

(R. Sankaran)
Chief Finance Officer

(Vinod Nehete)
CEO & Manager

(Heena Shah)
Company Secretary

Notes Forming Part of the Financial Statements

1. CORPORATE INFORMATION

The Company has been formed as a wholly owned subsidiary of M/s Hindustan Petroleum Corporation, a Public Sector undertaking, as a backward integration initiative. The Company had taken over two of the closed sugar mills of Bihar State Sugar Corporation at Sugauli in West Champaran and Lauriya in East Champaran in the state of Bihar. The company is engaged in the business of manufacturing sugar and ethanol from crushing of sugar and generation of power from the bagasse generated in the process. Both the units of the company have been commissioned during the season in the financial year 2011-12.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

A. Preparation of Financial Statements

The financial statements are prepared under historical cost convention and on accounting principles of going concern in accordance with Generally Accepted Accounting Principles (GAAP), Accounting Standards referred to in the Companies (Accounting Standards) Rule, 2006 issued by the Central Government and the relevant provisions of the Companies Act, 1956. Presentation and Disclosure of Financial Statements is done in accordance with Revised Schedule VI which becomes applicable from the current reporting period. All income and expenditure having material bearing are recognized on accrual basis, except where otherwise stated. Necessary estimates and assumption of income and expenditure are made during the reporting period and difference between the actual and the estimates are recognized in the period in which the results materialize.

B. Fixed Assets

I. Land acquired on lease for 99 years or more is treated as freehold land. Land acquired for less than 99 years is treated as lease hold land.
II. Fixed Assets are carried at cost less accumulated depreciation.

C. Intangible Assets

I. Costs incurred on technical know-how/license fee relating to process designs/plants/facilities are capitalized as Intangible Assets.
II. Cost of Software directly identified with hardware is capitalized along with the cost of hardware. Application software is capitalized as Intangible Asset.
III. Intangible Assets are amortized on a straight line basis over the useful life of the parent asset.

D. Construction Period Expenses

Expenditure directly or indirectly related with the project, during construction period, start-up and commissioning of the project are capitalized. Pre-operative expenses have been capitalized up to the date of commencement of commercial production as provided in AS 10.

E. Depreciation

I. Depreciation on Fixed Assets is provided on the Straight Line method, in the manner and at the rates prescribed under Schedule XIV to the Companies Act, 1956 and is charged pro rata on a daily basis on assets, from/up to and inclusive of the month of capitalization/sale, disposal or deletion during the year.
II. All assets costing up to ₹ 5000/- are fully depreciated in the year of capitalization.
III. Premium on leasehold land is amortized over the period of lease. The lease rent is charged in the respective year.
IV. Machinery Spares, which can be used only in connection with an item of fixed asset and the use of which is expected to be irregular, are depreciated over a period not exceeding the useful life of the principal item of fixed asset.

F. Impairment of Assets

At each balance sheet date, an assessment is made of whether there is any indication of impairment. An impairment loss is recognized whenever the carrying amount of assets of cash generating units (CGU) exceeds their recoverable amount.

G. Provisions, Contingent Liabilities and Contingent Assets

I. A provisions is recognized when there is a present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation in respect of which reliable estimate can be made.
II. No provision is recognized for:
   - Any possible obligation that arises from past events and 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.
   - Any present obligation that arises from past events but is not recognized because It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
   - A reliable estimate of the amount of obligation cannot be made.
III. Such obligations are recorded as contingent liabilities. These are assessed at regular intervals and only that part of the obligation for which an outflow of resources embodying economic benefits is probable, is provided for, except in the extremely rare circumstances where no reliable estimate can be made.
IV. Contingent Assets are not recognized in the financial statements as this may result in the recognition of income that may never be realized.

H. Taxes on Income

I. Provision for current tax is made in accordance with the provisions of the Income Tax Act, 1961.
II. Deferred tax on account of timing difference between taxable and accounting income is provided by using tax rates and tax laws enacted or substantively enacted as at the balance sheet date.

I. Employee Benefits

In respect of provident fund, the contribution for the period is recognized as expenses and charged to Profit & Loss Account. Short term employee benefits are recognized as an expense at an undiscounted amount in the profit & loss account of the year in which related services are rendered.

J. Inventory Cost

Cost of inventory is valued as under:
I Finished goods are valued at cost or net realizable value whichever is lower.
II Work In Progress are values at estimated realizable value
III Byproducts are valued at estimated realizable value.

K. Cash Flow Statement

The cash flow statement by indirect method set out in AS 3 on cash flow statements and presents the cash flows by operating, investing & financing activities of the company. Cash & cash equivalent presented in the cash flow statement consist of balance in the Bank account and cash in hand.

Notes Forming Part of the Financial Statements

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
NOTE 3		
SHARE CAPITAL		
A. Authorised:		
25,00,00,000 Equity Shares of ₹10 each.	2,500,000,000	2,500,000,000
B. Issued, Subscribed, Called up & Fully Paid:		
20,55,20,000 Equity Shares of ₹10 each Fully Paid up (100% Held by HPCL)	2,055,200,000	2,055,200,000
20,55,20,000 Equity Shares of ₹10 each Fully Paid up	2,055,200,000	2,055,200,000

Notes:-

1) Of the above 20,55,20,000 equity shares were allotted to the holding company "Hindustan Petroleum Corporation Ltd." except 6 equity shares which were allotted to 6 nominees of the holding company.
2) Of the above paid up Capital of Rs 2,055,200,000/- ₹1,51,68,25,525 was received in cash after adjustment of ₹ 53,83,74,475/- (₹ 49,17,15,248 towards preliminary & pre-incorporation expense and ₹ 4,66,59,227 towards other expenses) incurred by HPCL, holding company on behalf of HPCL Biofuels Ltd.

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
	2,055,200,000	2,055,200,000

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
NOTE 4		
RESERVES AND SURPLUS		
Share Premium Account	—	—
Debenture Redemption Reserve	—	—
	—	—
Capital Grant	—	—
Surplus / (Deficit) in Statement of Profit and Loss	—	—
Opening Balance	(98,707,542)	(71,355,322)
Add: Profit / (Loss) for the Year	(436,017,218)	(27,352,220)
Profit Appropriated to General Reserve	—	—
Profit Appropriated to Debenture Redemption Reserve	—	—
Profit Appropriated to Proposed Dividend	—	—
Profit Appropriated to Tax on Distributed Profits	—	—
Closing Balance	(534,724,760)	(98,707,542)

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
NOTE 5		
LONG-TERM BORROWINGS		
Secured Loans (Against Hypothecation of Fixed Assets & Current Assets)		
Bank Term Loan (Repayable in 36 Instalments Starting from Jan 2012) less 4 Instalments of ₹11,52,50,000/- Repayable in 2012-13 (Rate of Interest @ Base Rate + 1.75% Fixed Spread)	3,539,970,776	2,899,222,744
Un - Secured Loans		
Loans & Advances from related parties (Bridge Loan-II from HPCL)	800,000,000	—
	800,000,000	—
	4,339,970,776	**2,899,222,744**

Notes Forming Part of the Financial Statements (Contd.)

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
NOTE 6A		
OTHER LONG TERM LIABILITIES		
Other Deposits	—	—
Accrued Charges/Credits	—	—
Other Liabilities	—	—
	—	—
NOTE 6B		
LONG-TERM PROVISIONS		
Provision for Gratuity	824,674	—
Provision for Long Term Employee Benefits	—	—
	824,674	—
NOTE 7		
SHORT-TERM BORROWINGS		
Secured Loans		
Cash Credit (Hypothecation of Debtors & Inventory) (Rate of Interest @ Base Rate + 1.75% Fixed Spread)	342,687,484	—
Overdrafts from Banks (Secured by Hypothecation of Stock-in-Trade)	—	—
	342,687,484	—
Un-Secured Loans		
Short Term Loans from Banks (Repayable in Foreign Currency)	—	—
Clean Loans from Banks	—	—
Inter Company Deposits	—	—
Commercial Paper	—	—
Loans & Advances from related parties (Bridge Loan-I from HPCL)	1,074,600,000	1,074,600,000
	1,074,600,000	1,074,600,000
	1,417,287,484	**1,074,600,000**
NOTE 8		
TRADE PAYABLES		
(i) Total Outstanding dues of Micro, Small & Medium Enterprises	—	—
(ii) Total outstanding dues of creditors other than above		
Payable to EPCC Contractor	—	—
Operating Expenses Payable to HPCL	10,850,711	1,624,742
Accrued Expense - Payable	71,095,620	73,882,715
Payable to Zone Development Council	—	153,996
Advance Received From Farmers for Cane seeds	130,638	—
Payable to Cane Growers	39,257,734	1,012,125
Retention from Vendors	5,606,582	17,191,068
	126,941,285	**93,864,646**

Notes Forming Part of the Financial Statements (Contd.)

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
NOTE 9A		
OTHER CURRENT LIABILITIES		
WCT Payable	489,378	668,023
TDS Payable	5,481,328	10,634,352
Payable to EPCC Contractor	54,006,162	758,107,898
Security Deposit from Contractors	7,652,907	789,415
Road Map Scheme - Lauriya	751,967	—
Farmer Loan	221,982	—
Accrued Liability-EPCC Vendor	185,494,608	—
Unclaimed Cheque	81,474	—
Interest Accrued but not due-Cash Credit	771,494	—
Interest Accrued but not due-Term Loan	9,530,731	—
Current Maturities of Long Term Debt		
– Bank Term Loan (4 instalments of ₹11,52,50,000/- each)	461,000,000	—
– Loans & Advances from related parties (Bridge Loan-II from HPCL)	200,000,000	—
	925,482,031	**770,199,688**
NOTE 9B		
SHORT-TERM PROVISIONS		
Provision for Other Employee Benefits	—	—
Provision for Tax (Net)	—	—
Provision For Dividend	—	—
Provision for Fringe Benefit Tax	—	—
Tax on Distributed Profits	—	—
	—	—
NOTE 10		
FIXED ASSETS (SEE NOTE NO 31)		
NOTE 11		
CAPITAL WORK-IN-PROGRESS		
Unallocated Capital Expenditure and Materials at Site	—	4,515,347,099
Advance to Contractor for Capital Expenditure	—	—
Capital Stores	—	—
Capital Stores Lying with Contractors	—	—
Capital Goods in Transit	—	—
	—	**4,515,347,099**
Construction Period Expenses Pending Apportionment (Net of recovery) :		
Establishment Charges	—	16,202,827
Interest	—	139,595,514
Other Borrowing Cost	—	25,405,000
Depreciation	—	148,747
Other Expenses Incurred During Construction	—	235,673,835
	—	**417,025,923**

Notes Forming Part of the Financial Statements (Contd.)

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
NOTE 12		
NON-CURRENT INVESTMENTS		
Trade Investments		
Quoted		
Investment in Equity	—	—
Investments in Joint Venture	—	—
Un - Quoted		
Investment in Equity	—	—
Investments in Subsidiary	—	—
Investments in Joint Venture	—	—
Investment in Preference Shares	—	—
Investments in Joint Venture	—	—
Total Trade Investments - A	—	—
Other Investments		
Quoted		
Investment in Equity	—	—
Investment in Government or Trust Securities	—	—
Un - Quoted		
Investment in Government or Trust Securities	—	—
Investment in Debentures or Bonds	—	—
Investment in Other non - Current Investments	—	—
Total Other Investments - B	—	—
Total Non - Current Investments (A+B)	—	—
NOTE 13		
LONG-TERM LOANS & ADVANCES		
Secured, Considered Good		
Advances Recoverable in cash or in kind or for value to be received	—	—
Interest Accrued thereon	—	—
Unsecured, Considered Good		
Capital Advances	27,759,022	116,942,427
Advances Recoverable in Cash or in kind or for Value to be Received (BSEB)	45,387,692	56,734,615
Balances with Excise, Customs, Port Trust etc.	378,345,352	—
Other Deposits	—	—
Prepaid Expenses	—	—
Amounts Recoverable under Subsidy Schemes	—	—
Share Application Money Pending Allotment	—	—
Advance Towards Equity	—	—
Loan given to Subsidiaries & JVs	—	—
Other Accounts Receivable	—	—
Less : Provision for Doubtful Receivables	—	—
Total A	**451,492,066**	**173,677,042**
Unsecured, Considered Doubtful:		
Accounts Receivable & Deposits	—	—
Less : Provision for Doubtful Receivables	—	—
Total B	—	—
Total (A+B)	**451,492,066**	**173,677,042**

Notes Forming Part of the Financial Statements (Contd.)

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
NOTE 14		
OTHER NON-CURRENT ASSETS	—	—
	—	—
NOTE 15		
CURRENT INVESTMENTS		
Non - Trade Investments (Quoted)	—	—
	—	—
NOTE 16		
INVENTORIES		
(Inventory Taken, Valued & Certified by the Management)		
Raw Materials (Including in Transit - Raw Materials)	—	—
Finished Products	569,455,399	—
Fertiliser	2,636,760	—
Stock in Process	83,568,673	2,369,965
Packages	670,028	8,989,032
Stores & Spares	31,415,153	13,420,598
	687,746,013	**24,779,595**
NOTE 17		
TRADE RECEIVABLES OVER SIX MONTHS (FROM THE DUE DATE):		
Secured Considered Good	—	—
Un - Secured Considered Good	—	—
Considered Doubtful	—	—
Less: Provision for Doubtful Debts	—	—
	—	—
Others		
Secured Considered Good	—	—
Un - Secured Considered Good	31,146,822	—
Considered Doubtful	—	—
Less: Provision for Doubtful Debts	—	—
	31,146,822	—
	31,146,822	—
NOTE 18		
CASH AND CASH EQUIVALENTS		
i. Cash & Cash Equivalents		
Cash on hand	5,938,870	888,872
Cheques Awaiting Deposit	—	—
Balances With Scheduled Banks:		
– On Current Accounts	88,132,576	325,891,172
– On Non-operative Current Accounts	—	—

Notes Forming Part of the Financial Statements (Contd.)

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
ii. Other Bank Balances		
With Scheduled Banks:		
– On Fixed Deposit Accounts	—	—
– On Fixed Deposit Accounts (more than 12 months)	—	—
Earmarked for Unclaimed Dividend	—	—
With Others:		
– In Current Account with Municipal Co-operative Bank Ltd.	—	—
	94,071,446	**326,780,044**

NOTE 19
SHORT-TERM LOANS & ADVANCES

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
Secured, Considered Good		
Advances recoverable in cash or in kind or for value to be received	—	—
Interest Accrued thereon	—	—
Unsecured, Considered Good		
Advances recoverable in cash or in kind or for value to be received	43,146,536	52,327,223
Balances with Excise, Customs, Port Trust etc.	35,914,499	375,391,485
Other Deposits	—	—
Prepaid Expenses	4,599,658	—
Amounts recoverable under Road Map Schemes	426,540	788,440
Share Application Money Pending Allotment	—	—
Loans to Related Party	—	—
Other Accounts Receivable	—	—
Less : Provision for Doubtful Receivables	—	—
Total A	84,087,233	428,507,148
Unsecured, Considered Doubtful		
Accounts Receivable & Deposits	—	—
Less : Provision for Doubtful Receivables	—	—
Total B	—	—
Total (A+B)	**84,087,233**	**428,507,148**

NOTE 20
OTHER CURRENT ASSETS

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
Interest Accrued on Bank Deposits/Investments	—	—
Rent Receivable	80,008	—
1st Instalment of BSEB Advance Receivable in December, 2012	11,346,923	—
	11,426,931	—

Notes Forming Part of the Financial Statements (Contd.)

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
NOTE 21A		
REVENUE FROM OPERATIONS		
Sale of Products	49,274,947	—
Sale of Services	—	—
Other Operating Income	—	—
Less: Excise Duty	694,138	—
Recovery under Subsidy Schemes	—	—
	48,580,809	—
NOTE 21B		
OTHER OPERATING REVENUE		
Rent Recoveries	—	—
Interest on Working Capital Loan	—	—
Net Recovery from IPA	—	—
Miscellaneous Income	80,008	2,879,663
	80,008	2,879,663
Other Income		
Interest On Deposits	—	—
Interest On Staff Loans	—	—
Interest On Customers' Accounts	—	—
Interest (Gross) Long Term Investments	—	—
Interest (Gross) Current Investments	—	—
Interest (Gross) On Others	—	—
Dividend income	—	—
Profit on sale of Long Term Investments	—	—
Profit on sale of Current Investments	—	—
Exchange Rate Variation (Net)	—	—
Profit on Sale of Fixed Assets (Net)	—	—
Share of Profit from Petroleum India International (AOP)	—	—
Miscellaneous Income - Rent	—	—
	—	—
NOTE 22		
CHANGES IN INVENTORIES OF FINISHED GOODS WORK-IN-PROGRESS AND STOCK-IN-TRADE		
Stock in Process	83,568,673	8,989,032
Finished Products	604,177,340	—
Stock-In-Trade	—	—
	687,746,013	**8,989,032**
Less: Opening Stock		
Stock in Process	9,237,048	—
Finished Products	8,989,032	—
Stock-In-Trade	—	—
	18,226,080	—
	669,519,933	**8,989,032**

Notes Forming Part of the Financial Statements (Contd.)

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
NOTE 23		
EMPLOYEE BENEFITS EXPENSE		
Salaries, Wages, Bonus, etc.	26,981,764	35,385,750
Contribution to Provident Fund	3,726,837	—
Pension, Gratuity etc.	824,674	—
Employee Welfare Expenses	2,360,952	5,826,233
	33,894,227	**41,211,983**
NOTE 24		
FINANCE COSTS		
(a) Interest Expense	175,840,608	—
(b) Other Borrowing Costs	—	65,533
(c) Applicable Net Gain/Loss on Foreign Currency Transactions & Translation	—	—
	175,840,608	**65,533**
NOTE 25		
OTHER EXPENSES		
Consumption of Stores, Spares and Chemicals	19,596,920	—
Fuel	61,490,406	—
Purchase Of Power	3,243,320	—
Packing Charges	793,158	—
Repairs & Maintenance - Buildings	3,091,259	—
Repairs & Maintenance - Plant & Equipment	10,819,406	—
Repairs & Maintenance - Other Assets	1,545,629	—
Insurance	1,169,672	—
Rates & Taxes	350,342	2,418,843
Irrecoverable Taxes & Other Levies	—	—
Equipment Hire Charges	—	—
Rent	189,065	—
Travelling & Conveyance	5,024,199	—
Contract Labour	37,322,304	—
Printing & Stationery	1,015,877	958,328
Electricity & Water	209,733	79,710
Cane Advisor Fees	72,247	688,464
Cane Development Expense	7,638,095	5,486,172
Discount on Cogen	397,215	—
Site Expense	5,435,185	—
Telephone & Fax	122,142	103,860
Postage & Telegram	40,591	32,520
Sitting Fees	200,000	86,000
Provision for Doubtful Debts	—	—
(After Adjusting Provision no Longer Required)	—	—
Loss on Sale/ Write off of Fixed Assets/ CWIP (Net)	—	—
Security Charges	6,050,436	—
Advertisement & Publicity	205,000	—
Sundry Expenses & Charges (Not otherwise classified)	—	2
Consultancy & Technical Services	6,845,443	—
Auditor Expenses		
- Statutory Audit Fees	78,652	77,210
Exchange Rate Variation (Net)	—	—
	172,946,296	**9,931,109**

	As at 31.03.2012 Amount (₹)	As at 31.03.2011 Amount (₹)
NOTE 26		
PRIOR PERIOD ITEMS		
Interest	2,931,458	—
Cane Advisor Fees	(1,088,464)	—
Cane Development Expense	(8,829,470)	—
Review & Conference at Site	(206,544)	—
Salary & Wages (Contract Labour in Projects)	(971,971)	—
Telephone & Fax	(180,689)	—
Pre-Incorporation Expenses	—	—
Depreciation	(22,850,825)	—
Printing & Stationery	(863,238)	—
Postage & Telegram	(27,648)	—
Land Lease Payment	(4)	—
Bank Charges	(2,777,046)	—
Salaries & Wages [Personnel on deputation from HPCL]	(33,924,276)	—
Salary - HBL Employees	(5,186,090)	—
Employees other Allowances	(76,103)	—
Employees Recruitment & Training	(4,079,320)	—
	(78,130,230)	—

Statement of Significant Accounting Policies and Notes Forming Part of Accounts are an integral part of the Financial Statements

27. LEASE HOLD LAND

Leasehold Land is being amortized over a period of 60 years on SLM. Amortization value corresponding to pre-capitalization period has been capitalized. Amortization amount from the date of capitalization (₹ 39,56,959/-) is being charged to Statement of Profit & Loss.

28. SECURED LOAN

Company has taken Term Loan of ₹ 412,54,00,000/- from Union Bank of India which is secured by equitable mortgage/hypothecation of Land, Building & Fixed Assets. Working Capital Loan of ₹ 34,26,87,484/- is secured by hypothecation of Stocks & Debtors of the company.

29. CENVAT CREDIT:

CENVAT credit utilized during the year on sale of ethanol is ₹ 6,94,140/-.

30. CAPITALIZATION

The expenditure attributable to construction of project incurred up to the date of commencement of commercial production has been capitalized. The expenditure incurred on startup and commissioning of the project including the expenditure incurred on test run and experimental production have also been capitalized as indirect element as a result value of finished, semi-finished & byproducts produced during trial run period have been treated as capital nature which reduced value of plant & machinery. Both the integrated mills have three distinct units and their commencement of commercial production was slightly apart. For capitalization, a common date of 26th December 2011 was adopted for commencement of commercial production. The difference in capitalization value is quite negligible.

31. DEPRECIATION

Depreciation on fixed assets for the post capitalization period (27th December 2011 to 31st March 2012) has been charged to Statement of Profit & Loss during the year. Given below are the summary details of category wise balances of opening values of assets, additions during the year, opening depreciation, and depreciation for the year and the net block of assets as at 31st March 2012.

Notes Forming Part of the Financial Statements (Contd.)

Cost or Value	Tangible Assets						Intangible Assets	Total
	Leasehold Land	Freehold Land	Plant & Equipment	Furniture & Fixtures	Computers & Printers	Building	Computer & Software	(Amount in Rupees)
As on 01.04.2010	—	—	3,123,965	1,969,914	66,261	—	—	51,60,139
Additions	902,681,264	2,036,219	14,482,035	4,000,027	2,902,573	—	—	92,61,02,118
Disposals	—	—	—	—	—	—	—	—
Other Adjustments	—	—	—	—	—	—	—	—
Exchange Difference	—	—	—	—	—	—	—	—
Borrowing Cost	—	—	—	—	—	—	—	—
31.03.2011	902,681,264	2,036,219	17,606,000	5,969,941	2,968,834	—	—	931,262,257
Additions	—	—	5,193,296,588	5,813,720	10,930,617	444,140,929	3,739,047	5,657,920,901
Disposals	—	—	—	—	—	—	—	—
Other Adjustments	—	—	—	—	—	—	—	—
Exchange Difference	—	—	—	—	—	—	—	—
Borrowing Cost	—	—	52,70,79,636	—	—	35,798,032	—	562,877,668
At 31.03.2012	**902,681,264**	**2,036,219**	**5,737,982,223**	**11,783,661**	**13,899,451**	**479,938,960**	**3,739,047**	**7,152,060,826**
Depreciation	—	—	—	—	—	—	—	—
As on 31.03.2011	22,038,063	—	590,294	256,152	115,063	—	—	**22,999,572**
Charge for the Year	26,063,720	—	127,025,173	652,375	1,221,744	2,844,804	242,458	**158,050,273**
Disposal	—	—	—	—	—	—	—	—
As on 31.03.2012	**48,101,783**	—	**127,615,467**	**908,527**	**1,336,807**	**2,844,804**	**242,458**	**181,049,845**
Impairment Loss	—	—	—	—	—	—	—	—
As on 01.04.2010	—	—	—	—	—	—	—	—
At 31.03.2011	—	—	—	—	—	—	—	—
Charge for the Year	—	—	—	—	—	—	—	—
As on 31.03.2012	—	—	—	—	—	—	—	—
Net Block (Gross Value-Depreciation-Impairment Loss)								
As on 31.03.2011	**880,643,201**	**2,036,219**	**17,015,706**	**5,713,789**	**2,853,771**	—	—	**908,262,685**
As on 31.03.2012	**854,579,481**	**2,036,219**	**5,610,366,756**	**10,875,134**	**12,562,644**	**477,094,157**	**3,496,589**	**6,971,010,980**
Depreciation for Pre-Capitalisation Period (Capitalised)								**24,224,875**
Depreciation related to Post capitalisation Period (charged to P & L)								**133,825,398**

32. DEFERRED TAX ASSETS/LIABILITIES

Deferred Tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the Balance Sheet date. Deferred Tax is recognised at the Balance Sheet date, subject to the considerations of prudence, on timing differences, being the difference between taxable incomes and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred Tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such Deferred Tax assets can be realised.

Unabsorbed depreciation and carry forward of losses during the year which can be set off against future taxable income are also considered as timing differences and result in deferred tax assets, subject to consideration of prudence.

Deferred Tax Liability of ₹29,25,35,919/- (as per Table Below) has not been created as it will not provide fair picture of financial performance and position of the company

Tax Implication on account of DTL

Loss before DTL Provision	:	436,035,748/-
Tax Expense on account of DTL	:	292,535,919/-
Loss after DTL Provision	:	728,571,667/-

Notes Forming Part of the Financial Statements (Contd.)

Calculation of Deferred Tax Liability

Particulars	Amount (₹)
Cum.Depreciation as per Income Tax Act	1,035,461,764/-
Cum.Depreciation as per Companies Act	133,825,398/-
Timing Difference due to Depreciation	901,636,366/-
Deferred Tax Liability	292,535,919/-

33. SLDC

SLDC charges or charges towards State Load Despatch Centre has been mentioned in the PPA with BSEB but SLDC in Bihar is yet to be established. Hence there has been no demand for SLDC charges and no provision has been made in this regard.

34. Remaining Contracts/Contingent Liabilities & Management Remuneration etc.

SL	Description	Amount (₹)
A.	Estimated amount of contracts remaining to be executed on capital account not provided for.	185,494,608/-
	Total	185,494,608/-
B.	Claims against the company not acknowledged as debts	Nil
C.	**Other Contingent Liabilities**	
	(i) Performance Guarantee issued to Govt of Bihar for Sugauli Unit given by HPCL	69,500,000
	(ii) Performance Guarantee issued to Govt of Bihar for Lauriya Unit given by HPCL	70,800,000
	(iii) Corporate Guarantee given the State Bank of India for Agriculture financing arrangement with farmers	20,000,000
	Total	**160,300,000**
D.	**Managerial Remuneration**	
	Salary & Allowances	
	(Chief Executive Officer on deputation from HPCL. The amount represents remuneration from HPCL and debited to the company. The salary includes salary, company contribution to PF, LFA, Bonus, medical, gratuity & leave encashment)	2,435,364/-
E.	Expenditure in Foreign Currency	Nil
F.	Earning in Foreign Currency	Nil
G.	C I F Value of imports during the year	Nil

35. Related parties

Nature of relationship	**Name of related parties**
Promoters	Hindustan Petroleum Corporation Ltd.
Key Management personnel	Shri D K Hota (CEO)
Relative of key Management personnel	Nil

36. Details of transaction between the company and related party (HPCL)

Nature of transaction	(Amount in ₹)
• Bridge Loan availed from HPCL	1,000,000,000/-
• Interest Paid during the year to HPCL	104,011,750/-
• Sale of Ethanol to HPCL (Net of Excise Duty)	5,616,000/-
• Purchase of Lubes from HPCL	6,581,536/-
• Amount of Other Expenditure incurred on behalf of HBL	9,307,021/-
• Manpower cost of employees on deputation and establishment expenses including Service Tax	33,769,439/-

37. Micro, Small & Medium Creditors

The company has no sundry creditors falling under the Micro, Small & Medium Enterprises Development Act 2006.

38. Provision for Income Tax

As company has incurred losses during the current financial year, no provision for income tax has been made.

Notes Forming Part of the Financial Statements (Contd.)

39. Cane Development Expenditure

Cane development expenditure is net of sale of seeds and fertilizers to the farmers of cane command area of Sugauli & Lauriya Unit.

40. Prior Period Items

Prior period items for the value of ₹ 78,130,230/- are capitalized during the year. These expenses were charged to the Profit & Loss Account in earlier years.

41. Payments to the auditors

Expenses incurred towards statutory auditor's remuneration during the year as under:

As Auditors – Statutory audit	:	₹ 78,652/-
(a) For Taxation matters	:	—
(b) For Company law matters	:	—
(c) For management services	:	—
(d) For other services	:	—
(e) For reimbursement of expenses	:	—

42. Consumption of Raw Materials

Consumption of bagasse generated from production is valued at 'nil' rate.

43. Provision for Gratuity

Provision for gratuity of ₹ 824,767/- has been made towards Retirement benefits of the employees confirmed during the year 2011-12, based on Actuarial Valuation.

44. Disclosures for Manufacturing Company

		(In ₹)
Particulars	2011-12	2010-11
Work In Progress		
Sugar in Process	3,299,400	1,766,215
Rectified Spirit	49,748,736	—
Molasses	20,600,940	603,750
Syrup	2,530,000	—
Total	**76,179,076**	**2,369,965**

Particulars	Consumption (2011-12)		Consumption (2010-11)	
Raw Material	Quantity (In MTs)	Amount (₹)	Quantity (In MTs)	Amount (₹)
Purchase Of Cane	32,5549	713,150,298	—	—
Total	**325,549**	**713,150,298**	**—**	**—**

5514 MT of cane was procured at ₹ 9,925,679 during 2010-11 and the same was charged to CWIP as it was during the trial period.

45. Manufactured Goods

Particulars	**Opening Stock**		**Production**	**Sales**		**Closing Stock**	
	Qty	**Amount**	**Qty**	**Qty**	**Amount**	**Qty**	**Amount**
Finished Goods							
Sugar (MT)	10.40	261,215	15,514	—	—	15,524	452,018,548
	(0)	(0)	(10.40)	(0)	(0)	(10.40)	(261,215)
Ethanol (KL)	—	—	4,558	208	5,616,000	4,350	117,436,851
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Power (KWH)	—	—	25,497,000	13,069,768	42,964,809	—	—
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total Quantity						**48,580,809**	**569,455,399**

Note: Figures in brackets represent previous year figures.

Notes Forming Part of the Financial Statements (Contd.)

46. Power Report

Description	Quantity in KWh	Amount ₹
Generation	25,497,000	116,521,290
Export	13,069,768	59,728,840
Captive Consumption	12,427,232	56,792,450
Import	4,379,076	20,012,377
Total Consumption	16,806,308	76,804,828

47. Plant Capacity

Sl No	Plant Name	Capacity (Sugauli)	Capacity (Lauirya)
1	Sugar Plant	3500 TCD	3500 TCD
2	Ethanol Plant	60 KLPD	60 KLPD
3	Co-gen Plant	20MW	20MW

48. Revised Annual Accounts

The Annual Accounts adopted by the Board on 28th May 2012 have been revised in view of suggestions from the Comptroller and Auditor General of India as under:

- Reserve & Surplus decrease by ₹ 36,115,958/-
- Non-Current Liabilities Decreased by ₹ 1,201,408/-
- Current Liabilities Increased by ₹ 9,873,828/-
- Non-Current Assets Decreased by ₹ 12,888,182/-
- Current Assets Decreased by ₹ 14,555,355/-
- Profit / (Loss) for the Year Increased by ₹ (36,115,958/-)

49. Previous year figures

Figures in brackets represent the figures for the previous year i.e., 2010-11. Previous year figures have been rearranged / regrouped where ever necessary. Figures have been rounded off to nearest rupee

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As per our report of even date attached

For Singh Dikshit & Co.
Chartered Accountants

C. A. Ranjish Vishwakarma
Partner
Membership No. 404363
Firm's ICAI Reg.No. 007555C

For and on behalf of the Board

B. Mukherjee
Director

R. S. Pandey
Chairman

Place : Mumbai
Date : 20.09.2012

R. Sankaran
Chief Finance Officer

Vinod Nehete
CEO & Manager

Heena Shah
Company Secretary

Cash Flow Statement for the Year Ended 31st March, 2012

Sl. No.	PARTICULARS	For the Year ended 31st March, 2012 AMOUNT (₹)	For the Year ended 31st March, 2011 AMOUNT (₹)
(A)	**CASH FLOW FROM OPERATING ACTIVITIES**		
1	**NET PROFIT/(LOSS) BEFORE TAX AND EXTRAORDINARY ITEMS**	(436,017,218)	(71,355,322)
	(i) Depreciation	133,825,398	22,850,825
	(ii) Provision for gartuity	824,674	—
	(iii) Provision for Deferred Tax Liability	—	—
	(iv) Tax Payment of last year during Current Year	—	(21,876)
	(v) Interest Income	—	(2,879,663)
2	**OPERATING PROFIT/(LOSS) BEFORE WORKING CAPITAL CHANGES**	(301,367,145)	(51,406,036)
	(i) Working Capital Changes	—	—
	(ii) Decrease in Current Assets (Except Cash & Cash Equivalents)	—	—
	(iii) Increase in Current Liabilities	188,358,982	461,099,562
	(iv) Decrease in Current Liabilities	—	—
	(v) Increase in Current Assets (Except Cash & Cash Equivalents)	(296,247,796)	(610,253,898)
3	**CASH GENERATED FROM OPERATIONS BEFORE TAX**	(409,255,959)	(200,560,373)
	(i) Income Tax Paid	—	—
	(ii) Tax Refund Received	—	—
4	**CASH FLOW BEFORE EXTRAORDINARY ITEMS**	(409,255,959)	(200,560,373)
	Less: Extraordinary Items- Incorporation Expenses	—	—
5	**MISC EXPENDITURE (LAST YEAR P&L BALANCE)**	—	—
	NET CASH OUTFLOW FROM OPERATING ACTIVITIES AFTER TAX & EXTRAORDINARY ITEMS	**(409,255,959)**	**(200,560,373)**
(B)	**CASH FLOW FROM INVESTING ACTIVITIES**		
	(i) Interest Received	—	2,879,663
	(ii) Purchase of Fixed Assets & Investments	(6,196,573,693)	(925,953,371)
	(iii) Capital Work in Progress - Project Management Expenses	4,932,373,022	(2,927,606,026)
	(iv) Inventory from Trial Production	—	(15,790,563)
	NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	**(1,264,200,671)**	**(3,866,470,297)**
(C)	**CASH FLOW FROM FINANCING ACTIVITIES**		
	(i) Proceeds from Issue of Shares	—	413,600,000
	(ii) Loan Taken	1,440,748,032	3,973,822,744
	(iii) Advance against Equity pending Allotment	—	—
	NET CASH INFLOW FROM FINACING ACTIVITIES	**1,440,748,032**	**4,387,422,744**
(D)	NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS (A+B+C)	(232,708,599)	320,392,074
(E)	Add: Cash & Cash Equivalent as at Beginning of the Year	326,780,044	6,387,970
(F)	**Cash & Cash Equivalent as at End of the Year**	**94,071,446**	**326,780,044**

As per our report of even date attached

For Singh Dikshit & Co.
Chartered Accountants

C. A. Ranjish Vishwakarma
Partner
Membership No. 404363
Firm's ICAI Reg.No. No 007555C

Place : Mumbai
Date : 20.09.2012

For and on behalf of the Board

B. Mukherjee
Director

R. S. Pandey
Chairman

R. Sankaran
Chief Finance Officer

Vinod Nehete
CEO & Manager

Heena Shah
Company Secretary

COMMENTS OF COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE REVISED ACCOUNTS OF HPCL BIOFUELS LIMITED FOR THE YEAR ENDED 31 MARCH 2O12.

The preparation of financial statements of **HPCL Biofuels Limited** for the year ended 31 March 2012 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the Company. The statutory auditor/auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 is/are responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 20 September 2012.

I, on behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under section 619(3) (b) of the Companies Act, 1956 of the financial statements of **HPCL Biofuels Limited** for the year ended 31 March 2012. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. The financial statements of the Company have been revised by the management to give effect to some of my audit observations highlighted during supplementary audit as indicated in the Note No. 48 of the Notes on Accounts. In addition, I would like to highlight the following significant matters under section 619 (4) of the Companies Act, 1956 which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related Audit Report:

A. Balance Sheet

1. Equity & Liabilities

Non-Current Liabilities

Deferred Tax Liabilities: ₹ 0 (Note 32)

The above does not include Deferred Tax Liability (DTL) of ₹29.25 Cr. The Management is of the view that creation of DTL would not provide a fair picture of financial performance and position of the Company and has disclosed this vide note 32 to the accounts.

As per section 211(3A) of the Companies Act 1956 compliance of Accounting Standards is mandatory for each company registered under the Act ibid. Although some leeway to deviate from compliance of theAccounting standards is provided vide section 211(3B) of the Companies Act, 1956 specific reasons for such deviation need to be disclosed in the accounts. Accounting Standard (AS) 22 on 'Accounting for Taxes on Income' deals with accounting of DTL. The Management however in the instant case has stated 'it will not provide fair picture of financial performance and position of the company' as reason for deviating from AS 22. This is not a valid and sufficient reason for the deviation and is against the fundamental principle of making the accounting standard mandatory. The deviation made from compliance of AS 22 and the reason given for such deviation does not follow the statutory provisions in letter and spirit and hence is fundamentally incorrect.

The Management also replied to Audit that it has also not recognised Deferred Tax Asset (DTA) of ₹16.68 Cr. towards business losses and carry forward of depreciation as the Management considering the provisions of para 17 of AS 22 is not certain whether and when the Company would be able to generate sufficient income in future against which the DTA could be realised. Considering that DTA of ₹16.68 Cr. has not been recognised by the Management as net DTL of ₹12.57 Cr. (₹29.25 Cr. – ₹16.68 Cr.) should have been accounted for as on 31.3.2012.

Thus due to improper application of section 211(3B) of the Companies Act, 1956 and nonadherence to the provisions of AS 22, the DTL (net) and Loss for the year have been understated by ₹12.57 Cr.

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA (Contd.)

2. Assets

Non Current Assets

Tangible Assets (Note – 10)

Plant & Equipment (Gross Block) ₹561.04 Cr.

The above is understated by ₹13.54 Cr. due to netting of gross block of Plant & Equipment by an equivalent amount ofliquidated damages (LD) decided to be levied on three contractors engaged in the work relating to engineering, procurement, construction and commissioning of a project of the company for delay beyond the contractual delivery date of the project.

Recognition of LD is based on a unilateral decision of the Company as LD clause of the contracts had not been invoked by it till 31.3.2012 and formal intimation / notice for levy of LD had also not been given to the contractors.

While setting off the amount towards LD against Plant and Equipment the Company also failed to establish the principle that levy and realisation of LD is in mitigation of the extra project cost incurred and capitalised by the enterprise on account of the same specific events which gave rise to such LD. As such recognition of the amount towards LD should have been postponed till such time the Company's right to realise the amount is established beyond doubt.

Thus accounting for LD amount in the above manner has resulted in

i. Understatement of Gross Block of Plant & Equipment and other Current Liabilities each by ₹13.54 Cr.

ii. Understatement of Net Block of – Plant & Equipment by ₹13.37 Cr.

iii. Understatement of Depreciation and Loss for the year each by ₹0.17 Cr.

B. Statement of Profit and Loss

Income : Revenue from Operations (Gross) ₹4.93 Cr. (Note No. 21A)

Expenses: Other Expenses: Purchase of Power ₹0.32 Cr. (Note No. 25)

The above is understated by ₹1.68 Cr. towards sale and purchase of electricity ie export to and import of power from Bihar State Electricity Board (BSEB) during the year. Ion Note no 46 to accounts total export of electricity was to the tune of ₹5.97 Cr. However in Note no 21-A, revenue from sale of electricity has been depicted as ₹4.30 Cr. due to netting of sale and purchase of electricity to / from BSEB. Similarly, though expenses on import of electricity were to the tune of ₹2.00 Cr. the same have been shown as ₹0.33 Cr. in Note no. 25. Thus netting of sale and purchase of electricity to / from BSEB has resulted in understatement of Revenue from Operations and Expenditure towards purchase of power for the year by ₹1.68 Cr.

For and on the behalf of the
Comptroller & Auditor General of India

Parama Sen
Principal Director of Commercial Audit
& ex-officio Member, Audit Board-II, Mumbai

Place : Mumbai
Date : 12 December, 2012

REPLIES TO PROVISIONAL COMMENTS UNDER SECTION 619(4) OF THE COMPANIES ACT 1956

Sr. No.	C & AG's Comments	Management's Reply
1	**Deferred Tax Liabilities: ₹ 0 (Note 32)**	
	The above does not include Deferred Tax Liability (DTL) of ₹29.25 Cr. The Management is of the view that creation of DTL would not provide a fair picture of financial performance and position of the Company and has disclosed this vide note 32 to the accounts. As per section 211(3A) of the Companies Act 1956 compliance of Accounting Standards is mandatory for each company registered under the Act ibid. Although some leeway to deviate from compliance of theAccounting standards is provided vide section 211(3B) of the Companies Act, 1956 specific reasons for such deviation need to be disclosed in the accounts. Accounting Standard (AS) 22 on 'Accounting for Taxes on Income' deals with accounting of DTL. The Management however in the instant case has stated 'it will not provide fair picture of financial performance and position of the company' as reason for deviating from AS 22. This is not a valid and sufficient reason for the deviation and is against the fundamental principle of making the accounting standard mandatory. The deviation made from compliance of AS 22 and the reason given for such deviation does not follow the statutory provisions in letter and spirit and hence is fundamentally incorrect. The Management also replied to Audit that it has also not recognised Deferred Tax Asset (DTA) of ₹16.68 Cr. towards business losses and carry forward of depreciation as the Management considering the provisions of para 17 of AS 22 is not certain whether and when the Company would be able to generate sufficient income in future against which the DTA could be realised. Considering that DTA of ₹16.68 Cr. has not been recognised by the Management as net DTL of ₹12.57 Cr. (₹29.25 cr – ₹16.68 Cr.) should have been accounted for as on 31.3.2012. Thus due to improper application of section 211(3B) of the Companies Act, 1956 and nonadherence to the provisions of AS 22, the DTL (net) and Loss for the year have been understated by ₹12.57 Cr.	*During the year, the company has ended up with a substantial amount of excess of expenditure over income as per books of account. The income was not even adequate to cover the book depreciation and other expenses, as a result of which there is a carryover of losses to subsequent periods. Thus there is even an amount of unabsorbed book depreciation. In other words, the benefit of deferred tax has not been availed by the company during the year in the real sense. It is also not possible to precisely estimate when the benefit of the carryover losses would be availed by the company with regard to its tax liability.* *It may also be noted that the on the carryover of business losses and book depreciation, there is a deferred tax asset arising which, if calculated would be ₹16.68 Cr. and it would partially offset the deferred tax liability on the differential depreciation.* *However, since the company has just commissioned the plants and is in the first year of operation, it could not meet the stringent requirements of AS 22 for recognition of DTA.* *Therefore, while DTL could be calculated, DTA could not be accounted as per AS 22. Accounting only one side and not the other side would definitely not provide fair picture of the financial performance and position of the company.* *When DTA could not be accounted, it is not possible to account for DTL on net basis.* *It is precisely for such similar situations section 211 (3B) of the Company's Act 1956 has been provided with the specific requirements of disclosure which evidently have been made in the notes to accounts.* *Therefore the note 32 meets the requirements of the provisions of the Companies Act and the deviation from compliance of AS 22, is within the four walls of the exclusion provided by section 211 (3B), in the light of the due disclosure as prescribed.*
2	**Tangible Assets (Note – 10)** **Plant & Equipment (Gross Block) ₹561.04 Cr.**	
	The above is understated by ₹13.54 Cr. due to netting of gross block of Plant & Equipment by an equivalent amount ofliquidated damages (LD) decided to be levied on three contractors engaged	*LD is an integral part of all the contracts which stipulate that the LD will be applicable if the project is delayed beyond the Contractual Delivery Date (CDD) which also is specified in the contract itself. It is not in dispute that the CDD has*

Sr. No.	C & AG's Comments	Management's Reply
	in the work relating to engineering, procurement, construction and commissioning of a project of the company for delay beyond the contractual delivery date of the project. Recognition of LD is based on a unilateral decision of the Company as LD clause of the contracts had not been invoked by it till 31.3.2012 and formal intimation / notice for levy of LD had also not been given to the contractors. While setting off the amount towards LD against Plant and Equipment the Company also failed to establish the principle that levy and realisation of LD is in mitigation of the extra project cost incurred and capitalised by the enterprise on account of the same specific events which gave rise to such LD. As such recognition of the amount towards LD should have been postponed till such time the Company's right to realise the amount is established beyond doubt. Thus accounting for LD amount in the above manner has resulted in i. Understatement of Gross Block of Plant & Equipment and other Current Liabilities each by ₹13.54 Cr. ii. Understatement of Net Block of – Plant & Equipment by ₹13.37 Cr. iii. Understatement of Depreciation and Loss for the year each by ₹0.17 Cr.	*been exceeded and the project completion is beyond the CDD. Hence as per the terms of the contracts LD is automatically applicable.* *As provided under the contract, the contractors had sought time extension which has been duly turned down. The contractors are therefore well aware that LD is applicable to their contracts.* *The contracts also provide that instead of deducting LD from the running bills, a Bank Guarantee may be given and the recovery of LD can be recovered at the final closure of the contract. Accordingly, BGs have been taken for all the six contracts equal to 5% of the contract value and all of them are kept current and valid. It may also be noted that the LD determined and accounted is much less than the BG being held for that specific purpose.* *Thus the LD calculated is as per the terms of the contract and its right to realize the same is not all in doubt or dispute. This has been clearly determined on the date of capitalisationand hence it has been considered in line with the provisions of Accounting Standard.* *In any case, the effect of LD will have to be given from the date of capitalization even if it is postponed to a future date, which does not serve any useful purpose.* *Thus LD has been accountedin line with the provisions of accounting standard and does not suffer from any infirmity.*
3	**Revenue from Operations (Gross) ₹4.93 Cr. (Note No. 21A)** **Other Expenses: Purchase of Power ₹0.32 Cr. (Note No. 25)**	
	The above is understated by ₹1.68 Cr. towards sale and purchase of electricity ie export to and import of power from Bihar State Electricity Board (BSEB) during the year. Ion Note no 46 to accounts total export of electricity was to the tune of ₹5.97 Cr. However in Note no. 21-A, revenue from sale of electricity has been depicted as ₹4.30 Cr. due to netting of sale and purchase of electricity to / from BSEB. Similarly, though expenses on import of electricity were to the tune of ₹2.00 Cr. the same have been shown as ₹0.33 Cr. in Note no 25. Thus netting of sale and purchase of electricity to / from BSEB has resulted in understatement of Revenue from Operations and Expenditure towards purchase of power for the year by ₹1.68 Cr.	*Power Purchase Agreement with BSEB provides for import and export of power at the same rate. Hence billing is done monthly on net basis based on joint meter reading. The billing may be either for purchase or sale of power on net basis. Accounting entries and payment or receipt is made accordingly.* *If the gross export and import are accounted separately, there would be open balances in Trade Receivable and Trade Payable, since the payment by BSEB or by us is on net basis. Offsetting balances in trade payable against trade receivable on a regular basis is not a sound accounting principle.* *The necessary information is anyway provided in the notes to accounts which are an integral part of the accounts.* *In any case there is no effect on the P&L account and hence in view of the above factual position, there is no infirmity in the accounting of power export and import.*

Notice of Third Annual General Meeting

NOTICE is hereby given that the Third Annual General Meeting of **HPCL Biofuels Limited** will be held at the Registered Office of the Company at **Patnaon 15th December 2012 at 11 a.m.** to transact the following business:

Ordinary Business:

(1) To consider and adopt the Audited Balance Sheet as at 31stMarch, 2012, the Profit & Loss Account for the year ended on that date and the Reports of Board of Directors and Auditors thereon.

(2) To appoint a Director in place of Shri R. S. Pandey who retires by rotation and being eligible offers himself for reappointment.

(3) To appoint a Director in place of Shri K. Murali who retires by rotation and being eligible offers himself for reappointment.

(4) To appoint S K Jha & Associates, Chartered Accountants as Statutory Auditors of the Company appointed by C&AG to hold office from conclusion of this Annual General Meeting until the conclusion of next Annual general meeting of the Company for auditing the Accounts of the Company for the Financial Year 2011-12 at remuneration of ₹70,000/- (Rupees Seventy Thousand only) as fixed by the Board of Directors.

SPECIAL BUSINESS

(5) To consider and if thought fit to pass, with or without modification(s) the following

Resolution(s) as an Ordinary resolution:

"RESOLVED THAT in terms of the Article 123 of the Articles of Association of the Company andin accordance with the provisions of Sections 198, 269, 387 and all other applicable provisions, if any, read with Schedule XIII to the Companies Act, 1956, Shri Vinod Nehete is appointed as the Manager of the Company, to be designated as CEO, for a period of one year commencing from 01stJune, 2012 or conclusion/completion of deputation or withdrawal of deputation by HPCL whichever is earlier, on the terms and conditions including remuneration as given hereunder so as not to exceed the limits specified in Schedule XIII of the Companies Act, 1956 or any amendments thereto.

Terms of Appointment

I. Remuneration:

(a) Salary: R 1,17,238 p.m. with such annual/accelerated increments as may be decided by the HPCL.(Basic + DA)

(b) Allowances and Perquisites: Maximum 50% of Basic Salary

(i) Provident Fund Contribution: The Company will contribute to Provident Fund as per rules of HPCL.

(ii) Medical Insurance Premium as per HPCL Medical policy

(iii) Lumpsum LFA - 15% of Basicpay (once in two years)

(iv) Gratuity: Gratuity as per gratuity rules of HPCL.

(v) Leave: 32 days Leave with full pay or encashment thereof as per the rules of the HPCL.

Explanation.—Perquisites shall be evaluated as per Income-tax Rules, wherever applicable and in absence of any such rule, perquisites shall be evaluated at actual cost.

(c) Amenities:

(i) Housing: House Rent Allowance at the rate of 20% of Basic Salary.

II Performance related pay (PRP)- subject to the profitability of HPCL. (Maximum 60% of Basic Salary.)

III. Overall Remuneration:

The aggregate of salary and perquisites, in any financial year shall not exceed the limits prescribed from time to time under Sections 198, 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII to the said Act as may for the time being in force.

IV. Other Terms and Conditions:

(a) The appointment of Shri Vinod Nehete as Manager will be terminable by giving two months notice, by either party as per the terms of appointment.

(b) The cessation as Manager of the Company shall not necessarily result in cessation of employment of Shri Vinod Nehete with the Company."

(6) To consider and if thought fit to pass, with or without modification(s) the following resolution as an Ordinary resolution:

"RESOLVED THAT Smt. Nishi Vasudeva who was appointed as Additional Director of the Company by the Board of Directors under section 260 of the Companies Act, 1956 with effect from 10.09.2012 and who hold office upto the date of Annual General Meeting, and who is eligible for reappointment under the relevant provisions of the Companies Act, 1956, and in respect of whom the company has received a notice in writing from a member signifying his intention to propose her as a candidate for the office of Director, be and is hereby appointed as Director of the company liable to retire by rotation."

By Order of the Board
For HPCL Biofuels Ltd.

R. Sankaran
Chief Finance Officer

Dated:20th September, 2012.

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the Company.
2. The instrument appointing a proxy must be deposited at the Registered Office of the Company not later than forty eight hours prior to the time of commencement of the meeting.
3. Corporate member intending to send their authorized representative to attend and vote on their behalf at the Meeting are requested to send an instrument of proxy duly signed by the authorized official.
4. All documents referred to in the Notice are open for inspection at the Registered Office of the Company.

Explanatory Statement pursuant to section 173(2) of the Companies Act 1956, with respect to items covered under Special Business covered in the Notice of Meeting.

Item No. 5

Consequent to the incorporation of HPCL Biofuels Limited as 100% subsidiary Company of HPCL, the Board of Directors at their meeting held on 25th May, 2012 has appointed Shri Vinod Nehete as Manager of the Company for a period of one year w.e.f. 01-06-2012. The matter is being placed at General Meeting for consideration of shareholder to ratify the appointment and approving the remuneration terms in terms of scheduled XIII and the Board of directors recommend passing of the resolution of appointment of Shri Vinod Nehete. The terms of appointment including remuneration are set out in the resolution.

Shri Vinod Nehete is Mechanical **Engineering** Diploma holder (DME) and has over 30years' experience in handing various challenging assignments at different departments of HPCL. He has also served Company as COO- Plant Operations for last one year and well versed with Company's business.

The Board is of the opinion that his appointment as Manager to be designated as Chief Executive Officer (CEO) of the Company as it would be in the interest of the Company and accordingly the resolution at item no. 5 of the Notice is recommended for members' approval.

None of the Directors of the Company is concerned or interested in the Resolution.The Board of Directors recommends the resolutions for your approval as ordinary Resolution.

Item No. 6

Smt. Nishi Vasudeva was appointed as an additional Director on the Board effective 10.09.2012. Interms of section 260 of the Companies Act, 1956 and Article 122 of the Articles of Association of the Company, she holds office up to the date of Annual General meeting and is eligible for re-appointment as Director. The company has received a notice in writing from a member signifying his intention to propose her as a candidate for the office of Director in terms of section 255 & 257 of the Companies Act, 1956. Smt. Nishi Vasudeva is Director Marketing of HPCL. The Board recommends appointment of Smt. Nishi Vasudeva.

The Board of Directors recommends the resolutions for your approval as ordinary resolution.

None of the Directors other than Smt. Nishi Vasudeva, is concerned or interested in the Resolution.

By Order of the Board of Directors,
For HPCL Biofuels Ltd.

R. Sankaran
Chief Finance Officer

Dated:20th September 2012.

Registered Office:
No. 271, Road No. 3E,
New Patliputra Colony
Patna - 800 013, Bihar.

BOARD OF DIRECTORS

Shri R. S. Pandey
Chairman

Shri B. Mukherjee
Director

Shri K. Murali
Director

Smt. Nishi Vasudeva
Additional Director

CHIEF EXECUTIVE OFFICER AND "MANAGER"

Shri Vinod Nehete

Chief Minister's Visit to Lauriya

Lighting of Boiler

DIFFUSOR - Sugar Plant

Ethanol Plant - Lauriya

HPCL BIOFUELS LIMITED

(A wholly owned subsidiary company of
Hindustan Petroleum Corporation Ltd.)
www.hpclbiofuels.co.in