

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MIDEAST INTEGRATED STEELS LIMITED

Report on the Audit of the Standalone Financial Statements Qualified Opinion

1. We have audited the accompanying standalone financial statements of M/s Mideast Integrated Steels Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2019, 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 ended on that date, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the standalone financial statements").
2. In our opinion and to the best of our information and according to the explanations given to us, *except for the effects of the matter described in the Basis for Qualified Opinion section of our report*, 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 total comprehensive loss (comprising of the loss and other comprehensive loss), changes in equity and its cash flows for the year ended on that date.

Basis for Qualified Opinion

3. 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 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 (ICAI) together with the independence 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 we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the standalone financial statements.

Qualifications

1. In pursuance to the judgement dated 2nd August, 2017 of Honorable Supreme Court of India, in the matter of Writ Petition (Civil) No. 114 of 2014 between Common Cause v/s Union of India & Others, there is a penalty imposed of Rs 924 crores along with interest on the company for excess production of Iron Ore during 2000-01 to 2010-11. The Company was supposed to make the payment of this compensation on or before 31st December 2017, failing which the mines of the Company are closed down wef 1st January 2018. The Company has filed a 'Curative petition' (Civil) on 28th March 2018, before the Honorable Supreme Court of India challenging the Judgement and which we have been informed is still pending. Hence, no provision has been made for the same in the books of accounts. However, in our opinion, this penalty has been crystalized and accordingly, a provision should have been made in the books to the extent of Rs 924 crores along with interest upto date.
2. Balance confirmations and bank statements have not been provided to us for some banks accounts and loans. Details are as per Annexure III attached herewith.
3. The deferred tax working has not been shared with us, hence we are unable to comment upon the correctness of the same, as on 31st March 2019.
4. The Company has an investment of Rs 179.88 crores in its Subsidiary, Maithan Ispat Limited. Based on the financials of its subsidiary, the Net worth is negative and the liabilities exceed the assets of the subsidiary company. In the absence of any impairment testing done, we are unable to comment on the investment value taken in the Company's books.

Emphasis of Matter

1. Balances of Debtors, creditors, loans & advances received & given and deposits received & given are subject to confirmations and reconciliations.
2. In the absence of complete details and documentation for additions made to Capital Work in progress, we are unable to comment on the same.
3. In our opinion, a provision for doubtful debts of Rs 8.87 crores needs to be made against the balances of non moving old Debtors & Creditors (where advances have been given by the Company), as on 31st March 2019. No litigation has been initiated by the Company on these balances.
4. In the absence of complete stock valuation details, we are unable to comment on the stock valuation taken as on 31st March 2019.

Key Audit Matters

4. 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, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. There are no matters determined to be the key audit matters to be communicated in our report.

Information Other than the Standalone Financial Statements and Auditor's Report Thereon

5. The Company's Board of Directors is responsible for the preparation of the other information. The other information comprises the information included in the Management Discussion and Analysis, Board's Report including Annexures to Board's Report, Business Responsibility Report, Corporate Governance and Shareholder's Information, 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 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.

Since we have not been provided with the other information, we will not be able to report on the same.

Responsibilities of management and those charged with governance for the Standalone Financial Statements

6. 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, total comprehensive income, changes in equity and cash flows 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 statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.
7. 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.

The Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Standalone Financial Statements

8. 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.
9. As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal financial controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Company has adequate internal financial controls system in place and the operating effectiveness of such controls.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 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 financial statements.
10. 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.
 11. 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.
 12. 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

13. 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 I" a statement on the matters specified in paragraphs 3 and 4 of the Order
14. As required by Section 143(3) of the Act, based on our audit, *subject to the qualified opinion given above*, 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 including Other Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flow dealt with by this Report are in agreement with the relevant books of account.
 - d. In our opinion, the aforesaid standalone financial statements comply with the Ind AS specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
 - 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 II".
 - 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, *subject to the qualified opinion given above*:
 - i. The Company has disclosed the impact of pending litigations on its financial position in its standalone financial statements.
 - ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts.
 - iii. There has been no delay in transferring amounts, if required to be transferred, to the Investor Education and Protection Fund by the Company.

ANNEXURE I TO AUDITORS' REPORT

[Referred to in above the Auditor's Report of even date for M/s Mideast Integrated Steels Limited on the Financial Statements for the year ended 31st March 2019]

- 1 (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) As per the information and explanation given to us, fixed assets are physically verified by the management according to a phased programme designed to cover all the locations which in our opinion, is reasonable having regard to the size of the company and the nature of its assets. As informed to us, the management during the year had physically verified the fixed assets at certain locations.
- (c) According to the information and explanation given to us, the title deeds of immovable properties are held in the name of the company.
- 2 As per the information provided to us, Inventory has been physically verified by the management during the year. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- 3 According to information and explanation given to us, the Company has granted unsecured loans to parties covered in the register maintained under Section 189 of the Act, *however in our opinion*:
 - The terms and conditions of the grant of such loans are prejudicial to the company's interest as no interest is being charged on the same upto year ended 31st March 2019.
 - *There is no schedule of repayment of principal and payment of interest that has been stipulated.*
- 4 In our opinion and according to information and explanation given to us, the company has, in respect of loans, investments, guarantees, and security provisions, complied with section 185 and 186 of the Companies Act, 2013.
- 5 According to the information and explanation given to us, the company has not accepted any public deposits, within the meaning of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013. Hence the provisions of clause 3(v) are not applicable to the company.
- 6 Pursuant to the rules made by the Central Government, the maintenance of Cost Records have been prescribed u/s. 148(1) of the Companies Act, 2013. We are of the view that prima facie the prescribed accounts and records have been maintained. We have, however, not made a detailed examination of the records with a view to determine whether they are accurate or complete.
- 7 (a) According to the books and records as produced and examined by us in accordance with generally accepted auditing practices in India and also management representations, undisputed statutory dues in respect of Provident fund, employees' state insurance, Income Tax, Sales Tax, Service tax, Custom duty, Excise duty, Value added tax, Cess and other statutory dues, if any, applicable to it, has been regularly deposited with the appropriate authorities.
- (b) According to the records of the Company, the disputed dues in respect of Excise Duty, Service Tax, Sales Tax, Entry Tax and Customs duty as at March 31st, 2019 have not been deposited with appropriate authorities and no provision has been made for the same. Details are as follows:

Sr. No.	Dues pertaining to	Amount (In Crores) March 2019	Amount (In Crores) March 2018	Forum where dispute is pending
1	Excise Duty	114.26	28.77	Various Authorities
2	Service Tax	3.00	3.87	Various Authorities
3	Sales and Entry Tax	24.84	24.68	Various Authorities
4	Income Tax	5.77	5.77	Various Authorities
	Total	147.87	63.09	

- 8 *In our opinion and according to the information and explanation given to us and the books of accounts verified by us, the company has defaulted in repayment of dues to a financial institution, bank, Government or dues to debenture holders, details are as below:*

Sr. No.	Bank / Financial Institution	Default Amount	Currency	Default made for the month of
1	SREI Equipment Finance Limited	18,26,000	INR	March 2019
2	BanyanTree Bank Limited (Loan no 0024)	3,12,500	USD	December 2018
3	BanyanTree Bank Limited (Loan no 0126)	58,333	USD	March 2019
4	BanyanTree Bank Limited (Loan no 0046)	66,667	USD	December 2018

- 9 As per information given to us, no money was raised by way of initial public offer or further public offer (including debt instruments). As per the information and explanation given to us, the fresh term loans taken by the Company during the year have been applied for the purpose for which those were raised.
- 10 During the course of our examination of the books of account carried in accordance with the generally accepted auditing standards in India, we have neither come across any instance of fraud on or by the Company, either noticed or reported during the year, nor have we been informed of such case by the Management.
- 11 According to the information and explanation given to us and the books of accounts verified by us, the Managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act.
- 12 The Company is not a Nidhi Company, hence the provision of clause 3(xii) are not applicable to the company.
- 13 According to the information and explanation given to us and the record produced before us, all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013, where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards.
- 14 According to information and explanation given to us, the Company during the year, has not made any preferential allotment or private placement of shares or fully or partly convertible debentures, hence the provision of clause 3(xiv) are not applicable to the company.
- 15 According to the information and explanation given to us and the books of accounts verified by us, the company has not entered into any non-cash transactions with directors or persons connected with him.
- 16 The company is not required to be registered under section 45-IA of the Reserve Bank of India Act, 1934.

**ANNEXURE II TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE FINANCIAL STATEMENTS OF
M/S MIDEAST INTEGRATED STEELS LIMITED AS ON 31ST MARCH 2019**

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

To the Members of M/s Mideast Integrated Steels Limited

We have audited the internal financial controls over financial reporting of M/s Mideast Integrated Steels Limited ("the Company") as of March 31, 2019 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Company's Management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting 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 the Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditor's Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing as specified 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 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 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 our opinion, the Company has, in all material respects, an internal financial controls system over financial reporting *however they need to be strengthened and comprehensively documented*, 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 and on behalf of
Arun Todarwal & Associates LLP
Chartered Accountants
ICAI Reg No: W100291

Arun Todarwal
Partner
M. No.: 032822

Dated : 21st June, 2019
Place: Mumbai

ANNEXURE III TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE FINANCIAL STATEMENTS OF M/S MIDEAST INTEGRATED STEELS LIMITED AS ON 31ST MARCH 2019

Details for Qualification in the Audit report – Point no 2:

Details of banks and loans where balance confirmations and bank statements have not been provided to us for verification:

Bank balances:

Srn	Particulars	Account number	Closing Amount as per books (Rs)
1	Punjab National Bank	XXXXXXXXXX1037	6,68,550
2	Central Bank of India (EEFC)	XXXXXX4776	9,778
3	ICICI Bank	XXXXXXXXX2008	72,62,055
4	ICICI Bank	XXXXXXXXX1275	14,20,257
5	ICICI Bank	XXXXXXXXX3764	2,204

Loans by Other financial institutions:

Srn	Particulars	Closing Amount as per books (Rs)
1	SREI Equipment Finance Limited	(51,912,169)