

## INDEPENDENT AUDITORS' REPORT

To the Members of 3M India Limited

### Report on the Audit of the Standalone Financial Statements

#### Opinion

We have audited the standalone financial statements of 3M India Limited ("the Company"), which comprise the standalone balance sheet as at 31 March 2020, and the standalone statement of profit and loss (including other comprehensive income), standalone statement of changes in equity and standalone statement of cash flows for the year then ended, and notes to the standalone financial statements, including a summary of the significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 ("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 its 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 Standalone Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the standalone financial statements under the provisions of the Act and the Rules 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 Standalone financial statements.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Description of Key Audit Matter

##### Revenue Recognition

See note 3 (h) and 20 to the standalone financial statements

The key audit matter	How the matter was addressed in our audit
<p>The products of the Company are mainly sold through distributors, modern trade and direct sale channels amongst others. Revenue from sale of goods is recognised when control of the product is transferred to the customer i.e. on delivery to customer. The Company tracks proof of delivery and reverses the value of goods not delivered by the balance sheet date.</p> <p>We identified revenue recognition as a key audit matter given it is a key performance indicator of the Company. Pressure to achieve targets, earning expectations or incentive schemes linked to performance could create an incentive for revenue to be overstated or recognised before control has been transferred.</p>	<p>To obtain sufficient and appropriate audit evidence our principal audit procedures included, amongst others:</p> <ul style="list-style-type: none"><li>• Evaluated the appropriateness of the revenue recognition accounting policies in compliance with the accounting standards.</li><li>• Tested the design and operating effectiveness of relevant key controls with respect to revenue recognition on a sample basis.</li><li>• Tested the design, implementation and operating effectiveness of the Company's general IT controls and key application controls over the Company's IT systems which govern revenue recognition in the general ledger accounting system.</li><li>• Performed substantive testing of selected samples of revenue transactions, recorded during the year by testing the underlying documents.</li><li>• Analytical procedures on revenue recognised during the year to identify and inquire on unusual variances, if any.</li><li>• Independent confirmation on a sample basis of customer balances at the balance sheet date.</li><li>• Obtaining supporting documentation, on a sample basis for sales transactions recorded near to balance sheet date to determine whether revenue was recognised in the correct period.</li><li>• Tested, on a sample basis, manual journal entries relating to revenues to identify and inquire on unusual items, if any.</li></ul>

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### Impairment testing of investment in 3M Electro & Communication India Private Limited

See note 3(d), 3(e)(i), 6 and 40(B)(iv) to the standalone financial statements

The key audit matter	How the matter was addressed in our audit
<p>During the previous year, the Company acquired 100% stake in 3M Electro &amp; Communication India Private Limited from its existing shareholders (related parties of the Company) at a consideration of INR 58,470 lakhs. The Company has carried out impairment testing of such investment and have recognized impairment provision of INR 7,990 lakhs.</p> <p>Company's assessment of impairment contains a number of parameters which involve significant judgements and estimates including revenue growth, cashflow forecasting and weighted average cost of capital. Changes in these assumptions could lead to an impact over fair value of investment and accordingly impairment provision.</p> <p>The annual impairment testing was significant to our audit, because of the financial quantum of the assets it supports as well as the fact that the testing relies on critical judgements, estimates and assumptions.</p>	<p>To obtain sufficient and appropriate audit evidence our principal audit procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Tested the design of key internal financial controls and operating effectiveness of the relevant key controls around the review of the assessment of impairment of investment in subsidiary.</li> <li>• Performed a retrospective review to assess the reasonableness of Company's past projections by comparing historical forecast to actual results.</li> <li>• Tested reasonability of projections used by the Company relating to the sales growth, operating costs, cashflow forecast.</li> <li>• Engaged our valuation specialists to assist us in providing overall reasonableness of the valuation by evaluating the assumptions, approaches and methodologies used by the Company, in particular those relating to the weighted average cost of capital (WACC), terminal growth rate etc.</li> <li>• Tested whether the management analysis about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflect the risks inherent in the valuation of investment in subsidiary.</li> <li>• Evaluated the appropriateness of the disclosure in the financial statements including key assumptions and sensitivities.</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 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 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 Standalone 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 standalone 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 safeguarding 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 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 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

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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 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 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 standalone financial statements made by the Management and Board of Directors.
- Conclude on the appropriateness of the Management and Board of Directors 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 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. (A) 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.

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- c) The standalone balance sheet, the standalone statement of profit and loss (including other comprehensive income), the standalone statement of changes in equity and the standalone statement of cash flows dealt with by this Report are in agreement with the books of account.
  - d) In our opinion, the aforesaid standalone financial statements comply with the Ind AS specified under section 133 of the Act.
  - e) On the basis of the written representations received from the directors as on 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".
- (B) 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 standalone financial statements - Refer Note 16 and 36 to the standalone financial statements;
  - ii. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
  - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.
  - iv. The disclosures in the standalone financial statements regarding holdings as well as dealings in specified bank notes during the period from 8 November 2016 to 30 December 2016 have not been made in these financial statements since they do not pertain to the financial year ended 31 March 2020.
- (C) 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.

Place : Bangalore  
Date : 29 May 2020

*For B S R & Co. LLP*  
*Chartered Accountants*  
Firm Registration No: 101248W/W-100022  
**Vikash Gupta**  
*Partner*  
Membership Number: 064597  
UDIN No. : 20064597AAAABW1819

## ANNEXURE – A TO THE INDEPENDENT AUDITORS' REPORT

With reference to the Annexure A referred to in paragraph 1 in Report on Other Legal and Regulatory Requirements of the Independent Auditor's Report to the Members of the Company on the Standalone financial statements for the year ended 31 March 2020, we report that:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are physically verified in a phased manner over a period of three years. In our opinion, the periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, certain fixed assets have been physically verified during the year and no material discrepancies were noticed on such verification.
- (c) In our opinion and according to the information and explanations given to us and on the basis of our examination of the records of the Company, the title deeds of immovable properties included in property, plant and equipment are held in the name of the Company.

In respect of immovable properties been taken on lease and disclosed as property, plant and equipment in the standalone financial statements, the lease agreements are in the name of the Company.

- (ii) The inventory, except goods-in-transit and stocks lying with third parties has been physically verified by the Management during the year. In our opinion, the frequency of such physical verification is reasonable. The discrepancies noticed on physical verification between the physical stock and the book records were not material and have been appropriately dealt with in the books of accounts. For stocks lying with third parties at the year end, written confirmations have been obtained.
- (iii) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured, to companies, firms, limited liability partnerships or other parties covered in the register maintained under Section 189 of the Act. Accordingly, the provisions of clause 3(iii) (a), (b) and (c) of the Order are not applicable to the Company.
- (iv) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of section 186 of the Act in respect of investments made. Further, there are no loans, guarantees and security given in respect of which provisions of Sections 185 and 186 of the Act are applicable.
- (v) According to the information and explanations given to us, the Company has not accepted any deposits from the public in accordance with the provisions of Sections 73 to 76 or any other relevant provisions of the Act and the rules framed there under. Accordingly, the provisions of clause 3(v) of the Order are not applicable to the Company.
- (vi) We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government of India for maintenance of cost records under section 148(1) of the Act in respect of products manufactured and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the 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 account in respect of undisputed statutory dues including Provident fund, Employees State Insurance, Income-tax, Duty of customs, Goods and Services tax, Cess and any other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Sales-tax, Service-tax, Duty of excise and Value added tax during the year. Also refer note 36 to the financial statements.  
According to the information and explanations given to us, no undisputed amounts payable in respect of Provident fund, Employees State Insurance, Income-tax, Duty of customs, Goods and Services tax, Cess and any 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, the particulars of dues of Income-tax, Sales-tax, Service-tax, Duty of customs, Duty of excise and Value added tax as at 31 March 2020 which have not been deposited by the Company on account of disputes are mentioned in Appendix-1.
- (viii) In our opinion and according to the information and explanations given to us, the Company did not have any loans or borrowings from financial institutions or banks or government and there were no dues to debenture holders during the year.
- (ix) The Company did not raise any money by way of initial public offer or further public offer (including debt instrument) and term loans during the year. Accordingly, para 3(ix) of the Order is not applicable to the Company.
- (x) According to the information and explanations given to us, no material fraud on the Company by its officers and employees or fraud by the Company has been noticed or reported during the course of our audit.

## ANNEXURE 'A' TO INDEPENDENT AUDITORS' REPORT

- (xi) According to the information and explanations given to us and based on 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.
- (xii) According to the information and explanations given to us, in our opinion the Company is not a Nidhi Company as prescribed under Section 406 of the Act. Accordingly, para 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, all transactions with the related parties are in compliance with Section 177 and 188 of the Act, where applicable, and details of all transactions have been disclosed in the Standalone financial statements as required by the applicable accounting standards.
- (xiv) According to the information and explanations 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 issued fully or partly convertible debentures during the year. Accordingly, para 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 non-cash transactions with directors or persons connected with him/ her. Accordingly, para 3(xv) of the Order is not applicable to the Company.
- (xvi) According to the information and explanations given to us and in our opinion the Company is not required to be registered under section 45-IA of the Reserve Bank of India Act, 1934.

For **B S R & Co. LLP**

Chartered Accountants

Firm Registration No: 101248W/W-100022

**Vikash Gupta**

Partner

Membership Number: 064597

UDIN No. : 20064597AAAABW1819

Place : Bangalore  
Date : 29 May 2020

### Appendix-1 to the Annexure 'A' to the Independent Auditor's Report

Statute / Nature of dues	Demand amount (Rs. in lakhs)	Payment under protest/ adjusted (Rs. in lakhs)	Net amount (Rs. in lakhs)	Period to which it pertains	Forum where the dispute is pending
Income tax	16,219.12	2,872.82	13,346.30	2005-2006, 2010-2011, 2012-2013 to 2016-17	Commissioner of Income Tax (Appeals)
	399.35	322.17	77.18	2006-07	Assessing officer
	1,974.08	1,540.15	433.93	2007-2010 and 2011-2013	Income Tax Appellate Tribunal
Sales tax/ Value added tax/ Central Sales tax	9,679.19	1,815.76	7,863.43	2005-2009 and 2010-2016	Appellate Authority up to Commissioner's level
	1,595.85	800.54	795.31	2007-2012	Sales Tax Appellate Tribunal
Excise (including service tax)	282.06	5.15	276.91	2010-2014	Commissioner- Appeals
	1,956.61	117.26	1,839.35	2006-2015	Customs, Excise and service tax appellate tribunal
Custom duty	1,961.51	-	1,961.51	2005-2010	Customs, Excise and Service tax appellate tribunal
	16,387.03	577.01	15,810.02	2011-2014	Directorate of Revenue Intelligence

## **Annexure-B to the Independent Auditors' report on the standalone financial statements of 3M India Limited for the period ended 31 March 2020**

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

(Referred to in paragraph 1 (A)(f) 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 3M India Limited ("the Company") as of 31 March 2020 in conjunction with our audit of the standalone 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 standalone 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.

## ANNEXURE 'B' TO INDEPENDENT AUDITORS' REPORT

### **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.

Place : Bangalore  
Date : 29 May 2020

*For B S R & Co. LLP*  
*Chartered Accountants*  
Firm Registration No: 101248W/W-100022  
**Vikash Gupta**  
*Partner*  
Membership Number: 064597  
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