

## **Independent Auditors' Report**

The Members of

**KARNATAKA ANTIBIOTICS & PHARMACEUTICALS LIMITED**  
BANGALORE

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **KARNATAKA ANTIBIOTICS & PHARMACEUTICALS LIMITED**, which comprise the Balance Sheet as at March 31, 2017, the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the 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 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 the 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 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 financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these 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 there under.

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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements.

### **Opinion**

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid 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 31st March 2017, and of its profit and its cash flows for the year ended on that date.

### **Report on Other Legal and Regulatory Requirements**

- I. As required by the Companies (Auditor's Report) Order, 2016 issued by the Central Government of India in terms of sub-section (11) of section 143 of the Companies Act, 2013, based on such checks as we considered appropriate and according to the information and explanations given to us, we state that:
  - (i) (a) The Company has maintained proper records of fixed assets with full particulars including quantity and location.
  - (b) The Company has a program of verification of fixed assets to cover all the items in a phased manner over a period of three years which, in our opinion is reasonable, having regard to the size of the Company and 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 physical verification.
  - (c) The title deeds of immovable properties are held in the name of the Company, except freehold land and building for Dharward Project for which the company has obtained possession letter. Land at Kabadgere Village to the extent of 24 acres & 20 Guntas was received as grant from Govt of Karnataka and out of that land, but RTC in respect of 4 acres & 20 guntas in Sy No 22 is yet to be obtained by the Company (Refer Note No 9.1)
- (ii) The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable. Discrepancies noticed on physical

verification were not material, and have been properly dealt with in the books of account.

- (iii) The Company has not granted any loans to companies, firms or other parties covered in the register maintained u/s 189 of the Act hence, the question of default in recovery of principal and interest and a step for recovery of overdue amount does not arise.
- (iv) The Company has not granted any loans or made any investments or provided any guarantees or security to the parties covered under Section 185 and 186 of the Act. Hence the requirements of clause (iv) of the Order are not applicable to the Company.
- (v) The Company has not accepted any deposits from public; hence, the question of compliance with the directives issued by the Reserve Bank of India and the provisions of Sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed there under as per clause (v) of the Order does not arise.
- (vi) We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under sub-section (1) of Section 148 of the Act read with Companies (Cost Records & Audit) Rules, 2013. We 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 the accuracy or completeness of the same.
- (vii)(a) According to the records of the Company, the Company is regular in depositing with the appropriate authorities undisputed statutory dues including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Service Tax, Duty of Customs, Duty of Excise, Value Added Tax, Cess and other material statutory dues to the extent applicable to it.
- (b) There are no undisputed amounts payable in respect of Income Tax, Wealth Tax, Service Tax, Sales Tax, Value Added Tax, Duty of Customs, Duty of Excise or Cess which have remained outstanding as at 31<sup>st</sup> March 2017 for a period of more than six months from the date they became payable.
- (c) There are no dues of income tax, sales tax, Service Tax, duty of excise, duty of customs and cess, which have not been deposited on account of any dispute except for sales tax/excise duty detailed below:

Nature of Dues	Financial Year to which it pertains	Forum where dispute is pending	Amount (Rs in Lakhs)
Tamil Nadu Sales Tax Act- Sales Returns disallowed, feed supplement and agro chemicals taxed at higher rate	2003-04	Appellate Asst Commissioner (CT) V, Chennai	1.17
Bihar Vat Act – Exempted Sales of gauge & bandages, feed supplements and tax imposed – LST	1996-97	JCCT, Patna	0.34

Bihar Vat Act – Exempted Sales of gauge & bandages, feed supplements and tax imposed – LST	1997-98	JCCT, Patna	1.32
Bihar Vat Act – Exempted Sales of gauge & bandages, feed supplements and tax imposed – CST	1998-99	JCCT, Patna	1.74
Bihar Vat Act – Exempted Sales of gauge & bandages, feed supplements and tax imposed – LST	1998-99	JCCT, Patna	0.37
Bihar Vat Act – Exempted Sales of gauge & bandages, feed supplements and tax imposed – LST	1999-00	JCCT, Patna	7.33
Bihar Vat Act – Exempted Sales of gauge & bandages, feed supplements and tax imposed – CST	1999-00	JCCT, Patna	0.19
Bihar Vat Act – Exempted Sales of gauge & bandages, feed supplements and tax imposed – LST	2000-01	JCCT, Patna	7.14
Bihar Vat Act – Exempted Sales of gauge & bandages, feed supplements and tax imposed – CST	2000-01	JCCT, Patna	3.73
Bihar Vat Act – Exempted Sales of feed supplements disallowed and tax imposed	2002-03	JCCT, Patna	2.26
Excise Duty: Demand received from CCE towards ED & penalty besides interest (not quantified) u/s 11D of CE Act, 1944 covering sale of certain products	2007-08 to 2011-12	CESTAT, Bangalore	1036.00

- (viii) The Company has not defaulted in repayment of loans or borrowings from banks. The company has neither borrowed any loans from Financial Institutions, Government nor issued any debentures and consequently the question of default in repayment does not arise.
- (ix) No money was raised by way of initial public offer or further public offer and the company has applied the money raised by term loan for the purpose for which it was raised.

- (x) To the best of our knowledge and according to the information and explanations given to us, no fraud by the Company or on the Company by its officers or employees has been noticed or reported during the year.
  - (xi) The company being a government company, the provisions of Section 197 of the Act, regarding managerial remuneration does not apply in terms of the Notification G.S.R. 463(E) dated 05<sup>th</sup> June, 2015. Hence, the provisions of clause (xi) of the Order are not applicable.
  - (xii) The Company is not a Nidhi Company. Therefore the provisions of clause (xii) of the Order are not applicable to the Company.
  - (xiii) The Company has not entered into any transactions with related parties as defined in the Act, hence, the requirement of compliance to provisions of Sections 177 and 188 of the Act and the disclosure of such transactions in the Financial Statements etc., as required by applicable Accounting Standards as per clause (xiii) of the Order does not arise.
  - (xiv) The Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year, hence the requirement of compliance with provisions of Section 42 of the Act and utilisation of amounts so raised for the purpose for which the funds were raised as per clause (xiv) of the Order does not arise.
  - (xv) In our opinion, the Company has not entered into any non-cash transactions with directors or persons connected with them; hence the requirement of compliance to provisions of Section 192 of the Act as per clause (xv) of the Order does not arise.
  - (xvi) The Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934. Therefore the provisions of clause (xvi) of the Order are not applicable to the Company.
- II. As required under Section 143(5) of the Act, based on such checks of the books and records of the Company as we considered appropriate and according to the information and explanation given to us we give in Annexure A a statement on the directions issued by the Comptroller & Auditor General of India.
- III. 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 appears from our examination of those books;
  - (c) The balance sheet, statement of profit & loss and cash flow statement referred to in this report are in agreement with the books of account;
  - (d) In our opinion, the aforesaid 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) The Company being a government Company the provision of Section 164(2) of the Act, regarding disqualification of Directors does not apply in terms of Notification G.S.R. 463(E) dated 05<sup>th</sup> June, 2015.

- (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”; 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 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, if any, on its financial position in its financial statements - Refer Note 19 to the 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 are no dues required to be transferred, to the Investor Education and Protection Fund by the Company.
  - iv) The Company has provided requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016. Based on audit procedures and relying on the management representation we report that the disclosures are in accordance with books of account maintained by the Company and as produced to us by the Management – Refer Note 16 to the Financial Statements

Place: Bengaluru  
Date: 29.06.2017

for DAGLIYA & CO.  
Chartered Accountants  
(FRN 000671S)

(YASWANT DAGLIYA)  
Partner  
Membership No.: 009124

**ANNEXURE A - TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE FINANCIAL STATEMENTS OF KARNATAKA ANTIBIOTICS & PHARMACEUTICALS LIMITED**

**Report on the Directions issued by the Comptroller & Auditor General of India**

**We report as follows:**

Sl No	Directions	Reply
1	Whether company is holding original title deeds for freehold land.	The Company is holding original title deeds for the freehold land in respect of Peenya Industrial Estate & Kabadgere. However, in respect of Kabadgere Land, RTC in respect of land at Sy No 22 to the extent of 4 acres & 20 guntas is yet to be received by the Company. Further in case of land for Dharward Project the company has obtained possession letter, but registration of such land is pending.
2	Please report whether there are any cases of waiver/write off of debts/loans/interests. If yes, the reasons there for and the amount invested.	The Company has written off book-debts amounting to Rs 9.92 Lacs being old outstanding not recoverable and the same has been duly approved by the Board.
3	Whether proper records are maintained for inventories lying with third parties & assets received as gift from Govt or other authorities.	Proper records are maintained for inventories lying with third parties and no assets is received as gift from government or other authorities during the year 2016-17

Place: Bengaluru  
Date: 29.06.2017

for DAGLIYA & CO.  
Chartered Accountants  
(FRN 000671S)

(YASWANT DAGLIYA)  
Partner  
Membership No.: 009124

## **ANNEXURE B - TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE FINANCIAL STATEMENTS OF KARNATAKA ANTIBIOTICS & PHARMACEUTICALS LIMITED**

### **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 **KARNATAKA ANTIBIOTICS & PHARMACEUTICALS LIMITED** ("the Company") as of March 31, 2017 in conjunction with our audit of the 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 ("Guidance Note") 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 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 ICAI. 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 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 March 31, 2017, 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.

Place: Bengaluru  
Date: 29.06.2017

for DAGLIYA & CO.  
Chartered Accountants  
(FRN 000671S)

(YASWANT DAGLIYA)  
Partner  
Membership No.: 009124