

AUDITORS' REPORT**TO THE MEMBERS OF KESORAM INDUSTRIES LIMITED**

1. We have audited the attached Balance Sheet of Kesoram Industries Limited (the "Company") as at 31st March, 2010, the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of Section 227 (4A) of 'The Companies Act, 1956' of India (the 'Act') and 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, we further report that :
 - 3.1 (a) The Company is maintaining proper records showing full particulars (other than details regarding revaluations made during 1982-83) including quantitative details and situation of its fixed assets.
 - (b) The fixed assets of the Company are physically verified by the Management according to phased programmes 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 such programmes [without any coverage for items of Company's Spun Pipes & Foundries Unit (which is under suspension of work effective 2nd May, 2008 having year-end book value of Rs.4,09,93,039)], a portion of the fixed assets has been physically verified by the Management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
 - (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the Company during the year.
 - 3.2 (a) The inventories [excluding stocks with third parties and pertaining to the aforesaid Spun Pipes & Foundries Unit (year-end book value Rs. 99,23,767)] have been physically verified by the Management during the year. In respect of inventory lying with third parties, these have substantially been confirmed by them. In our opinion, the frequency of physical verification is reasonable.
 - (b) In our opinion, the procedures of physical verification of inventories followed by the Management are reasonable and adequate in relation to the size of the Company and nature of its business.
 - (c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventories other than work-in-process. As in earlier years, work-in-process has been determined by the Management on the basis of physical verification as mentioned in paragraph 3.2 (a) above. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
 - 3.3 The Company has neither granted nor taken during the year any loans, secured or unsecured, to / from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
 - 3.4 In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods. The Company has not provided any service during the year. Further, on the basis of our examination of the books and records of the Company and according to the information and explanations given to us, we have neither come across nor have we been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.



- 3.5 (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that Section.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements and exceeding the value of rupees five lakhs in respect of any party during the year, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time other than transactions of special nature for which competitive quotations are not available.
- 3.6 In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A and 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. According to the information and explanations given to us, no order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal on the Company in respect of the aforesaid deposits.
- 3.7 In our opinion, the Company has an internal audit system commensurate with its size and nature of business.
- 3.8 We have broadly reviewed the books of account maintained by the Company in respect of products at its Cement, Tyre, Rayon and Chemicals Units where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under Section 209(1)(d) of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
- 3.9 (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is generally regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund [other than arrears of Rs. 56,307 (pertaining to cases under litigation) outstanding for a period of more than six months as on 31st March, 2010], employees' state insurance, income-tax (other than arrears of Rs. 19,23,892 outstanding for a period of more than six months as on 31st March, 2010), sales tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities.
- (b) According to the information and explanations given to us and the records of the Company examined by us, the particulars of dues of income-tax, sales-tax, wealth tax, service tax, custom duty, excise duty and cess as at 31st March, 2010 which have not been deposited on account of a dispute (there being no such cases with regard to wealth tax, custom duty and cess), are as follows –

<i>Name of the Statute</i>	<i>Nature of the dues</i>	<i>Amount Rs.</i>	<i>Period to which the amount relates</i>	<i>Forum where dispute is pending</i>
Income Tax Act, 1961	Income Tax	50,000	2000-01	Commissioner
Central Sales Tax Act, 1956	Sales Tax	16,99,42,317	2000-01 to 2002-03	Supreme Court
		3,07,99,841	2001-02, 2003-04, 2004-05, 2006-07	Orissa High Court
		4,65,12,981	2003-04	Karnataka High Court
		2,62,95,867	1999-00, 2003-04, 2004-05	West Bengal Commercial Taxes Appellate and Revisional Board
		29,25,145	1991-92 to 2002-03	Tribunal
		1,47,85,118	2006-07	Sr. Joint Commissioner
		28,37,124	2005-06, 2007-08	Commissioner
		4,48,082	1999-00	Additional Commissioner
		6,23,26,761	1997-98, 2001-02, 2003-04 to 2005-06	Deputy Commissioner
		42,92,465	1991-92 to 2001-02, 2004-05	Assistant Commissioner
West Bengal Sales Tax Act, 1994	Sales Tax	2,62,30,154	1987-88, 2003-04, 2004-05	West Bengal Commercial Taxes Appellate and Revisional Board

<i>Name of the Statute</i>	<i>Nature of the dues</i>	<i>Amount Rs.</i>	<i>Period to which the amount relates</i>	<i>Forum where dispute is pending</i>
		5,72,943	1999-00	Additional Commissioner
		2,83,64,540	1995-96, 1997-98, 1999-00, 2001-02, 2003-04, 2004-05, 2008-09	Deputy Commissioner
Delhi Sales Tax Act, 1975	Sales Tax	41,70,263	1999-00	Additional Commissioner
Jammu & Kashmir Sales Tax Act, 1962	Sales Tax	9,90,252	1999-00	Deputy Commissioner
Tamil Nadu General Sales Tax Act, 1959	Sales Tax	18,07,934	1999-00	Chennai High Court
Andhra Pradesh General Sales Tax Act, 1957	Sales Tax	25,66,651	2001-02	Tribunal
Madhya Pradesh Commercial Tax Act, 1994	Sales Tax	6,36,696	2000-01	Deputy Commissioner
U.P. Trade Tax Act, 1948	Sales Tax	8,88,138	2005-06, 2006-07	Additional Commissioner
Finance Act, 1994	Service Tax	3,85,55,392	2005-06 to 2007-08	Customs Excise & Service Tax Appellate Tribunal
Central Excise Act, 1944	Excise Duty	1,72,232	1993-94, 1994-95	Calcutta High Court
		4,96,64,997	2003-04 to 2007-08	Customs Excise & Service Tax Appellate Tribunal
		8,63,13,775	1986-87 to 1989-90, 1994-95 to 1996-97, 1999-00, 2000-01, 2002-03 to 2005-06	Commissioner
		19,43,327	2003-04	Deputy Commissioner
		18,86,987	1979-80 to 1982-83, 1995-96, 2001-02 to 2004-05	Assistant Commissioner

- 3.10 The Company has no accumulated losses as at 31st March, 2010 and it has not incurred any cash losses in the financial year ended on that date and in the immediately preceding financial year.
- 3.11 According to the records of the Company examined by us and the information and explanations given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the Balance Sheet date.
- 3.12 The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- 3.13 The provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company.
- 3.14 In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
- 3.15 In our opinion, and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
- 3.16 In our opinion, and according to the information and explanations given to us, the term loans have been applied for the purposes for which they were obtained other than term loans in the region of Rs. 100 crores (obtained towards the end of the financial year) which, according to management, has been temporarily used for working capital purposes / repayment of certain short term borrowings pending eventual utilization for specific purposes.



- 3.17 On the basis of an overall examination of the Balance Sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
- 3.18 The Company has not made any preferential allotment of shares during the year.
- 3.19 The Company has not created any security or charge in respect of Short-term debentures aggregating Rs.145 Crores issued during the year and outstanding at year-end. The Company has not created security or charge in respect of short term debentures issued and repaid during the year. The Company has created security or charge (other than mortgage on certain immovable properties of the Company) in respect of long term debentures aggregating Rs. 1,00,00,00,000 issued during the year and outstanding at year end.
- 3.20 The Company has not recently raised any money by public issues.
- 3.21 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 fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the Management.
4. Further to our comments in paragraph 3 above, we report that:
- (a) We have 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 appears from our examination of those books;
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the accounting standards referred to in Section 211(3C) of the Act;
 - (e) On the basis of the written representations received from the directors as on 31st March, 2010, and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2010 from being appointed as a director in terms of Section 274 (1) (g) of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give, in the prescribed manner, the information required by the Act, and subject to Note 7(c) regarding Director's remuneration of Rs. 27,59,365 for which shareholders' approval is yet to be obtained, give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of the affairs of the Company as at 31st March, 2010;
 - (ii) in the case of the Profit and Loss Account, its profit for the year ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Kolkata
Date: 28th April, 2010

For Price Waterhouse
Firm Registration No. 301112E
Chartered Accountants

(S. K. Deb)
Partner
Membership No. 13390