

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF HOUSING AND URBAN DEVELOPMENT CORPORATION LIMITED

#### Report on the Standalone Financial Statements

We have audited the accompanying Standalone Financial Statements of **Housing and Urban Development Corporation Limited** ("the Company"), which comprise the Balance Sheet as at 31<sup>st</sup> March, 2018, the Statement of Profit and Loss, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information (herein after referred to as "standalone financial statements").

#### Management's Responsibility for the Standalone Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

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 the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility for the Standalone Financial Statements

Our responsibility is to express an opinion on these standalone financial statements based on 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.

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 the standalone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the standalone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the standalone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the standalone 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 standalone financial statements.

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

#### Opinion

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 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<sup>st</sup> March, 2018, and its profit and its cash flows for the year ended on that date.

#### Emphasis of Matters

We draw attention to the following matters in the Notes to the Standalone financial statements:

- i) The company has recognised interest income on 'No Lien AGP Account' amounting to ₹ 26.24 crore [₹ 23.40 crore for the previous year ended 31<sup>st</sup> March, 2017] for the year ended 31<sup>st</sup> March, 2018. The same has been shown in Note 21 (Other Income) under head 'Interest on Construction Project'.

The balance outstanding as at the end of the year is ₹ 398.12 crore (debit) in "No Lien AGP Account". The company is in discussion with MoHUA for recovery /reimbursement of outstanding amount as well as booking of expenses. [Refer Para 2 of Note 26]

- ii) In case of one of the Borrower, the loan was categorized as sub-standard by the company on 15<sup>th</sup> April, 2015. However, in view of Hon'ble High Court of Madras Order and legal opinion of law wing with respect to asset classification, the loan asset has been re-classified from sub-standard to standard. However, keeping in view the prudent accounting, the interest income of ₹ 121.81 crore has not been recognized in the accounts and the company has earmarked provision of ₹ 193.03 crore in the additional provision of ₹ 284 crore as on 31<sup>st</sup> March, 2018 to meet such exigency.[Refer Para 6 of Note 26].

Our opinion is not modified in respect of these matters.

### Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the Annexure-'A', a Statement on the matters specified in the paragraphs 3 and 4 of the said Order.
2. We are enclosing our report in terms of Section 143 (5) of the Act, on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, in the Annexure 'B' on the directions and sub-directions issued by the Comptroller and Auditor General of India.
3. 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 and proper returns adequate for the purposes of our audit have been received from the regional offices not visited by us;
  - c) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement 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 Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;
  - e) We are informed that the provisions of Section 164(2) in respect of disqualification of directors of the Companies Act, 2013 are not applicable to the Company being Government Company in terms of notification no. G.S.R. 463 (E) dated 5<sup>th</sup> June, 2015 issued by Ministry of Corporate Affairs;
  - f) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in "Annexure 'C'; and
  - g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
    - i. The Company has disclosed the impact of pending litigations on its financial position in its Standalone financial statements — [Refer Para 1 (a) of Note 26]
    - ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts; [Refer Para 43 (d) of Note 26]
    - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company; [Refer Para 25 of Note 26]

### NHB DIRECTIVES

4. The company is complying with National Housing Bank's (NHB) credit concentration norms in respect of loans to private sector agencies. However, in case of loans to State Governments / State Governments agencies, the said norms have been relaxed by NHB vide various letters (Refer table given in para no. 22 of Note no. 26); the same is complied with except in case of investment in equity shares of Housing Finance Company Indbank Housing Limited (investee company) where investment in 25 % of equity capital of investee company has been made instead of prescribed limit of 15%. [Refer para no. 22 of Note no. 26].

**For Prem Gupta & Company**  
**Chartered Accountants**  
**(Firm Regn No. 000425N)**

**Place of Signature : New Delhi**  
**Date : 30<sup>th</sup> May, 2018**

**Sd/-**  
**Prem Behari Gupta**  
**Partner**  
**(Membership No.: 080245)**

## ANNEXURE “A” TO THE INDEPENDENT AUDITOR’S REPORT

**(Annexure referred to in paragraph “1” under ‘Report on Other Legal and Regulatory Requirements’ section of our report of even date to the members of Housing and Urban Development Corporation Limited on the Standalone Financial Statements for the year ended March 31<sup>st</sup>, 2018)**

- (i) In respect of fixed assets:
- The Company has generally maintained proper records showing full particulars, including quantitative details and situation of fixed assets. However, we suggest that location of fixed assets should be updated regularly.
  - As per information and explanation given to us, there is a regular programme of physical verification of all fixed assets once every year which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In our opinion and as per the information given by the Management, the discrepancies observed were not material and have been appropriately accounted in the books.
  - The title/ lease deeds of the immovable properties are held in the name of the Company except in case of Leasehold Land/ flats / buildings measuring 11521.53 square meters having cost of ₹ 33.99 crore and Freehold Land / flats / buildings measuring 5718.03 square meters having cost of ₹ 6.51 crore, of which title / lease deeds are pending for execution in the name of the Company.
- (ii) The nature of business of the company does not require it to have any inventory. Hence, the requirement of clause (ii) of paragraph 3 of the said Order, are not applicable to the company.
- (iii) According to the information and explanation given to us, the company has not granted any loans, secured or unsecured to any companies, firms, limited liability partnerships or other parties covered in the register required to be maintained under section 189 of the Companies Act, 2013 (‘the Act’). Hence Clause (iii) (a), (iii) (b) and (iii)(c) are not applicable.
- (iv) According to the information and explanations given to us, the Company, being a Housing Finance Company, is exempted from the provisions of section 186 (2) as it is engaged in the business of providing financial assistance for housing and infrastructure facilities as provided under Schedule-VI of the Companies Act, 2013. However, we have been informed that the company has complied with provisions of section 186 (1) of the Companies Act, 2013. In our opinion and according to the information and explanations given to us, the Company has not advanced loans to directors / to a Company in which the Director is interested to which provisions of Section 185 of the Companies Act, 2013 apply.
- (v) The company has accepted deposits from the public. In our opinion and according to the information and explanations given to us, the company, during the year, has complied with the directives issued by the National Housing Bank under the Housing Finance Companies (NHB) Directions, 2010 with regard to deposits accepted from the public and the rules framed thereunder; and the provisions of Section 73 to 76 and other relevant provisions of the Companies Act, 2013, and the rules framed there under.
- (vi) According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under sub section (1) of section 148 of the Companies Act, 2013, in respect of the business of the company.
- (vii) (a) According to the information and explanations given to us and according to the records produced before us for verification, the company has generally been regular in depositing with appropriate authorities, the undisputed statutory dues including provident fund, income tax, wealth tax, service tax and any other material statutory dues applicable to it.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Sales/ Value added Tax, Service Tax and any other material statutory dues were in arrears as at 31<sup>st</sup> March 2018 for a period of more than six months from the date they became payable.
- (c) According to the information and explanations given to us, the income tax, wealth tax and service tax dues which are pending on account of dispute are as under:

Name of Statute	Nature of Dues	Amount (in ₹ crore)	Period to which amount relates	Forum where dispute is pending
Income-tax Act 1961	Disputed Income-tax demand	74.53#	AY 2004-05, AY 2006-07, AY 2013-14 and AY 2015-16	CIT(A)
Income-tax Act 1961	Disputed Income-tax demand	84.46#	AY 1999-2000, AY 2007-08, AY 2010-11 to AY 2012-13 and AY 2014-15	ITAT
Income-tax Act 1961	Disputed Income-tax demand	29.72#	AY 1996-97 and AY 1998-99	High Court

Name of Statute	Nature of Dues	Amount (in ₹ crore)	Period to which amount relates	Forum where dispute is pending
Income-tax Act 1961	Disputed Income-tax demand	22.17#	AY 1997-98, AY 2002-03 and AY 2003-04	Addl. CIT
Income-tax Act 1961	Disputed Income-tax demand	26.03#	AY 2008-09 and AY 2009-10	Addl. CIT and CIT(A)
Income-tax Act 1961	Disputed Income-tax demand	38.32#	AY 2005-06	CIT (A) and ITAT
Income-tax Act 1961	Disputed Income-tax demand	49.73#	AY 2000-01 and AY 2001-02	Addl. CIT and ITAT
Wealth Tax Act, 1957	Disputed Wealth Tax	0.01@	AY 1995-96	Addl. CIT
Service tax- Finance Act, 1994	Disputed Service Tax demand	4.22*	FY 2005-06 to 2009-10	CESTAT
Service tax.- Finance Act, 1994	Disputed Service Tax demand	0.19*	FY 2008-09 to FY 2010-11 and FY 2012-13 to FY 2015-16	Commissioner-Service Tax
Service tax- Finance Act, 1994	Demand cum Show Cause under Service Tax	0.11*	FY 2008-09 to FY 2010-11 FY 2011-12 to 2014-15	Assistant/Deputy/ Joint Commissioner of Service Tax
<b>TOTAL</b>		<b>329.49</b>		

# against disputed income tax demand, ₹ 320.19 crores has been adjusted by authorities or paid by the Company under protest from time to time and remaining ₹ 4.77 crores has not been paid.

@ Wealth tax amounting to ₹ 0.01 crore paid under Protest by company.

\* against disputed Service tax, ₹ 0.14 crores has been paid by the company under protest and remaining ₹ 4.38 crores has not been paid.

- d) According to the information and explanations given to us, the amount which was required to be transferred to Investor Education and Protection Fund in accordance with sub section (5) of section 125 of the Companies Act, 2013 has been transferred. The unclaimed amount lying in current liabilities includes interest of ₹ 0.37 crore as on March, 31<sup>st</sup> 2018, which have lapsed 7 years from the respective due dates of interest payment and not transferred to IEPF, since 7 years from the maturity date of bonds/ deposits/ debentures has not been completed yet.(Refer Para 25 of Note 26)
- (viii) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to financial institutions, banks, and Government or debenture holders.
- (ix) According to the information and explanations given to us, the Company has raised the money through bonds issue, and term loan. The proceeds of such bonds issue, and term loan have been utilised for the purposes for which they were raised. Under the Disinvestment programme of Government of India, the President of India acting through the Ministry of Housing and Urban Poverty Alleviation (Selling Shareholder) sold 10.193% of its equity shareholding (i.e. 204,058,747 equity shares of face value of ₹ 10/- each) in Housing and Urban Development Corporation Ltd. (HUDCO) through an Initial Public Offer (IPO) at a price of ₹ 60/- per equity share vide allotment dated 17.05.2017. As the offer comprised solely of the offer for sale by the selling shareholder and with HUDCO not raising any fresh equity capital through the offer, no proceeds of the offer have been received by HUDCO. The equity shares of HUDCO got listed on 19<sup>th</sup> May, 2017.
- (x) According to the information and explanations given to us and as represented by the Management and based on our examination of the books and records of the Company and in accordance with Generally Accepted Auditing Practices in India, no case of frauds by the Company or on the company by its officers or employees has been noticed or reported during the year.
- (xi) The provisions of Section 197 relating to managerial remuneration are not applicable to the Company, being a Government Company, in terms of MCA Notification no. G.S.R. 463 (E) dated 5<sup>th</sup> June 2015.
- (xii) In our opinion and according to the information and explanations given to us, the Company is not a Nidhi Company and hence the requirement of Clause 3 (xii) of the order is not applicable.
- (xiii) In our opinion and according to the information and explanations given to us, transactions during the year with the related parties were approved by the Audit Committee and are in compliance with section 177 of the Companies Act, 2013 where applicable and

since the said transactions were in the ordinary course of business of the company and were at arm's length basis, the provisions of section 188 are not applicable, and the details 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, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review.
- (xv) In our opinion and according to the information and explanations given to us, the Company has not entered into any non-cash transactions with directors or persons connected with him.
- (xvi) According to the information and explanations given to us, the Company is not required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. However, the company being a Housing Finance Company, is registered with National Housing Bank vide Registration No. 01.0016.01 by which NHB has granted status of Housing Finance Company (HFC) to the Company on 31<sup>st</sup> July, 2001.

**For Prem Gupta & Company  
Chartered Accountants  
(Firm Regn No. 000425N)**

**Place of Signature : New Delhi  
Date : 30<sup>th</sup> May, 2018**

**Sd/-  
Prem Behari Gupta  
Partner  
(Membership No.: 080245)**



**Annexure “B” to the Independent Auditors’ Report**

(Annexure referred to in paragraph “2” under ‘Report on Other Legal and Regulatory Requirements’ section of our report of even date to the members of Housing and Urban Development Corporation Limited on the Standalone Financial Statements for the year ended 31<sup>st</sup> March, 2018)

**Directions and Sub-Directions indicating the areas to be examined by the Statutory Auditors during the course of audit of annual accounts of Housing and Urban Development Corporation Limited for the year 2017-18 issued by the Comptroller and Auditor General of India under section 143(5) of the Companies Act, 2013.**

SI.No.	Observations	Reply
1.	Whether the Company has clear title/lease deeds for freehold and leasehold land respectively? If not, please state the area of freehold and leasehold land for which title/lease deeds are not available.	We have verified the copies of title/lease deeds for freehold and leasehold land, building and flats. The company has clear title in respect of these except some cases of Leasehold Land/flats/buildings measuring 11521.53 square meters having cost of ₹ 33.99 crore and Freehold Land/flats/buildings measuring 5718.03 square meters having cost of ₹ 6.51 crore, of which title/ lease deeds are pending for execution in the name of the Company.
2.	Whether there are any cases of waiver/write off of debts/loans/interest etc., if yes, the reason there for and the amount involved	During the year 2017-18, company has waived off/written off interest i.e. (simple interest, compound interest, penal interest including loss of rebate and EMI waiver) on account of default resolution. The total amount waived during the year 2017-18 stood at ₹ 212.46 Crores.
3.	Whether proper records are maintained for inventories lying with third parties & assets received as gift/grant(s) from the Government or other authorities.	The nature of business of the company does not require it to have any inventory. Therefore, the clause with respect to inventories lying with third parties is not applicable. During the year, company has not received assets as gift/grant(s) from the Government or other authorities. Further, the company is maintaining records of grant assets.
	<b>Sub Directions:</b>	
4.	In respect of provisioning requirement of all restructured, rescheduled or renegotiated loans, whether a system of periodical assessment of realizable value of securities available against all such loans is in place and adequate provision has been created during the year? Any deficiencies in this regard may be suitably commented upon along with financial implications	Company has a system in place for periodical assessment of realizable value of securities for restructured, rescheduled or renegotiated loans.  Further, the company has changed its system of periodical assessment of realizable value of securities after receipt of NHB circular no.NHB(ND)/DRS/Policy Circular No.86/2017-18 dated 29 <sup>th</sup> December 2017. As per new system, valuation in respect of Non-Performing Asset (NPA) shall be annual in case of assets classified as sub-standard for more than six months or the classification of assets as doubtful assets.  In the cases examined by us, Company has made adequate provision as per NHB Guidelines w.r.t all restructured, rescheduled or renegotiated loans.

**For Prem Gupta & Company  
Chartered Accountants  
(Firm Regn No. 000425N)**

**Place of Signature : New Delhi  
Date : 30<sup>th</sup> May, 2018**

**Sd/-  
Prem Behari Gupta  
Partner  
(Membership No.: 080245)**

## ANNEXURE “C” TO THE INDEPENDENT AUDITOR’S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF HOUSING AND URBAN DEVELOPMENT CORPORATION LIMITED FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2018

### 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 **HOUSING AND URBAN DEVELOPMENT CORPORATION LIMITED** (“the Company”) as of March 31<sup>st</sup>, 2018 in conjunction with our audit of the Standalone financial statements of the Company for the year ended on that date.

#### Management’s Responsibility for Internal Financial Controls

The Company’s management is responsible for establishing and maintaining internal financial controls based on “the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India”. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

#### Auditor’s Responsibility

Our responsibility is to express an opinion on the Company’s internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) and the Standards on Auditing, 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 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 system over financial reporting.

#### Meaning of Internal Financial Controls over Financial Reporting

A company’s internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of standalone 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 standalone financial statements.

#### Inherent Limitations of Internal Financial Controls over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### Opinion

In our opinion, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31<sup>st</sup>, 2018, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

**For Prem Gupta & Company  
Chartered Accountants  
(Firm Regn No. 000425N)**

**Place of Signature : New Delhi**

**Date : 30<sup>th</sup> May, 2018**

**Sd/-  
Prem Behari Gupta  
Partner  
(Membership No.: 080245)**