

# Independent Auditor's Report

To The Members of **Vardhman Textiles Limited**

## Report on the Audit of the Standalone Financial Statements

### Opinion

We have audited the accompanying standalone financial statements of Vardhman Textiles Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2019, and 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 significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, 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 Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, ("Ind AS") and other accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2019, and its profit, total comprehensive income, its cash flows and the changes in equity for the year ended on that date.

### Basis for Opinion

We conducted our audit of the standalone financial statements in accordance with the Standards on Auditing specified

under section 143(10) of the Act (SAs). Our responsibilities under those Standards are further described in the Auditor's Responsibility 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 (ICAI) 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 made thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the standalone financial statements.

### 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. We have determined the matters described below to be the key audit matters to be communicated in our report.

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**Key Audit Matter**
**Uncertain income-tax positions – Refer to Notes 2.14, 2.17.1.4, 38 and 39 to the standalone financial statements**

The Company has material uncertain income-tax positions including matters under dispute which involves significant judgement to determine the possible outcome of these disputes. For the current year ended March 31, 2019, we believe there is a higher risk relating to ongoing income-tax litigation matters amounting to ₹ 273.39 crores. The amounts involved are significant and the application of accounting standard to determine the amount, if any, to be provided as a liability or disclosed as a contingent liability, is inherently subjective. This includes assumptions relating to the likelihood and/or timing of cash outflows from the business and the pending decision of Appropriate Authority.

Due to the level of significant judgment involved, the above matter has been identified as a key audit matter.

**Auditor's Response**
**Principal audit procedure:**

Our audit approach was combination of test of controls and substantive procedures which included the following:

- Evaluated the Company's processes and controls over litigations operated by Management through regular meetings with the Chief Financial Officer and Head - Direct Taxation and review of Board and audit committee meeting minutes.
  - Performed testing of design and its operating effectiveness of the control established by the Management on the review of litigation and contingent liabilities.
  - Involved our internal direct tax specialists to challenge the management's underlying assumptions in estimating the tax provision and the possible outcome of the disputes. Our internal direct tax specialists also considered the legal precedence and other rulings in evaluating management's position on these uncertain income-tax positions.
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**Information Other than the Financial Statements and Auditor's Report Thereon**

The Company's Board of Directors is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis, Business Responsibility Report, Director's Report including annexures to the Director's Report and Corporate Governance Report, but does not include the standalone financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the course of our 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.

**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 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, cash flows and changes in equity of the Company in accordance with the Ind AS and other accounting principles generally accepted in India. 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 statement 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 are also responsible for overseeing the Company's financial reporting process.

### **Auditor's 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 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 the 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 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.

Materiality is the magnitude of misstatements in the standalone financial statements that, individually or in aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the standalone financial statements may be influenced. We consider quantitative materiality and qualitative factors in (i) planning the scope of our audit work and in evaluating the results of our work; and (ii) to evaluate the effect of any identified misstatements in the standalone financial statements.

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, based on our audit, we report to the extent applicable 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 including Other Comprehensive Income, the Cash Flow Statement and Statement of Changes in Equity 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 Ind AS specified under Section 133 of the Act.
  - e) On the basis of the written representations received from the directors as on March 31, 2019 taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2019 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 operating effectiveness of such controls, refer to our separate Report in "Annexure A". Our report expresses an unmodified opinion on the adequacy and operating effectiveness of the Company's internal financial controls over financial reporting.
  - g) 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 remuneration paid by the Company to its directors during the year is in accordance with the provisions of section 197 of the Act.

- 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, 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 – Refer to Note 38(a) to the 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 – Refer to Note 38 (f) to the standalone Ind AS financial statements;
  - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company – Refer to Note 48.4 to the standalone Ind AS financial statements
2. As required by the Companies (Auditor's Report) Order, 2016 ("the Order") 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 the Order.

For **DELOITTE HASKINS & SELLS LLP**

Chartered Accountants  
(Firm's Registration No. 117366W/W-100018)

**Rajesh Kumar Agarwal**

Partner

GURUGRAM, MAY 9, 2019

(Membership No. 105546)

## Annexure “A” to the Independent Auditor’s Report of Vardhman Textiles Limited

(Referred to in paragraph 1(f) under ‘Report on Other Legal and Regulatory Requirements’ section of our report of even date)

### 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 Vardhman Textiles Limited (“the Company”) as of March 31, 2019 in conjunction with our 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. 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 of the Company 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”) issued by the Institute of Chartered Accountants of India and the Standards on 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 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 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, to the best of our information and according to the explanations given to us, 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, 2019, based on the criteria for internal financial control over financial reporting 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 **DELOITTE HASKINS & SELLS LLP**

Chartered Accountants  
(Firm's Registration No. 117366W/W-100018)

**Rajesh Kumar Agarwal**

Partner

GURUGRAM, MAY 9, 2019

(Membership No. 105546)

## Annexure B to the Independent Auditor's Report of Vardhman Textiles Limited

(Referred to in paragraph 2 under 'Report on Other Legal and Regulatory Requirements' Section of our report of even date)

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a program of verification to cover all the items of fixed assets in a phased manner which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the program, certain fixed assets were physically verified by the management during the year. According to the information and explanations given to us, no material discrepancies were noticed on such verification.
- (c) According to the information and explanations given to us, the records examined by us and based on the examination of the registered sale deeds and transfer deeds / conveyance deeds and the confirmations received by us from "ICICI Bank Limited and IDBI Bank Limited" (custodians) on behalf of term and consortium lenders for the credit facility extended to the Company against immovable properties whose title deeds have been pledged as security for obtaining credit facility and the same are held in the name of Company.
- We report that, the title deeds, comprising all the immovable properties of land and buildings which are freehold, are held in the name of the Company as at the balance sheet date, except the following:
- | Particulars of Land and Building                                       | Carrying value as at March 31, 2019 (₹ in Crore) | Remarks                                     |
|--|--|---|
| Freehold land located at Chandigarh admeasuring 1170.56 square meters. | 4.37   | Pending registration in the name of Company |
- (ii) As explained to us, the inventories were physically verified during the year by the Management at reasonable intervals other than for stock lying with third parties and/
- or goods in transit for which confirmation have been obtained/subsequent receipts have been verified in most of the cases. The discrepancies noticed on physical verification of inventories as compared to book records were not material and have been properly dealt with in the books of account.
- (iii) According to the information and explanations given to us, the Company has granted unsecured loans to two bodies corporate, covered in the register maintained under Section 189 of the Companies Act, 2013, in respect of which:
- (a) The terms and conditions of the grant of such loans are, in our opinion, *prima facie*, not prejudicial to the Company's interest.
- (b) The schedule of repayment of principal and payment of interest has been stipulated and repayments or receipts of principal amounts and interest have been regular as per stipulations.
- (c) There is no overdue amount remaining outstanding as at the year-end.
- (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 in respect of grant of loans, making investments and providing guarantees and securities, as applicable.
- (v) The Company has not accepted deposits during the year and does not have any unclaimed deposits as at March 31, 2019 and therefore, the provisions of the clause 3 (v) of the Order are not applicable to the Company.
- (vi) We have broadly reviewed the cost records maintained by the Company pursuant to the Companies (Cost Records and Audit) Rules, 2014, as amended prescribed by the Central Government under sub-section (1) of Section 148 of the Companies Act, 2013, and are of the opinion that, *prima facie*, the prescribed cost records have been made and maintained. We have, however, not made a detailed examination of the cost records with a view to determine whether they are accurate or complete.

(vii) According to the information and explanations given to us, in respect of statutory dues:

(a) The Company has generally been regular in depositing undisputed statutory dues, including provident fund, employees' state insurance, income-tax, customs duty, goods and services tax, cess and other material statutory dues applicable to it with the appropriate authorities. According to the information and explanation given to us and the records of the company examined by us, in our opinion, the company is regular in depositing the undisputed statutory dues including provident fund, employee's state insurance,

income tax, goods and service tax and other material statutory dues as applicable with the appropriate authorities. Also refer to the note 38 (e) in the financial statement regarding management assessment on certain matters relating to the provident fund.

(b) There were no undisputed amounts payable in respect of provident fund, employees' state insurance, income-tax, customs duty, goods and services tax, cess and other material statutory dues applicable in arrears as at March 31, 2019 for a period of more than six months from the date they became payable.

(c) Details of dues of excise duty, sales tax, value added tax, service tax and income-tax which have not been deposited as on March 31, 2019 on account of disputes are given below and there are no dues of customs duty as on March 31, 2019 on account of disputes

Nature of statute	Nature of dues	Forum where dispute is pending	Period	Amount*	Amount paid	Amount unpaid
					under protest	
(₹ in Crores)						
Central excise laws	Excise duty	Supreme court	2005	0.04	-	0.04
		CESTAT	2009-2013	2.17	-	2.17
		Upto commissioner (appeals)	2001-2017	2.74	0.17	2.57
Service tax laws	Service tax	High court	2007-2009	1.12	-	1.12
		CESTAT	2005-2011	0.08	0.01	0.07
		Upto commissioner(appeals)	2008-2011	0.00	-	0.00
Sales tax laws	Central Sales tax	Upto commissioner(appeals)	2009-2010	0.06	-	0.06
		State sales tax	High court	2006-2007	1.21	-
	State sales tax	Appellate boards	2006-2007	0.51	0.20	0.31
		Upto commissioner(appeals)	2005-2006	0.02	-	0.02
Income-tax laws	Income-tax	ITAT	2001-2012	141.42	120.21	21.21
		Upto commissioner(appeals)	2014-2017	59.70	-	59.70

\*Amount as per demand orders including interest and penalty wherever quantified in the order.

The following matters, which have been excluded from the above table, have been decided in favor of the Company but the department has preferred appeals at higher levels. The details are given below:

Nature of Statue	Nature of Dues	Forum where dispute is pending	Period	Amount*	Amount paid	Amount unpaid
					under protest	
(₹ in Crores)						
Income-tax laws	Income-tax	ITAT	2012-2014	87.65	18.80	68.85

- (viii) In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of loans or borrowings to financial institutions, banks, government and dues to debenture holders.
- (ix) In our opinion and according to the information and explanations given to us, the term loans have been applied by the Company during the year for the purposes for which they were raised. During the year, the Company has not raised any money by way of initial public offer/ further public offer (including debt instruments).
- (x) To the best of our knowledge and according to the information and explanations given to us, no fraud by the Company and no material fraud 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/provided managerial remuneration in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013.
- (xii) The Company is not a Nidhi Company and hence reporting under clause 3 (xii) of the CARO 2016 is not applicable.
- (xiii) In our opinion and according to the information and explanations given to us, the Company is in compliance with Section 177 and 188 of the Companies Act, 2013 where applicable, for all transactions with the related parties and the details of related party transactions have been disclosed in the standalone financial statements as required by the applicable accounting standards.
- (xiv) During the year, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures and hence reporting under clause (xiv) of CARO 2016 is not applicable to the Company.
- (xv) In our opinion and according to the information and explanations given to us, during the year the Company has not entered into any non-cash transactions with its directors or persons connected with him and hence provisions of Section 192 of the Companies Act, 2013 are not applicable.
- (xvi) The Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934 and hence reporting under clause 3 (xvi) of CARO 2016 is not applicable to the Company.

For **DELOITTE HASKINS & SELLS LLP**

Chartered Accountants

(Firm's Registration No. 117366W/ W-100018)

**Rajesh Kumar Agarwal**

Partner

(Membership No. 105546)

Place: Gurugram

Date: May 9, 2019