INDEPENDENT AUDITOR’S REPORT
TO THE MEMBERS OF MAHARASHTRA STATE POWER GENERATION CO. LTD

Report on the Standalone Indian Accounting Standards (Ind AS) Financial Statements

1. We have audited the accompanying standalone Ind AS financial statements of MAHARASHTRA STATE POWER GENERATION COMPANY LIMITED (MSPGCL / the Company), which comprise the Balance Sheet as at 31 March 2017, the Statement of Profit and Loss (including other comprehensive income), the Statement of Cash Flows and the Statement of Changes in Equity for the year then ended and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as “Standalone Ind AS financial statements”).

Management’s Responsibility for the Standalone Ind AS 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 Ind AS financial statements that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified in the Companies (Indian Accounting Standards) Rules 2015 under Section 133 of the Act.

This responsibility also includes the 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 Ind AS financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

3. Our responsibility is to express an opinion on these standalone Ind AS financial statements based on our audit.

While conducting the 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 of the standalone Ind AS financial statements in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards and pronouncements require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the standalone Ind AS financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the standalone Ind AS financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the standalone Ind AS 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 standalone Ind AS 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 standalone Ind AS 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 standalone Ind AS financial statements.

**Basis for Qualified Opinion**

4. The Company, in terms of Power Purchase Agreement with the Maharashtra State Electricity Distribution Company Limited (MSEDCL) has recognized income during the year of Surcharge being interest on delayed payment amounting to Rs. 1,506.67 crores under the head 'Surcharge Income from Customers'. MSEDCL has not paid such Surcharge amounting to Rs.5,247.33 crores outstanding as on March 31, 2017 including such accrued income of earlier years. Considering the non-acceptance of billing by MSEDCL, there is uncertainty in the recoverability of the said dues from Maharashtra State Electricity Distribution Company Limited (MSEDCL).

5. The balances of loans and advances, deposits and trade payables are subject to confirmation from respective parties and / or reconciliation as the case may be. Pending such confirmation and reconciliation, the consequential adjustments are not made. Further, due to non-availability of account-wise overdue amounts beyond reasonable period for certain balances of loans and advances, the amount of provision required, if any, for a specific account could not be ascertained. In view of the same, we are unable to comment on the consequential impact on the status of these balances and the loss for the year of the Company.

**Qualified Opinion**

6. Subject to (i) and (ii) below, in our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone Ind AS 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 including the Ind AS, of the state of affairs (financial position) of the Company as at March 31, 2017, and its loss (financial performance including other comprehensive income), its cash flows and the changes in equity for the year ended on that date.
In view of para 4 above Basis for Qualified Opinion, had Surcharge being interest on delayed payment not been accrued, provision for allowance for expected credit loss been not made, Booking of earlier years delayed payments surcharge on account of recovery has ceased to be probable been done as an expense, the effect of the matters which could be determined/quantified, on the elements of the accompanying financial statements are tabulated as under:

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>Head of Account</th>
<th>Group</th>
<th>Overstated</th>
<th>Understated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Delay payment surcharge – Other operating Revenue</td>
<td>Income</td>
<td>1506.67</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>Reversal of earlier years delayed payments surcharge on account of recovery has ceased to be probable,</td>
<td>Expenses</td>
<td>-</td>
<td>3740.66</td>
</tr>
<tr>
<td>3</td>
<td>Trade Receivables</td>
<td>Non current assets</td>
<td>5247.33</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Allowance for expected credit loss</td>
<td>Expenses</td>
<td>696.32</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Reduction from Non current - Trade receivable</td>
<td>Trade receivable - Non current</td>
<td>696.32</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Net impact on retained earning</td>
<td>Other equity</td>
<td>4551.01</td>
<td>-</td>
</tr>
</tbody>
</table>

and;

In view of para 5 above Basis for Qualified Opinion, the effect of which on the Loss for the year and net assets as at March 31, 2017 is unascertainable.

Emphasis of Matters:
7. We draw attention to following notes:
   a) Note no. 29(B) regarding accounting of shortfall/excess if any, based on the provisional accounts of the Contributory Provident Fund (CPF), in the absence of the requisite details and information.
   b) Note no. 45 regarding agreements with the government of Maharashtra in respect of various hydro power generation facilities that are yet to be executed.

Our opinion is not qualified in respect of above matters

Other Matters

8. The financial information of the Company for the year ended March 31, 2016 and the transition date opening balance sheet as at April 1, 2015 included in these standalone Ind AS financial statements, are based on the previously issued statutory financial statements for the years ended March 31, 2016 and March 31, 2015 prepared in accordance with the Companies (Accounting Standards) Rules, 2006 (as
amended) which were audited by us, on which we expressed a modified opinion dated September 3, 2016 and September 23, 2015 respectively. The adjustments to those financial statements for the differences in accounting principles adopted by the Company on transition to the Ind AS have been audited by us.

Our opinion is not qualified in respect of above matters.

Report on Other Legal and Regulatory Requirements

9. As required under Section 143(5) of the Companies Act, 2013, we give in the “Annexure I”, Statement on the Directions issued by the Comptroller and Auditor General of India after complying the suggested methodology of Audit, the action taken thereon and its impact on the accounts and standalone Ind AS financial statements of the company.

10. As required by Companies (Auditor’s Report) Order, 2016 (“the Order”) issued by the Central Government in terms of sub-section (11) of Section 143 of 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 II”, statement on the matter specified in Paragraphs 3 and 4 of the Order.

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

a. we have sought and, except for the possible effect of the matter described in para 4 and 5 above relating to the basis for qualified opinion, 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 effect of the matters described in the Basis for Qualified Opinion paragraph 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, the Statement of Profit and Loss, the Statement of Cash Flows and the Statement of Changes in Equity dealt with by this Report are in agreement with the books of account;

d. Subject to our observations in para 4 above, in our opinion, the aforesaid standalone Ind AS financial statements comply with the Indian Accounting Standards prescribed under Section 133 of the Act read with relevant rules issued thereunder;

e. Being a Government Company, pursuant to the notification number GSR 463(E) dated 5th June, 2015 issued by the Government of India, the provisions of Section 164(2) of the Companies Act, 2013 are not applicable to the Company.

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 III”; and
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 Ind AS financial statements Refer Note 42 to the standalone Ind AS financial statements.

ii. The Company does not have any long-term contracts which require it to make provision for material foreseeable losses. Also, the Company has not entered into any derivative contracts.

iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

iv. Disclosures in respect of bank deposits made by the company as a part of Note no. 43 of its standalone Ind AS financial statements as to holding as well as dealing in Specified Bank Notes (SBN's) during the period from November 8, 2016 to December 30, 2016 were in accordance with books of accounts maintained by the Company. Other disclosures such as 'Opening Balances', 'Permitted Receipts & Payments' & its concomitant impact on the closing balances could not be verified since satisfactory evidences/documentation that would support the breakup of currency notes into 'SBN' and 'Other denomination' was not available with the company.

For Borkar & Muzumdar
Chartered Accountants
FRN: 101569W
CA Devang Vaghani
Partner
ICAI M No. 109386

Place: Mumbai
Date: September 24, 2017

For Ummed Jain & Co
Chartered Accountants
FRN: 119250W
CA U. M. Jain
Partner
ICAI M.No. 070863

For M P Chitale & Co
Chartered Accountants
FRN: 101851W
CA Ashutosh Pednekar
Partner
ICAI M No. 041037
ANNEXURE I TO THE INDEPENDENT AUDITORS' REPORT ON THE STANDALONE IND AS FINANCIAL STATEMENTS OF MAHARASHTRA STATE POWER GENERATION COMPANY LIMITED FOR THE YEAR ENDED ON MARCH 31, 2017.

1) If the company has been selected for disinvestment, a complete status report in terms of valuation of assets (including intangible assets and land) and liabilities (including Committed & General Reserves) may be examined, including the mode and present stage of disinvestment process.

The Company has not been selected for 'Disinvestment' purpose. Hence, the information sought is not applicable to the Company.

2) To report whether there are any cases of waiver/write off of debts/loans/interest etc. If yes the reasons thereof, and the amount involved.

During the course of audit and as per information and explanations given to us, there were no cases/instances of waiver/write-off of any loans/debts/interest etc., by the company during F.Y.2016-17. In Last Year(F.Y. 2015-16) ,the Company has received a letter from MSEB Holding Company Ltd (its parent company) to recognize in its books certain fictitious assets/liabilities lying in the books of MSEB Holding Company that belonged to the erstwhile Maharashtra State Electricity Board. The parent company has transferred these fictitious assets / liabilities to the Company and fellow subsidiaries on a certain proportionate basis without specifying the rationale thereof. The parent company has informed the Company to write off / write back these fictitious assets / liabilities. Such balances include transfer of capital reserve amounting to Rs.260 Crores. (Company's share Rs.39 crores) The Company has not yet recognized these unidentified assets / liabilities (net liabilities of Rs.86 crores) and as informed to us by the Management, has sought additional details of the same from the parent company.

3) Whether proper records are maintained for inventories lying with third parties & assets received as gift from Government and other authorities?

The Company sends its inventories / materials to third parties only for maintenance operations or fabrication activities. As informed to us, the Company has proper records for such inventories. We have been informed that there are no assets received as gift from the Government or other authorities during the year.

4) A report on age-wise analysis of pending legal/arbitration cases, including the reasons of pendency and existence/effectiveness of a monitoring mechanism for expenditure on all legal cases (foreign and local) may be given.

Company discloses pending legal/arbitration cases as Contingent Liabilities as identified by the company. The age wise analysis of 298 pending legal/arbitration cases given below:
<table>
<thead>
<tr>
<th>Age of Cases</th>
<th>No. of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>34</td>
</tr>
<tr>
<td>1 to 2 Years</td>
<td>37</td>
</tr>
<tr>
<td>2 to 3 Years</td>
<td>16</td>
</tr>
<tr>
<td>3 to 5 Years</td>
<td>37</td>
</tr>
<tr>
<td>More than 5 Years</td>
<td>164</td>
</tr>
<tr>
<td>Others unattended</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>298</strong></td>
</tr>
</tbody>
</table>

Due to unavailability of relevant information from the Company, including details of reasons of pendency for all the cases, we are not able to comment upon the effectiveness of monitoring mechanism for expenditure on all legal cases and reasons of pendency.

**Comments on Sub-directions u/s 143(5) of the Companies Act 2013**

5) **Does the company have a proper system for reconciliation of quantity/quality of coal ordered and received and whether grade of coal/moisture and demurrage etc, are properly recorded in the books of accounts?**

Yes. The company has the system for reconciliation of quantity/quality of coal ordered and received. However, the current process needs to be strengthened. Till September first week, claim for coal grade slippage has been made on the basis of coal grade differences observed at loading end by such technical analyst and suppliers’ representatives jointly vis-à-vis Grade allocated to Colliery. Post that, Company has appointed recognized coal Analyst Company i.e. Central Institute of Mining and Fuel Research (CIMFR). CIMFR do technical analysis of Coal Grade from the loading points of the coal Company. On the basis of the analysis report submitted by CIMFR, SE Coal office reconciles grade mentioned in invoice with grade mentioned in said report and raise grade slippage claims to coal companies. This process has started on different dates in different companies.

Further, as on March 31, 2017, the amount of claim against coal suppliers by MSPGCL for short supply of coal as per agreement amounted to Rs. 1035.67Crores. However, one of the supplier, Western Coal Field Limited (WCL), has claimed an amount of Rs.167.41Crores from the Company for short lifting of material. Due to non-availability of proper documentary evidence, it is difficult to reach a conclusion on correctness of the claims by either party. The Company has disclosed the claim by coal supplier as contingent liability. The Company has also not accounted for the performance incentives claimed by the same coal suppliers.

6) **How much share of free power was due to the State Govt. and whether the same was calculated as per the agreed terms and depicted in accounts as per accepted accounting norms?**
As informed by the Company, there is no share of free power to the State Govt., under any agreement.

7) Whether there is appropriate classification of inventory with value such as Scrap, obsolete material etc.?
Yes. Based on the audit procedures conducted by us, the Company has appropriate system of classification of inventory.

8) Whether profit/loss mentioned in Audit Report is as per Profit & Loss Accounts of the Company?
Yes, the loss mentioned in Audit Report is as per Profit & Loss Accounts of the Company except for the effect if any, due to the consequential adjustment upon receipt of confirmation and reconciliation, which is unknown as mention in para 4 and qualification with regard to recognition of surcharge income as mentioned in para 5 of our Audit Report.

9) In the case of Hydroelectric Projects, the water discharge is as per policy /guidelines issued by state govt. to maintain biodiversity. For not maintaining it penalty paid/ payable may be reported.
Water discharge is governed by Water Resource Department (WRD) of State Govt., and as informed, the Company has no role in the same. No penalty has been payable/paid towards water discharge.

For Borkar & Muzumdar
Chartered Accountants
FRN: 101569W

CA Devang Vaghani
Partner
ICAI M No. 109386

For Ummed Jain & Co
Chartered Accountants
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CA U. M. Jain
Partner
ICAI M.No. 070863

For M P Chitale & Co
Chartered Accountants
FRN: 101851W

CA Ashutosh Pednekar
Partner
ICAI M No. 041037

Place: Mumbai
Date: September 25th, 2017
ANNEXURE II TO THE INDEPENDENT AUDITORS’ REPORT ON THE STANDALONE IND AS
FINANCIAL STATEMENTS OF MAHARASHTRA STATE POWER GENERATION COMPANY
LIMITED FOR THE YEAR ENDED ON MARCH 31, 2017.

i. In respect of its fixed assets:
   a) The Company has maintained proper records showing full particulars, including
      quantitative details and situation of fixed asset except in case of few assets at
      certain locations where item wise particulars and codification of fixed assets are
      in process of matching with the fixed asset register.
   b) As informed to us, the Company has a policy of conducting physical verification
      of fixed assets once in three years. During the year, the physical verification of
      fixed assets was carried out by the management.
   c) According to the information and explanations given to us and on the basis of our
      examination of the records, the Company is in the process to obtain title deeds
      for all immovable properties to determine whether they are held in the name of
      the company. To the extent information available following title deeds of
      immovable properties are not held in the name of Company:-
      (i) free hold land relating to 4 accounting units having gross block of Rs. 45.62
          crores and lease hold land of 1 accounting unit having Gross block Rs.131.02
          crores & net block of Rs.97.35 crores, which are still held in the name of
          erstwhile “Maharashtra State Electricity Board” and
          (ii) free hold land relating to 2 accounting units having gross block Rs.395.88
               Crores, held in the name of “Mahanirmiti”

ii. In respect of its inventories:
   a) As explained to us, the inventories were physically verified by the management
      at reasonable intervals during the year. The physical verification of inventory was
      carried out by external firms of Chartered Accountants during the year
      appointed by the management.
   b) In our opinion and on the basis of our examination of records of inventory, the
      company has maintained proper records of inventory. The discrepancies noticed
      on such physical verification of inventories as compared to book records were
      not material and were adjusted appropriately in the books of account.

iii. As per the information and explanations given to us, the company has not granted
     any loans secured or unsecured to companies, firms or other parties covered by
     clause (76) of section 2 of the Companies Act, 2013 during the year. Consequently,
     the provisions of Clause (iii)(a), Clause (iii)(b) and Clause (iii)(c) of paragraph 3 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, with
    respect to the loans, investments and guarantees.
v. According to the information and explanations given to us, the company has not accepted deposit from the public within the meaning of the provisions of section 73 to 76 of the Companies Act, 2013 and rules there under.

vi. The Central Government has prescribed maintenance of cost records u/s 148(1) of the Companies Act, 2013. We have broadly reviewed such relevant records of the Company and in our opinion and according to the information and explanation given to us prima facie the Company has made and maintained the prescribed records. We have, however not made an examination of the cost records required to be maintained under Companies (Cost Accounting Records) Rules 2014 with a view to determine whether these are accurate or complete.

vii. In respect of statutory dues:
(a) According to the information & explanation given to us and according to the books & records, the company is generally regular in depositing 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 any other statutory dues to the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees state insurance, income tax, sales tax, service tax, duty of custom, duty of excise, value added tax, cess, were outstanding, as at March 31, 2017 for a period of more than six months from the date of becoming payable.

(b) According to the information and explanation given to us, there are no dues of income-tax, wealth-tax, sales tax, service tax, custom duty, excise duty, value added tax and cess which have not been deposited on account of any dispute except the following:

<table>
<thead>
<tr>
<th>Nature of the Statue</th>
<th>Nature of Dues</th>
<th>Amount due (Rs. In crore)</th>
<th>Period to which amount relates</th>
<th>Forum at which dispute is pending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax Act</td>
<td>Penalty</td>
<td>50.34</td>
<td>AY 2006-07</td>
<td>ITAT, Mumbai (Appeal by Department)</td>
</tr>
<tr>
<td></td>
<td>(Disputed Amount, Rs. 113.51 Crores)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax Act</td>
<td>Penalty</td>
<td>107.32</td>
<td>AY 2007-08</td>
<td>ITAT, Mumbai (Appeal by Department)</td>
</tr>
<tr>
<td></td>
<td>(Disputed Amount, Rs. 107.32 Crores)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Disputed Amount, Rs. 15.04 Crores)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax Act</td>
<td>TDS on Service Tax</td>
<td>0.09</td>
<td>AY 2009-10</td>
<td>ITAT, Pune Bench</td>
</tr>
<tr>
<td>Central Excise</td>
<td>Duty levied on the Fabrication of Structural Steel Items</td>
<td>3.01</td>
<td>1991-1992 to 1994-95</td>
<td>CESTAT, Mumbai</td>
</tr>
<tr>
<td>Central Sales Tax Act</td>
<td>MVAT</td>
<td>0.35</td>
<td>2005-06</td>
<td>Commissioner of Sales Tax (Appeals), Nagpur</td>
</tr>
</tbody>
</table>
viii. In our opinion and according to the information and explanation given to us, the Company has generally not defaulted in repayment of loan or borrowings to banks, financial institutions and Government. The Company has not borrowed any sum through debentures.

ix. The Company has not raised any money by way of initial public offer or further public offer (including debt instruments) and term loans during the year. Accordingly, paragraph 3 (ix) of the Order is not applicable.

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, the provision of Section 197 to the Act is not applicable to the Company, being a Government Company vide notification no. GSR 463E dated 05th June 2015.

xii. In our opinion and according to the information and explanations given to us, the Company is not a Nidhi Company. Accordingly, Clause 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 the Sections 177 and 188 of the Companies Act, 2013. Details of transactions with the related parties have been disclosed in the standalone Ind AS financial statements as required by applicable Accounting Standard.

xiv. According to the information and explanations give 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. Accordingly, Clause xiv of the Order is not applicable.

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 them as per section 192 of Companies Act, 2013. Accordingly, clause xv of the Order is not applicable.
The Company is not required to be registered under section 45-IA of the Reserve Bank of India Act 1934.

For Borkar & Muzumdar
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FRN: 101569W

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For Ummed Jain & Co
Chartered Accountants
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CA U. M. Jain
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For M P Chitale & Co
Chartered Accountants
FRN: 101851W

CA Ashutosh Pednekar
Partner
ICAI M No. 041037

Place: Mumbai
Date: September 25th, 2017
ANNEXURE III TO THE INDEPENDENT AUDITORS’ REPORT ON THE STANDALONE IND AS FINANCIAL STATEMENTS OF MAHARASHTRA STATE POWER GENERATION COMPANY LIMITED FOR THE YEAR ENDED ON MARCH 31, 2017.

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We were engaged to audit the internal financial controls over financial reporting of Maharashtra State Power Generation Company Limited ("the Company") as of March 31, 2017 in conjunction with our audit of the standalone Ind AS 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 (the "Guidance Note") issued by the Institute of Chartered Accountants of India (the "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 prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls. 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 Ind AS 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 the standalone Ind AS financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the standalone Ind AS financial statements.

**Inherent Limitations of Internal Financial Control 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 of Qualified Opinion**

According to the information and explanations given to us and based on our audit, the following material weakness has been identified as at March 31, 2017.

(1) The Company's internal financial control over timely capitalization of fixed assets and adjustment of liquidated damages in the fixed assets accounting are not operating effectively. These material weaknesses could potentially result in material misstatement in Company's fixed assets, CWIP, depreciation and expenses.
(2) The Company's internal financial control over procurement and accounting of material, maintenance of subsidiary records pertaining to employees and stores, timely adjustments of advances to suppliers and provision for liabilities including interest payments to MSME vendors are not operating effectively. Controls over calculation and accounting of the late delivery and short supply penalties to supplier of coal are inadequate. These material weaknesses may result in incorrect valuation of liabilities and assets of the Company.

(3) The Company's internal financial control over maintenance of Inventory records, reconciliation with financial ledger and valuation of Inventory are not operating effectively. These material weakness could potentially result is misstatement of inventory value.

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Qualified opinion

Being the Government undertaking, the Company's internal control process over financial reporting is designed by way of various Manuals, Rules, Circulars and instructions issued from time to time and our opinion is based on the internal control process over financial reporting as defined therein. During the course of our audit of financial statements, we have on test-checking basis and on review of adequacy of internal control process over financial reporting, have identified some gaps both in adequacy of design of control process and its effectiveness which have been reported in "Basis of Qualified Opinion" above.

In our opinion, with a exception of the matters described in para above and except for the effects/possible effects of the material weaknesses described in "Basis of Qualified Opinion" above on the achievement of the objectives of the control criteria, the Company has maintained, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as of March 31, 2017. The Company is yet to formally establish criteria 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.
We have considered the material weaknesses identified and reported above in determining the nature, timing, and extent of audit tests applied in our audit of the March 31, 2017 standalone Ind AS financial statements of the Company and subject to the matters modified in our main audit report, these material weaknesses do not affect our qualified opinion on the standalone Ind AS financial statements of the Company.

For Borkar & Muzumdar
Chartered Accountants
FRN: 101596W
CA Devang Vaghani
Partner
ICAI M No. 109386

For Ummed Jain & Co
Chartered Accountants
FRN: 119250W
CA U. M. Jain
Partner
ICAI M.No. 070863

For M P Chitale & Co
Chartered Accountants
FRN: 101851W
CA Ashutosh Pednekar
Partner
ICAI M No. 041037

Place : Mumbai
Date : September 25, 2017