

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF RELIGARE FINVEST LIMITED**

Report on the Standalone Financial Statements

1. We have audited the accompanying standalone financial statements of **Religare Finvest Limited** ('the Company') which comprise the Balance Sheet as at 31 March 2018, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Standalone Financial Statements

2. 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 prescribed under section 133 of the Act read with relevant rules issued thereunder. 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these standalone financial statements based on our audit.
4. 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.
5. We conducted our audit of the standalone financial statements in accordance with the Standards on Auditing specified under section 143(10) of the Act and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. 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.
6. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the standalone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of the material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal financial controls 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 accounting policies used and reasonableness of the accounting estimates made by the Company's Directors as well as evaluating the overall presentation of the standalone financial statements.
7. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our *qualified audit opinion* on the standalone financial statements.



Basis for Qualified Opinion

8. *The Lakshmi Vilas Bank (LVB) has adjusted Fixed Deposit of Rs 75,000 lakhs (representing Rs. 79,145 lakhs as per financial statement as on 31 March 2018) due to the Company against the loans granted by LVB to RHC Holding Pvt. Ltd and Ranchem Pvt. Ltd; Company has claimed the reinstatement of the said fixed deposits and has filed a suit before to the Hon'ble Delhi High Court for declaration and recovery. Pending disposal of the case, we are unable to comment on the status and classification of the reported balances. Refer note 21.1 of the standalone financial statements.*
9. *Attention is invited to note no. 22.1 relating to Corporate Loan Book (CLB portfolio) aggregating to Rs. 203,670 lakhs as on 31 March 2018 given to certain companies. The Reserve Bank India ('RBI') in its letter dated January 27, 2017 to the Company, had also raised concerns about the credit worthiness of the borrowers, credit appraisals and loan sanctioning mechanism. The RBI further directed the Company to reduce its CLB portfolio and to submit action plan to this effect. The Company was required to submit an action plan approved by Board for ensuring that unsecured loans to corporates are not sanctioned in future. We have been explained by the management that it has initiated legal recourse and has issued legal notices to the borrowers. We have also been explained by the management that a law firm of repute has been appointed to undertake a detailed diligence on this loan book. The Company has, on prudent basis made a provision amounting to Rs 101,285 lakhs against this portfolio based on an assessment of security available, maturity dates of loans, recovery steps instituted and the financial position of the borrowers. Pending outcome of the said diligence & recovery steps taken by the management, we are unable to comment on the appropriateness of the provision so made.*

Further, RBI had also observed that some of these select borrowers had passed on funds to the promoter/ erstwhile Director controlled companies. We are unable to comment on the violations of NBFC Group Exposure Guidelines or to violations of Companies Act, 2013, if any, as we do not have access to the records of the borrower companies.

Also, in predecessor auditor's report, there was modified opinion in this regard.

Qualified Opinion

10. *In our opinion and to the best of our information and according to the explanations given to us, except for the indeterminate effects of the qualifications described in paragraph 8 and 9 above, 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 March 2018, and its loss and its cash flow for the year ended on that date.*

Emphasis of Matter

11. *Attention is invited to note no. 23.2, during the year ended 31 March 2016, there were certain assignment of loans by the Company to Strategic Credit Capital Private Limited ('SCCPL') and during the year ended 31 March 2017, the amounts recoverable from SCCPL and Perpetual Credit Services Private Limited ('Perpetual') aggregating to Rs. 79,367 lakhs were written off by the Company and various legal proceedings were initiated by the parties against each other. During the year ended 31 March 2018 the Company entered into a settlement agreement with the counterparties pursuant to which the various cases against each other at various courts and tribunals were withdrawn on consent terms, however the Company retained its right to recover the amounts due from SCCPL and Perpetual. Despite the settlement agreement SCCPL has filed suits against the Company at various forums. The Company is in the process of detailed diligence on these and connected transactions and is pursuing appropriate legal remedies to recover the amounts due to it and expect that there will not be any obligation on the Company out of these cases.*

Our opinion is not qualified in this matter.



Pending outcome of the matters reported in para 8,9 and 11 above, we are unable to comment on the likely impact on the financial statements resulting from any penal provisions (if any), recoverability, impact on classification/ reclassification in the standalone financial statements and their consequential impact on key ratios including Capital Adequacy ratio etc.

Other Matter

12. The standalone financial statements of the Company for the year ended 31 March 2017, were audited by predecessor auditor whose report for the year ended 31 March, 2017 dated 28 June, 2017 expressed a *qualified opinion* on those standalone financial statements.

Report on Other Legal and Regulatory Requirements

13. 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 "Annexure – A" a statement on the matters specified in paragraphs 3 and 4 of the Order.

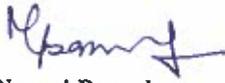
14. As required by section 143(3) of the Act, we report that:

- a. We have sought and *except for the matters referred to in paragraph 8, 9 and 11 above*, 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 indeterminate effect of the matter referred to paragraph 8, 9 and 11 above*, 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, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account *except for our qualification as mentioned above*;
- d. In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act;
- e. The matters referred to in paragraph 8, 9 and 11 above, may have an *adverse effect* on the functioning of the company;
- f. On the basis of written representations received from the directors as on 31 March 2018, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2018, from being appointed as a director in terms of Section 164(2) of the Act;
- g. With respect to the maintenance of accounts and other matters connected therewith, reference is made to our comments in the Basis for Qualified Opinion paragraph above;
- h. 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 Modified Report in Annexure – B; and
- i. 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 note no. 31 to the financial statements;
- ii. the Company has made provisions for material foreseeable losses on long term contracts as required under applicable law or accounting standards. And the Company did not have any derivative contracts. Refer note no. 7 and 11 of the standalone financial statements;
- iii. there were no amounts which are required to be transferred to the Investor Education and Protection Fund by the Company during the year ended 31 March 2018.

For S. S. Kothari Mehta & Co.
Firm Registration Number: 000756N
Chartered Accountants



Neeraj Bansal
Partner
Membership Number: 095960



Place: Gurugram
Date : 30 May 2018

“ANNEXURE – A” TO THE INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF RELIGARE FINVEST LIMITED

- i)
- a) The Company has maintained proper records showing full particulars including, quantitative details and situation of fixed assets.
 - b) According to the information and explanation provided to us, the management has not conducted physical verification during the year. As informed, the management has initiated a program to conduct physical verification of fixed asset.
 - c) The title deeds of immovable properties, as disclosed in Note 12 on fixed assets to the standalone financial statements, are held in the name of the company.
- ii) The Company is engaged in the business of rendering services and lending money, consequently does not hold any inventory. Accordingly, Clause (ii) of Para 3 of the order is not applicable to the Company.
- iii) As per the information and explanation given to us and on the basis of our examination of the records, *except for matters referred to in paragraph 8, 9 and 11 of the main report, we are unable to comment on the likely outcome on reporting under Clause (iii) of Para 3 of the order*, pending that, the Company has not granted any loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or other parties required to be covered in the register maintained under section 189 of the Companies Act, 2013.
- iv) As per the information and explanation given to us and on the basis of our examination of the records, *except for matters referred to in paragraph 8 and 9 of the main report, we are unable to comment on the likely outcome on reporting under Clause (iv) of Para 3 of the order*, pending that, the Company has not granted any loans or made any investment or provided any guarantees or security to parties covered under section 185.
- As per the information and explanation given to us and on the basis of our examination of the records, *except for matters referred to in paragraph 8 and 9 of the main report, pending that, we are unable to comment on the likely outcome on reporting under Clause (iv) of Para 3 of the order*, pending that, the company has complied with the provisions of section 186 of the Companies Act 2013 in respect of the loans and investments made and guarantees and security provided by it.
- v) As per the information and explanation provided to us, the Company has not accepted any deposits from the public within the meaning of directives issued by the Reserve Bank of India and provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed thereunder to the extent notified.
- vi) As per the requirement under section 148(1) of Companies Act, 2013 the Central government has not prescribed for maintenances of the cost records for any of the products of the company. Accordingly, Clause (vi) of Para 3 of the order is not applicable to the Company.
- vii)
- 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 undisputed statutory dues in respect of provident fund, employees’ state insurance, income tax, sales tax, value added tax, service tax, Goods and Services Tax, cess and other material statutory dues as applicable with the appropriate authorities. Further, there were no undisputed amounts outstanding at the year-end for a period of more than six months from the date they became payable.



- b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of income tax, service tax, sales tax, value added tax and Goods and Services Tax which have not been deposited on account of any dispute except for the following:

Name of the Statute	Nature of dues	Amount (Rs.)	Period to which the amount relates	Forum where the dispute is pending	Amount deposited under protest
Income Tax Act, 1961	Income Tax Demands	9,140,440	A.Y. 2006-07	Income Tax Appellate Tribunal	-
Income Tax Act, 1961	Income Tax Demands	3,65,482	A.Y. 2007-08	Income Tax Appellate Tribunal	-
Income Tax Act, 1961	Income Tax Demands	51,640,527	A.Y. 2011-12	Income Tax Appellate Tribunal	-
Income Tax Act, 1961	Income Tax Demands	110,678,483	A.Y. 2011-12	Commissioner of Income Tax (Appeals)	-
Income Tax Act, 1961	Income Tax Demands	122,410,418	A.Y. 2012-13	Income Tax Appellate Tribunal	90,000,000
Income Tax Act, 1961	Income Tax Demands	14,709,877	A.Y. 2013-14	Income Tax Appellate Tribunal	-
Income Tax Act, 1961	Income Tax Demands	622,908,543	A.Y. 2014-15	Income Tax Appellate Tribunal	40,000,000
Income Tax Act, 1961	Income Tax Demands	753,778,020	A.Y. 2015-16	Commissioner of Income Tax (Appeals)	-
Karnataka VAT Act	KVAT Demand	329,754,907	F.Y. 2010-11, 2011-12 & 2012-13	Joint Commissioner of Income Tax (Appeals), Bangalore	Amount Deposited - 98,926,471; BG given - 230,828,436
Delhi Value Added Tax Act, 2004	DVAT Demand	2,557,382	F.Y. 2012-13	Department of Trade & Taxes, Government of NCT of Delhi	-
Tamil Nadu VAT Act	TVAT Demand	10,932,084	F.Y. 2012-13	Assistant Commissioner (CT), Royapeltha - II	-
Gujarat VAT Act	GVAT Demand	382,176,442	F.Y. 2011-12, 2012-13 & 2013-14	Assistant Commissioner, Commercial Tax, Gujarat	Amount Deposited - 500,000; BG given - 13,885,000
Maharashtra VAT Act	MVAT Demand	18,551,919	F.Y. 2011-12	Assistant Commissioner	Amount Deposited - 920,700

- viii) According to the records of the Company examined by us and the information and explanations given to us, in our opinion, the Company has not defaulted in repayment of its dues to the banks, financial institutions and debenture holders. The Company has not taken any loans or borrowings from Government.



- ix) As per the information and explanation given to us and on the basis of our examination of the records, the company has not raised moneys by way of initial public offer or further public offer. *Except for matters referred to in paragraph 8 and 9 of the main report, we are unable to comment on the likely outcome on reporting under Clause (ix) of Para 3 of the order*, pending that, the term loans raised and balance proceeds of the debentures received during the year have been applied for the purpose for which they were raised.
- x) As per the information and explanation given to us and on the basis of our examination of the records, *except for reporting of fraud by the Company during the year as referred to in Note 23.2 to the standalone financial statements and based on our communication to Audit Committee for fraud reporting in respect of matters referred to in paragraph 8, 9 and 11 of the main report*, the audit committee is deliberating on the said matters, pending that, we have neither come across any instance of material fraud by the company or on the company by its employees, noticed or reported during the year, nor have been informed of such case by the management.
- xi) As per the information and explanation given to us and on the basis of our examination of the records, 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 of the Companies Act, 2013.
- xii) The company is not a Nidhi Company. Accordingly, Clause (xii) of Para 3 of the order is not applicable to the Company.
- xiii) As per the information and explanation given to us and on the basis of our examination of the records, *except for matters referred to in paragraph 8, 9 and 11 of the main report, we are unable to comment on the likely outcome on reporting under Clause (xiii) of Para 3 of the order*, pending that, the company has transacted with the related parties which are in compliance with sections 177 and 188 of Companies Act, 2013 and the details have been disclosed in the financial statements as required by the AS 18. Refer note no. 36 to the financial statements.
- xiv) As per the information and explanation 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.
- xv) As per the information and explanations given to us, and on the basis of our examination of the records, the company has not entered into any non-cash transactions with directors or persons connected with him.
- xvi) The company is required to and has been registered under section 45-IA of the Reserve Bank of India Act, 1934 as a Non-Banking Financial Institution.

For **S. S. Kothari Mehta & Co.**
Firm Registration Number: 000756N
Chartered Accountants



Neeraj Bansal
Partner
Membership Number: 095960

Place: Gurugram
Date : 30 May 2018

“ANNEXURE – B” TO THE INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF RELIGARE FINVEST 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 **Religare Finvest Limited** (“the Company”) as at 31 March 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 Act.

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 Act 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 financial statements, whether due to fraud or error.

Because of the matter described in Disclaimer of Opinion paragraph below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on internal financial controls system over financial reporting of the company.

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.

Basis for Disclaimer of Opinion

Based on our review, information & explanation during the year we have observed the following material weaknesses;

- a.) *The Company's internal financial control system over financial reporting is not operating effectively in respect of Corporate Loan Book, loan against property & loan against shares due to weak credit appraisal, no system for verification of end use of money after sanction, loan sanctioning mechanism & assessment of credit worthiness of the borrower, documents for follow up post disbursement were not operating effectively.*
- b.) *Updated documentation for Micro Small & Medium Enterprises as per MSMED Act 2006 and control over Information Technology General Controls.*
- c.) *The Company's internal control process for its business in respect of the following needs to be strengthened in respect of regular updation of risk control matrix, comprehensiveness for coverage of all process;*

Some of the aspects were disclaimed in the predecessor statutory auditor's report issued for the financial year 2016-17.

Disclaimer of Opinion

As described in the basis for Disclaimer of opinion paragraph, due to above noted material weakness *we are unable to place reliance on the adequacy of the internal financial controls over financial reporting and whether such internal financial controls are operating effectively as at 31 March 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 ICAI.

We have considered the disclaimer reported above in determining the nature, timing, and extent of audit tests applied in our audit of the standalone financial statements of the company for the year ended 31 March 2018, and the disclaimer has affected our opinion on the financial statements of the Company and we have issued a *Qualified Opinion* on the financial statement for the year ended on that date. *(Refer paragraph 8 and 9 of the main audit report).*

For **S. S. Kothari Mehta & Co.**
Firm Registration Number: 000756N
Chartered Accountants



Neeraj Bansal
Partner
Membership Number: 095960



Place: Gurugram
Date : 30 May 2018