

## Independent Auditor's Report

**To the Members of Kakinada SEZ Limited**

**Report on the Standalone Financial Statements**

### **Opinion**

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

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 in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, ("Ind AS") and other accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2020, its loss and total comprehensive loss, 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 Companies Act, 2013. Our responsibilities under those Standards 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 (ICAI) together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 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.

### **Emphasis of Matter**

- a. We draw attention to Note 11(a), to the accompanying financial statements for the year ended 31 March 2020, the company has disputed the claims from the Income Tax department pertaining to various years in respect of which the first two appellate authority of Income Tax department decided the issue against the company and the company is presently in appeal before the next forum seeking redressal of the issue, pending the outcome of the appellate proceedings the amount demanded aggregating to Rs.953.05 lakhs (Excluding consequential penalties if any to be levied) has not been provided, in view of pendency of appeal before the appellate authorities. The management based on expert's opinion and on the strength of the merits of the issue is confident of a favourable outcome. Our opinion is not qualified in respect of the above matter.



### **Information Other than the Standalone Financial Statements and Auditor's Report Thereon**

The Company's Board of Directors is responsible for the preparation of the other information. The other information comprises the information included in the Board's Report but does not include the standalone financial statements and our auditor's 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 during the course of our 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.

### **Responsibilities of Management and Those Charged with Governance 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, total comprehensive income, changes in equity 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.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding 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.

In preparing the standalone financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are 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 financial controls 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 system 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 made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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.

### 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 section 143(11) of the Act, we give in the "Annexure A", a statement on the matters specified in the paragraph 3 and 4 of the order, to the extent applicable.
2. As required by Section 143(3) of the Act, we report that:
  - (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
  - (b) In our opinion proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
  - (c) The balance sheet, the statement of profit and loss including Other Comprehensive Income, statement of changes in equity and the statement of cash flows dealt with by this Report are in agreement with the books of account;
  - (d) In our opinion, the aforesaid standalone financial statements comply with the Indian Accounting Standards prescribed under Section 133 of the Act read with Rule 7 of the Companies (Accounts) Rules, 2014.
  - (e) On the basis of the written representations received from the directors of the Company as on March 31, 2020 taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 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 over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate report in "Annexure B". Our report expresses an unmodified opinion on the adequacy and operating effectiveness of the Company's internal financial controls over financial reporting.
  - (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, as amended, 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 Note 27(ii) 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) Currently there are no amounts held by the company that are required to be transferred to Investor education and protection fund hence we do not comment on the same; and
- iv) In our opinion and to the best of our information and according to the explanations given to us, the remuneration paid/provided by the company to its directors during the year is in accordance with the provisions of section 197 of the Act read with schedule V to the Act.

**Place: Chennai**  
**Date: 30.05.2020**

**For K.S. Rao & Co**  
**Chartered Accountants**  
**Firm Regn No. 003109S**

*M. Krishna Chaithanya*



**M. Krishna Chaithanya**  
**Partner**  
**Membership No. 231282**  
**UDIN: 20231282AAAABC5412**

**Annexure – “A” to the Independent Auditor’s Report**

**The Annexure referred to in Independent Auditors’ 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 program of verification to cover all the items of fixed assets in a phased manner which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the program, certain fixed assets were physically verified by the management during the year. According to the information and explanations given to us, no material discrepancies were noticed on such verification.
  - (c) 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 are held in the name of the Company. Immovable properties of land and buildings wherever title deeds have been pledged as securities towards loans, guarantees etc availed by the company or by third parties on the basis of mortgage of assets of company are stated to have been held in the name of the company (the lenders of the company or third parties have also accepted the assets as security for creating mortgages) and are directly confirmed by the lenders through security trustee as on the reporting date.
- ii) The Company is engaged in the business of developing and operation of Special Economic Zone and does not hold any physical inventories. Thus, paragraph 3(ii) of the order is not applicable to the company.
  - iii) In our opinion and according to the information and explanations given to us, the company has not granted any loans, secured or unsecured to companies, firms or other parties covered under Section 189 of the Companies Act, 2013. Consequently, the provisions of clauses iii(a), iii(b) and iii(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 185 and 186 of the Act in respect of grant of loans, making investments and providing guarantees and securities as applicable.
  - v) In our opinion and according to the information and explanation given to us, the company has not accepted any deposit from the public in accordance with the provisions of Section 73 to 76 or any other relevant provisions of the Act and Rules framed thereunder. Accordingly, paragraph 3(v) of the Companies (Auditor’s Report) Order, 2016 is not applicable to the Company.
  - vi) The Central Government has not prescribed the maintenance of cost records under section 148(1) of the Act, for any of the services rendered by the Company. Thus, reporting under clause 3(vi) of the order is not required.



- vii) (a) The Company has generally been regular in depositing undisputed statutory dues, including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Service Tax, Goods and Service Tax, Value Added Tax, Customs Duty, Excise Duty, Cess and other statutory dues applicable to it with the appropriate authorities.

There were no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Service Tax, Value Added Tax, Goods and Service Tax, Customs Duty, Excise Duty, Cess and other statutory dues in arrears as at March 31, 2020 for a period of more than six months from the date they became payable.

- (b) According to the information and explanation given to us, there are no amounts payable in respect of Income Tax, Sales Tax, Service Tax, Duty of Customs, Duty of Excise, Value Added Tax which have not been deposited on account of any disputes except as follows: -

Nature of Dues	Disputed Amount (in Lakhs)	Amount paid under protest/Adjusted (in lakhs)	Period	Forum where the dispute is pending
Income Tax	136.09	136.09	AY 2007-2008	Pending before appeal for High Court
Income Tax (Penalty)	111.15	19.19	AY 2007-2008	Pending before appeal for High Court
Income Tax	251.41	251.41	AY 2008-2009	Pending before appeal for High Court
Income Tax (Penalty)	207.12	NIL	AY 2008-2009	Pending before appeal for High Court
Income Tax	57.48	56.09	AY 2009-2010	Pending before appeal for High Court
Income Tax	8.81	8.81	AY 2010-2011	CIT Appeals
Income Tax	1.36	1.36	AY 2011-2012	CIT Appeals
Income Tax (Penalty)	1.01	NIL	AY 2011-2012	Appeal is to be filed before CIT(A)
Income Tax	27.16	27.16	AY 2013-2014	CIT Appeals
Income Tax (Penalty)	27.16	NIL	AY 2013-2014	Appeal is to be filed before CIT(A)
Income Tax	12.39	2.48	AY 2015-2016	CIT Appeals
Income Tax (Penalty)	9.69	NIL	AY 2015-2016	Appeal is to be filed before CIT(A)
Income Tax	102.22	NIL	AY 2016-2017	CIT Appeals
<b>Total</b>	<b>953.05</b>	<b>502.59</b>		

- viii) Based on the audit procedure and according to the information given to us, we are of the opinion that the company has not defaulted in repayment of loans or borrowings due to financial institutions, banks, government or debenture holders except for the following:

Name of the Institution	Amount Defaulted	Period	Subsequently Paid
IFCI Ltd	18,75,00,000	Jan 19 – March 19	Yes
IFCI Ltd	18,75,00,000	April 19 – June 19	Yes



- ix) The company did not raise any money by way of Initial Public Offer or further public offer (including debt instruments). On the basis of review of utilisation of funds on overall basis the term loans were applied for the purpose for which the loans were obtained.
- x) According to the information and explanations given to us, no material fraud by the Company or on the Company by its officers or employees has been noticed or reported during the course of our audit.
- xi) According to the information and explanations given to us and based on our 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) In our opinion and according to the information and explanations given to us, the Company is not a Nidhi company. Accordingly, paragraph 3(xii) of the Order is not applicable.
- xiii) According to the information and explanations given to us and based on our examination of the records of the Company, transactions with the related parties are in compliance with sections 177 and 188 of the Act where applicable and details of such 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 fully or partly convertible debentures during the year.
- 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. Accordingly, paragraph 3(xv) of the Order is not applicable.
- xvi) The Company is not required to be registered under section 45-IA of the Reserve Bank of India Act 1934.

**Place: Chennai**  
**Date: 30.05.2020**

**For K.S. Rao & Co**  
**Chartered Accountants**  
**Firm Regn No. 003109S**

*M. Krishna Chaithanya*



**M. Krishna Chaithanya**  
**Partner**  
**Membership No. 231282**  
**UDIN: 20231282AAAABC5412**



## **Annexure - B to the Auditors' Report**

### **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 Kakinada SEZ 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.

#### **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 ('ICAI'). 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.

#### **Auditors' 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 financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

### **Inherent Limitations of Internal Financial Controls 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 31 March 2020, 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.

**Place: Chennai**  
**Date: 30.05.2020**

**For K.S. Rao & Co**  
**Chartered Accountants**  
**Firm Regn No. 003109S**

*M. Krishna Chaithanya*

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