



INDEPENDENT AUDITOR'S REPORT

To the Members of Kalyani Steels Limited
Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the Standalone Financial Statements of Kalyani Steels Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2021, the Statement of Profit and Loss (including Other Comprehensive Income), the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended and notes to the Standalone Financial Statements, including a summary of Significant Accounting Policies and other explanatory information (hereinafter referred to as "the Standalone Financial Statements") and includes a Joint Operation accounted for on proportionate basis.

In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of report of the other auditor on separate financial statements of the Joint Operation, the aforesaid Standalone Financial Statements give the information required by the Companies Act, 2013 ("the Act") in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2021, its profit (including other comprehensive income), its changes in equity and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under Section 143(10) of the Act. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Standalone Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the Standalone Financial Statements under the provisions of the Act and the Rules thereunder and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

We believe that the audit evidence obtained by us and by the other auditor referred to in the "Other Matter" paragraph, is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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.

Key Audit Matters	Principle Audit Procedures
<p>Accounting of joint operation As explained in Note 2.3, the Company's composite steel manufacturing facility at Ginigera is under a strategic alliance arrangement with a joint venture partner. The facility is managed by Hospet Steels Limited. The alliance confers Kalyani Steels Limited (KSL) and Mukand Limited (ML) with rights to assets, obligations for liabilities, sharing of expenses / profit / loss in the proportion of product sharing ratio (viz. 41.38% by KSL and 58.62% by ML). Thus, KSL and ML have right to the assets and obligations for the liabilities of this arrangement. The strategic alliance is a joint arrangement in the nature of joint operation and accordingly, the Company has recognized its share of revenue and expenses and assets and liabilities from joint operation in its separate financial statements. Due to the nature and complexities involved in accounting of strategic alliance arrangement as joint operation, this is a key audit matter.</p>	<p>As part of our audit procedure –</p> <ul style="list-style-type: none"> - we have obtained the said strategic alliance arrangement and read the terms and conditions mentioned therein. - assessed the management's judgement of concluding the arrangement as joint operation as per the principles laid down under Ind AS 111. - further we have tested the controls and procedures established by the management relating to accounting of joint venture. <p>The accounting for joint operation requires the Company to recognize only its share of expenses from the joint operation, therefore we have checked the amount charged to ML (joint venture partner) are as per the terms and conditions of strategic alliance arrangement and have been offset against the respective expense line items. Similarly, the expenses incurred by the ML (joint venture partner) and charged to the Company have been reclassified to the respective expense line items based on the nature of such expenses.</p>

Key Audit Matters	Principle Audit Procedures
<p>Valuation of inventory As on March 31, 2021, the Company is having inventory of ₹ 1,189.45 Million and disclosed in Note 10. The inventory is valued at cost or net realizable value whichever is lower. Costs includes direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but does not include borrowing costs. Cost of work-in-progress and finished goods are determined on a weighted average basis (refer Note (k) of Significant Accounting Policies). The Company's composite steel manufacturing involves processes such as Mini Blast Furnace (MBF), Steel Melting Shop (SMS) and Rolling Mill Shop (RMS). The production is carried out continuously, by way of the simultaneous, standardized and sequential process. The output of a process is the input of another. The production from the last process is transferred to finished stock. Both direct and indirect costs are charged to the processes. The production results in joint and by-products. Losses, both normal and abnormal loss occur at different stages of production which are also taken into consideration while calculating the unit cost. Considering the calculation of process cost at each stage, accounting of joint product and by-product, normal / abnormal losses and allocation of overheads, the valuation of inventory is regarded as a key audit matter.</p>	<p>As a part of our audit procedures over valuation of inventory we have performed the following procedures :</p> <ul style="list-style-type: none"> - assessed the design and performed tests of the design and operating effectiveness of the key controls over inventory valuation. - obtained understanding of production process at each stage. - obtained and tested on sample basis the process cost of each production process. - verified the calculations, accounting of joint and by-product and allocation basis of overhead as per costing principles. - tested the assumptions such as allocation percentages of fixed and variable overheads and yield rate at each production stages with source data. - further we have tested on sample basis, net realisable value of finished goods based on subsequent sale value. - we have also checked the aging report for identification of non-moving / slow moving finished goods on a sample basis.

Other Information

The Company's Board of Directors is responsible for the other information. The other information comprises the Management Discussion and Analysis, Board of Directors' Report along with its Annexures and Corporate Governance Report included in the Annual Report but does not include the Standalone Financial Statements and our auditor's report thereon. 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The Company's Board of Directors is 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 financial position, financial performance (including other comprehensive income), changes in equity and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under Section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended.

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 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, the 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 are also responsible for overseeing the Company's financial reporting process.



Auditor's Responsibilities 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 control 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 Company's ability 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 and its Joint Operation 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company and its Joint Operation to express an opinion on the Standalone Financial Statements. For the other entity included in the Standalone Financial Statements, which have been audited by the other auditors, such other auditors remain responsible for the direction, supervision and performance of the audits carried out by them. We remain solely responsible for our audit opinion.

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.

Other Matters

We did not audit the financial statements of a Joint Operation, included in the Standalone Financial Statements on proportionate basis as per Ind AS 111 "Joint Operations", whose financial statements reflect total revenue of ₹ Nil, total comprehensive income / loss of ₹ Nil for the year ended March 31, 2021. The joint operation has total assets of ₹ 235.46 Million as on March 31, 2021 and net cash (outflow) of ₹(13.86) million for the year ended March 31, 2021.

These financial statements have been audited by other auditor whose report has been furnished to us by the Management and our opinion on the Standalone financial statements insofar as it relates to the amounts and disclosures included in

respect of this Joint Operation and our report in terms of sub-section (3) of Section 143 of the Act insofar as it relates to the aforesaid joint operation, is based solely on the report of the other auditor.

Our opinion is not modified in respect to this matter.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Act, we give in the Annexure A, a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.
2. As required by Section 143(3) of the Act, based on our audit and on the consideration of report of the other auditor on separate financial statements of Joint Operation, as noted in the Other Matters paragraph, we report that :
 - a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b) In our opinion, proper books of account as required by law have been kept by the Company and its Joint Operation so far as it appears from our examination of those books.
 - c) The Balance Sheet, the Statement of Profit and Loss (including other comprehensive income), the Statement of Changes in Equity and the Statement of Cash Flows dealt with by this Report are in agreement with the books of account.
 - d) In our opinion, the aforesaid Standalone Financial Statements comply with the Indian Accounting Standards specified under Section 133 of the Act, read with Companies (Indian Accounting Standards) Rules, 2015, as amended.
 - e) On the basis of the written representations received from the Directors as on March 31, 2021 taken on record by the Board of Directors and the report of other auditor of the Joint Operation, none of the Directors is disqualified as on March 31, 2021 from being appointed as a Director in terms of Section 164 (2) of the Act.
 - f) With respect to the adequacy of the internal financial controls with reference to Standalone Financial Statements of the Company and its Joint Operation and the operating effectiveness of such controls, refer to our separate Report in Annexure B.
 - g) As required by Section 197 (16) of the Act, in our opinion and according to information and explanation provided to us, the remuneration paid by the Company to its Directors is in accordance with the provisions of Section 197 of the Act and remuneration paid to Directors is not in excess of the limit laid down under this Section. As per the report of the auditor of the Joint Operation no remuneration is provided / paid to the Directors of the Joint Operation.
 - h) 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, 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 - Refer Note 37.
 - (ii) The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
 - (iii) There is no amount required to be transferred, to the Investor Education and Protection Fund by the Company and its Joint Operation.

For P G BHAGWAT LLP
Chartered Accountants
Firm Registration No.101118W/W100682

Pune
May 18, 2021

Abhijeet Bhagwat
Partner
Membership No.136835
UDIN : 21136835AAAABG2227



Annexure ‘A’ to the Independent Auditor’s Report

Referred to in paragraph 1 under the heading, “Report on Other legal and Regulatory Requirements” of our report on even date :

- (i) (a) The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The fixed assets are physically verified by the Management according to a phased programme designed to cover all the items over a period of four years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets have been physically verified by the Management during the year and no material discrepancies have been noticed on such verification.
- (c) The title deeds of immovable properties are held in the name of the Company.
- (ii) Physical verification of inventory has been conducted by the management during the current year. In our opinion, the interval of such verification is reasonable. Discrepancies noticed on physical verification were not material and the same have been properly dealt with in the books of account.
- (iii) The Company has granted unsecured loan [inter corporate deposit (ICD)], to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under Section 189 of the Act.

Number of parties	Opening Balance (₹ in Million)	Year End Balance (₹ in Million)	Maximum Balance (₹ in Million)
1	Nil	700.00	700.00

- (a) According to the information and explanations provided to us, the rate of interest charged on these ICDs is at arm’s length. The Company has taken corporate guarantee from the holding company of the loanee Company. Therefore, we can conclude that the terms and conditions of the grant of such ICDs is not prejudicial to the interest of the Company.
- (b) According to the information and explanations provided to us, the repayment schedule of the principal and interest are stipulated. The repayments are as per the schedule.
- (c) According to the information and explanations provided to us no amount is overdue.
- (iv) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 185 and 186 of the Act with respect to loans, investments, guarantees and security, as applicable.
- (v) According to information and explanation provided to us, the Company has not accepted deposits, hence the directives issued by the Reserve Bank of India and the provisions of Sections 73 to 76 or any other relevant provisions of the Act and the rules framed there under, are not applicable to it. According to information and explanation provided to us, no order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal.
- (vi) We have broadly reviewed the books of account relating to materials, labour and other items of cost maintained by the Company pursuant to the rules made by the Central Government for the maintenance of cost records under sub-section (l) of Section 148 of the Act and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained. We have not however made a detailed examination of records with a view to determine whether they are accurate and complete.
- (vii) (a) The Company is generally regular in depositing undisputed statutory dues including provident fund, employees’ state insurance, income tax, duty of customs, goods and service tax, cess and any other statutory dues with the appropriate authorities. According to the information and explanation provided to us, no undisputed amounts payable in respect of statutory dues were in arrears as at March 31, 2021, for a period more than six months from the date they became payable.

- (b) According to the information and explanation provided to us, there are no dues of income tax, sales tax, service tax, duty of customs, duty of excise, goods and service tax, value added tax or cess which have not been deposited on account of any dispute except those mentioned below :

Name of the statute	Nature of dues	Amount (₹ in Million)	Period to which the amount relates	Forum where the dispute is pending
Central Excise Act, 1944	Excise Duty	9.43	August, 2008 to February, 2011	Customs, Excise and Service Tax Appellate Tribunal (CESTAT)
Central Excise Act, 1944	Excise Duty	20.39	2012-13 to 2014-15	Commissioner
Income Tax Act, 1961	Income Tax	6.72	Assessment Years 2016-17 & 2017-18	Commissioner of Income Tax Appeals
Income Tax Act, 1961	Income Tax	6.29	Assessment Year 2018-19	Assessing Officer
KVAT, 2003	VAT	0.64	FY 2011-12	Karnataka Appellate Tribunal
KVAT, 2003	VAT	1.01	FY 2012-13	Forum JC-Appeals

- (viii) Based on our audit procedures and according to the information and explanation provided to us, the Company has not defaulted in repayment of loans or borrowings to a financial institution, bank or government. The Company did not have debenture holders.
- (ix) According to information and explanation provided to us, the Company has not raised moneys by way of initial public offer or further public offer (including debt instruments) in the current year. According to the information and explanations given to us, term loans availed by the Company in the current year were, prima facie, applied for the purpose for which the loans were obtained.
- (x) Based upon the audit procedures performed by us and according to the information and explanation provided to us by the management, no fraud by the Company or any fraud on the Company by its officers or employees has been noticed or reported to us during the year.
- (xi) According to the information and explanation provided to us, the managerial remuneration has been paid and provided in accordance with the requisite approvals mandated by the provisions of Section 197 read with Schedule V to the Act.
- (xii) The Company is not a Nidhi Company and accordingly, Clause (xii) of the Order is not applicable to the Company.
- (xiii) According to the information and explanation provided to us, all transactions with the related parties are in compliance with Sections 177 and 188 of the Act wherever applicable and the details of the transactions have been disclosed in the Standalone Financial Statements as required by Ind AS 24 'Related Party Disclosures'. Refer Note 39.
- (xiv) The Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review. Accordingly, the provisions of Clause 3(xiv) of the Order are not applicable to the Company.
- (xv) According to the information and explanation provided to us, the Company has not entered into any non-cash transactions with Directors or persons connected with him.
- (xvi) According to the information and explanation provided to us, the Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934.

For P G BHAGWAT LLP
Chartered Accountants
Firm Registration No.101118W/W100682

Abhijeet Bhagwat

Partner

Membership No.136835

UDIN : 21136835AAAABG2227

Pune
May 18, 2021



Annexure 'B' to the Independent Auditor's Report

Referred to in paragraph 2 (f) under the heading, "Report on Other legal and Regulatory Requirements" of our report on even date

Report on the Internal Financial Controls with reference to Standalone Financial Statements under Clause (i) of sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls with reference to the Standalone Financial Statements of Kalyani Steels Limited ("the Company") as of March 31, 2021 in conjunction with our audit of the Standalone Financial Statements of the Company for the year ended on that date which includes internal financial controls over financial reporting of one of the Company's Joint Operation which is a company incorporated in India.

Management's Responsibility for Internal Financial Controls

The respective Company's management is responsible for establishing and maintaining internal financial controls based on the internal controls over financial reporting criteria established by the respective Company considering the essential components of internal controls stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India. 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 Act.

Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls with reference to the Standalone Financial Statements based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls over Financial Reporting (the "Guidance Note") and the Standards on Auditing, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India. 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 with reference to the Standalone Financial Statements and their operating effectiveness. Our audit of internal financial controls with reference to the Standalone Financial Statements included obtaining an understanding of internal financial controls with reference to the Standalone Financial Statements, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal controls 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 and by the other auditor referred to in the "Other Matter" paragraph is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls with reference to the Standalone Financial Statements.

Meaning of Internal Financial controls with reference to the Standalone Financial Statements

A Company's internal financial controls with reference to the Standalone Financial Statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Standalone Financial Statements for external purposes in accordance with generally accepted accounting principles. A Company's internal financial controls with reference to the Standalone Financial Statements 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 Standalone Financial Statements in accordance with generally accepted accounting principles and

that receipts and expenditures of the Company are being made only in accordance with authorizations of management and Directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized 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 with reference to the Standalone Financial Statements

Because of the inherent limitations of internal financial controls with reference to the Standalone Financial Statements, 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 with reference to the Standalone Financial Statements to future periods are subject to the risk that the internal financial controls with reference to the Standalone Financial Statements may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion and based on report of other auditor, the Company and its Joint Operation have, in all material respects, adequate internal financial controls with reference to the Standalone Financial Statements and such internal financial controls with reference to the Standalone Financial Statements were operating effectively as at March 31, 2021, based on the internal controls over financial reporting criteria established by the Company and its Joint Operation considering the essential components of internal controls stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India.

Other Matter

Our aforesaid reports under Section 143(3)(i) of the Act on the adequacy and operating effectiveness of the internal financial controls with reference to financial statements insofar as it relates to a Joint Operation, is based on the corresponding report of the auditor of such Company. Our opinion is not modified in respect of this matter.

For P G BHAGWAT LLP
Chartered Accountants
Firm Registration No.101118W/W100682

Abhijeet Bhagwat
Partner
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UDIN : 21136835AAAABG2227

Pune
May 18, 2021