



## 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 31<sup>st</sup> March, 2012, and the related Statement of Profit and Loss 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 (together the "Order"), issued by the Central Government of India in terms of sub-section (4A) of Section 227 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 give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
4. *We draw your attention to*
  - a) *Note 31 to the financial statements, regarding legal proceedings initiated by the Company in the month of July 2011 against an erstwhile Whole time Director and certain other persons (the "accused parties") in relation to certain transactions in one of the units of the Company that were allegedly authorised and executed by/ in favour of the accused parties to the detriment of the Company's interests during the period from May, 2008 to June, 2011, which are being investigated by the Management. Pending completion of the Management's investigation, any adjustments and related disclosures that may be required to the financial statements could not be determined;*
  - b) *Note 24 to the financial statements, in relation to the recognition of ₹ 18.14 crore towards compensation from insurance company towards loss of certain items of inventory and fixed assets due to flood during the year, in spite of the awaited approval of the insurance claim and uncertainties as to the amount that may be approved by the insurance company; which does not meet the requirement to consider prudence in selection of accounting policies, as set out in Accounting Standard 1 "Disclosure of Accounting Policies". Had the aforesaid insurance claim not been recognised, Other income would have been ₹ 77.08 crore instead of the reported amount of ₹ 84.00 crore, Exceptional item would have been ₹ Nil instead of the reported amount of ₹ 11.22 crore, Loss for the year would have been ₹ 397.88 crore instead of the reported amount of ₹ 379.74 crore. Earnings per share would have been ₹ ( ) 86.98 instead of reported amount of ₹ ( ) 83.02 and net worth as at March 31, 2012 would have been ₹ 896.87 crore instead of reported amount of ₹ 915.01 crore.*
5. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (a) *Except for the effects of the matter referred to in paragraph 4(a) above , 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, except for the effects of the matters referred to in paragraph 4 proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;*



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- (c) The Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (d) In our opinion, *except for the effects of the matter referred to in paragraph 4(b) above*, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub section (3C) of Section 211 of the Act;
- (e) On the basis of written representations received from the directors, as on 31<sup>st</sup> March, 2012 and taken on record by the Board of Directors, none of the directors is disqualified as on 31<sup>st</sup> March, 2012 from being appointed as a director in terms of clause (g) of sub section (1) of Section 274 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 *except for the effect of the matters referred to in paragraph 4 above, aggregating to ₹ 18.14 crore to the extent ascertainable* 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 affairs of the company as at 31<sup>st</sup> March, 2012
  - (ii) in the case of the Statement of Profit and Loss, of the loss 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.

Kolkata  
28<sup>th</sup> April, 2012

For Price Waterhouse  
Firm Registration No: 301112E  
Chartered Accountants

Prabal Kr. Sarkar  
Partner  
Membership Number 52340



## Annexure to Auditors' Report

### Referred to in paragraph 3 of the Auditors' Report of even date to the members of Kesoram Industries Limited on the financial statements for the year ended 31<sup>st</sup> March, 2012

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 and Hindustan Heavy Chemicals units (which are under suspension of work effective 2nd May, 2008 and 10<sup>th</sup> December, 2011 having year end book value of ₹ 3.54 crore and ₹ 11.53 crore respectively)], 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.
2.
  - (a) The inventories [excluding stocks with third parties and pertaining to the aforesaid Spun Pipes & Foundries Unit and Hindustan Heavy Chemicals (year end book value ₹ 0.98 crore and ₹ 1.24 crore respectively)] 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 progress. As in earlier years, work in progress has been determined by the Management on the basis of physical verification as mentioned in paragraph 2(a) above. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
3.
  - (a) The Company has granted unsecured loan to a company covered in the register maintained under Section 301 of the Act. The maximum amount involved during the year and the year end balance of such loan aggregated to ₹ 6.44 crore.
  - (b) In our opinion, the rate of interest and other terms and conditions of such loans are not prima facie prejudicial to the interest of the Company.
  - (c) In respect of the aforesaid loans, the parties are repaying the principal amounts, as stipulated, and are also regular in payment of interest, as applicable.
  - (d) In respect of the aforesaid loans, there is no overdue amount more than Rupees One Lakh.
  - (e) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
4. In our opinion and according to the information and explanations given to us, *except for an instance of management override of internal control by erstwhile whole time director reported to us, by the Management (also refer clause 21)*, 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. The Company needs to improve its internal control system for sale of its tyres necessitated from certain deficiencies in relation to Information Technology General Control. 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.



## Annexure to Auditors' Report (Contd.)

### Referred to in paragraph 3 of the Auditors' Report of even date to the members of Kesoram Industries Limited on the financial statements for the year ended 31<sup>st</sup> March, 2012

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.
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.
7. In our opinion, the Company has an internal audit system commensurate with its size and nature of business.
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.
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, employees' state insurance, income tax, sales tax (other than arrears of ₹ 0.38 crore outstanding for a period of more than six months as on 31<sup>st</sup> March, 2012), 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 31<sup>st</sup> March, 2012 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

Name of Statute	Nature of Dues	Period to which the Amount relates	Amount ₹ / crore	Forum where dispute is pending
Andhra Pradesh General Sales Tax Act, 1957	Sales Tax	2001 02, 2006 07 to 2009 10	0.80	Andhra Pradesh High Court
Bombay Sales Tax Act, 1959	Sales Tax	2002 03 to 2004 05	0.71	Deputy Commissioner (Appeal)
Central Excise Act, 1944	Excise Duty	1999 2003, 2004 09	29.07	Central Excise Service Tax Appellate Tribunal
		2005 06	0.76	Tribunal
		1995 96, 2004 05, 2001 03, 2006 07 & 2010 12	1.40	Commissioner (Appeals)



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Name of Statute	Nature of Dues	Period to which the Amount relates	Amount ₹ /crore	Forum where dispute is pending
		1999 00, 2002 03	0.60	Additional Commissioner
		1985 1990, 1995 96, 2000 2008 & 2009 10	28.58	Commissioner
		1979 81, 1982 93, 1995 96, 2002 05	0.19	Assistant Commissioner
Central Sales Tax Act, 1956	Sales Tax	2000 2003	16.99	Supreme Court
		2003 04	4.65	Karnataka High Court
		2003 05, 2006 07 & 2008 09	8.73	Odisha High Court
		2001 03	0.18	Tribunal
		1995 97, 2003 07 & 2006 07	6.26	West Bengal Commercial Taxes Appellate and Revision Board
		2001 02, 2004 05 & 2007 08	0.06	Sr. Jt. Commissioner (Appellate Authority)
		2008 09	0.05	Sr. Joint Commissioner
		1997 98, 1999 00, 2007 09	0.37	Additional Commissioner
		2005 06	0.05	Commissioner
		2007 10	0.11	Deputy Commissioner
		1996 97, 1998 99, 2003 05	0.57	Assistant Commissioner
Delhi Sales Tax Act, 1975	Sales Tax	1999 2000	0.42	Additional Commissioner
Jammu & Kashmir Sales Tax Act, 1962	Sales Tax	1995 96, 1999 2000	0.10	Deputy Commissioner
Tamil Nadu General Sales Tax Act, 1959	Sales Tax	1999 2000	0.18	Chennai High Court
UP Trade Tax Act, 1948	Sales Tax	2005 07	0.09	Additional Commissioner
West Bengal Sales Tax Act, 1994	Sales Tax	1987 88, 1998 99, 1995 97, 2003 04, 2004 05	3.90	West Bengal Commercial Taxes Appellate and Revision Board
		2001 02, 2004 05	0.38	Sr. Jt. Commissioner (Appellate Authority)



# KESORAM INDUSTRIES LIMITED

Name of Statute	Nature of Dues	Period to which the Amount relates	Amount ₹ /crore	Forum where dispute is pending
		1999-2000, 2008-09	0.07	Additional Commissioner
		1995-96, 1997-98	0.21	Deputy Commissioner
Finance Act, 1944	Service Tax	March 2008 to April 2009	0.46	Commissioner
Finance Act, 1994	Service Tax	2008-11	0.35	Commissioner (Appeal)
Income Tax Act, 1961	Income Tax	2003-04, 2005-06, 2008-09	16.44	CIT (Appeal)

10. The Company has no accumulated losses as at 31st March, 2012. However, the Company has incurred cash losses in the financial year ended on that date and has not incurred cash losses in the immediately preceding financial year.
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.
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.
13. The provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company.
14. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
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.
16. In our opinion, and according to the information and explanations given to us, on an overall basis, the term loans have been applied for the purposes for which they were obtained.
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.
18. The Company has not made any preferential allotment of shares during the year.
19. The Company has created security or charge in respect of debentures issued and outstanding at the year-end.
20. The Company has not raised any money by public issues during the year.
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, *except in respect of a legal proceeding initiated by the Company in the month of July 2011 against an erstwhile Whole time Director and certain other persons (the "accused parties") in relation to certain transactions in one of the units of the Company that were allegedly authorised and executed by/ in favour of the accused parties to the detriment of the Company's interests during the period from May, 2008 to June, 2011, which are being investigated by the Management. Pending completion of the Management's investigation, resultant impact, if any, is currently not ascertainable;* we have not come across any instance of fraud on or by the Company. [Also refer paragraph 4(a) of the audit report]

For Price Waterhouse  
Firm Registration Number: 301112E  
Chartered Accountants

Prabal Kr. Sarkar  
Partner  
Membership Number 52340

Kolkata  
28<sup>th</sup> April, 2012