

INDEPENDENT AUDITOR'S REPORT

To,
The Members of Katare Spinning Mills Limited

Report on the Standalone Financial Statements

I have audited the accompanying standalone financial statements of Katare Spinning Mills Limited ("the Company"), which comprise the Balance Sheet as at 31st March 2018, the Statement of Profit and Loss (including other comprehensive income), the Cash Flow Statement and the statement of changes in equity for the year then ended and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Standalone Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the state of affairs (financial position) Profit or Loss (financial performance including other comprehensive income) cash flows and changes in the equity 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.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding 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.

Auditor's Responsibility

My responsibility is to express an opinion on these standalone financial statements based on my audit.

I have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

I conducted my audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these standalone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall

presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion on the standalone financial statements.

Basis for qualified Opinion

- a. As stated in Note No. 15 to the accounts, the Company has included in other non-current assets a sum of Rs. 428.00 lakh as deferred interest expenditure. In the past the Company had availed a term loan ICICI Bank Ltd (which was under OTS with them) which was subsequently assigned by ICICI to Kotak Mahindra Bank Ltd. Consequent upon assignment The Kotak Mahindra Bank Ltd filed suit against the Company in DRAT for recovery. The Company has settled the said loan with Kotak Mahindra Bank Ltd for an agreed amount of Rs. 750 lakh of which Rs. 325 lakh was deposited before DRAT and Rs. 425 lakhs are paid on or before 31/05/2013. Accordingly no loan balances now outstanding.
- b. The Company had a transferred balance in Capital Reserve of Rs. 150 lakh when the loan was settled with ICICI Bank Ltd. The said balance is then reversed from Capital Reserve and the balance Rs. 600 lakh represented the amount of interest from the year 2002 to the date of settlement. The Company has deferred this interest amount of Rs. 600 lakh to be written off over a period of 7 years and have accordingly charged Rs. 172.00 lakh in the two years (2012-2013 & 2013- 2014) but has not charged Rs. 344.00 lakh to the statement of profit and loss for the year under audit (Rs. 86.00 lakh for the year under review and Rs. 258.00 lakh in the preceding year 2014-15, 2015-16& 2016-17) and balance Rs. 84.00 lakh should have been remained to be carried forward as deferred revenue expenditure.
- c. Trade Receivables to the extent of Rs. 25.06lakhs and other current assets/advances of Rs. 147.42lakhs aggregating to Rs. 172.48lakhs are bad for which no provision is made in the accounts as referred to in Note No.5 and Note No. 6 in the notes on accounts
- d. Had the items reported in (b) and (c) above been charged to the statement of profit and loss, the loss for the year of Rs. 291.66 lakh would have been increased by Rs. 600.48lakh resulting into loss of Rs. 892.14 Lakh. To that extent it has resulted into overstatement of year end net Current Assets and Reserves and Surplus by Rs. 600.48lakh.
- e. No provision is made for payment for gratuity on actuarial basis as on 31st March 2018 hence its impact on the net profit could not be ascertained as referred to Note No. 27(b) in the notes on accounts.

Qualified Opinion

In my opinion and to the best of my information and according to the explanations given to me, except for the effects of the matter described in the Basis for Qualified Opinion Paragraph, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India including Ind AS specified under Section 133 of the Act of the state of affairs (financial position) of the Company as at 31st March, 2018, and its Loss (financial performance including other comprehensive income) its cash flows and the changes in equity for the year ended on that date.

Emphasis of the Matter

I draw attention to –

The cash credit and term loan availed by the company from Bank of India have become Non-Performing Assets due to defaults in payments of Installments and interest thereon and the loan accounts have been classified as Non-performing assets. Accordingly, the lender bank has not charged interest on the loan account. However, company has made provision in the books of accounts for unapplied interest on the reasonable estimate based on the terms of loan.

The lenders, Bank of India, have taken possession of property of hotel division of the company on 25/10/2017 under SARFESAI Act and from that date the hotel business of the company is not operating. The company have referred the matter to Debt Recovery Tribunal, Pune. The financials have been prepared on the assumption of going concern as the management is of the opinion that the company will remain in business in the foreseeable future.

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 in terms of sub-section (11) of section 143 of the Act, I give in "Annexure A" a statement on matters specified in paragraphs 3 and 4 of the said order.
2. As required by Section 143 (3) of the Act, I report that:
 - (a) I have sought and obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purposes of my audit.
 - (b) In my opinion, proper books of account as required by law have been kept by the Company so far as it appears from my examination of those books;
 - (c) The standalone financial statements dealt with by this report are in agreement with the books of account;
 - (d) Except for the possible effects of the matter described in the basis for qualified opinion paragraph in my opinion on the standalone financial statements, these statements comply with the Ind AS specified under Section 133 of the Act;
 - (e) On the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2017 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 over financial reporting of the Company and the operative effectiveness of such controls, refer to my separate report in "Annexure B", and
 - (g) 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 my opinion and to the best of my information and according to the explanations given to me:
 - i. The Company has disclosed the impact of pending litigations on its standalone Ind AS financial statements;

- ii. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses;
- iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company;

N. R. Waghchaure & Associates
Chartered Accountants,
FRN: 114999W

SD/-

Nilkanth R. Waghchaure
Proprietor
ICAI Membership No.: 048890
Solapur,
30th May, 2018

ANNEXURE A TO THE INDEPENDENT AUDITOR'S REPORT

The annexure referred to in the Independent Auditors' Report to the members of the Company on the standalone financial statements for the year ended 31st March 2018, I report that

- (i)** In respect of its fixed assets:
 - a) The Company has maintained proper records showing full particulars, including quantitative details and the situation of the fixed assets.
 - b) Fixed assets have been physically verified by the management during the year in accordance with the phased programme of verification adopted by the management which, in my opinion, provides for physical verification of all the fixed assets at reasonable intervals. No material discrepancies were noticed on such verification. In my opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and nature of its assets.
 - c) According to the information and explanation given to me and on the basis of my examination of the records of the Company, the title deeds of immovable properties are held in the name of the Company.

- (ii)** In respect of its inventory:
 - a) The inventories of finished goods, semi-finished goods, stores, spare parts and raw materials were physically verified at regular intervals by the Management.
 - b) The procedures of physical verification of inventories followed by the Management were reasonable and adequate in relation to the size of the Company and the nature of its business.
 - c) The Company has maintained proper records of its inventories. According to information and explanation given to me, the discrepancies noticed on physical verification of stocks as compared to book records were not material and have been properly dealt with in the books of account.

- (iii)** The Company has not granted any loans to companies, firms or other parties covered in the Register maintained under Section 189 of the Companies Act, 2013 and therefore paragraph 3(iii) of the Order is not applicable.

- (iv)** In my opinion and according to information and explanations given to me the Company has complied with the provisions of Section 185 and 186 of the Act, with respect to loans and investments made.

- (v)** The Company has not accepted any deposits from the public.

- (vi)** I have broadly reviewed the cost records maintained by the Company pursuant to the Rules made by the Central Government under Section 148(1) of the Companies Act, 2013 and I am of the opinion that prima facie the prescribed cost records have been made and maintained. I have, however, not made a detailed examination of these records with a view to determining whether they are accurate or complete.

(vii) In respect of statutory dues:

- a) According to the information and explanation given to me and on the basis of my examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees State Insurance, Income-tax, Sales Tax, Value Added Tax, Wealth Tax, Service Tax, Excise Duty, Cess, GST and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities except outstanding Maharashtra Value Added Tax Liability of Rs. 20,93,155 and GST of Rs. 5,11,887 aggregating to Rs. 26,05,042

According to the information and explanation given to me, no undisputed amounts payable in respect of provident fund, income-tax, wealth tax, excise duty, sales tax, value added tax, cess and other material statutory dues were in arrears as at 31 March 2018 for a period of more than six months from the date they became payable.

- b) According to the information and explanation given to me, there are no material dues of statutory nature which have not been deposited with the appropriate authorities on account of any dispute, except the following dues which have not been deposited by the company on account of disputes:

Name of the Statute	Nature of dues	Amount (in Rs.)	Period to which the amount relates	Forum where the dispute is pending
MVAT Act, 2002	Sales Tax, Interest and penalty	13,29,572	FY 2006-07	MVAT Appellate Tribunal, Mumbai
MVAT Act, 2002	Sales Tax, interest and penalty	10,55,741	FY 2008-09	DCST-Appeals, Solapur
MVAT Act, 2002	Sales Tax, Interest and Penalty	26,52,358	FY 2010-11	DCST-Appeals, Solapur
MVAT Act, 2002	Sales Tax, Interest and Penalty	3,10,829	FY 2006-07	DCST-Appeals, Solapur

- (viii)** The Company has defaulted in the repayment of Installments of Term Loan availed from Bank of India of Rs. 3,64,14,000 and unpaid interest thereon of Rs. 74,40,022 and unapplied interest on Term Loan of Rs. 4,26,93,692 and unapplied interest on Cash credit of Rs. 2,52,42,304 (aggregating towards repayment of loan & interest of Rs.11,17,90,18) and the Special Capital Incentive Rs. 3,16,139 aggregating in total of Rs. 11,21,06,157 which has remained unpaid as at the date of balance sheet.

- (ix)** The Company did not raise any money by way of initial public offer or further public offer (including debt instruments) and term loans during the year. Accordingly paragraph 3(ix) of the order is not applicable.

- (x)** According to the information and explanation given to me no material fraud by the Company or on the Company by its officers or employees have been noticed or reported during the course of my audit.

- (xi)** According to the information and explanation given to me and on the basis of my examination of the records of the Company, the Company has paid/provided for managerial remuneration in accordance with the requisite approvals mandated by the provisions of Section 197 read with Schedule V of the Act.

- (xii)** In my opinion and according to the information and explanations given to me, the Company is not a nidhi company. Accordingly paragraph 3(xii) of the order is not applicable.
- (xiii)** According to the information and explanation given to me and on the basis of my examination of the records of the Company, transaction with 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 financial statements as required by the Ind AS 24, related party disclosures specified under section 133 of the Act.
- (xiv)** According to the information and explanation given to me and based on my examination of the records of the Company the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year.
- (xv)** According to the information and explanation given to me and on the basis of my examination of the records of the Company, the Company has not entered into non-cash transactions with directors or persons connected with him. Accordingly paragraph 3(xv) of the order is not applicable.
- (xvi)** The Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934.

N. R. Waghchaure & Associates
Chartered Accountants,
FRN: 114999W

SD/-

Nilkanth R. Waghchaure
Proprietor
ICAI Membership No.: 048890
Solapur, 30th May 2018

“Annexure B” to the Independent Auditor’s Report of even date on the Standalone Financial Statements of Katare Spinning Mills Limited.

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

I have audited the internal financial controls over financial reporting of Katare Spinning Mills Limited (“the Company”) as of 31st March 2018 in conjunction with my audit of the standalone Ind AS 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 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

My responsibility is to express an opinion on the Company’s internal financial controls over financial reporting based on my audit. I conducted my audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that I 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.

My audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. My 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 judgment, including the assessment of the financial statements, whether due to fraud or error.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 include those policies and procedures that (1) pertain to the maintenance of records that, in reasonable details, 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 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 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

In my 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 31 March, 2018, 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 issued by the Institute of Chartered Accountants of India.

N. R. Waghchaure & Associates
Chartered Accountants,
FRN: 114999W

SD/-

Nilkanth R. Waghchaure
Proprietor
ICAI Membership No.: 048890
Solapur, 30th May 2018