

Reliance Naval and Engineering Limited

Independent Auditor's Report

and approved by NCLT. The appropriateness of preparation of Standalone Financial Statements on going concern basis is critically dependent upon CIRP as specified in the Code.

Our opinion is not modified in respect of this matter.

Emphasis of Matter

We draw your attention to Note no. 48 to the Standalone Financial Statements, which describes the uncertainties related to COVID-19 and its consequential effects on the affairs of the Company.

Our opinion is not modified in respect of this matter.

Key Audit Matters (KAM)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Standalone Financial Statements of the current period. These matters were addressed in the context of our audit of the Standalone Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion & Material Uncertainty Related to Going Concern section, we have determined the matters described below to be key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the key audit matter
1) Litigation Matters and Contingent Liabilities The Company is subject to number of legal and tax related claims which have been disclosed / provided for in the Standalone Financial Statements based on the facts and circumstances of each case. There is a high level of judgment required in estimating the level of provisioning required and appropriateness of disclosure of contingent liabilities. Refer Note 1 (f) (XV) "Significant Accounting Policies - Provision, Contingent Liabilities and Contingent Assets" and Note 32 - "Contingent Liabilities and Commitments" to the Standalone Financial Statements.	Our audit procedures included, among others: <ul style="list-style-type: none"> • Reviewing the process of identification of claims, litigations and contingent liabilities. • Reviewing the Company's legal and tax cases and assessed management's position through discussion on both the probability of success in significant cases and the magnitude of any potential loss. • Discussion with the management on the development in these litigations during the year ended March 31, 2020. • Verifying that accounting and /or disclosure as the case may be in the Standalone Financial Statements is in accordance with the assessment of management. • Obtaining representation letter from the management on the assessment of these matters as per SA 580(revised) - Written representations.

Other Information

The Company's Board of Directors / Resolution Professional/ Management are responsible for the other information. The other information comprises the management discussion & analysis and director's report included in the annual report but does not include the Financial Statements and our auditor's report thereon, which is expected to be made available to us after that date.

Our opinion on the Standalone Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Standalone Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Standalone Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the other information identified above, if we conclude that there is a material misstatement therein we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Resolution Professional and Those Charged with Governance for the Standalone Financial Statements

During the year, the Hon'ble National Company Law Tribunal ("the NCLT"), Ahmedabad Bench, admitted petition for initiation of Corporate Insolvency Resolution Process ("CIRP") under Section 7 of the Insolvency and Bankruptcy Code, 2016 ("the Code") filed by financial creditors vide order no. CP (IB) No. 418/7/NCLT/AHM/2018 dated January 15, 2020 and appointed an Interim Resolution Professional ("IRP"), Mr. Rajeev Bal Sawangikar, to manage affairs of the Company in accordance with the provisions of the Code. Subsequent to the year, the NCLT, Ahmedabad Bench, vide order no. IA 233/2020 in CP (IB) No. 418/7/NCLT/AHM/2018 dated May 5, 2020 appointed Mr. Sudip Bhattacharya as Resolution Professional ("RP") replacing the IRP according to the resolution passed by the Committee of Creditors unanimously. In view of pendency of the CIRP and suspension of powers of Board of Directors and as explained to us, the powers of adoption of the Statement vests with RP. The Standalone Financial Statements are prepared by the Management of the Company and Certified by Mr. Madan Pendse, Chief Financial Officer and approved by RP.

The Company's Board of Directors / Resolution Professional/ Management are responsible for the matters stated in Section 134(5) of the Act with respect to the preparation of these Standalone Financial Statements that give a true and fair view of the state of affairs (financial position), loss (financial performance including other comprehensive income), cash flows and the statement of changes in equity of the Company in accordance with the accounting principles generally accepted in India, including Indian Accounting Standards ('Ind AS') prescribed under Section 133 of the Act read with relevant rules issued thereunder.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making

Independent Auditor's Report

judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the Standalone Financial Statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the Standalone Financial Statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those Board of Directors / Resolution Professional/ Management are also responsible for overseeing the Company's financial reporting process.

Auditors' Responsibility for the audit of the Standalone Financial Statements

Our objectives are to obtain reasonable assurance about whether the Standalone Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Standalone Financial Statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Standalone Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal financial controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3) (i) of the Act, we are also responsible for expressing our opinion on whether the Company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a

material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Standalone Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Standalone Financial Statements, including the disclosures, and whether the Standalone Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Standalone Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

1. As required by Section 143 (3) of the Act, we report that:
 - a. We have sought and obtained, *except for matters described in the Basis for Qualified Opinion paragraph above*, all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b. *Except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph above*, in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.
 - c. The Standalone Balance Sheet, the Statement of Standalone Profit and Loss (Including other comprehensive income), the Statement of Standalone Changes in Equity and the Standalone Cash Flow Statement dealt with by this Report are in agreement with the books of account.
 - d. *Except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph above*, in our opinion, the aforesaid Standalone Financial Statements comply with the Ind AS prescribed under Section 133 of the Act.

Reliance Naval and Engineering Limited**Independent Auditor's Report**

- e. The matter described under Basis for Qualified Opinion paragraph above and matters described under Material Uncertainty Related to Going Concern paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.
- f. Except for two of the directors who had resigned before March 31, 2020, written representation is received from other all the directors as on March 31, 2020. On the basis of such written representations received from directors and taken on record in the meeting of RP and also based on legal opinion obtained by the Company, with reference to the cancellation of the NCDs issued by the Company to its lenders and principal and interest thereon not payable and its consequential impact on the disqualification of directors under section 164(2) of the Act as mentioned in note no. 15.2 to the Standalone Financial Statements, none of those directors is disqualified as on March 31, 2020 from being appointed as a director in terms of Section 164 (2) of the Act.
- g. With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in **"Annexure A"**.
- h. With respect to the other matters to be included in the Auditor's Report in accordance with the requirements of section 197(16) of the Act, as amended:
- In our opinion and to the best of our information and according to the explanations given to us, the Company has paid managerial remuneration of ₹ 97.17 Lakhs to its whole time director as approved by the shareholders of the Company but without obtaining prior approval from the secured lenders as required under the third proviso of the Section 197(1) of the Act.
- i. The qualifications relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above;
- j. With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, as amended, in our opinion and to the best of our information and according to the explanations given to us:
- i. The Company has disclosed the impact of pending litigations on its financial position in its Standalone Financial Statements as referred to in Note No. 32.1 to the Standalone Financial Statements;
 - ii. The Company has made provisions, as required under the applicable law or Ind AS, for material foreseeable losses, if any, on long term contracts including derivative contracts;
 - iii. There were no amounts which were required to be transferred, to the Investor Education and Protection Fund by the Company;
2. As required by the Companies (Auditor's Report) Order, 2016 ("CARO 2016") issued by the Central Government in terms of Section 143(11) of the Act, we give in **"Annexure B"** a statement on the matters specified in paragraphs 3 and 4 of CARO 2016.

For **Pathak H.D. & Associates LLP**
Chartered Accountants
 Firm Reg. No. 107783W/ W100593
 Gyandeo Chaturvedi

Partner
 Membership No.46806
 UDIN: 20046806AAAAAT3570

Place: Mumbai
 Dated: July 31, 2020

Annexure "A" to the Independent Auditor's Report

(Referred to in paragraph 1 (g) under 'Report on Other Legal and Regulatory Requirements' of our report of even date on Standalone Financial Statements of RELIANCE NAVAL AND ENGINEERING LIMITED for the year ended March 31, 2020)

Report on the Internal Financial Controls Over Financial Reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls over financial reporting of **RELIANCE NAVAL AND ENGINEERING LIMITED** ('the Company') as of March 31, 2020 in conjunction with our audit of the Standalone Financial Statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') issued by the Institute of Chartered Accountants of India (ICAI). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditor's Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note issued by the ICAI and the Standards of Auditing prescribed under Section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Standalone Financial Statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the Standalone Financial Statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

According to the information and explanations given to us and based on the audit of test of controls, except on strengthening of documentation of policies regarding delegation of authority and access right to financial records and process of archival of records and periodic review which we are informed that is in process, in our opinion, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2020, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note issued by the ICAI.

For **Pathak H.D. & Associates LLP**
Chartered Accountants
Firm Reg. No. 107783W/ W100593
Gyandeo Chaturvedi

Partner
Membership No.46806
UDIN: 20046806AAAAAT3570

Place: Mumbai
Dated: July 31, 2020

Reliance Naval and Engineering Limited

Annexure "B" to the Independent Auditor's Report

(Referred to in paragraph 2 under the heading "Report on Other Legal and Regulatory Requirements" of our report of even date to the members of RELIANCE NAVAL AND ENGINEERING LIMITED (the Company) on the Standalone Financial Statements for the year ended March 31, 2020)

- i. In respect of its fixed assets:
 - a. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets on the basis of available information.
 - b. As explained to us, the Company has physically verified certain assets, in accordance with a phased 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 physical verification as compared with the available records.
 - c. According to the information and explanations given to us and on the basis of our examination of the records of the Company, the Company doesn't have any freehold immovable properties. As informed to us, in respect of leasehold immovable properties the original title deeds have been deposited with the lenders, we have been produced the photocopy of the title deeds of these leasehold immovable properties and based on such documents, the title deeds are held in the name of the Company.
- ii. As explained to us, inventories have been physically verified during the year by the management and in our opinion the frequency of verification is reasonable. Discrepancies noticed on physical verification of the inventories between the physical inventories and book records were not material, having regard to the size of the operations of the Company and the same have been properly dealt with.
- iii. In respect of loans, secured or unsecured, granted by the Company to companies, firms, Limited liability partnerships or other parties covered in the register maintained under section 189 of the Act:
 - a. In the earlier years the Company had granted unsecured loan to its five wholly owned subsidiary Companies and the terms and conditions on which the loan had been granted were not, prima facie, prejudicial to the interest of the Company.
 - b. The terms of repayment of principal and payment of interest have been stipulated and the principal and interest were due for payment but due to the financial crisis the parties had not paid the same.
 - c. The amounts are overdue and the Company has considered the said loan and interest receivables as doubtful and has been written off.
- iv. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of section 185 and 186 of the Act, in respect of grant of loans, making investments and providing guarantees and securities.

- v. According to the information and explanations given to us, the Company has not accepted any deposits from the public. Therefore, the provisions of paragraph 3 (v) of the CARO 2016 are not applicable to the Company.
- vi. According to the information and explanations given to us, the Central Government has not prescribed the cost records to be maintained under sub-Section (1) of Section 148 of the Act in respect of activities carried on by the Company. Therefore the provisions of paragraph 3(vi) of the CARO 2016 are not applicable to the Company.
- vii. According to the information and explanations given to us in respect of statutory dues:
 - a. The company has been generally regular in depositing undisputed statutory dues, including provident fund, Employees' State Insurance, duty of customs, cess, Goods and Services Tax and any other statutory dues, as applicable, with the appropriate authorities during the year however delays have been noticed in respect of income tax. According to the information and explanations given to us, undisputed amounts to ₹ 380.87 Lakhs payable in respect of such statutory dues were outstanding as at March 31, 2020 for a period of more than six months from the date they became payable as below:

Name of the Statute	Nature of the Dues	Period to which it relates	Amounts (₹ in Lakhs)	Due Date	Date of Payment
The Income Tax Act, 1961	Income Tax	April 2018 to September 2019	380.87	Various dates	Unpaid

- b. Details of dues of Income tax and dues to Excise Department aggregating to ₹ 4,118.52 Lakhs that have not been deposited on account of disputed matters pending before appropriate authorities are as under.

Name of the Statutes	Nature of the Dues	Period to which it relates	Amounts (₹ in Lakhs) (*)	Forum where the dispute is pending
Income Tax Act, 1961	Income Tax	2007-08 to 2018-19	178.60	Commissioner of Income Tax
CENVAT Credit Rules, 2004	Penalty under Central Excise Act, 1944	2010-11 to 2017-18	3,939.92	Commissioner of Central Excise
		Total	4,118.52	

* Net of amount deposited under protest

- viii. Based on our audit procedures and information and explanations given by the management, and considering the recall notices received by the company from lender banks, we are of the opinion that as on March 31, 2020 the Company has defaulted in repayment of loans (including payment of interest on loans) to banks and financial institutions aggregating to ₹ 10,87,564.82 Lakhs. Refer Note no. 15.2 to the Standalone Financial Statements for the detail of Non Convertible Debentures (NCD).

Annexure "B" to the Independent Auditor's Report

Lender wise details of such defaults are as under:

Bank / Financial Institution	Amount of default as at the balance sheet date (₹ in Lakhs)	
	Less Than 90 Days	More Than 90 Days
Union Bank of India	163.78	1,36,784.63
IDBI Bank	3,316.79	1,28,367.64
EXIM Bank	980.44	77,330.88
State Bank of Patiala	16,949.52	43,879.09
UCO Bank	368.03	43,047.71
Oriental Bank of Commerce	18,835.22	33,365.24
Life Insurance Corporation	-	10,351.10
Punjab National Bank	6,054.43	52,147.88
United Bank of India	20,665.41	32,023.35
Karnataka Bank	-	3,898.40
Karur Vyasa Bank	-	4,084.81
Bank of India	320.11	38,660.08
Central Bank of India	81.43	65,466.48
IFCI Ltd	-	41,924.16
Jammu & Kashmir Bank	-	31,045.30
Corporation Bank	-	31,535.16
Bank of Maharashtra	-	10,427.56
IIFC UK	-	29,193.51
Punjab & Sind Bank	469.81	19,878.52
State Bank of India	14,158.60	67,640.53
Dena Bank	5,479.10	37,187.30
State Bank of Mysore	12,735.22	3,147.17
Vijaya Bank	406.82	23,529.87
HUDCO	-	20,803.49
IL&FS Bank	-	805.46
Dalmier Financial Services India Pvt Ltd	-	50.25
Tata Capital Financial Services Ltd	-	4.54
Total	1,00,984.71	9,86,580.11

- ix. According to the information and explanations given to us, the term loans raised during the year were, prima facie, been applied for the purpose for which those are raised. The Company has not raised any money by way of initial public offer or further public offer (including debt instruments).
- x. Based on our audit procedures performed for the purpose of reporting the true and fair view of the Standalone

Financial Statements and on the basis of information and explanations given by the management, no fraud by the Company or on the Company by its officers or employees has been noticed or reported during the year.

- xi. In our opinion and according to the information and explanations given to us the Company has paid managerial remuneration without the requisite approvals from the lenders as mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013.
- xii. In our opinion and according to the information and explanations given to us, the Company is not a nidhi company. Therefore, the provisions of paragraph 3 (xii) of the CARO 2016 are not applicable to the Company.
- xiii. According to the information and explanations given to us and based on our examination of the records of the Company, transactions with the related parties are in compliance with sections 177 and 188 of the Act where applicable and details of such transactions have been disclosed in the Standalone Financial Statements etc. as required by the applicable accounting standards.
- xiv. According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not made any preferential allotment or private placement of shares or debentures during the year. Therefore, the provisions of paragraph 3 (xiv) of the CARO 2016 are not applicable to the Company.
- xv. According to the information and explanations given to us, the Company has not entered into non-cash transactions with directors or persons connected with him. Therefore, the provisions of paragraph 3 (xv) of the CARO 2016 are not applicable to the Company.
- xvi. In our opinion and according to information and explanations provided to us, the Company is not required to be registered under section 45-IA of the Reserve Bank of India Act, 1934.

For **Pathak H.D. & Associates LLP**
Chartered Accountants
Firm Reg. No. 107783W/ W100593
Gyandeo Chaturvedi

Partner
Membership No.46806
UDIN: 20046806AAAAAT3570

Place: Mumbai
Dated: July 31, 2020