

Independent Auditor's Report

To
The Members of
Sterling Biotech Limited

Report on the Financial Statements

1. We have audited the accompanying financial statements of **Sterling Biotech Limited** ("the Company"), which comprise the Balance Sheet as at March 31, 2018, the Statement of Profit and Loss (including other comprehensive income), the Statement of Changes in Equity and the Cash Flow Statements for the year then ended, and a summary of the significant accounting policies and other explanatory notes for the year ended on that date (hereinafter referred to as "financial Statements")

Management's Responsibility for the Financial Statements

2. The Company's Directors are responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements, that give a true and fair view of the 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 Companies (Indian Accounting Standards) Rules, 2015, as amended, and other accounting principles generally accepted in India.
3. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company; 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 financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.
4. The Honorable National Company Law Tribunal, Mumbai ('NCLT') on June 11, 2018 admitted the Corporate Insolvency Resolution Process ('CIRP') application filed against the Company and appointed Mr. Sundaresh Bhat as the Resolution Professional ('RP') in terms of the Insolvency and Bankruptcy Code, 2016 ('the Code') [NCLT order dated June 26, 2018 and taken over by RP on June 27, 2018]. Further, the committee of creditors constituted during the CIRP has confirmed appointment of Mr. Sundaresh Bhat as the RP to manage the affairs of the Company. In view, of the pendency of the CIRP, the power and responsibilities of the Board of Directors shall vest with the RP under the provision of the Code.



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Auditor's Responsibility

5. Our responsibility is to express an opinion on these financial statements based on our audit.
6. In conducting 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.
7. 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 these financial statements are free from material misstatement.
8. 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 controls 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.
9. The Financial Statements provided to us for review have been signed only by the RP. Section 134(1) of the Companies Act, 2013 requires such signature to be undertaken by (a) the chairperson of the company where he is authorized by the board, or by two directors out of which one shall be managing director; and (b) the chief executive officer, the Chief Financial officer and the Company Secretary, wherever they are appointed. Since CIRP has been initiated, the RP, pursuant to his appointment, has been vested with the management of the Company and the powers of the board of directors of the Company stand suspended. Therefore, the Financial Statements has been signed by the RP alone. Though the powers of the board of directors are suspended, none of such directors of the Company were available/ agreeable to sign the said Financial Statements.

The positions of Chief Financial Officer and Company Secretary of the Company, as on the date of signing of the Financial Statements were vacant. We understand that the office of Chief Finance Officer and the Company Secretary of the Company is vacant before the start of the year under audit. The Company has not appointed such key managerial personnel as required under Section 203 of the Companies Act, 2013 read with Rule 8 of the Companies (Appointments and Remuneration of Managerial Personnel) Rules, 2014. As such, the Financial Statements may suffer from issues of accuracy, veracity, sufficiency, completeness and reliability, as none of the key managerial personnel of the Company other than RP has signed the Financial Statements.

For the purpose of this audit review, we have relied upon the Financial Statements provided to us by the RP. It is observed that the RP has inserted a note, as part of notes to accounts, set out in Note 34 of financial statement, as per which he has assumed that the data/ information provided by the officials of the Company and the records of the Company made available to him are in conformity with the applicable laws and present a true and fair view of the position of the Company and has not personally verified such information; and that he should be absolved from the accuracy, veracity and sufficiency or completeness of information provided to him by



the officials of the Company basis which the Financial Statements have been prepared. As per the said note, the RP has signed the Financial Statements only to facilitate the CIRP process without any liability of the same. To the extent the RP has disclaimed his liability with respect to accuracy, veracity and sufficiency or completeness of information provided to him by the officials of the Company, the Financial Statements may suffer from issues of accuracy, veracity, sufficiency, completeness or reliability. Relevant observations upon the extent of veracity of the Financial Statements have been made in the below paragraphs 10 -20 of this Section.

Basis for Disclaimer of Opinion

10. Carrying Value of Plant, Property and Equipment ('PPE')-

We have not been provided with the fixed assets register disclosing full particulars including quantitative details, asset's physical location and the value of gross and net block of the property plant and equipment owned by the Company.

The Company has detailed listing of all the plant and machineries installed at different locations, however, in the absence of unique numbering system in place for identification of fixed assets, it is not possible for us to trace the items of plant and machinery against the listing provided to us by the Company. No listing for other items of PPE like vehicles, furniture and fixtures and office equipment is currently available with the Company.

Further, in the absence of availability of gross value, opening net value and Management's assessment of the estimated useful life for various items of PPE, we are not able to comment on the adequacy and accuracy of the depreciation of Rs. 24,574.77 Lakh charged for the year under audit.

In view of the limited information provided to us, we are unable to comment on the existence and the value of PPE owned by the Company and carried at Rs. 248,812.15 Lakh as on the reporting date.

The Company has taken land on rent for a term of 99 years from Sterling SEZ and Infrastructure Limited on March 26, 2010 on payment of premium of Rs. 6,462.68 Lakh. In addition, an annual lease rental of Rs 1 per square meter amounting to Rs 4.36 Lakh. The same is disclosed by the Company as owned assets reflected at carrying value of Rs 6,125.48 Lakh instead of operating lease as per the requirement of Ind AS 17 'Leases'. As a result, the PPE is overstated by Rs. 6,125.48 Lakh.

An agreement to sell was entered into at Vadodara on November 19, 2015 by and between Sterling Biotech Limited and Alembic Pharmaceuticals limited for sale of land namely 782, 789, 791, 800, 801, 802, 818/B, 830/B/1, 830/B/2, 831/A, 831/B, and 832 defined specifically in annexure of the agreement for total consideration of 499.63 Lakh. An amount of Rs 247.31 Lakh was received as advance for the aforementioned purpose by Sterling in November 2015. The said land has been mortgaged to SREI Infrastructure Finance Limited. The balance amount of Rs 249.81 Lakh was to be paid at the time of completion of the sale and on Sterling delivering vacant and peaceful possession of the said land along with necessary approvals. It was agreed that the transfer of the said land shall be completed on or before November 18, 2017. As of the Balance sheet date, the transfer of the land has not materialized and management is unable to share further details on the outcome of the transfer.

11. Capital Work in Progress ('CWIP')-

The Company is in the process of setting up a new manufacturing facility at Baruch district, Gujarat under approval reference no. SSEZ/DC/U.A./03/09-10/09 dated 4th Sep 2009. The opening value of CWIP on this account is stated at Rs. 244,230.25 Lakh. We have not been provided with the details of various components of cost (whether direct or indirect) that has been capitalized and currently disclosed as CWIP in the books. During



the year under audit, based on our examination of available books and records, no further work has been carried out at the said facility and the addition of Rs. 6,090.19 Lakh during the year under the head CWIP comprises of only interest cost of External Commercial Borrowing taken for setting up this facility and foreign exchange fluctuation on the same (Refer Note no 3 of financial statement). There is no one on one mapping available to establish that the proceeds from the external commercial borrowings are used for the development of the said facility. Further the capitalization of entire foreign exchange fluctuations is not in accordance to Ind AS 23. In view of all these factors, we are unable to comment on the accuracy of the value of CWIP carried in the financial statements.

12. Carrying Value of Inventory –

We have been appointed as statutory auditors after March 31, 2018 and thus could not observe the counting of physical inventories as at the end of the year. On the basis of physical verification conducted by management, for the inventory of finished stock, work in process and raw material held at reporting date and based on information and explanations provided to us the carrying amount of inventory approximates to Rs 6,092.96 Lakh (Refer Note no 7 of financial statement). Further, we draw attention that percentage completion and value of inventory of work in process and physical condition of other items of inventory has not been certified by any technical expert. In the absence of required information we are unable to comment on the carrying value of inventory in the financial statements

13. Loans and Advances –

As at March 31, 2018, outstanding balance of advances given by the Company is Rs. 33,567.31 Lakh (Refer Note no 11 to the financial statement) to various parties including related parties for supply of goods and services, security deposits and others. Based on the management assessment of these loans and advances, full amount is treated as recoverable and considered good in the books of accounts. In the absence of confirmations from these parties and non-availability of adequate information and explanation from the management we are not able to comment on the recoverability of these amounts.

14. Investments –

The Company has investments in shares of Companies which are not traded in an active market amounting to Rs. 158,402.00 Lakh (Refer Note no 4 to the financial statement). These investments include investment in equity shares of various Group companies amounting to Rs. 156,115.89 Lakh. The Management have not provided adequate fair valuation report and also not conducted any impairment testing of these investments. In the absence of sufficient and reasonable audit evidence, market based assumptions and adequate valuation; we are unable to comment on the fair value of these investments

15. Deferred Tax Assets –

As at March 31, 2018, the Company has recognized deferred tax assets (net) of Rs. 81,285.56 Lakh in the financial statements (Refer note no. 5 of financial statement). In the absence of reasonable certainty on realization of this asset against future taxable profits of the Company, we are unable to comment on the carrying value of this asset in the financial statements.

16. Loans, Borrowings and Corporate Guarantees –

As at March 31, 2018, the Company has reported loans, borrowings and external commercial borrowings of Rs. 756,416.11 Lakh (Refer note no 14 of financial statement) from various banks, financial institutions and other parties. Corporate Insolvency Resolution Process has been initiated against the Company by the NCLT and the estimated amount of claims from financial creditors is Rs 1,493,866 Lakh and admitted claim as per "List of Claims" is Rs 896,767.00 Lakh upto November 21, 2018. These claims also includes claims admitted in relation to corporate guarantees provided by the Company on behalf of group companies. In the absence of necessary information and



in view, of the pendency of the CIRP, we are unable to comment on probability of occurrence of any default and the actual liability that may devolve on the Company in this regard.

17. Internal Controls –

As the Company has no documented control framework which includes standard operating process for various areas of operations, risk control matrices, etc. and also due to the inability of the management to substantiate that there is adequate internal control that exist and operates effectively, we are unable to comment on the presence and effectiveness of internal controls that are designed to prevent and detect any material misstatement, fraud, errors and omissions.

18. Non Compliance with Ind AS –

The Company has not fully complied with all the requirements of the Indian Accounting Standards prescribed under Section 133 of the Companies Act, 2013 and hence the financial statements are not Ind AS compliant (Refer note 2.1 of financial statement)

19. Non-Compliances –

We have not been provided with any documented framework to ascertain completeness and timely compliance with the provisions of various applicable statutes. Therefore, we are not able to comment on the completeness of compliances under applicable statutes. Further, during the course of our audit, we have observed few instances of non-compliances with provisions of SEBI Listing Obligations and Disclosure Requirements and The Companies Act, 2013. Major non-compliances observed are -

- a) The Company has not prepared and presented Consolidated Ind AS Financial Statements for the year ended March 31, 2018 as required under Section 129 (3) of the Companies Act, 2013.
- b) The Company has not appointed Internal Auditors as required by Section 138 of the Companies Act, 2013.
- c) As required by Section 203 of the Companies Act, 2013, the Company has not appointed full time Company Secretary.
- d) As required by Section 148 of the Companies Act, 2013 read with Companies (Cost Records and Audit) Rules, 2014, the Company has not conducted audit of Cost Records.

20. Disclaimer of Opinion

Because of the significance of matters described in the "Basis for Disclaimer of Opinion" paragraph above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. In the absence of the requisite information, the impact of these matters on the financial statements as at March 31, 2018 cannot be ascertained. Accordingly, we do not express an opinion on the aforesaid financial statements.

Emphasis of Matter

We draw an attention of the following matters in the financial statements:

21. Opening Balances

The financial statements of the Company for the corresponding year ended 31 March 2017 were audited by the predecessor Statutory Auditor, M/S. H. S. Hathi & Co., who expressed unmodified opinion vide their report dated May 30, 2017 and reliance has been placed by us on the same for the purpose of this report. We have been appointed as the Statutory Auditors of the Company vide resolution dated August 2, 2018 of the Committee of Creditors ('COC') meeting. We have performed our audit on the basis of books of accounts and other relevant records produced before us after the date of our



appointment and on the basis of explanation and information provided to us by the Company and are not responsible for any events that occurred prior to our appointment.

22. **Corporate Insolvency Resolution Process** - Andhra Bank ("AB"), in its capacity as the Financial Creditor of Sterling Biotech Limited ("Corporate Debtor"), filed C. P. (I.B.) 490/MB/2018 of 2018 ("Petition") under Section 7 of the Insolvency and Bankruptcy Code, 2016 ("IBC") read with Rule 4 of the Insolvency and Bankruptcy (Application to Adjudicating Authority) Rules, 2016 before the Hon'ble Adjudicating Authority, i.e. National Company Law Tribunal, at Mumbai ("Hon'ble NCLT Mumbai") for initiation of Corporate Insolvency Resolution Process ("CIRP") for the Corporate Debtor. The said Application of Andhra Bank has since been admitted by the Hon'ble NCLT Mumbai vide its order dated June 11, 2018 ("Order") and the CIRP has commenced from the date of the order.

The Hon'ble NCLT Mumbai vide its Order has inter alia appointed, Mr. Sundares Bhat (having Insolvency Professional registration no. IBBI/IPA-001 /IP-N00077/2017-18/10162) as the Interim Resolution Professional ("IRP") to conduct the CIRP for the Company and to exercise all powers and carry out all duties as envisaged under the provisions of the IBC. As per Section 17(1) of the IBC, the management of the affairs of the Company now vests with the undersigned IRP. All the powers of the Board of Directors of the Company stand suspended and are now vested with and shall be exercised by the IRP.

The Government of India, Ministry of Corporate affairs vide order F No 3/197/2018-CLII (WR) dated April 10, 2018 has ordered investigation into the affairs of the Company under Sec 212(1) (c) of the Companies Act, 2013 by Serious Fraud Investigation Office and the Director, SFIO vide order no SFIO/Inv/AOI/2017-18//13513/2018 dated 13-Apr-2018 and has appointed Shri Dheeraj Kumar (Senior Assistant Director) as Investigation Officer under Sec 212(4) of Companies Act, 2013.

First Information Report under Sec 154 of The Code of Criminal Procedure, 1973 suspecting criminal conspiracy and abuse of official position during the period 2005 - 2011 has been filled against Income Tax officers and Directors of the Company.

Further, Enforcement Directorate have made an allegation against directors for criminal conspiracy with dishonest intention to cheat Andhra Bank and other public sector banks as per applicable provisions of Prevention of Money Laundering Act, 2002. This matter is sub-judice and the impact, if any of the enquiry is unascertainable at this stage.

23. The manufacturing activities of the Ooty plant of the Company has been temporarily discontinued due to alleged violation of environmental norms in the state of Tamil Nadu with effect from June 23, 2018. The matter is currently under trial with the Environmental Pollution Control Board of Tamil Nadu. As of December, 2018 temporary power has been granted by the Environmental Pollution Control Board of Tamilnadu to enable the plant convert the existing WIP into finished goods. This power facility is granted only up to January 31, 2019. During this period no fresh purchases, production can be undertaken by the plant. These facts casts material uncertainty about the functionality of the Ooty plant in the near future.

24. **Going Concern** – Management has prepared the financial statements on a going concern basis on the grounds stated in Note 30 of the financial statement in spite of following facts and circumstances:

- i. The Company has incurred net losses of Rs. 100,538.51 Lakh during the current year and the previous year of Rs. 41,245.50 Lakh
- ii. The operating cash flows have turned negative during the current financial year. Negative cash flow from operations are Rs. 3,280.60 Lakhs as against a positive operating cash flow of Rs. 63.76 Lakhs in the previous financial year.
- iii. The Company's current liabilities have exceeded its current assets as at the balance sheet date by Rs. 514,189.46 Lakh.



- iv. National Company Law Tribunal has admitted petition for insolvency proceedings initiated by the Financial and other Creditors against the Company (Refer Note No. 1 to the Financial Statements)

25. Exceptional Losses during the year -

During the year under audit, the Company has provided for impairment of various assets as detailed below:—(Refer Note no 29 of financial statement)

Particulars	Impaired / Provided during the year (In Lakh)
Inventory (a)	63,060.00
Miscellaneous Expenditure (b)	14,142.80
Others	26.53
Total impairment provision debited to the statement of profit and loss	77,229.33

(a) The management on the basis of physical verification of inventory conducted by them had identified the shortage of inventory of work in process to the extent of Rs. 63,060 Lakh. These shortage is adjusted in the books of accounts and the amount written off is treated by the management as an exceptional item.

(b) The Company had incurred expenditure of Rs. 20,952.30 Lakh for process improvements which were discontinued in the financial year 2013-2014 due to non-adherence of pollution control norms for the Effluent Treatment Plant. The Company had adopted the policy of amortizing this expenditure over a period of 10 years commencing from the financial year 2014-15. During the year under audit, the Company has charged the balance unamortized amount of Rs 14,142.80 Lakh to the statement of profit and loss

26. The Company has not provided for interest on derivative loss payable to JP Morgan Chase from July 11, 2017 to March 31, 2018. As a result, the losses for the year and the liabilities for interest payable are understated to extent Rs. 352.54 Lakh

Report on Other Legal and Regulatory Requirements

27. As required by the Companies (Auditor's Report) Order 2016 ("the Order"), issued by the Central Government of India in terms of Section 143(11) of the Act, we give in the Annexure a statement on the matters specified in the paragraph 3 and 4 of the Order, to the extent applicable.

28. Further to our comments in Annexure A, as required by Section 143(3) of the Act, we report that:

- As described in the Basis for Disclaimer of Opinion paragraph, we have sought but were unable to obtain all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the Balance Sheet, Statement of



Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account;

- d. Because of the significance of the matters described paragraphs 8 to 19 in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and state whether the aforesaid financial statements comply with the Accounting Standards under Section 133 of the Act read with Companies (Indian Accounting Standards) Rules, 2015 as amended;
- e. The matter described in the Basis for Disclaimer of Opinion paragraph above, in our opinion, may have an adverse effect on the going concern of the Company;
- f. We have not received any written representations from the directors regarding disqualification of any directors as on March 31, 2018 from being appointed as a director in terms of Section 164(2) of the Act. Further, as detailed out in para 4, the powers of Board are suspended and Resolution Professional is in charge of the affairs of the Company;
- 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";
- 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. Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the financial statements discloses the complete impact of pending litigations on its financial position;
 - ii. Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether 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 were no amounts which were required to be transferred during the year to the Investor Education and Protection Fund by the Company;

For **JHS & Associates LLP**
Chartered Accountants
Firm's Registration No.: 133288W/W100099



Jignesh Thaker
Partner
Membership No.: 107231



Place: Mumbai
Date: December 19, 2018

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Annexure-A to the Independent Auditor's Report of even date to the members of Sterling Biotech Limited, on the financial statements for the year ended March 31, 2018

- I. In respect of its fixed assets:
 - a) The Company has not maintained proper records of fixed assets showing full particulars, including quantitative details and situation of fixed assets.
 - b) We have not been provided reports of physical verification of fixed assets conducted by the management during the financial year 2017-18 or any of the preceding years. We have not been provided with the Company's policy on physical verification of fixed assets, its frequency and its reasonableness having regard to the size of the Company and nature of its assets. Accordingly, we do not express an opinion on this clause.
 - c) We have only been provided with title deed of Land held at Ooty, Jambusar & Karakhadi. Title deed provided and verified by us are in the name of the Company. However, in the absence of proper records of the fixed assets available with the Company, it is not possible for us to comment on the completeness of the title deeds for other immovable property, if any.
- II. As informed to us, the inventories consisting of raw materials, work in process & finished goods have been physically verified by the management once during the year. The discrepancies noted on such verification are not material and have not been properly dealt with in the books of the accounts. For identification on discrepancies, we have relied on the physical verification report provided to us by the management.
- III. In respect of loans, secured or unsecured, granted by the Company to companies, firms, limited liability partnership or other parties covered in the register maintained under Section 189 of the Companies Act, 2013 ('the Act'), we have not been provided with the required details. Further, we have not been provided with the updated Register under section 189 of the Act. Accordingly, we are unable to comment on the provisions of clauses 3(iii)(a), 3(iii)(b) and 3(iii)(c) of the Order.
- IV. As no information relating to the interests of the Directors in other companies as required under section 185 of the Act are made available to us, we are unable to comment on the compliance with the provisions of the said section for the loans and investments by the Company. The Company has advanced loans to certain parties on which no interest has been charged, which is not in compliance with section 186 of the Act.
- V. According to the information and explanations given to us, the Company has not accepted any deposits within the meaning of sections 73 to 76 of the Act or any other relevant provisions of the Companies Act, 2013 and the rules framed there under. Accordingly, the provisions of Clause 3 (V) of the Order are not applicable.
- VI. We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under section 148 of the Companies Act, 2013 and we comment that *prima facie*, the prescribed accounts and records have been made and maintained. However, in the absence of proper records related to the Work in Progress and other records available with the Company, it is not possible for us to comment on the completeness of these cost records.
- VII. a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of accounts in respect of undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Goods & service tax, Custom Duty, Excise Duty, value added tax, Cess, Service Tax, Income tax, Sales Tax and other material statutory dues have generally been regularly deposited during the year by the Company with the appropriate authorities.



According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Goods & Services Tax, Custom Duty, Excise Duty, value added tax, Cess, Service Tax, Income Tax, Sales Tax and other material statutory dues were outstanding as at the yearend for a period of more than six months from the date they became payable.

b) According to the information and explanations given to us and as per the records of the Company, the details of disputed dues of Income Tax, Sales Tax, Service Tax, Customs Duty, Excise Duty and Value Added Tax as at March 31, 2018 are as follows:

Sr. No.	Name of Statute	Nature of dues	Total Amount in Lakh	Period to which Amt. relates	Forum Where dispute is pending
1	The Central Excise Act, 1944	Cenvet Duty on DCF Clearance value	2,325.95	2008 - 2017	Commissioner of Central Excise
2	The Central Excise Act, 1944	Show Cause for Outdoor catering	9.70	2005 - 2012	Assistant Commissioner Central Excise & Customs
3	The Central Excise Act, 1944	Show Cause for Goods Transport Agency	8.73	2008 - 2018	Assistant Com Central Excise & Customs
4	The Central Excise Act, 1944	Show Cause for Air Travel-Airport-Fuel	0.28	2015 - 2018	Range Supdt. Central Excise & Customs
5	The Central Excise Act, 1944	Show Cause for BANKING SERVICE (IDBI)	148.32	2013-2014	The Joint Commissioner Central Excise & Customs and Service Tax Audit- I Vadodara
6	The Central Excise Act, 1944	Show Cause for Treatment of NOTICE PAY	1.59	2015 -2016	Deputy Commissioner Central Excise & Customs Service Tax Audit- I Vadodara
7	The Central Excise Act, 1944	Denial of credit on common inputs used in both dutiable and exempted products	460.57	2011 - 2017	Commissioner, Coimbatore
8	The Central Excise Act, 1944	Denial of credit on common inputs used in both dutiable and exempted products	132.14	2016 - 2017	Additional Commissioner, Coimbatore
9	The Central Excise Act, 1944	Denial of credit on common inputs used in both dutiable and exempted products	583.04	2008 - 2013	Commissioner, Salem
10	The Central Excise Act, 1944	Denial of credit on common inputs used in both dutiable and exempted products	0.44	2015 - 2017	Deputy Commissioner, Coonor Division
11	The Central Excise Act, 1944	Denial of credit on common inputs used in both dutiable and exempted products	1.50	2008 - 2012	In The Customs, Excise and Service Tax Appellate Tribunal, Chennai
12	The Central Excise Act, 1944	Denial of credit on common inputs used in both dutiable and exempted products	514.83	2003 - 2017	In The High Court of Judicature At Madras
13	The Central Excise Act, 1944	Denial of credit on common inputs used in both dutiable & exempted products (industrial sludge)	0.29	2016 - 2018	Assistant Commissioner of GST & Central Excise, Coonor Division
14	The Central Excise Act, 1944	Misclassificationn of F/G for the period April -2013 to Jan-2015	53.12	2014-15	Customs Excise and Service Tax Appellate Tribunal
15	The Central Excise Act, 1944	Cenvet Credit of service tax availed on house keeping services utilised in office and manpower services and gardening Services	8.36	2014-15	Commissioner Appeal
16	The Central Excise Act, 1944	Wrongly Availed Basic Custom Duty and Custom Education Cess and Sec. and Higher Edu Cess	4.43	2016-17	Commissioner Appeal
17	Income Tax	Addition to income in assessment proceedings	33,883.34	AY 2006 - 2015	Commissioner Income Tax (Appeals) - 48, Mumbai
18	Sales Tax	Purchase of FO and LDO against concessional form as a processing material but department assessed as full tax at the time of assessment	296.71	2001 - 2004	Assistant Commissioner of State Tax, Appeal
19	Service Tax Rules, 1994	Denial of credit availed on outdoor catering service.	0.30	2006 - 2007	Deputy Commissioner of Central Excise, Coonor Division
20	Service Tax Rules, 1994	Denial of cenvat credit availed on ineligible input services.	1.55	2013 - 2016	Assistant Commissioner (Audit Circle-I), Coimbatore
21	Service Tax Rules, 1994	Denial of Service Tax credit availed on outward freight from factory to dumping yard	6.61	2008 - 2012	In The Customs, Excise and Service Tax Appellate Tribunal, Chennai
22	Service Tax Rules, 1994	Denial of Service Tax credit availed	0.96	2017-2018	Customs Excise and Service Tax Appellate Tribunal, Ahmedabad
		Sub-Total	38,443		

*Out of the above amounts payable reported, the company has paid Rs 7.56 Lakh to various authorities under protest.

**The above figures exclude interest liability up to the reporting date under various statues.



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- VIII. On the basis of information and explanations given to us the Company has made following defaults in repayment of dues to the banks, financial institutions and debenture holders during the financial year. The amount of defaults are as mentioned in the table below:

Particulars	Amount of default as on Balance sheet date (In Lakhs)	Period Of Default*
Allahabad Bank	6,459.17	1 Years 274 Days
Allahabad Bank Hongkong	13,945.87	3 Years 91 Days
Allahabad Bank Hongkong	496.63	2 Years 149 Days
Andhra Bank	25,361.71	2 Years 181 Days
Bank of Baroda	17,974.45	2 Years 305 Days
Bank Of Baroda London	12,658.77	2 Years 0 Days
Bank of India	15,819.21	2 Years 90 Days
Bank Of India - Jersey	10,607.17	2 Years 0 Days
Bank of Maharashtra	3,696.72	5 Years 273 Days
IDBI Bank Ltd	6,319.69	7 Years 1 Days
Indian Overseas Bank	45,120.15	2 Years 90 Days
Indian Overseas Bank - Hkg	7,480.37	2 Years 0 Days
Oriental Bank of Commerce	4,422.66	5 Years 336 Days
Punjab National Bank	30,358.63	1 Years 364 Days
Punjab National Bank - Hkg	6,397.21	2 Years 0 Days
Punjab National Bank - London	4,240.99	1 Years 274 Days
State Bank of India	4,087.09	2 Years 122 Days
State Bank of India-90 min	29,513.49	2 Years 331 Days
Syndicate Bank	14,028.24	5 Years 273 Days
Syndicate Bank - London	19,109.12	5 Years 183 Days
The Catholic Syrian Bank Ltd	2,496.14	1 Years 90 Days
The Lakshmi Vilas Bank Ltd	1,536.55	3 Years 181 Days
Uco Bank	13,647.49	5 Years 275 Days
Uco Bank	37,033.69	6 Years 0 Days
Vijaya Bank	3,851.79	2 Years 212 Days
HDFC Bank	1,615.58	#
J M Financial Asset Reconstruction Co Ltd	10,611.79	5 Years 212 Days
JP Morgan	5,884.64	#
LIC-Non Convertible Debentures	73,329.65	7 Years 56 Days
TOTAL	4,28,104.66	

*The period of default is based on the information provided by the Company and no independent specific confirmation from lenders of the above defaults was made available to us by the Company.

#Sufficient evidence / information has not been provided by the Company to ascertain the period of default

- IX. According to the information and explanations given to us, the Company did not raise money by way of initial public offer or further public offer (including debt instruments) and term loans during the year. Accordingly, the provisions of Clause 3 (ix) of the Order are not applicable.
- X. Based on audit procedures performed by us for the purpose of reporting the true and fair view of the financial statements of the Company and based on records produced to us and according to information and explanations provided to us, an FIR is registered by the CBI, BS&FC on 25-10-2017 bearing no RCB/D1/2017/E/0007 u/s 13(2) r/w 13 (1) (d) of PC act, 1988 and 120B r/w 420, 467, 468 & 471 of IPC, 1860 against the Company, Mr. Chetan Sandesara, Director, Mr. Nitin Sandesara, Director, Mr. Rajbhusan Omprakash Dixit, Director, Mr. Vilas Joshi, Director, former employees and key management personnel of the Company for hatching criminal conspiracy with each other with dishonest intention to cheat Andhra Bank and other public sector Banks. Basis on the aforesaid FIR a case was taken up for investigation under the provisions of



PMLA, 2002 by Head office of directorate of Enforcement on 27.10.2017. On the basis of another FIR by CBI dated 30-08-2017, a case was taken up for investigation by the Head office of Directorate of Enforcement under provisions of PMLA, 2002 on 31-08-2017. Prior to the said cases being taken up for investigation under PMLA, investigation under FEMA, 1999 was also initiated as the Company had contravened RBI regulations by raising FCCBs through automatic route and violated the FDI policy. All are subject matter of investigations by the government authorities. The Government of India, Ministry of Corporate affairs vide order F No 3/197/2018-CLII (WR) dated 10-Apr-2018 has ordered investigation into the affairs of Sterling Biotech limited under sec 212(1) (c) of Companies Act, 2013 by Serious Fraud Investigation Office and the Director, SFIO vide order no SFIO/Inv/AOI/2017-18//13513/2018 dated 13-Apr-2018 and has appointed Shri Dheeraj Kumar (Senior Assistant Director) as Investigation Officer under Sec 212(4) of Companies Act, 2013

First Information report under sec 154 Cr.P.C suspecting criminal conspiracy and abuse of official position during the period 2005-2011 has been filled against IT officers and Sterling Biotech Limited.

As the final outcome of all these investigations are pending with various agencies, we are not able to comment on the implication of these frauds on the financial statements of the Company.

- XI. Based on the examination and verification of evidences provided by the Company, the Company has not complied with the provisions of Section 197 of the Act read with Schedule V to the Act with respect to requisite approvals mandated in the general meeting for managerial remuneration paid and/ or provided for in books of account. Further, we have not been provided with appropriate evidences to establish the genuineness of various expenditure incurred by the director's and recorded in books of account.
- XII. In our opinion, the Company is not a Nidhi Company and hence reporting under paragraph 3(xii) of the Order is not applicable to the Company.
- XIII. In our opinion and according to the information and explanation provided to us by the management, as the register under section 189 has not been updated, we are unable to comment on compliance with section 177 and Section 188 of the Companies Act, 2013 with respect to transactions with related parties. However, details of related party transactions have been disclosed in Note 26 to the financial statements as certified by the management.
- XIV. The Company has made private placement of unlisted 8% redeemable cumulative non-participating non-convertible preference shares of Rs. 6,615 Lakh carrying no voting rights, at par, to entities under common management during the year. (Refer Note. No. 13 to the financial statements). We have not been provided with sufficient audit evidence to ascertain the end use of the monies raised during the year. Accordingly, we are unable to comment on Clause 3(xiv) of the Order.
- XV. According to the information and explanation provided to us by the management, the Company has not entered into any non-cash transactions with the directors or persons connected with them. However, we are unable to corroborate the management representation with sufficient and appropriate audit evidence and hence we are unable to comment on Clause 3 (xv) of the Order.



- XVI. According to the information and explanations given to us, and to the best of our knowledge and belief, the Company is not required to obtain any registration under Section 45-IA of the Reserve Bank of India Act, 1934.

For **JHS & Associates LLP**
Chartered Accountants
Firm's Registration No.: 133288W/W100099



Jignesh Thaker
Partner
Membership No.: 107231



Place: Mumbai
Date: December 19, 2018

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Annexure-B to the Independent Auditor's Report of even date to the members of Sterling Biotech Limited, on the financial statements for the year ended March 31, 2018

Independent Auditor's 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 the Company as of March 31, 2018 in conjunction with our audit of 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.

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:

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.


Disclaimer of Opinion

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The system of internal financial controls over financial reporting with regard to the Company were not made available to us to enable us to determine if the Company has established adequate internal financial control over financial reporting and the effects/possible effects of the material weakness on the achievement of the objectives of the control criteria and whether such financial controls were operating effectively as at March 31, 2018 considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the ICAI.

We have considered the disclaimer reported above in determining the nature, timing and extent of audit test applied in our audit of the financial statements of the Company, and the disclaimer has affected our opinion on the financial statements of the Company and we have issued a disclaimer opinion on the financial statements and we have issued a disclaimer of opinion on the financial statements.

For **JHS & Associates LLP**
Chartered Accountants
Firm's Registration No.: 133288W/W100099


Jignesh Thaker
Partner
Membership No.: 107231



Place: Mumbai

Date: December 19, 2018

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