

Independent Auditor's Report

To the Members of SHILPA MEDICARE LIMITED

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the accompanying standalone financial statements of **SHILPA MEDICARE LIMITED** ("the company"), which comprise the Balance Sheet as at March 31, 2020, 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 notes to the financial statements, including a summary of the significant accounting policies and other explanatory information (herein after referred to as "the financial statements")

In our opinion and to the best of our information and according to the explanations given to us the accompanying 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 Standard) 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, 2020, the profit and total comprehensive income, changes in equity and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit of the financial statements in accordance with the Standards on Auditing (SAs) specified under Section 143(10) of the Act. Our responsibilities under those standards are further described in the *Auditors responsibility for the Audit of 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 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 Code of Ethics. 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.

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.

Key Audit Matters	Auditor's Response
<p>Group restructuring and discontinued operations</p> <p>As disclosed in note note-49 to the standalone financial statements, during the year following approval by shareholders on 30th March at an Extraordinary General Meeting (EGM), the Company completed the sale of Biologics business to its wholly owned subsidiary Shilpa Biologics Private Limited.</p> <p>The application of Ind AS 105: Non-Current Assets Held for sale and Discontinued Operations" is significant to our audit because of the significance of amount, the transaction and accounting is non-routine and complexities involved in carving out the results of the respective businesses.</p> <p>In accordance with the accounting principles, the company has reclassified the revenue, expenses, tax and gain/loss on disposal arising from these businesses as discontinued operations for current and previous year.</p>	<p>Principal audit procedures</p> <ul style="list-style-type: none"> • We read the minutes of meetings of Board of directors and Shareholders Extraordinary General Meeting and evaluation of the terms and conditions with respect to the business sale and related agreements. • Our Audit procedure included evaluation of the disposal date balances and assessing the gain on disposal. • We obtained the Company's evaluation of the income-tax impact of the above business transfers (from a seller's perspective) to verify compliance. • Assessing the adequacy of the disclosures in note 49 to the standalone financial statements in accordance with the requirements of Ind AS 105: Non-Current Assets Held for sale and Discontinued Operations.
<p>Impairment of Investment in Subsidiaries, Associates and Joint Ventures</p> <p>As at March 31, 2020, the carrying amount of investment in investments in subsidiaries, associates and joint ventures is ₹ 4,067.66 Lakhs. Further, the Company has also invested in preference share capital of the Subsidiaries, the carrying amount of which as at March 31, 2020 is ₹ 5,176.77 Lakhs.</p> <p>The carrying value of investment in subsidiaries, associates and joint ventures will be recovered through future cash flows and there is inherent risk that these assets will be impaired if these cash flows do not meet the Company's expectations.</p> <p>Refer to note 1.1 (q) in the Standalone Financial Statements for details of accounting policies on impairment of assets and related disclosures.</p> <p>Valuation of investment in subsidiaries, associates and joint ventures is a key audit matter due to:</p> <ul style="list-style-type: none"> • The inherent complexity in auditing the forward looking assumptions applied to recoverable value given the significant judgements involved. The key assumptions in the cash flow models include the forecast revenue, margins, terminal growth and discount rates. 	<p>Principal audit procedures</p> <p>Our audit procedures include the following substantive procedures:</p> <ul style="list-style-type: none"> • Obtained an understanding of management's process and evaluated design and tested operating effectiveness of controls around identification of indicators of impairment under Ind AS, and around valuation of the business to determine recoverable value of the said investment. • Assessed the appropriateness of methodology and valuation model used by the management to estimate the recoverable value of investments. • Assessed cash flow forecasts to ensure consistency with current operations of the Company and performed sensitivity analysis on key assumptions used in management's calculated recoverable value • Assessed the reasonableness of assumptions relating to revenue growth rate, gross margins, discount rates etc. based on historical results, current developments and future plans of the business estimated by management using expertise of our valuation specialist on required parameters. • Performed sensitivity analysis of the key assumptions, including future revenue growth rates, future gross margins, and the discount rate applied in the recoverable value and considering the resulting impact on the impairment testing and whether selection of these key assumptions is appropriate. • Based on our procedures, we also considered the adequacy of disclosures in respect of investment in the said joint venture in the notes to the standalone financial statements.

Key Audit Matters	Auditor's Response
<p>Minimum Alternate Tax (MAT) Credit Entitlement – Deferred tax assets</p> <p>The Company pays minimum alternate tax (MAT) under section 115JB of the Income Tax Act, 1961. The MAT paid would be available as an offset over a period of 15 years. The MAT credit is recognized as a deferred tax asset to be available for offset when the Company pays taxes under the provision of Income Tax Act, 1961. The balance of MAT credit receivable as at March 31, 2020 is ₹ 4,263.78 Lakhs (refer note 17 to the standalone financial statements).</p> <p>The recognition and recoverability of deferred tax asset on account of MAT credit requires significant judgement regarding the Company's future profitability and taxable income which will result in utilization of the MAT credit within the time limits available under the applicable Income tax laws.</p>	<p>Principal audit procedures</p> <p>In respect of such deferred tax assets, we assessed recoverability from a tax perspective by performing the following procedures:</p> <ul style="list-style-type: none"> • Understanding why the MAT credit entitlement arose and understanding whether the MAT credit entitlement can be utilized. • assessing any restriction in use of the MAT credit entitlement and • determining when the MAT credit entitlement will expire. <p>Further, we assessed the applicability of Ind AS 12 Income Taxes by assessing management's assessment of recoverability of MAT credit entitlement against forecast income streams, including reliability of future income projections.</p> <p>We validated the appropriateness of the related disclosures in the standalone financial statements.</p>

Other information

The Company's Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the standalone financial statements and our auditor's report thereon.

Our opinion on the Standalone financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Standalone financial statements or our knowledge obtained 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 Companies Act, 2013 ("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 Indian Accounting Standards (Ind AS) prescribed under Section 133 of the Act read with relevant rules issued there under 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 of the assets of the company and for preventing and detecting the 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 standalone financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, the Board of Directors 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 the Board of Directors 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 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 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.

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 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 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 Standalone Balance Sheet, the Standalone Statement of Profit and Loss including Other Comprehensive Income, Standalone Statement of Changes in Equity and the Standalone 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 Indian Accounting Standards (Ind AS) prescribed under Section 133 of the Act.
 - e) On the basis of written representations received from the directors as on March 31, 2020 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 31, 2020 from being appointed as a director in terms of Section 164(2) of the Act,
 - f) With respect to the adequacy of internal financial controls over financial reporting of the Company with reference to these financial statements and the operating effectiveness of such controls, refer to our separate report in "Annexure B".

- g) In our opinion, the managerial remuneration for the year ended March 31, 2020 has been paid / provided by the Company to its directors in accordance with the provisions of section 197 read with Schedule V to 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, 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.
 - 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, required to be transferred, to the Investor Education and Protection Fund by the Company.

for **BRAHMAYYA & CO.**
Chartered Accountants
Firm's Regn No. 000513S

(K.SHRAVAN)
Partner
Membership No. 215798
UDIN: 20215798AAAACD2517

Place : Hyderabad
Date : 15.06.2020

Annexure - A to the Auditor's Report

The Annexure referred to in Para 1 under the heading of "Report on Other Legal and Regulatory Requirements" of our report of even date, to the members of SHILPA MEDICARE LIMITED, for the year ended March 31, 2020.,

1. a. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- b. As explained to us, the management has physically verified the fixed assets during the year and there is a regular programme of physical verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of the assets. No discrepancies were noticed on such verification.
- c. According to the information and explanation given to us and on the basis of our examination of the records of the Company, the title deeds of immovable properties are held in the names of the Company.
2. As explained to us, the inventories have been physically verified by the management at reasonable intervals during the year. In our opinion, the frequency of verification is reasonable. The discrepancies noticed on physical verification between the physical stocks and book records were not material.
3. According to the information and explanation given to us, the Company has granted unsecured loans to companies covered in the register maintained under section 189 of the Companies Act, 2013 ('the Act').
 - a. The terms and conditions of such loans granted are not prejudicial to the interest of the Company.
 - b. The schedule of repayment of principal and payment of interest has been stipulated in the agreement and repayments or receipts of principal amounts and interest have been made as per stipulations.
 - c. There were no overdue amounts in respect of the loan granted to a Company covered in the register maintained under section 189 of the Act.
4. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of section 185 and 186 of the Act, with respect to the loans and investments made.
5. The Company has not accepted any deposits from the public. Hence the provisions of Sections 73 to 76 or any other relevant provisions of the Companies Act, 2013, and the rules framed there under, do not apply to this Company.
6. We have broadly reviewed the cost records maintained by the Company pursuant to sub-section (1) of section 148 of the Companies Act, 2013 and are of the opinion that prime facie the prescribed accounts and 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.
7. a. According to the records, the company is regular in depositing undisputed statutory dues including provident fund, employees 'state insurance, Income-tax, Sales-tax, Service tax, Goods and Services Tax, Duty of customs, Duty of excise, Value added tax , Cess and all other statutory dues with the appropriate authorities and there are no arrears of outstanding statutory dues as at March 31, 2020 for a period more than six months from the date they became payable.
- b. According to the records of the Company and the information and explanations given to us, there were no dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute.
8. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to any financial institutions and Banks during the year.
9. During the year under review, the company has not raised any moneys by way of initial public offer or further public offer (including debt instruments). The Term loans availed were applied for the purposes for which those are raised.
10. According to the information and explanations given to us, no material fraud by the Company or on the Company by its officers or employees has been noticed or reported during the course of our audit.

11. According to the information and explanations given to us and based on our 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 to the Act.
12. In our opinion and according to the information and explanations given to us, the Company is not a Nidhi Company. Accordingly, paragraph 3(xii) of the Companies (Auditor's Report) Order 2016 is not applicable.
13. According to the information and explanations given to us and based on our examination of the records of the Company, transactions 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 applicable accounting standards.
14. According to the information and explanation given to us and based on our 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.
15. According to the information and explanations given to us and based on our 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 Companies (Auditor's Report) Order 2016 is not applicable.
16. The Company is not required to be registered under section 45-IA of the Reserve Bank of India Act 1934.

for **BRAHMAYYA & CO.**
Chartered Accountants
Firm's Regn No. 000513S

(K.SHRAVAN)
Partner
Membership No. 215798
UDIN: 20215798AAAACD2517

Place : Hyderabad

Date : 15.06.2020

Value Research

Annexure – B to the Auditor’s 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 SHILPA MEDICARE LIMITED (“the Company”) as of March 31, 2020 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 (‘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 Act.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Company’s internal financial controls over financial reporting with reference to these financial statements based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls over Financial Reporting (the “Guidance Note”) and the Standards on Auditing, to the extent applicable to an audit of internal financial controls, 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 with reference to these financial statements was established and maintained and if such controls operated effectively in all material aspects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting with reference to these financial statements and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting with reference to these financial statements, 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 and error.

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

Meaning of Internal Financial Controls over Financial Reporting

A company’s internal financial control over financial reporting with reference to these financial statements 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 with reference to these financial statements includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditure 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 with reference to these financial statements, including the possibility of collusion

or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting with reference to these financial statements to future periods are subject to the risk that the internal financial control over financial reporting with reference to these financial statements may become inadequate because of changes in conditions, or that the degree of compliance with 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 with reference to these financial statements and such internal financial controls over financial reporting with reference to these financial statements were operating effectively as at March 31, 2020, 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 **BRAHMAYYA & CO.**
Chartered Accountants
Firm's Regn No. 000513S

(K.SHRAVAN)
Partner
Membership No. 215798
UDIN: 20215798AAAACD2517

Place : Hyderabad

Date : 15.06.2020