

# INDEPENDENT AUDITORS' REPORT

To the Members of VST Industries Limited

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of VST Industries Limited ("the Company"), which comprise the balance sheet as at 31 March 2020, and the statement of profit and loss (including other comprehensive income), statement of changes in equity and statement of cash flows for the year the ended, and notes to the financial statements, including a summary of the significant accounting policies and other explanatory information (hereinafter 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 aforesaid financial statements give the information required by the Companies Act, 2013 ("Act") in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March 2020, and profit and other comprehensive income, changes in equity and its cash flows for the year ended on that date.

### Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Act. Our responsibilities under those SAs are further described in the Auditor's Responsibilities for the Audit of the 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 together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the Rules 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 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 Financial statements of the current period. These matters were addressed in the context of our audit of the 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	How the matter was addressed in our audit
<b>Litigations related to taxation and other claims</b>	
<i>Refer Note 17 and Note 26 to financial statements and "significant &amp; material orders passed by the regulators or courts or tribunals" section in the Reports of the Board of Directors &amp; Management Discussion and Analysis.</i>	
<p>The Company is subjected to a large number of central and state tax litigations and other claims pending before various judicial forums, which could have a significant impact on the results depending upon the outcome of the matter.</p> <p>The amounts involved are significant, and the application of accounting standards to determine the amount, if any, to be provided as a liability or disclosed as a contingent liability, is inherently subjective.</p> <p>The Company regularly updates and assesses its legal positions with the use of internal and external legal experts.</p> <p>We considered the tax related litigations and other claims a key audit matter, given the size, complexity and number of cases pending and contingency related to other claims.</p>	<p>Our key audit procedures included:</p> <ul style="list-style-type: none"> <li>• We understood the Company's process around the evaluation and continuous re-assessment of tax related liabilities, accounting policy thereof and other claims.</li> <li>• Assessed the appropriateness of design and implementation of the Company's controls over assessment of litigations and appropriateness of disclosures.</li> <li>• Performed substantive procedures on the underlying calculations supporting the liabilities recorded.</li> <li>• Assessed the management's conclusion through understanding relevant judicial precedents in similar cases and the applicable rules and regulations.</li> <li>• Engaged subject matter specialists to gain an understanding of the current status of litigation and developments in the disputes, if any, through discussion with the management and by reading external advice received by the Company, where relevant, to validate management's conclusion.</li> <li>• Assessed the adequacy of the Company's disclosures made in relation to tax litigations and other claims.</li> </ul>

## Revenue Recognition

Refer to Note 1 -Significant Accounting Policies to the financial statements

Key audit matters	How the matter was addressed in our audit
<p>Regulatory restrictions and taxation changes may have an impact on the revenue growth of the Company and resultant impact on the price and volume of products sold.</p> <p>Revenue from sale of goods is recognized when effective control over goods is transferred to a customer as per the terms of the contract. This is usually evidenced by a transfer of all of the significant risks and rewards of ownership upon delivery of goods to the customer, which in terms of timing is not materially different to the date of shipping.</p> <p>Revenue is measured at fair value of the consideration received or receivable after deduction of any trade discount, trade incentive and other similar discounts and any taxes or duties collected on behalf of the Government which are levied on sales such as Goods &amp; service Tax, etc.</p> <p>Revenue is one of the key performance indicators of the Company and there could be a risk of Management override of controls to meet targets or expectations. This may result in revenue to be recognized before the control have been transferred to the customer.</p> <p>Further, recognition and measurement of accruals related to trade incentive schemes involves management judgement.</p>	<ul style="list-style-type: none"> <li>• Our audit procedures included considering the appropriateness of the Company's revenue recognition accounting policies including those pertaining to trade incentive schemes and assessed compliance with the policies in terms of the applicable accounting standards.</li> <li>• We tested the design, implementation and operating effectiveness of the Company's key controls including IT controls over measurement and recognition of revenue in accordance with customer contracts.</li> <li>• We performed tests of details, on a sample basis, to assess whether the revenue recorded is as per the contract terms.</li> <li>• Assessed sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the year end date to determine whether revenue was recognized in the correct period.</li> <li>• Assessed the overall trade discounts/ trade incentive issued in the current year in comparison with previous year. Assessed the adequacy of accrual made as at year end toward trade incentive schemes.</li> <li>• Other audit procedures specifically designed to address risk of Management override of controls including journal entry testing.</li> <li>• Assessed the adequacy of the Company's disclosures in the financial statements.</li> </ul>

## Other Information

The Company's management and Board of Directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the 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 and Board of Directors' Responsibility for the Financial Statements

The Company's management and Board of Directors are responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these financial statements that give a true and fair view of the state of affairs, profit/loss and other comprehensive income, changes in equity and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safe guarding of 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 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.

In preparing the financial statements, the management and Board of Directors are 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 is also responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls with reference to financial statements 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 in the financial statements made by the management and Board of Directors.
- Conclude on the appropriateness of the management and Board of Director'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 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 financial statements, including the disclosures, and whether the 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 (Auditors' Report) Order, 2016 ("the Order") issued by the Central Government in terms of section 143 (11) of the Act, we give in the "**Annexure A**" a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.
2. As required by Section 143(3) of the Act, we report that:
  - a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
  - c) The balance sheet, the statement of profit and loss (including other comprehensive income), the statement of changes in equity and the statement of cash flows dealt with by this Report are in agreement with the books of account;
  - d) In our opinion, the aforesaid financial statements comply with the Ind AS specified under section 133 of the Act read with Rule 3 of the Companies (Accounts) Rules, 2014;
  - e) On the basis of the written representations received from the directors as on 31 March 2020 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2020 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 with reference to financial statements of the Company and the operating effectiveness of such controls, refer to our separate Report in "**Annexure B**"; and
  - g) With respect to the other matters to be included in the Auditors' 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 as at 31 March 2020 on its financial position in its financial statements - Refer Note 17 and 26 to the financial statements;
    - ii. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses; and
    - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.
3. With respect to the matter to be included in the Auditors' Report under section 197(16):

In our opinion and according to the information and explanations given to us, the remuneration paid by the company to its directors during the current year is in accordance with the provisions of Section 197 of the Act. The remuneration paid to any director is not in excess of the limit laid down under Section 197 of the Act. The Ministry of Corporate Affairs has not prescribed other details under Section 197(16) which are required to be commented upon by us.

for **B S R & Associates LLP**

Chartered Accountants

Firm's Registration Number: 116231W/W-100024

**Sriram Mahalingam**

Partner

Membership number: 049642

UDIN: 20049642AAAABI5740

Place: Hyderabad

Date: 21st May, 2020

# ANNEXURE A TO THE INDEPENDENT AUDITORS' REPORT

**Annexure A to the Independent Auditors' report on the financial statements of VST Industries Limited for the year ended 31 March 2020**

**Report on the matters specified in paragraphs 3 and 4 of Companies (Auditor's Report) Order, 2016 to the aforesaid financial statements under Sub-section 11 of Section 143 of the Companies Act, 2013**

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

We report that:

- i. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of property, plant and equipment;
- (b) The property, plant and equipment are physically verified by the management according to a phased programme designed to cover all the items over a period of three years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the property, plant and equipment has been physically verified by the management during the year and no material discrepancies have been noticed on such verification.
- (c) According to the information and explanations given to us and on the basis of our examination of records of the Company, the title deeds of immovable properties, as disclosed in Note 2 on property, plant and equipment to the financial statements, are held in the name of the Company.
- ii. The inventories, except goods in transit, have been physically verified by the Management during the year at reasonable intervals. In our opinion, the frequency of such verification is reasonable. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- iii. According to the information and explanation given to us, the Company has not granted any loans, secured or unsecured, to companies, firms, Limited Liability Partnership or other parties covered in the Register maintained under Section 189 of the Companies Act, 2013 ("the Act"). Accordingly, paragraph 3(iii) of the Order is not applicable to the Company.
- iv. According to the information and explanation given to us, the Company has not granted any loans or made any investments or provided any guarantees or security to the parties covered under Sections 185 and 186. Accordingly, paragraph 3(iv) of the Order is not applicable to the Company.
- v. According to the information and explanation given to us, the Company has not accepted any deposits from the public in accordance with provisions of Sections 73 to 76 of the Act and the Rules framed thereunder. Accordingly, paragraph 3(v) of the Order is not applicable to the Company.
- vi. To the best of our knowledge and as explained, the Central Government of India has not specified the maintenance of cost records under sub-section (1) of Section 148 of the Act for any of the products of the Company. Accordingly, paragraph 3(vi) of the Order is not applicable to the Company.
- 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 account in respect of undisputed statutory dues including Provident fund, Employees' state insurance, Income-tax, Goods and Service tax, Duty of customs, Duty of excise, Cess and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities.  
  
According to the information and explanations given to us and on the basis of our examination of the records of the Company, no undisputed amounts payable in respect of Provident fund, Employees' state insurance, Income-tax, Goods and Service tax, Duty of customs, Duty of excise, Cess and other material statutory dues were in arrears as at 31 March 2020 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 on the basis of our examination of the records of the Company, there are no dues of Income tax, Duty of customs, Duty of excise, Sales tax and Value added tax which have not been deposited with appropriate authorities on account any dispute. According to the information and explanations given to us, the following dues of Service tax and Goods and Service tax have not been deposited by the Company on account of disputes.

Name of statute	Nature of dues	Amount in lakhs (₹)	Period to which the amount relates	Forum where the dispute is pending
The Central Excise Act, 1944	Service tax credit ineligibility under Cenvat Credit Rules, 2002	248.82	May 2008 to Sep 2011; Oct 2012 to Sep 2013; Aug 2015 to Mar 2016; Apr 2016 to Mar 2017	Customs, Excise & Service Tax Appellate Tribunal
Goods and Service Tax Act	Goods & Service Tax	96.67	Financial year 2019-20	Commissioner Appeals (Ghaziabad)

- viii. According to the information and explanations given to us, the Company does not have any loans or borrowings from any financial institution or bank or Government nor has it issued any debentures during the year. Accordingly, paragraph 3(viii) of the Order is not applicable to the Company.
- ix. According to the information and explanations given to us, the Company has not raised any money by way of initial public offer or further public offer (including debt instruments) and term loans during the year. Accordingly, paragraph 3(ix) of the Order is not applicable to the Company.
- x. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of material fraud by the Company or on the Company by its officers or employees, noticed or reported during the year, nor have we been informed of any such case by the Management.
- xi. According to the information and explanations given to us and based on our examination of the records on 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 of the Act.
- xii. 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 Order is not applicable to the Company.
- xiii. According to the information and explanations given to us and based on our examination of the records of the Company, transactions with the related parties are in compliance with Section 177 and 188 of the Act where applicable and details of such related party transactions have been disclosed in the Note 28 to the financial Statements as required by the applicable Indian Accounting Standards.
- xiv. According to the information and explanations given to us, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year. Accordingly, paragraph 3(xiv) of the Order is not applicable to the Company.
- xv. 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 any non-cash transaction with the directors or persons connected with him. Accordingly, paragraph 3(xv) of the Order is not applicable to the Company.
- xvi. In our opinion and according to the information and explanations given to us and based on our examination of the records of the Company, the Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934. Accordingly, paragraph 3(xvi) of the Order is not applicable to the Company.

for **B S R & Associates LLP**

Chartered Accountants

Firm's Registration Number: 116231W/W-100024

**Sriram Mahalingam**

Partner

Membership number: 049642

UDIN: 20049642AAAABI5740

Place: Hyderabad

Date: 21st May, 2020

# ANNEXURE B TO THE INDEPENDENT AUDITORS' REPORT

**Annexure B to the Independent Auditors' report on the financial statements of VST Industries Limited for the year ended 31 March 2020.**

**Report on the internal financial controls with reference to the aforesaid financial statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013**

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

## **Opinion**

We have audited the internal financial controls with reference to financial statements of VST Industries Limited ("the Company") as of 31 March 2020 in conjunction with our audit of the financial statements of the Company for the year ended on that date.

In our opinion, the Company has, in all material respects, adequate internal financial controls with reference to financial statements and such internal financial controls were operating effectively as at 31 March 2020, based on the internal financial controls with reference to financial statements 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 (the "Guidance Note").

## **Management's Responsibility for Internal Financial Controls**

The Company's management and the Board of Directors are responsible for establishing and maintaining internal financial controls based on the internal financial controls with reference to financial statements criteria established by the Company considering the essential components of internal control stated in the Guidance Note. 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 (hereinafter referred to as "the Act").

## **Auditors' Responsibility**

Our responsibility is to express an opinion on the Company's internal financial controls with reference to financial statements based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing, prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls with reference to financial statements. 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 with reference to financial statements were established and maintained and whether 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 with reference to financial statements and their operating effectiveness. Our audit of internal financial controls with reference to financial statements included obtaining an understanding of such internal financial controls, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls with reference to financial statements.

## **Meaning of Internal Financial controls with Reference to Financial Statements**

A company's internal financial controls with reference to 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 controls with reference to financial statements include those policies and procedures that

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

#### **Inherent Limitations of Internal Financial controls with Reference to Financial Statements**

Because of the inherent limitations of internal financial controls with reference to 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 with reference to financial statements to future periods are subject to the risk that the internal financial controls with reference to financial statements may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

for **B S R & Associates LLP**

Chartered Accountants

Firm's Registration Number: 116231W/W-100024

**Sriram Mahalingam**

Partner

Membership number: 049642

UDIN: 20049642AAAABI5740

Place: Hyderabad

Date: 21st May, 2020