

Independent Auditor's Report

To
The Members of M/s. Servalakshmi Paper Limited,

Report on the Financial Statements

We have audited the accompanying financial statements of SERVALAKSHMI PAPER LIMITED ('the Company'), which comprise the balance sheet as at 31 March 2016, the statement of profit and loss and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 and presentation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. 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, and ensuring their operating effectiveness for the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We 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.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

SERVALAKSHMI PAPER LIMITED**Opinion**

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid 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:

- a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2016;
- b) in the case of Statement of Profit and Loss, the Loss for the year ended on that date; and
- c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Emphasis of Matters

We draw attention to the following matter in the Notes 3 to the financial statements:

Note 3 in the financial statements which indicate that the Company has accumulated losses and its net worth has been fully eroded, the Company has incurred a net cash loss during the current and previous year(s) and, the Company's current liabilities exceeded its current assets as at the balance sheet date.

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 the paragraph 3 and 4 of the order, to the extent applicable.
2. As required by section 143(3) of the Act, 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 so far as it appears from our examination of those books;
 - (c) the balance sheet, the statement of profit and loss and the cash flow statement dealt with by this Report are in agreement with the books of account;
 - (d) in our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;
 - (e) The Erosion of Net Worth as described under the Emphasis of Matters paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.
 - (f) on the basis of the written representations received from the directors as on 31 March 2016 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2016 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 B"; and

- (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 does not have any pending litigations which would impact its financial position - **Refer Note 25 to the financial statements.**
 - ii. the Company did not have any long-term contracts including derivatives contracts for which there were any material foreseeable losses.
 - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

For **S. Krishnamoorthy & Co.,**
Chartered Accountants
(Registration No. 001496S)
Sd/- K. Raghu
Partner, Auditor
Membership No.11178

Place : Coimbatore
Date : 30.05.2016



SERVALAKSHMI PAPER LIMITED**Annexure to the Auditors' Report****The Annexure A referred to in paragraph 1 of Report on Other Legal and Regulatory Requirements**

In terms of the information and explanation sought by us and given by the Company and the books and records examined by us in the normal course of audit and to the best of our knowledge and belief, we report the following:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
 - (b) The fixed assets of the company have been physically verified by the management during the year at reasonable intervals having regard to size of the company and nature of its assets. No material discrepancies were noticed on such verification.
 - (c) The title deeds of immovable properties are held in the name of the company.
- (ii) The stocks of finished goods, stores, spares and raw materials of the Company at its different locations have been physically verified by the management during the year at reasonable intervals. In our opinion the frequency of such verification is reasonable and material discrepancies noticed on physical verification of inventory has resulted in difference in book stock and physical stock (physical stock being lower than book stock) aggregating to Rs.31.51 Crores. Such difference has been fully reckoned appropriately in the statement of profit and loss (as part of increase/decrease in work-in-progress and /or consumption of raw materials/other materials as the case may be) and as such the physically verified stocks have been considered in the financial statements for the period ended 31st March,2016.
- (iii) The company has not granted any secured / unsecured loans, companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013.
- (iv) The company has not granted any loan to directors or to any other person in whom the director is interested or given any guarantee or provided any security in connection with any loan taken by the director or such other person as contemplated in section 185 of the Act. The company has also not given any loan or made any investment as contemplated under section 186 of the Act.
- (v) The company has not accepted deposits during the year.
- (vi) We have broadly reviewed the records maintained by the company pursuant to the rules made by the Central Government for the maintenance of the cost records u/s. 148(1), of the Act. 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 the records with a view to determining whether they are accurate or complete.
- (vii) (a) The company is not regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities .No undisputed arrears of outstanding statutory dues as on 31.03.2016, for a period of more than 6 months from the date they become payable except the following;

Name of the Statute	Nature of the dues	Amount (Rs in Lakhs)	Period to which the amount relates	Due Date	Date of Payment	Remarks, if any
Service Tax Act, 1994	Service Tax	0.22	Apr-15	05/05/2015		Not Paid
		1.92	May-15	05/06/2015		Not Paid
		2.77	Jun-15	05/07/2015		Not Paid
		3.39	Jul-15	05/08/2015		Not Paid
		2.07	Aug-15	05/09/2015		Not Paid
Income Tax Act, 1961	TDS	0.92	May-15	07/06/2015	04/05/2016	
		2.83	Jun-15	07/07/2015	04/05/2016	
		3.84	Jul-15	07/08/2015		Not Paid
		1.75	Aug-15	07/09/2015		Not Paid
Total		19.71				

- (b) There are no dues of Income Tax or Sales tax or Service tax or duty of customs or duty of excise or value added tax which have not been deposited on account of any dispute except the following;

Name of Statute	Nature of Dues	Amount (Rs in Lakhs)	Period to which the amount relates	Forum where dispute is pending
Customs Act, 1962	Customs Duty	125.09	April 2012 to October 2012	CESTAT, Chennai
Tamil Nadu Tax on Consumption or Sale of Electricity Act, 2003	Electricity Tax	231.43	April 2012 March 2016	Supreme Court of India
Tamil Nadu Value Added Tax Act, 2006	Non Reversal of ITC	28.98	April 2013 March 2014	Madurai Bench of High Court of Madras
	Penalty	28.93		
Tamil Nadu Value Added Tax Act, 2006	Value Added Tax	3.00	November '12 to March'13	Joint Commissioner(CT), Tirunelveli Division
Total		417.43		

SERVALAKSHMI PAPER LIMITED

(viii) The company has not availed any loan from financial institutions and has not issued any debentures till date. The Company has defaulted in repayment of dues to banks as under.

Amount (Rs. in lakhs)

Name of the Bank	Period of Default	Principal	Interest
Indian overseas Bank-Term Loans	41 Months	4668.53	4889.25
Bank of India-Term Loans	41 Months	2541.85	3612.14
State Bank of India-Term Loan (Now assigned to M/s. Pridhvi Asset Recons & Securitisation co. Ltd)	41 Months	2123.85	2731.24
Indian overseas Bank - CC	13 Months		448.11
Bank of India - CC	33 Months		247.64
State Bank of India - CC (Now assigned to M/s. Pridhvi Asset Recons & Securitisation co. Ltd)	36 Months		235.94
Total		9334.23	12164.32

- (ix) The company has not raised any money by initial public offer or further public offer (including debt instruments) and has not availed any term loan during the year.
- (x) Based upon the audit procedures performed and information and explanation given by the management, no frauds by the company or on the company by its officers or employees has been noticed or reported during the course of our audit.
- (xi) The Company has not paid managerial remuneration during the year.
- (xii) In our opinion the company is not a nidhi company.
- (xiii) In our opinion transactions with related parties are in compliance with section 177 and 188 of the Act. Details of such transactions have been disclosed in the financial statements as required by the applicable accounting standards.
- (xiv) The company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year.
- (xv) The company has not entered into non cash transactions with directors or persons connected with them.
- (xvi) The company is not required to be registered under section 45-IA of the Reserve Bank of India Act 1934.

For **S. Krishnamoorthy & Co.,**
Chartered Accountants
 (Registration No. 001496S)
Sd/- K. Raghu
Partner, Auditor
 Membership No.11178

Place : Coimbatore
 Date : 30.05.2016

Annexure - B to the Auditors' Report

Report on the Internal Financial Controls 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 SERVALAKSHMI PAPER LIMITED ("the Company") as of 31 March 2016 in conjunction with our audit of the 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.

Auditors' 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 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 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 judgment, including the assessment of the risks of material misstatement of the 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

SERVALAKSHMI PAPER LIMITED

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 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 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 31 March 2016, 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.



For **S. Krishnamoorthy & Co.,**
Chartered Accountants
(Registration No. 001496S)

Sd/- K. Raghu
Partner, Auditor
Membership No.11178

Place : Coimbatore

Date : 30.05.2016