

SCCHEDULE NO 22

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS AS AT 31ST MARCH, 2010.

(A) SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation of financial statements:

- a) The financial statements are prepared under historical cost convention on accrual basis of accounting and in accordance with the provisions of the Companies Act, 1956 and comply in all material aspects, with mandatory accounting standards as notified by the Companies (Accounting Standard) Rules 2006, relevant provisions of the Companies Act 1956 and statements issued by the Institute of Chartered Accountants of India.
- b) Use of estimates:
The preparation of the financial statements in conformity with the generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities on the date of the financial statements, disclosure of contingent liabilities and reported amounts of revenue and expenses for the year. Estimates are based on historical experience, where applicable and other assumptions that the management believes are reasonable under the circumstances. Actual results could vary from these estimates and any such differences are dealt with in the period in which the results are known / materialise.

2. Revenue Recognition:

a) Sale of Power:

- i) Revenue from Sale of Power is accounted for on the basis of demand bills raised on consumers. Tariff rates for sale of power are as per Tariff Order of the Maharashtra State Electricity Regulatory Commission.
- ii) Unbilled revenue at the end of the financial year is provided in the books of account on 'estimation basis.'
- iii) Bills raised for theft of energy, whether on consumer or outsiders are recognised in full as soon as assessment order is received from the competent authority of the Company.

b) Others:

- i) Sale of scrap is recognised on realisation
- ii) Interest income is accounted on accrual basis.
- iii) Dividend income is accounted for when the right to receive income is established.

3. Fixed Assets:

- a) Fixed Assets are shown at historical cost less accumulated depreciation. Gross block of Fixed Assets is stated at cost of acquisition or construction, including all cost attributable to bring the asset to their working condition for their intended use.

- b) Intangible assets are recorded at their cost of acquisition.
- c) Amount received as Government Grant towards cost of fixed asset is credited to capital reserve and an amount equal to the depreciation on the assets created out of such grants is transferred from Reserve to Profit and Loss Account based on the principles stated in Accounting Standard-12, i.e. accounting for Government Grants. Grants received conditionally are treated as deferred income and amount is transferred to income over the period of fifteen years equally from the year of receipt of such grant.
- The above policy has been applied to consumer's contribution on the basis of Clause No. 2.33, 2.34 and 2.35 of Annexure III of Electricity (Supply) Annual (Accounts) Rules, 1985.

4. Capital Work in Progress:

- a) Fifteen percent of the cost of Capital Work in Progress incurred during the year is added to Capital Work in Progress towards Employee Cost and Administration and General Expenses as the Operation and Maintenance Circles are executing both Capital Works and Operation and Maintenance Works.
- b) Interest relating to construction period in respect of qualifying assets is capitalised based on the average interest rate applicable to the loan.
- c) Capital work in progress includes the stock of material received under Direct Debit to works as well as material at site.
- d) Claims for Price Variation in case of contracts are accounted for on acceptance by the Company.

5. Depreciation :

- a) Fixed Assets are depreciated under the 'Straight Line Method' upto 90 % of the original cost of assets at the following rates notified by the Ministry of Power, Government of India vide notification dated 29th March 1994

Assets Group	Rate of Depreciation (%)
Land & Land Rights	Nil
Leasehold Land	**
Buildings	1.95 to 33.40
Hydraulic Works	3.40
Other Civil Works	1.95 to 7.84
Plant & Machinery	3.40 to 33.40
Lines & Cable Networks	3.02 to 12.77
Vehicles	33.40
Furniture & Fixtures	12.77
Office Equipment	12.77
Capital Expenditure resulting in Assets not belonging to Company	3.02
Assets Taken over from Licensees Pending final valuation	3.02

** Leasehold land is amortised over the period of lease

- b) Considering the above, the depreciation so provided is not less than the depreciation which would have been recognised in the profit & loss account had the rates and the manner prescribed under Schedule XIV to the Companies Act 1956, been applied.
- c) Depreciation on addition/deletions of assets during the year is provided on pro-rata basis.

7. Investments:

- a) Long term investments are carried at cost, less provision for diminution other than temporary, if any, in the value of such investments.
- b) Current Investments are carried at lower of cost or fair value.

8. Inventories:

Inventories comprise of stores & spares, and are valued at lower of weighted average cost and net realisable value

9. Employee Benefits:

- a) Company's contributions to Provident Fund and Group Insurance Scheme are charged to Profit and Loss Account
- b) Provision towards accrued liability for gratuity and leave encashment is accounted for based on the report given by the Actuary.
- c) Bonus / ex-gratia is considered accrued on declaration
- d) Short term employee benefits are recognised as an expense at the undiscounted amount in the profit & loss account of the year in which the related services are rendered.

10. Borrowing Costs:

Borrowing costs attributable to the qualifying assets during their construction are capitalised based on the weighted average interest rate applicable for loan.

11. Provisions and Contingent Liabilities:

A provision is recognised when the Company has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made based on technical valuation and past experience. Provisions are not discounted to its present value and are determined based on management estimate required to settle the obligation at the balance sheet date. No provision is recognized for liabilities whose future outcome cannot be ascertained with reasonable certainties. Such contingent liabilities are not recognized but are disclosed in the notes to the accounts on the basis of judgement of the management. These are reviewed at each balance sheet date and adjusted to reflect the current management estimate.

12. Accounting of Losses in the Year of its Approval:

The Company is consistently following the procedure of booking the loss on account of flood, fire, cyclone, loss to fixed asset etc in the year in which the said loss is approved for write off. This is because before submitting the case for write off,

necessary investigation and scrutiny along with reasons, amount of loss etc. is required to be done and then only an amount of loss to be written off can be properly arrived at.

13. Valuation of Scrap:

Company does not value scrap on hand.

14. Provision for doubtful dues from Consumers:

Provision for doubtful dues from Consumers is made at 1.5% of the revenue from sale of power as approved by the MERC. The provision based on normative basis takes care of uncertainty of income recoverable in case of temporary disconnections, interest, and delayed payment charges, etc.

15. Leases:

Operating lease payments / Income are recognised in the Profit and Loss Account on a Straight Line basis over the lease term.

16. Taxation:

Provision for Income Tax consists of Current tax and Deferred tax. Current Tax is calculated according to prevailing rates of Income Tax. Deferred tax is calculated in accordance with mandatory Accounting Standard 22, (Accounting for taxes on income).

(B) NOTES TO ACCOUNTS AS AT 31ST MARCH, 2010:

1. Contingent Liability:

(Rs. In Lacs)

Sr. No.	Particulars	As at 31.03.2010	As at 31.3.2009
(a)	Bank Guarantees and Letters of Credit issued by bankers in favour of third parties	20,000	20,000
(b)	Corporate Guarantee issued by the Company in favour of Banks/ Financial Institutions for finance raised by Companies under the same management.	Nil	Nil
(c)	Claims against the Company not acknowledged as debts.	43,171	35,058
(d)	Liability against capital commitments outstanding (net of advances)	40,829	29,084
(e)	Disputed Duties / Tax Demands	146,575	90,198

Contingent Liabilities include:-

- (i) The payment released to M/s. Datar Switchgear Ltd. from September 1998 is booked under head of account. "Amount recoverable from the contractors" (A/c Code 28.811) amounting to Rs.899.82 lacs up to 31st March 2000 being matter under dispute. Further, M/s. Datar Switchgear Ltd., has moved the matter before arbitration for their claims. As per the orders passed by arbitration, the erstwhile Maharashtra State Electricity Board (Hereinafter referred to as The Board) released some adhoc payment during 1999-2000. Similarly, claim of excess payment made by the Board was admitted by arbitration for hearing. However, an amount of Rs. 189.99 lacs was received from M/s. Datar Switchgear Ltd. towards refund against various O&M Circles. The interim award was passed by arbitration directing the Board to pay Rs. 913 lacs to M/s. Datar Switchgear Ltd. against a Bank Guarantee (BG) of Rs. 681 lacs. Accordingly, payment was released by the Board. But, M/s. Datar Switchgear Ltd. and their Banker have failed to renew B.G. and hence, the Board preferred an appeal in the High Court for contempt of Court due to non-renewal of B.G. and also asked for suspension of arbitration proceedings for having violated the arbitration award. Out of total B.G. amount of Rs. 681 lakh, Rs. 113 lacs was appropriated and for the for balance amount of Rs. 568 lacs, B.G. was required. M/s. Datar Switchgear Ltd. filed a civil suit bearing no. 858 of 2002 in the Pune Court against IDBI for obtaining this B.G. Arbitration awards was passed on 18th June, 2004 against the Board for Damages of Rs. 18598 lacs with interest @ 10% p.a. on Rs. 17900 lakh and Rs. 100 lakh towards Cost of Proceedings. An appeal bearing case no. 374/2004 was filed against the Arbitration Award dt. 18th June, 2004 of Arbitration Tribunal in Bombay High Court (Single Bench). Further, Bombay High Court Single Bench passed the judgment on 3rd August, 2005 & set aside the Arbitration award. Further, M/s. Datar Switchgears Ltd. filed an Appeal bearing No.672/2005 on 26th August, 2005 against the order of Bombay High Court (Single Bench) dated 3rd August, 2005. Division Bench on 22nd October 2008 has set aside the order passed by single bench and the case was remanded back again to Single Bench of Bombay High

Court for adjudication in the arbitration petition No.374/2004. The Single Bench passed the judgment on 10th March, 2009 against MSEDCL. Subsequently, Hon. Justice passed the order on 31st March, 2009 directing MSEDCL to submit Bank Guarantee for Rs. 7500 lacs on or before 6th April, 2009 to the prothonotary and Senior Master Bombay High Court. Accordingly, MSEDCL has submitted Bank Guarantee of Rs. 7500 lacs on 4th April, 2009 to the Bombay High Court, Mumbai through Canara Bank, Fort, Mumbai.

MSEDCL filed an appeal before Division Bench on 2nd May, 2009 against the order of the Single Bench. The division Bench granted interim stay subject to the Company depositing Rs. 17900 lakh on or before 20th June, 2009 and furnishing Bank Guarantee for balance amount of Rs. 6500 lacs. An appeal was listed before Bombay High Court, Mumbai on 29th June, 2009. Further, MSEDCL has filed Special Leave Petition (SLP) with Hon. Supreme Court against the order of Division Bench on 15th May, 2009. The Supreme Court granted stay up to 29th June, 2009 and modified the order of Division Bench Bombay. According, to modified order, MSEDCL was required to deposit Rs. 6500 lacs with Bombay High Court and furnish Bank Guarantee for balance of Rs. 20000 lacs to Bombay High Court. Accordingly, MSEDCL has deposited amount and furnished Bank Guarantee to the prothonotary and Senior Master Bombay High Court, Mumbai on 19th June, 2009. The SLP is pending before Hon. Supreme Court. The Rs. 7500 lacs as B.G. is refunded back to MSEDCL by Sr. Master Prothonotary of Bombay High Court, Mumbai.

The case is under process before Division Bench of Bombay High Court, Mumbai. Further, in the same matter the application No.9 and SLP No. 32916 of 2009 is listed at Hon. Supreme Court for starting new arbitration matter.

- (ii) The lease rent payment to M/s. Asian Electronics towards LTLMS panels installed by them has been stopped since June 2006, as LTLMS panels were not working. The dispute has been referred to Arbitrator by M/s. Asian Electronics & a claim of Rs. 15712 lacs has been lodged against the Company. The Company has lodged counter claim of Rs. 50231 lacs against M/s. Asian Electronics. The case is pending in the Arbitral Tribunal for hearing.

The inspection of documents of both the parties (i.e. MSEDCL & M/s. Asian Electronics Ltd) has been completed. Further, application for interim relief filed by M/s. Asian Electronics and application filed by MSEDCL towards seeking bank guarantee for counter claim of Rs. 50231 Lacs have been dismissed by Arbitral Tribunal.

2. Balances of Sundry Debtors, Loans & Advances and Other Assets as well as current liabilities are subject to reconciliation/confirmation from respective parties.
3. No liability for refund of service line charges and outright contribution amounting to Rs.1197 lacs and Rs.1460 lacs respectively (approx.) for the period from 8.9.06 to 30.4.07 has been provided pending decision of the Supreme Court in the appeal preferred by the Company against the order dated 8th Septemeber 2006 of the MERC
4. Reconciliation of the balances under 'Receivable against supply of power' is appearing in the Financial Ledger and those appearing under the Consumers' General Ledger are in progress.

5. A loss of Company's properties to the extent of Rs.1470.16 Lacs (Previous year Rs. 299 lacs) has been incurred due to storm, theft, accident, etc. which is yet to be accounted for want of formal approval.
6. No Provision for income tax is made, due to loss incurred during the year.
7. An arrangement for working capital facilities (fund based) including cash credit facility and working capital demand Loan totalling to Rs.350000 lacs (Previous year Rs.262314 lacs) has been made with the Consortium Banks, secured by hypothecation of book debts. The Company has availed loans from Financial Institutions viz. Rural Electrification Corporation Ltd., Power Finance Corporation and Banks by offering security coverage of Government of Maharashtra Guarantee, future assets to be acquired under respective scheme and escrow account
8. Upto financial year 2008-09, the company was consistently following the procedure of carrying out the physical inventory of Distribution, Civil, etc. materials in the custody of Major Stores, Stores Centres throughout the State in the month of September/October of the year. During the financial year 2009-10, the physical verification was conducted during March/April 2010.
9. During the year 2009-10, Rs.27643 lacs (previous Rs.20780 lacs) has been received from Government of Maharashtra towards equity for Gaonthan Feeder Separation Scheme and Infrastructure Plan. As the shares have not yet been issued, the said amount has been shown as "Equity from Government of Maharashtra towards Projects" in the Balance Sheet as at 31st March, 2010.
10. Quantitative details for Electricity units purchased and sold:

(In MKWH)

Particulars	Current Year	Previous Year
Total Power Purchase	85474	79871
Grid and Transmission Losses	4948	5311
Power available for sale	80526	74559
Power sold	63941	58171
Distribution Loss	16585	16388
Distribution loss %	20.60%	21.98%

The above information is compiled by the Company based on the Energy Balance Report and has been relied upon by the auditors.

11. AS 15 – Employee Benefit – Gratuity and Leave Encashment

Details of Gratuity and Leave Encashment disclosure as required by AS –15 are detailed hereunder:

Table-1

Reconciliation of PBO	Leave Encashment		Gratuity	
	31-Mar-09 to 31-Mar-10	31-Mar-08 to 31-Mar-09	31-Mar-09 to 31-Mar-10	31-Mar-08 to 31-Mar-09
Projected Benefit Obligation at Beginning of year	859.53	530.09	1292.60	1135.63
Current Service Cost	64.58	36.21	26.28	51.42
Interest Cost	69.66	41.23	92.79	90.56
Contributions by plan participation	-	-		
Actuarial (Gain)/Loss due to change in assumptions	(113.02)	353.81	61.47	125.05
Foreign currency exchange rate changes on plan measured in a currency different from the enterprise's reporting currency				
Benefits Paid	(106.74)	(101.81)	(318.08)	(110.06)
Past service cost	-	-		
Amalgamations	-	-		
Curtailments	-	-		
Settlements	-	-		
Projected benefit obligation at the end or year	774.00	859.53	1155.06	1292.60

Table - 2

Plan Asset at fair value	Leave Encashment		Gratuity	
	31-Mar-09 to 31-Mar-10	31-Mar-08 to 31-Mar-09	31-Mar-09 to 31-Mar-10	31-Mar-08 to 31-Mar-09
Plan asset at the beginning of year	-	-	-	-
Foreign currency exchange rates changes on plans measured in a currency different from the enterprise's reporting currency				
Expected return on plan asset	-	-	-	-
Employer contribution	-	-	-	-
Employee contribution	-	-	-	-
Benefit payments	-	-	-	-
Asset gain/(Loss)	-	-	-	-
Amalgamations	-	-	-	-
Settlements	-	-	-	-
Ending asset	-	-	-	-
Total actuarial gain /(Loss) to be recognised immediately	113.02	(353.81)	(61.47)	(125.05)

Table -3

Amount be recognised in the balance sheet	Leave Encashment		Gratuity	
	31-Mar-09 to 31-Mar-10	31-Mar-08 to 31-Mar-09	31-Mar-09 to 31-Mar-10	31-Mar-08 to 31-Mar-09
Projected benefits obligation at End or year	774.00	859.53	1155.06	1292.60
Ending Asset	-	-		
Funded status asset /(Liability)	(774.00)	(859.53)	(1155.06)	(1292.60)
Unrecognised past service cost – non vested benefits				
Liability (-) / Asset (+) recognised in balance sheet	(774.00)	(859.53)	(1155.06)	(1292.60)

Table -4

Settlements of Profit and Loss	Leave Encashment		Gratuity	
	31-Mar-09 to 31-Mar-10	31-Mar-08 to 31-Mar-09	31-Mar-09 to 31-Mar-10	31-Mar-08 to 31-Mar-09
Current service cost	64.58	36.21	26.28	51.42
Interest cost	69.66	41.23	92.79	90.56
Expected return on plan asset	-	-		
Net actuarial (gain)/loss to be recognised in year	(113.02)	353.81	61.47	125.05
Past service cost				
Effect of curtailments				
Income (-)/Expense(+) recognised in the statement of Profit and Loss	21.22	431.25	180.53	267.03

	Leave Encashment	Gratuity
Reconciliation		
Incremental liability[Asset (+)/Liability(-)]	85.52	137.54
P&L Charge	21.22	180.53
Less Benefits Paid	106.74	318.08
Balance(Income(-)/Expense(+))	(85.52)	(137.54)

12. AS 17- Segment Reporting:

There is only one segment and one geographical segment, therefore further, disclosure as per the Accounting Standard-17 regarding Segment Reporting is not required.

13. AS 18 - Related Party transaction:

Information regarding related parties as required by AS-18 issued by the ICAI is given below:

- a) List of related parties - other than Key Management Personnel
Holding Company
MSEB Holding Company Limited

Co-subsidiaries

Maharashtra State Power Generation Company Limited
Maharashtra State Electricity Transmission Company Limited

Subsidiaries

Dhopave Coastal Power Limited
Aurangabad Power Company Limited

- b) Names of related parties with whom transactions were carried out during the year and description of relationship:

Key management personnel:

- Shri Ajoy Mehta, Chairman & Managing Director : (From 02/02/09)
- Shri Arjit Ghosh (Director Finance) : (18-05-07 to 31-05-09)
- Shri G.J.Girase Director(Finance) : (From 1-6-09 to 19-8-09)
- Shri D.D.Wavhal (Director Finance) : (From 20-08-09)
- Shri V.L.Sonawane, Director (Operations) : (23-10-07 to 18/03/2009)
- Shri Sharad Dabhade,Director(Operations) : (From 19/03/09)
- Shri M.K.Deore Director (Projects) : (From 29-08-09)

- c) Details regarding parties referred to in item at 'a' above

(Rs. In Lacs)

Particulars	Transactions During the Year		Outstanding Payable Against	
	FY 2009-10	FY 2008-09	As at 31.03.10	As at 31.03.09
Purchase of Power Maharashtra State Power Generation Company Ltd.	1,077,666	908,337	241,024	219,824
Transmission Charges Maharashtra State Electricity Transmission Company Ltd.	149,446	173,924	27,536	35,525

Note: The details of sale of energy to related parties have not been given, as the data is not readily available.

- d) Details regarding parties referred to in item at 'b' above:

(Rs. In Lacs)

Particulars	Current Year	Previous Year
Remuneration	55.73	39.73
Sitting fee	3.35	1.69

14. AS –19 Accounting For Operating Lease:

The Company has various operating leases for office and residential premises for employees that are renewable on periodic basis and cancellable at its option. An expense for operating leases recognised in Profit and Loss Account for the year is Rs.2408 lacs (previous year Rs.2544 lacs). The Company does not have any non-cancellable operating leases as on that date. Lease Rent of Rs.2408 Lacs (Previous year Rs. 2544 Lacs) has been included under rent, rates and taxes (Schedule 18 - Administration and General Expenses).

15. AS 20 - Earning Per Share:

The elements considered for calculation of Earning per Share (Basic and Diluted) are as under:-

Particulars	As At 31-03-2010	As At 31-03-2009
Net profit after tax (Rs. in lakh)	(111377)	(92910)
Weighted average number of equity shares for basic earning per share	50000	50000
Earning per share (Rupees) Basic	(222755)	(185821)
Weighted average number of equity shares for diluted earning per share	3747292452	3440560324
Diluted Earning per share	(3)	(3)
Face value per share (Rupees)	10	10

Dilution is considered at par value for shares not yet issued to GoM / MSEB Holding Company Ltd.

16. Deferred Tax:

Deferred Tax consists of the following items:

(Rs. In Lacs)

Sr. No.	Particulars	2009-10	2008-09
	Deferred Tax Liability		
1.	Difference in Depreciation	(55971)	(56623)
2.	Assets Written off /disallowed under Income Tax Act	(6805)	-
	Deferred Tax Asset		
1.	Expenses Allowable on payment basis		73384
2.	Assets Written off /disallowed under Income Tax Act	22	69
3.	Unabsorbed Depreciation / loss	84400	16410
4.	Provision for Bad Debts -	14093	32698
	Net Deferred Tax Asset	35739	65938

The Company has recognised deferred tax asset on unabsorbed depreciation / loss in view of the virtual certainty of future taxable income considering factors such as:-
The company has been spending huge amount on Infrastructure Plan hence, in future there will be reduction in distribution loss and due to this the revenue will increase and the Company will turn around.

17. In accordance with AS-28 issued by the ICAI on 'Impairment of Assets' the Management has carried out a review of its assets with respect to economic performance. On the basis of review, the Management is of the opinion that economic performance of the Fixed Assets of the Company is not worse than expected and therefore there is no impairment as on the date of the Balance Sheet.
18. In view of multiplicity and difficulty in identification of accounts relating to Micro, Small and Medium Enterprises, information with regard to amount unpaid at the year end together with the interest paid/payable under the MSMED Act, 2006 as required under Schedule VI to the Companies Act, 1956 is not disclosed

19. Auditors' Remuneration:

(Rs in Lacs)

Sr. No	Particulars	Current Year	Previous Year
1.	Audit Fees	26.00	23.00
3.	Out of Pocket Expenses	Nil	3.00

20. Expenditure in foreign Currency
Travelling expenses amounting to Rs.27 lacs (previous year Rs.-NIL) has been incurred in foreign currency.
21. The previous year figures have been regrouped and/or rearranged where necessary
22. Schedules 1 to 22 are forming part of Annual Accounts for the year ended on 31st March, 2010.

S.R.Sawant
General Manager (CA)

S.M.Bhoyar
Chief General Manager (CA)

S.R.Tiwari
Company Secretary

D.D.Wavhal
Director (Finance)

Ajoy Mehta
Chairman & Managing Director

As per our report of even date attached hereto.

For Borkar & Muzumdar
Chartered Accountants

For M. P. Chitale & Co.
Chartered Accountants

For M/S Jain Chowdhary
Chartered Accountants

(Devang Vaghani)
Partner
ICAI M.No. 109386

(Ashutosh Pednekar)
Partner
ICAI M.No.41037

(Siddharth Jain)
Partner
ICAI M.No.104709