SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Corporate Information

Southern Magnesium & Chemicals Limited (SMCL or "the Company) is promoted by Dr. N B Prasad and family. The Company is in the business of manufacturing magnesium metal, in a joint venture with the Andhra Pradesh Industrial Development Corporation. The Company diversified its business into production of various downstream products like magnesium granules, magnesium powder, magnesium alloy and magnesium extrusion.

1. Basis of Preparation of Financial Statements:

Statement of compliance

These financial statements have been prepared in accordance with the Indian Accounting Standards (Ind AS) as specified under section 133 of the Companies Act 2013 read together with the Rule 4 of Companies (Indian Accounting Standards) Rules,2015 as amended by Companies (Indian Accounting Standards) Amendment Rules 2016 to the extent applicable and the other relevant provisions of the Act, pronouncements of the regulatory bodies applicable to the Company. The accounting policies are applied consistently to all the periods presented in the financial statements.

The Financial statements of the Company for the year ended 31 March, 2019 were approved by the Board of Directors on 10thMay, 2019.

The financial statements have been prepared on a historical cost basis, except for financial instruments which have been measured at fair value at the end of each reporting period, as explained in the accounting policies mentioned below.

1.1 Current Vs Non-current classifications:

All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in the Schedule III (Division II) to the Companies Act, 2013. Based on the nature of products and the time between the acquisition of assets for processing and their realization in cash and cash equivalents, the Company has ascertained its operating cycle as 12 months for the purpose of current or non-current classification of assets and liabilities.

1.2 Significant Accounting Policies

a. Property, Plant andEquipment:

An item of property, plant and equipment that qualifies as an asset is measured on initial recognition at cost. Following initial recognition, items of property, plant and equipment other than land are carried at their cost less accumulated depreciation and accumulated impairment losses. Freehold land is carried at cost of acquisition.

The cost of an item of property, plant and equipment comprises the purchase price and any cost attributable to bring the asset to its location and working condition for its intended use. Borrowing costs relating to acquisition of property, plant and equipment which take substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready to put to use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs in nature of repairs and maintenance are recognized in the Statement of Profit and Loss as and when incurred.

Depreciation and Amortization Expense

Depreciation is provided on Straight Line Method on the assets over the useful lives specified in Schedule II to the Companies Act, 2013.Depreciation on additions is being provided on pro rata basis from the date of such additions. Depreciation on assets sold, discarded or demolished during the year is being provided up to the date on which such assets are sold, discarded or demolished.

b. Impairment of Assets:

In accordance with Ind AS 36, the company assesses at each Balance Sheet date whether there is any indication that an asset may be impaired. An asset is treated as impaired when the carrying cost exceeds its recoverable value. An impairment loss is charged to the Statement of Profit and Loss in the year in which an asset is identified as impaired. The impairment loss recognized in a prior accounting period is reversed if there has been a change in the estimate of recoverable amount.

c. Valuation ofInventories:

Inventories are valued at the lower of cost and net realizable value.Cost is arrived at by using weighted average method and includes all costs of purchases, conversion and other costs incurred in bringing the inventories to their present location and condition.

d. FinancialInstruments

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

I. Financial Assets

Initial recognition and measurement

All financial instruments are recognized initially at fair value plus, in the case of financial assets not recorded atfair value through profit & loss account transaction costs that are attributable to the acquisition of the financial asset, purchase or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place are recognized on the trade date i.e. the date that the company commits to purchase or sell the asset.

Subsequent Measurement

For the purpose of subsequent measurement financial assets are classified as measured at:

1) Amortized Cost
2) Fair value through profit and loss(FVTPL)
3) Fair value through other comprehensive income(FVTOCI)

Financial Asset measured at amortized cost

Financial Assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortizedcostusingeffectiveinterestrate(EIR)method.TheEIR amortization isrecognizedasfinanceincome in the statement of Profit &Loss.The company while applying above criteria has classified all the financial assets at amortized cost.

Financial Assets Measured at fair value through other comprehensive income

Financial assets that are held within a business model whose objective is achieved by both, selling financial assetsandcollectingcontractualcashflowsthataresolelypayment so principal and interest, are subsequently measured at fair value through other comprehensive income. Fair value movements are recognized in the other comprehensive income(OCI). Interest income measured using the EIR method and impairment losses, if any are recognized in the Statement of Profit and Loss. On de-recognition, cumulative gain or loss previously recognized in OCIisre classified from the equity to ‘other income’ in the Statement of Profitand Loss.

Financial Assets at fair value through profit or loss (FVTPL)

Financial Asset are measured at fair value through Profit & Loss if it does not meet the criteria for classification as measured at amortized cost or at FVTOCI. All fair value changes are recognized in the statement of profit & loss.

De-recognition of Financial Assets

The Company de-recognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the contractual rights to receive the cash flows from the asset.

II. Financial Liabilities.

Initial recognition and measurement

Financial liabilities are recognized initially at fair value plus any transaction cost that are attributable to the acquisition of the financial liability except financial liabilities at FVTPL that are measured at fairvalue.

Subsequent Measurement

Financial liabilities are subsequently measured at amortized cost using the EIR method. Financial liabilities carried at fair value through profit or loss are measured at fair value with all changes in fair value recognized in the Statement of Profit and Loss.

Financial Liabilities at amortized cost

Amortized cost for financial liabilities represents amount at which financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount.All the financial liabilities of the company are subsequently measured at amortized cost using Effective Interest method.

De recognition of Financial Liabilities

A financial liability shall be de-recognized when, and only when, it is extinguished i.e. when the obligation specified in the contract is discharged or canceled or expires.

e. Lease Rental

At the inception of each lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement.

Finance leases

Finance lease is recognized as an asset and a liability at the commencement of the lease, at the lower of the fair value of the asset and the present value of the minimum lease payments. Initial direct costs, if any, are also capitalized and, subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding lease liability.The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability

Operating Lease

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as operating leases. Operating lease payments are recognized as an expense in the Statement of Profit & Loss on a straight-line basisover the lease term.

f. Foreign Exchange Transactions:

Transactions denominated in foreign currency are accounted for initially at the exchange rate prevailing on the date of transaction. Foreign Currency monetary Assets and Liabilities are translated at year end exchange rates. Fluctuations, if any, due to change in exchange rates between the dates of transactions and the dates of crystallisation are debited / credited to Statement of Profit & Loss.

g. Revenue Recognition

Revenue is measured at the fair value of consideration received or receivable and is recognized to the extent that it is probable that the economic benefits will flow to the Company

Sale of goods

Revenueisrecognizedwhenthesignificantrisksandrewardsoownershipofgoodshave passed to the buyer. Amounts disclosed as revenue are inclusive of excise duty and net of returns, trade allowances, rebates, value addedtaxes.

Interest/ Dividend

Interest Income is recognized using the Effective interest rate (EIR) method. Dividend income is recognized when right to receive is established.

h. Borrowing Costs:

Borrowing costs attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to revenue.

i. Provisions,ContingentLiabilitiesandContingent Assets:

Provisions involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent Liabilities are not recognized but are disclosed in the notes on accounts. Contingent Assets are neither recognized nor disclosed in the financial statements.

j. IncomeTaxes

Income tax expense for the year comprises of current tax and deferred tax. It is recognized intheStatementofProfitandLossexcepttotheextentitrelatestoabusinesscombination ortoanitem whichisrecognizeddirectlyinequityorinother comprehensive income.

Current tax is the expected tax payable/receivable on the taxable income/ loss for the year using applicable tax rates at the Balance Sheet date, and any adjustment to taxes in respect of previous years. Interest income/ expenses and penalties, if any, related to income tax are included in current tax expense.

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the corresponding amounts used for taxation purposes using tax rates enacted, or substantively enacted, by the end of the reporting period.

k. Earnings Per Share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which includes all stock options granted to employees.

l. Critical Accounting Estimates and Judgments

The preparation of financial statements is in conformity with generally Accepted Accounting Principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the result of operations during the reporting period. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates. Revisions in accounting estimates are recognized prospectively.

The areas involving critical estimates or judgments are –

- Estimates of Useful life of Property, plant and equipment andintangibles
- Measurement of defined benefit obligation
- Recognition of deferred taxes
- Estimation of impairment
- Estimation of provision and contingentliabilities

1.3 Standards issued but not effective

Ind AS-116 - Leases

On 30th March 2019, the Ministry of Corporate Affairs (MCA) has notified Ind AS 116 Leases, under Companies (Indian Accounting Standards) Amendment Rules, 2019 which is applicable with effect from 1stApril, 2019.

The core principle of the new standard lies in identifying whether the contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard modifies the accounting of leases in the books of lessee. At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability, for all leases with a term of more than 12 months, unless the underlying asset is of a low value. The accounting for leases in the books of the lessor is substantially similar to the requirements of Ind AS 17.

The standard allows for two methods of transition: the full retrospective approach, requires entities to retrospectively apply the new standard to each prior reporting period presented and the entities need to adjust equity at the beginning of the earliest comparative period presented, or the modified retrospective approach, under which the date of initial application of the new leases standard, lessees recognize the cumulative effect of initial application as an adjustment to the opening balance of equity as of annual periods beginning on or after April 1, 2019.

The Company will adopt this standard using modifiedretrospective method effective April 1, 2019, and accordingly, the comparative for year ended March 31, 2019, will not be retrospectively adjusted. The cumulative effect of the initially applying this standard will be recognised as an adjustment to the opening balance of retained earnings as on April 1, 2019.

On a preliminary assessment effect on adoption of Ind AS 116 is assessed to be of limited impact on thefinancials of the Company.

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

2. Property, Plant & Equipment

(All amounts are in Rupees)

Particulars	GROSS BLOCK				DEPRECIATION			NET BLOCK	
	As at 01.04.2018	Additions during the year	Deletions During the year	As at 31.03.2019	Upto 31.03.2018	For the year	Upto 31.03.2019	As at 31.03.2019	As at 31.03.2018
(A) Tangible Assets									
(i) Land: - Factory	235,862			235,862	-	-	-	235,862	235,862
(ii) Buildings:									-
(a) Factory	4,135,121			4,135,121	3,218,770	106,197	3,324,967	810,154	916,351
(b) Non-Factory	2,497,589			2,497,589	1,025,900	40,296	1,066,196	1,431,393	1,471,689
(iii) Plant and Machinery	1,412,203			1,412,203	1,336,684	479	1,337,163	75,040	75,519
(iv) Electrical Installations	132,946			132,946	84,739	4,750	89,489	43,457	48,207
(v) Weighing Machines	410,491			410,491	390,216	-	390,216	20,275	20,275
(vi) Fire Fighting Equipment	29,810			29,810	28,319	-	28,319	1,491	1,491
(vii) Data Processing Equipment	125,346			125,346	111,484	4,135	115,619	9,727	13,862
(viii) Lab Equipment	814,615			814,615	773,884	-	773,884	40,731	40,731
(ix) Furniture and Fixtures	258,584	9,500		268,084	246,030	-	246,030	22,054	12,554
(x) Vehicles	2,832,318	-		2,832,318	859,805	522,500	1,382,305	1,450,013	1,972,513
(xi) Office equipment	495,281	12,500		507,781	396,779	39,428	436,207	71,574	98,502
Total	**13,380,166**	**22,000**	**-**	**13,402,166**	**8,472,610**	**717,785**	**9,190,395**	**4,211,771**	**4,907,556**
Previous Year	**11,139,966**	**2,240,200**	**-**	**13,380,166**	**8,015,156**	**457,454**	**8,472,610**	**4,907,556**	**3,124,810**

Particulars	GROSS BLOCK				DEPRECIATION			NET BLOCK	
	As at 01.04.2018	Additions during the year	Deletions During the year	As at 31.03.2019	Upto 31.03.2018	For the year	Upto 31.03.2019	As at 31.03.2019	As at 31.03.2018
(b) Intangible Assets									
Process Knowhow	500,000	-		500,000	500,000	-	500,000	-	-
Total	**500,000**	**-**		**500,000**	**500,000**	**-**	**500,000**	**-**	**-**
Previous Year	**500,000**	**-**		**500,000**	**500,000**	**-**	**500,000**	**-**	**-**

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2019

3. INVENTORIES :

(All amounts are in Rupees)

Particulars	As at 31 March 2019	As at 31 March 2018
(i) Raw materials	11,655,747	1,919,847
(ii) Work-in-progress	-	-
(iii) Finished goods	11,280,417	20,795,232
TOTAL	**22,936,164**	**22,715,079**

4 TRADE RECEIVABLES

Particulars	As at 31 March 2019	As at 31 March 2018
A. Secured		
B.Unsecured		
i.Considered good	2,609,505	2,160,255
ii.Signicant increase in credit risk	-	-
iii.Credit Impaired	-	-
Less: Provision for doubtfull allowance	-	-
TOTAL	**2,609,505**	**2,160,255**

5 CASH AND CASH EQUIVALENTS

Particulars	As at 31 March 2019	As at 31 March 2018
i) Balances with banks	336,933	52,531
ii) As Fixed Deposits (Margin Money) Fixed Deposit receipts are held by a bank as 100% margin with a lien marked in the favour for the Bank Guarantees issued by them	6,218,000	4,643,000
iii) Cash on hand	174,398	9,472
TOTAL	**6,729,331**	**4,705,003**

6 OTHER FINANCIAL ASSETS

Particulars	As at 31 March 2019	As at 31 March 2018
Interest receivable	214,513	507,177
TOTAL	**214,513**	**507,177**

7 OTHER CURRENT ASSETS

Particulars	As at 31 March 2019	As at 31 March 2018
(i) Advance for purchase of raw material and stores	873,943	6,259
(ii) Prepaid Expenses	72,276	71,014
(iii) Balance with Central Excise and others	10,208	10,208
(vi) Tax Deducted at Source	181,362	181,362
(v) Deposits Recoverable	258,796	117,196
(vi) GST Receivable	99,183	-
(vii) Advance to Staff	19,000	-
TOTAL	**1,514,768**	**386,039**

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2019

8. EQUITY SHARE CAPITAL

(All amounts are in Rupees)

Particulars	As at 31 March 2019	As at 31 March 2018
Authorised:		
40,00,000 - Equity Shares of Rs 10/- each	40,000,000	40,000,000
10,00,000 - 5% Redeemable Cumulative PreferenceShares of Rs 10/- each.	10,000,000	10,000,000
Issued Subscribed & Fully Paid Up		
30,00,000 - Equity Shares of Rs 10/- each, fully paid up	30,000,000	30,000,000
	30,000,000	**30,000,000**

8 (a) Reconciliation of the number of shares.

Particulars	As at 31st March 2019		As at 31st March 2018	
	Nos	Amount	Nos	Amount
Shares outstanding at the beginning of the year	3,000,000	30,000,000	3,000,000	30,000,000
Add: Issue during the year	-	-	-	
Shares outstanding at the end of the year	**3000000**	**30,000,000**	**3,000,000**	**30,000,000**

8 (b) Rights, preference and restriction attached to shares :

Equity shares: The company has one class of equity shares having a par value of Rs.10 per share. Each shareholder is eligible for one vote per share held. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting, except in case of interim dividend. In the event of liquidation, the equity shareholders are eligible to receive the remaining assets of the Company after distribution of all preferential amounts, in proportion to their shareholding.

8 (c) Shareholders holding more than 5% shares in the Company

Particulars	As at 31st March 2019		As at 31st March 2019	
	No of shares	% held	No of shares	% held
Mr. N. Ravi Prasad	390648	13.02	388148	12.94
M/s. Andhra Pradesh Industrial Development Corporation	337500	11.25	337500	11.25
Mr. N. Ranga Prasad	259298	8.64	259298	8.64
Mr. N. Rajender Prasad	248498	8.28	248498	8.28
Smt. N. Anantha Lakshmi	233998	7.80	233998	7.80
Mr. N Ram Prasad	180298	6.01	180298	6.01

9 OTHER EQUITY

Particulars	As at 31 March 2019	As at 31 March 2018
Surplus/(Deficit) in statement of Profit and Loss		
Opening Balance	**(15814076)**	**(4982105)**
Adjustments in Reserves	-	(49,724)
Add: Profit / (Loss)	13,684.226	(10,782,247)
Less: Appropriations	-	-
Closing Balance	**(2,129,850)**	**(15,814,076)**

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2019

10 FINANCIAL LIABILITIES :

(All amounts are in Rupees)

(i) BORROWINGS

Particulars	As at 31 March 2019	As at 31 March 2018
Unsecured loans - Loans from related parties		
Directors	-	-
Inter-corporate Deposits	2,655,000	2,980,000
TOTAL	**2,655,000**	**2,980,000**

11 BORROWINGS

Particulars	As at 31 March 2019	As at 31 March 2018
Secured Loan Andhra Bank OD A/c	2,829,755	11,047,769
TOTAL	**2,829,755**	**11,047,769**

12 TRADE PAYABLE - CURRENT

Particulars	As at 31 March 2019	As at 31 March 2018
Micro and small enterprises	-	-
Other than micro and small enterprises	-	-
a. Others	-	976,049
TOTAL	**-**	**976,049**

13 OTHER FINANCIAL LIABILITIES

Particulars	As at 31 March 2019	As at 31 March 2018
Creditors for Other expenses	1,793,011	922,993
TOTAL	**1,793,011**	**922,993**

14 OTHER CURRENT LIABILITIES

Particulars	As at 31 March 2019	As at 31 March 2018
(i) Dues to Related party- Directors	436,297	1,454,483
(ii) Statutory liabilities	1,839,250	3,300,582
TOTAL	**2,275,547**	**4,755,065**

15 PROVISIONS

Particulars	As at 31 March 2019	As at 31 March 2018
Provisions for Income Tax	301,788	24,223
TOTAL	**301,788**	**24,223**

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2019

16 REVENUE FROM OPERATIONS

(All amounts are in Rupees)

Particulars	Year ended 31st March 2019	Year ended 31st March 2018
Sales of Products	43,866,485	16,183,258
Job work charges	323,070	-
(Includes Excise Duty & Excludes Discount and GST)		
TOTAL	**44,189,555**	**16,183,258**

17 OTHER INCOME

Particulars	Year ended 31st March 2019	Year ended 31st March 2018
Interest Income	**359,666**	361,608
Excess provision written back	**94,430**	-
TOTAL	**454,096**	**361,608**

18 COST OF MATERIAL CONSUMED

Particulars	Year ended 31st March 2019	Year ended 31st March 2018
Inventory at the beginning of the year	1,919,847	3,304,654
Add: Purchases	16,351,031	6,414,042
Less: Inventory at the end of the year	11,655,747	1,919,847
Cost of raw materials and packing materials consumed	**6,615,131**	**7,798,849**

19 CHANGES IN INVENTORIES OF, FINISHED GOODS,TRADED GOODS AND WORK-IN-PROCESS

Particulars	Year ended 31st March 2019	Year ended 31st March 2018
Opening inventories		
(i) Finished goods	20,795,235	25,794,780
(ii) Work-In-process		
Adjustment in Inventory	(1,451,395)	-
Closing inventories		
(i) Finished goods	11,280,417	20,795,235
(ii) Work-In-process	-	-
(Increase) / decrease in inventory	**8,063,423**	**4,999,545**

20 EMPLOYEE BENEFITS EXPENSE

Particulars	Year ended 31st March 2019	Year ended 31st March 2018
(i) Salaries, wages, and bonus	5,147,748	4,669,264
(ii) Contribution to provident fund	435,096	233,016
(iii) Staff welfare expenses	231,852	199,184
TOTAL	**5,814,696**	**5,101,464**

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2019

21 FINANCE COSTS

(All amounts are in Rupees)

Particulars	Year ended 31st March 2019	Year ended 31st March 2018
Interest expense on :		
(i) Working capital facility	799,924	909,066
TOTAL	**799,924**	**909,066**

22 OTHER EXPENSES

Particulars	Year ended 31st March 2019	Year ended 31st March 2018
Consumption of general stores	166,100	40,502
Power and Fuel	265,890	300,309
Repairs to :		
Buildings	354,559	111,672
Machinery	240,499	190,828
Others	88,565	27,407
Vehicle maintenance	353,275	243,381
Sales Expenses :		
Excise duty	-	844,549
Freight & Others - Domestic Sales	280,843	204,212
Payments to Auditors		
As Auditors	54,280	61,180
for Tax Audit	17,700	-
for Certification	7,080	2,876
Rates and Taxes	67,998	176,530
Postage, Telegrams and Telephones	286,779	241,867
Travelling, Conveyance and Vehicle expenses	2,350,604	1,276,929
Insurance	886,364	114,882
General charges	119,623	850,619
Professional charges	210,512	212,643
Lease rental Amortization	1,715	1,715
TOTAL	**5,752,386**	**4,902,101**

23 EARNINGS PER SHARE ('EPS')

Particulars	Year ended 31st March 2019	Year ended 31st March 2018
Profit / (Loss) for the Period	13,684,226	(10,782,247)
Shares		
Weighted average shares used for computing basic EPS	3,000,000	3,000,000
Weighted average shares used for computing diluted EPS	3,000,000	3,000,000
Earning Per Shares		
Basic (in Rs)	4.56	(3.59)
Diluted (in Rs)	4.56	(3.59)

Note 24

Financial Risk Management

The Company's activities expose it to market risk, credit risk and liquidity risk. Company's overall risk management focus the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

I. Market Risk

Market risk is the risk of loss of the future earnings, fair values or future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interestrates,foreigncurrency exchangerates, commoditypricesando the rmarketchangesthataffectmarketrisksensitive instruments. Market risk is attributable to all market risk sensitive financial instruments including investments and deposits, foreign currency receivables, payables and borrowings.

a. Foreign Currency Risk-

Foreign Currency Risk is the risk of impact related to fair value or future cash flows of anexposure in foreign currency, which fluctuate due to change in foreign currency rates. The Company's exposure to the risk of changes in foreign exchange rates is negligible.The company does not enter into any derivative instruments for trading or speculative purposes.

b. Interest Rate Risk–

Interest rate risk is the risk that the fair value or future cash flows of a financial instrumentwill fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes inmarket rates relates primarily to the Company's short term borrowing. The Company constantly monitors the credit markets and re-balances its financing strategies to achieve an optimal maturity profile and financing cost.

II. Credit Risk

Credit risk arises when a customer or counterparty does not meet its obligations under a financial instrument or custom contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing/investing activities, including deposits with banks. The company has a prudent and conservative process for managing its credit risk arising in the course of its business activities. The Company is receiving payments regularly from its customers and hence the Company has no significant credit risk.

III. LiquidityRisk

Liquidity risk is defined as the risk that the company will not be able to settle or meet obligations on time or at reasonable price. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of credit facilities to meet obligations when due. The Company's treasury team is responsible for liquidity, funding as well as settlement management. In addition, processes and policies related to such risks are overseen by senior management. Management monitors the Company's liquidity position through rolling forecasts based on expected cash flows

Note 25

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to level 3 as described below

Level 1 – Quoted prices in an active market:

This level of hierarchy includes financial assets that are measured by reference to quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Valuation techniques with observable inputs:

This level of hierarchy includes financial assets and liabilities, measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). There are no financial instruments held by the company which fall under this category

Level 3 – Valuation techniques with significant unobservable inputs:

This level of hierarchy includes financial assets and liabilities measured using inputs that are not based on observable market data (unobservable inputs). Fair values are determined in whole or in part, using a valuation model based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. There are no financial instruments held by the company which fall under this category.

Note 26

Forex Transactions **(Rs. in Lakhs)**

Particulars	Current Year	Previous Year
Raw Materials : Value of Imports (CIF)	**80,60,685**	77,98,849
Total	**80,60,685**	77,98,849

Note 27

Capital Management

The Company's objectives when managing capital are to

i) Safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders.

ii) Maintain an optimal capital structure to reduce the cost of capital

Consistent with others in the industry, the company monitors capital on the basis of the following gearing ratio:

Net debt (total borrowings net of cash and cash equivalents) divided by Total 'equity' (as shown in the balance sheet)

Gearing Ratio

Particulars	As at	
	March 31,2019	March 31,2018
a) Debt Obligations	54,84,755	1,40,27,769
b) Cash and Cash equivalents	67,29,331	47,05,003
c) Net Debt (a-b)	-	93,22,766
d) Total Equity	2,78,70,150	1,41,85,924
e) Net Debt/Equity Ratio (c/d)	-	0.66

Note 27

Reconciliation of Tax Expense and Accounting profit multiplied by Applicable tax rate

Particulars	Current Year	Previous Year
(I) Tax expense recognized in Statement of Profit and loss		
Current Tax	3,196,080	0
Deferred Tax	0	(171,626)
Total	3,196,080	(171,626)
(II) Effective tax Reconciliation		
(a) Profit/(loss) before tax	16,880,306	(10,953,873)
(b) Applicable tax rate	20.59	0
(c) Tax expense on Net profit (a*b)	3,475,655	0
(d) Others	(279,575)	(171,626)
(e) Tax Expense as per Statement of Profit and loss (c+d)	3,196,080	(171,626)

NOTES FORMING PART OF STANDALONE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

Note 28

Employee benefits

In view of very limited strength of the employees, presently working in the Company the requirementsof the Ind AS -19 Employee Benefits I respect of Gratuity could not be complied with. However, Provisions for gratuity as required under The Payment of Gratuity Act has been provided for and is being paid as and when liability arises.

Note 29

Related party disclosures as required by the IND AS 24

The Related party disclosures as required by IND AS – 24 are given below.

S. No	Related Parties	Nature of Relationship
1	Sri. N. Ravi Prasad, Managing Director	Key Managerial Personnel
2	Sri. N. Rajender Prasad, Joint Managing Director	
3	Smt. N. Anantha Lakshmi	Relatives of Directors
4	Sri. N. Ram Prasad	
5	Southern Electrodes Ltd	Enterprise over which
6	Pumps India Pvt. Ltd	Key Managerial Personnel & their relatives exercise significant Influence.

1. Transactions with Key Management personnel (Amount in Rs.)

S.No	Nature of transaction	Current Year	Previous Year
1	**Remuneration**	23,04,000	23,04,000
2	**Medical Reimbursement**	2,15,296	28,513
3	**Club Subscriptions**	23,390	22,550
4	**Un Secured Loans**		
	Outstanding at the beginning of the year	0	0
	Amounts received during the year	0	3,75,000
	Amounts repaid during the year	0	3,75,000
	Outstanding at the end of the year	0	0
5	**Current Liabilities – Current Accounts of the Key Managerial Personal**		
	Outstanding at the beginning of the year	7,62,883	71,980
	Amounts received during the year	19,14,177	10,53,345
	Amounts repaid during the year	25,24,763	3,62,442
	Outstanding at the end of the year	1,52,297	7,62,883

NOTES FORMING PART OF STANDALONE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

2. Transactions with Enterprises over which Key Management personal and their relatives exercise Significant Influence:

S.No.	Nature of Transaction	Current Year	Previous Year
1	**Inter Corporate Deposits received**		
	Outstanding at the beginning of the year	29,80,000	32,29,000
	Amounts received during the year	0	0
	Amounts repaid during the year	3,25,000	2,49,000
	Outstanding at the end of the year	26,55,000	29,80,000
2	**Current Liabilities**		
	Outstanding at the beginning of the year	92,022	93,022
	Amounts received during the year	0	17,434
	Amounts repaid during the year	0	18,434
	Outstanding at the end of the year	92,022	92,022

Note 30

Micro, Small and Medium Enterprises

There are no amounts outstanding as at 31stMarch, 2019 payable to Micro, Small and Medium Enterprises.There are no Micro, Small and Medium Enterprises, to whom the Company owes dues, which are outstanding for morethan 45 days during the year and also as at 31st March, 2019. This information as required to be disclosed under the Micro,Small and Medium Enterprises Development Act, 2006 has been determined to the extent such parties have been identified on the basis of information available with the Company and relied upon by the Auditors.

Note 31 Exceptional Item

During the previous year exceptional item includes an amount of Rs.35.00 Lakhs paid to Mr.Chitti Reddy Raji Reddy with regard to revert of lease transaction which was executed on 15.02.2012 for an amount of Rs.16.99 lakhs, the company is of the view to retain the land due to rapid development in Telangana.

Note 32

Previous Year's figures have been regrouped wherever necessary to correspond with the current year's figures. Except otherwise stated.

As per our report of even date
For **BRAHMAYYA & CO.,**
Chartered Accountants
Firm Registration No.000513S

For and on behalf of the Board of
Southern Magnesium and Chemicals Limited

Sd/-
K. Shravan
Partner
Membership No. 215798

Sd/-
N. Rajender prasad
Jt. Managing Director & CFO
(DIN- 00145659)

Sd/-
N. Ravi Prasad
Managing Director & CEO
(DIN- 00319537)

Place : Hyderabad
Date : 10.05.2019