



## McNally Bharat Engineering Company Limited

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May 30, 2017

**BSE Limited**  
Phiroze Jeejeebhoy Towers  
Dalal Street  
Mumbai – 400001

**National Stock Exchange Limited**  
Exchange Plaza  
Plot no. C/1, G Block  
Bandra-Kurla Complex  
Bandra (E)  
Mumbai – 400 051

Dear Sirs,

### Sub: Outcome of the Board Meeting

We would like to inform you that the Board of Directors at their meeting held on May 30, 2017, has:

1. Approved the Audited Accounts (Standalone) for the year ended March 31, 2017 (extract attached along with the Audit Report).

In respect of the qualification/ reservation made by the Statutory Auditors in their report on the Audited accounts of the Company as on 31<sup>st</sup> March, 2017:

- i. regarding non – provisioning against overdue receivables amounting to Rs. 7180 Lacs (net) due for more than one year from MBE Mineral Technologies Pte Limited, the wholly owned subsidiary of the Company in Singapore, we wish to inform that in the books of McNally Bharat Engineering Co. Ltd. (MBE), an amount of Rs 7180 lacs stands receivable from MBE Mineral Technologies Pte Limited (MBE Singapore) on account of advances given as allowed under FEMA and Exchange Control Guideline of Reserve Bank of India. Part of the receivables is also on account of interest being charged on such advance as stipulated in the Companies Act. The amount shall be paid by MBE Singapore as and when they receive payment from Schillingtons Ltd, UK against the sale proceeds of sale of 70% stake of MBE Singapore in CMT Group Germany to Schillingtons. The agreement to sale between MBE Singapore and Shillingtons is valid as per the German Law, which provides extension of payment time with bilateral consent. The said agreement have been extended by both the parties from time to time as permitted in the agreement. This receivable is backed by receivable from sale proceeds of valuable assets and MBE Singapore can at any point of time reclaim the transferred shares, by not extending payment time, which have been well defined in sale agreement notarized in the City of Cologne.

On May 25, 2017, an amount of USD 6.0 mio (Rs 3876 lacs) was received by the Company from MBE Mineral Technologies Pte Ltd (MBEMTPL) towards repayment of its interest, charges towards corporate guarantee, other expenses and loans and advances due to the Company. This remittance from MBEMTPL was against an amount of USD 6.50 million received out of the sale proceeds of the Coal GmbH

Group. The Company expects to collect the balance portion of Rs. 3304 lacs also from MBE Mineral Technologies Pte Ltd.

- ii. regarding non – provision for decline in the value of long term investments in MBE Mineral Technologies Pte Limited aggregating Rs. 2550.74 Lacs, we would like to inform that the investment of Rs. 2550.74 Lacs in MBE Mineral Technologies Pte Ltd Singapore by McNally Bharat Engineering Co Ltd is considered good and recoverable in the views of the Management.
  - iii. regarding payment of managerial remuneration for the year 2016-17, we wish to inform you that the Company is in process of taking necessary approval from the Central Government/ National Company Law Tribunal, wherever required.
2. Decided that in absence of profit for the current Financial Year 2016-17, the Board of Directors could not recommend any dividend on Equity and/or Preference Shares for the year ended March 31, 2017.
  3. Accepted the resignation of Mr. Prabir Ghosh, Whole Time Director of the Company with effect from August 31, 2017. Mr. Ghosh will continue to be a Whole Time Director of the Company during the interim period.
  4. Accepted the resignation of Mr. Prasanta Kumar Chandra, Whole Time Director & COO of the Company with effect from August 31, 2017. Mr. Chandra will continue to be the Whole Time Director & COO of the Company during the interim period.
  5. Regarding the adoption of the Consolidated Financial Statements we would like to inform you that the Board discussed the Consolidated Financial Statement along with the Individual Accounts and Audit Report of the subsidiaries in detail.

The Board thereafter sought a few additional details about the Overseas Subsidiary Accounts which the Board, thought, is required to be considered before adoption of the Consolidated Accounts.

The Company Secretary was requested to arrange for the information thus sought, at the earliest. The Company Secretary thereafter informed the Board that the overseas subsidiaries are based in different time-zones and it will take at least 24 hours to receive the relevant information.

The Board thought it to be prudent to adjourn the meeting till such time as may be required to arrange for the required information and decided to resume this meeting on 1<sup>st</sup> June, 2017.

Thanking you,

Yours faithfully,  
For McNally Bharat Engg. Co. Ltd.

  
Indranil Mitra  
Company Secretary

Statement of Standalone Financial Results for the Quarter and Twelve months ended 31st March, 2017

PART I

Sl. No.	Particulars (Refer Notes Below)	(All figures in Rs. Lakhs, unless otherwise stated)				
		3 months ended 31-03-2017	Preceding 3 months ended 31-12-2016	Corresponding 3 months ended in the previous year	Year to date figures for current year ended 31-03-2017	Year to date figures for previous year ended 31-03-2016
		Unaudited	Unaudited	Unaudited	Audited	Audited
1	Income from operations (a) Net Sales/ Income from operations (b) Other operating income Total income from operations	69,004 (3,521) 65,483	45,719 1,845 47,564	75,666 618 76,284	1,90,750 1,689 1,92,439	240,942 7,203 2,48,145
2	Expenses a. Cost of materials consumed b. Outsourcing expenses to outsiders for job work c. Excise Duty d. Employee benefits expenses e. Depreciation and amortisation expenses f. Other expenses Total Expenses	57,482 16,127 57 2,217 453 3,114 79,450 (13,967) 24,202	28,955 14,710 - 2,265 539 6,575 53,044 (5,480) 841	38,421 20,071 231 2,603 525 15,100 76,951 (667) 1,633	1,48,410 53,092 287 9,344 2,533 26,144 2,39,810 (47,371) 31,625	1,41,644 61,866 440 11,323 2,257 37,654 2,55,184 (7,039) 4,480
3	Profit/(Loss) from operations before other income, finance cost and exceptional items (1-2)	10,968	10,229	966	(15,746)	(2,559)
4	Other Income	(733)	(14,668)	(7,805)	(54,953)	(34,425)
5	Profit/(Loss) before finance costs and exceptional items (3+4)	10,235	10,029	8,771	(15,746)	(2,559)
6	Finance Costs	(733)	(14,668)	(7,805)	(54,953)	(34,425)
7	Profit/(Loss) before exceptional items (5-6)	(733)	(14,668)	(7,805)	(54,953)	(34,425)
8	Provision for onerous contracts written back	-	-	-	-	-
9	Profit/(Loss) from ordinary activities after provision for onerous contracts written back but before exceptional items (7+8)	(733)	(14,668)	(7,805)	(54,953)	(34,425)
10	Exceptional Items	-	-	-	-	-
11	Profit/(Loss) before tax (7+8)	(733)	(14,668)	(7,805)	(54,953)	(34,425)
12	Tax expenses: a. Current Tax (written off) b. Deferred Tax (written off)	10,812 38,313	- -	- -	10,812 38,313	- -
13	Net Profit/(Loss) for the period (9+10)	48,392	(14,668)	(7,805)	(5,828)	(34,425)
14	Other comprehensive income, net of income tax a. Items that will not be reclassified to profit or loss b. Items that will be reclassified to profit or loss	(54)	2	70	(48)	28
15	Total other comprehensive income, net of income tax	(54)	2	70	(48)	28
16	Total Comprehensive Income for the period (11+12)	48,338	(14,666)	(7,735)	(5,876)	(34,397)
17	Paid up equity share capital (Face value of the share Rs. 10)	5,359	5,359	5,109	5,359	5,109
18	Earning per share (of Rs. 10/- each) (not annualised): Basic Diluted	85.80 85.80	(27.75) (27.75)	(17.49) (17.49)	(12.30) (12.30)	(72.18) (72.18)
19	See accompanying note to the financial results					



**Notes:-**

**1 Statement of Standalone Assets and Liabilities as at 31st March, 2017**

Particulars	(All figures in Rs. Lakhs, unless otherwise stated)	
	As at 31-03-2017 (Audited)	As at 31-03-2016 (Audited)
<b>I. ASSETS</b>		
<b>Non-Current Assets</b>		
Property, plant And equipment	6,600	9077
Capital work-in-progress	463	462
Other intangible assets	49	44
Investments accounted for using the equity method		
Financial Assets		
i. Investments	48,467	18117
ii. Other financial assets	67	62
Deferred tax assets	38,313	-
Other non-current assets	192	327
<b>A. Total non-current assets</b>	<b>94,151</b>	<b>28,089</b>
<b>Current assets</b>		
Inventories	2,615	14850
Financial assets		
i. Trade receivables	1,65,244	138520
ii. Cash and cash equivalents	10,186	6159
iii. Loans	8,647	8331
iv. Other financial assets	1,49,312	139601
Other current assets	82,300	63537
<b>B. Total current assets</b>	<b>4,18,304</b>	<b>3,70,998</b>
<b>C. Total assets (A+B)</b>	<b>5,12,455</b>	<b>3,99,087</b>
<b>II. EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Equity share capital	13,688	5109
<b>Other Equity</b>		
Money received against share warrants	-	625
Reserves and surplus	(3,451)	(45,542)
<b>Equity attributable to owners of McNally Bharat Engineering Company Limited</b>	<b>10,237</b>	<b>(39,808)</b>
<b>A. Total Equity</b>	<b>10,237</b>	<b>(39,808)</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Financial liabilities		
i. Borrowings	10,552	26,821
ii. Other financial liabilities	280	203
Employee benefit obligations	686	604
Deferred tax liabilities	-	-
<b>B. Total non-current liabilities</b>	<b>11,518</b>	<b>27,628</b>
<b>Current liabilities</b>		
Financial liabilities		
i. Borrowings	2,40,931	1,74,553
ii. Trade payables	1,47,927	1,32,044
iii. Other financial liabilities	40,343	31,401
Provisions	105	94
Employee benefit obligations	558	354
Current tax liabilities	-	5,296
Other current liabilities	60,836	67,525
<b>C. Total current liabilities</b>	<b>4,90,700</b>	<b>4,11,267</b>
<b>D. Total liabilities (A+B+C)</b>	<b>5,02,218</b>	<b>4,38,895</b>
<b>E. Total equity and liabilities (A-D)</b>	<b>5,12,455</b>	<b>3,99,087</b>



**Statement of Standalone Financial Results for the Quarter and Twelve months ended 31st March, 2017**

- 2 This statement has been prepared in accordance with the companies (Indian Accounting Standards) Rules, 2015 (Ind AS) prescribed under Section 133 of the Companies Act, 2013 and other recognised accounting practices and policies to the extent applicable. Beginning April 1, 2016, the company has for the first time adopted Ind AS with a transition date of April 1, 2015.
- 3 The Company is primarily engaged in the business of construction and hence no separate disclosure has been made for Segment Reporting per Ind AS 108.
- 4 The above results were reviewed by the Audit Committee and approved by the Board of Directors of the company at its meeting held on May 30, 2017.
- 5 Deferred tax assets have been recognised under Ind AS considering the large unabsorbed business loss and unabsorbed depreciation to be set off against the projected tax liability in future years.
- 6 The reconciliation of net loss reported in accordance with Indian GAAP to Total Comprehensive Income in accordance with Ind AS is given below:

(All figures in Rs. Lacs, unless otherwise stated)

Description	Quarter ended 31-03-2016	Twelve months ended 31-03-2016
Net Loss as reported under previous GAAP (Indian GAAP)	(7,917)	(30,377)
Add/(Less): Adjustment on account of:		
Impact of measurement of derivative financial instruments at fair value as per Ind AS 109	(324)	(522)
Reclassification of actuarial losses, arising in respect of employee benefit schemes, to Other Comprehensive Income as per Ind AS 19	(70)	(28)
Amortisation of transaction cost pertaining to borrowings	295	941
Reclassification of dividend pertaining to preference share capital	(37)	(138)
Impact of measurement of interest free rental deposits at amortised cost using effective interest method	-	(3)
Bank Guarantees Encashed (Expenses Recoverable)	(383)	(383)
Impact of retention on actual billing made during the current year	5,534	5,534
Impact of retention on unbilled revenue	469	469
Impact of measurement of Other Long Term Loans & Advances at amortised cost using effective interest method	1,879	-
Impact of fair valuation of Investments as per Ind AS 109	(6)	(9)
Impact of expected credit loss in respect of trade receivables as per Ind AS 109	(8,837)	(9,868)
Impact of decommissioning obligations in respect of fixed assets	(10)	(18)
Impact of fair valuation lease obligations	(23)	(23)
Impact of fair valuation of corporate guarantee as per Ind AS 109	36	-
Impact of fair valuation of contract revenue as per Ind AS 11	1,589	-
<b>Net Loss as per Ind AS</b>	<b>(7,805)</b>	<b>(34,425)</b>
Other Comprehensive Income (net of tax)	70	28
<b>Total Comprehensive Income for the period</b>	<b>(7,735)</b>	<b>(34,397)</b>

- 7 In the books of McNally Bharat Engineering Co. Ltd. (MBE), an amount of Rs 7180 lacs stands receivable from MBE Mineral Technologies Pte Limited (MBE Singapore) on account of advances given as allowed under FEMA and Exchange control Guideline of Reserve Bank of India. Part of the receivables is also on account of interest being charged on such advance as stipulated in the Companies Act. The amount shall be paid by MBE Singapore as and when they receive payment from Schillingtons Ltd, UK against the sale proceeds of sale of 70% stake of MBE Singapore in CMT Group Germany to Schillingtons. The agreement to sale between MBE Singapore and Schillingtons is valid as per the German Law, which provides extension of payment time with bilateral consent. The said agreement have been extended by both the parties from time to time as permitted in the agreement. This receivable is backed by receivable from sale proceeds of valuable assets and MBE Singapore can at any point of time reclaim the transferred shares, by not extending payment time, which have been well defined in sale agreement notarized in the City of Cologne. Investment of Rs. 2550.74 Lacs in MBE Mineral Technologies Pte Ltd Singapore by McNally Bharat Engineering Co Ltd is considered good and recoverable in the views of the Management.
- 8 On May 25, 2017, an amount of USD 6.0 mio (Rs. 3876 Lacs) was received by the company from MBE Mineral Technologies Pte Ltd (MBEMTPL) towards repayment of its interest, charges towards corporate guarantee, other expenses and loans and advances due to the company. This remittance from MBEMTPL was against an amount of USD 6.50 mio received out of the sale proceeds of the Coal GmbH Group. The company expects to collect the balance portion of Rs. 3304 lacs also from MBE Mineral Technologies Pte Ltd.
- 9 In respect of the qualification/reservation made by the Statutory Auditors in their report in the audited accounts of the company as on March 31, 2017 pertaining to payment of managerial remuneration for the year 2016-17, we wish to inform you that the company is in process of taking necessary approval from the Central Government/National Company Law Tribunal, wherever required.
- 10 On March 30, 2017, the company issued Compulsorily Convertible Preference Shares (CCPS) at face value of Rs.10/- per share and Rs.56/- towards premium. CCPS totalling 4,16,66,666 numbers were issued to the Promoter Group Companies for Rs. 2,74,99,99,956 and a further 4,16,21,273 numbers for Rs.274,70,04,018 to the shareholders and debenture holders of Vedica Sanjeevani Projects Private Ltd with whom the Company has entered into an agreement on February 17, 2017. Vide the same agreement entered into by the company and Vedica Sanjeevani Projects Private Ltd on February 17, 2017, the company acquired 4,75,200 equity shares and 12,47,004 debenture of Vedica Sanjeevani Projects Private Ltd.
- 11 One of the subsidiaries of the Company viz. McNally Bharat Infrastructure Ltd (MBIL) was sold to Seajuli Developers & Finance Limited on February 17, 2017, as part of business restructuring.
- 12 One of the subsidiaries of the company viz. McNally sayaji Engineering Ltd (MSEL) issued 36,00,000 Compulsorily Convertible Preference Shares (CCPS) on March 31, 2017 at face value of Rs. 10 each and premium of Rs.65 thus totalling Rs. 2700.00 lacs. This CCPS issue was in lieu of the moneys due by the subsidiary to the company.
- 13 Figures for the quarter and 12 months ended March 31, 2016 have been reclassified, wherever necessary to make them Ind AS compliant and comparable with the figure for the current period.





**SRINIVASH SINGH**  
**MANAGING DIRECTOR**

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE MEMBERS OF MCNALLY BHARAT ENGINEERING COMPANY LIMITED**

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

1. We have audited the accompanying standalone financial statements of **McNally Bharat Engineering Company Limited** ("the Company"), which comprise the Balance Sheet as at March 31, 2017, the Statement of Profit and Loss (including Other Comprehensive Income), the Cash Flow Statement and the Statement of Changes in Equity for the year then ended, and a summary of the significant accounting policies and other explanatory information.

#### **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 to 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 specified in the Companies (Indian Accounting Standards) Rules, 2015 (as amended) 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 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 Ind AS financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

3. Our responsibility is to express an opinion on these standalone Ind AS financial statements based on our audit.
4. We have taken into account the provisions of the Act and the Rules made thereunder including 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 Ind AS 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 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.
6. 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 auditors' 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.

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 Ind AS financial statements.

#### **Basis for Qualified Opinion**

8. We draw your attention to:
  - i. Note 33 to the financial statements regarding non – provisioning towards overdue receivables amounting to Rs. 7180 Lacs (net) that are due for more than one year from MBE Mineral Technologies Pte Limited, the wholly owned subsidiary of the Company in Singapore, which is not in accordance with requirements of Ind AS 109 – Financial Instruments and not in compliance with the provisions of Notification NO. FEMA/120/RB-2004 dated July 7, 2004, as amended from time to time of the Foreign Exchange Management Act, 2000. As set out in the aforesaid note, the Management is making necessary efforts to ensure collection of dues from the subsidiary. However, there are uncertainties regarding the amounts that would be collected ultimately and the impact of the same on the Current Financial Assets, Loss Before Tax is presently unascertainable.
  - ii. Note 33 to the financial statements regarding non – provisioning towards impairment in the carrying value of long term investments in MBE Mineral Technologies Pte Limited aggregating Rs. 2550.74 Lacs, which is not in accordance with the requirement of Ind AS 36 Impairment of Assets. Consequently, in the absence of the sufficient appropriate audit evidence to support management assessment regarding the carrying value of investments, we are unable to comment on its impact on the loss, if any, for the year.
  - iii. Note 34 to the financial statements regarding remuneration aggregating Rs.76.8 Lacs paid/payable to two whole-time directors of the Company for which the company has not obtained the requisite approvals as mandated under Section 197 (3) read with Schedule V of the Act. The impact of the said non-compliance is currently unascertainable.

#### **Qualified Opinion**

9. 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 matters referred to in the Basis for Qualified Opinion paragraph above, 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, of the state of affairs of the Company as at March 31, 2017, and its loss (including other comprehensive income), its cash flows and the changes in equity for the year ended on that date.

#### **Other Matter**

10. 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 an unmodified opinion dated May 30, 2016 and a qualified opinion dated May 30, 2015 respectively. The qualified opinion was with regard to managerial remuneration paid in excess of the limits prescribed under the Companies Act, 2013, which was subsequently regularised by the Company.



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 these matters.

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

11. 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 Act ("the Order"), 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 B a statement on the matters specified in paragraphs 3 and 4 of the Order.
12. 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, except for the indeterminate effects of the matters referred to in paragraph 8 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 (including other comprehensive income), the Cash Flow Statement and the Statement of Changes in Equity dealt with by this Report are in agreement with the books of account.
  - (d) In our opinion, except for the indeterminate effects of the matters referred to in paragraph 8 above, the aforesaid standalone Ind AS financial statements comply with the Indian Accounting Standards specified under Section 133 of the Act.
  - (e) On the basis of the written representations received from the directors as on March 31, 2017 taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2017 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 A, wherein we have expressed a qualified opinion.
  - (g) With respect to the other matters to be included in the Auditors' Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our knowledge and belief and according to the information and explanations given to us:
    - (i) The Company has disclosed the impact, if any, of pending litigations as at March 31, 2017 on its financial position in its standalone Ind AS financial statements – Refer Note 31;
    - (ii) The Company has made provision as at March 31, 2017, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note 35;
    - (iii) The instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company, during the year ended March 31, 2017 are as follows:





INDEPENDENT AUDITORS' REPORT  
To the Members of McNally Bharat Engineering Company Limited  
Report on the Financial Statements  
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Year of Dividend	Unpaid (Rs. Lacs)	Due Date	Actual date of transfer	Delay (days)
2008-09	2.047	30.12.2016	11.05.2017	132

(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 36.

For Lovelock & Lewes  
Firm Registration Number: 301056E  
Chartered Accountants

Prabal Kr. Sarkar  
Partner  
Membership Number 52340

Kolkata  
May 30, 2017

Handwritten initials 'L.C.' in blue ink

## **Annexure A to Independent Auditors' Report**

Referred to in paragraph 12 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the standalone financial statements for the year ended March 31, 2017.

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### **Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Act**

1. We have audited the internal financial controls over financial reporting of McNally Bharat Engineering Company Limited ("the Company") as of March 31, 2017 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**

2. 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 Act.

#### **Auditors' Responsibility**

3. 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 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 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.
4. 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.



## **Annexure A to Independent Auditors' Report**

Referred to in paragraph 12 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the standalone financial statements for the year ended March 31, 2017.

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5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the Company's internal financial controls system over financial reporting.

### **Meaning of Internal Financial Controls Over Financial Reporting**

6. 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 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 financial statements.

### **Inherent Limitations of Internal Financial Controls Over Financial Reporting**

7. 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 Qualified Opinion**

8. According to the information and explanations given to us and based on our audit, the following material weaknesses have been identified in the operating effectiveness of the Company's internal financial controls over financial reporting as at March 31, 2017

The Company's internal financial controls relating to review of investments and receivables for appropriate provisioning did not operate effectively which resulted in non-ascertainment of adequate provision against certain investments in and receivables from subsidiary.

The Company's internal financial controls relating to compliance with laws and regulations did not operate effectively which resulted in the non-compliance not having been detected timely and the managerial remuneration not been approved in accordance with requirements of Section 197 read with Schedule V of the Companies Act, 2013.

9. 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.

A.C.



## Annexure A to Independent Auditors' Report

Referred to in paragraph 12 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the standalone financial statements for the year ended March 31, 2017.

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### Opinion

10. In our opinion, except for the effects of the material weakness described in the Basis for Qualified Opinion paragraph above, 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 on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.
11. We have considered the material weakness identified and reported above in determining the nature, timing and extent of audit tests applied in our audit of the standalone Ind AS financial statements of the Company for the year ended March 31, 2017, and the material weakness does affect our opinion on the standalone Ind AS financial statements of the Company.

For Lovelock & Lewes  
Firm Registration Number: 301056E  
Chartered Accountants

  
Prabal Kr. Sarkar  
Partner  
Membership Number: 52340

Kolkata  
May 30, 2017

*A.C.*

### **Annexure B to Independent Auditors' Report**

Referred to in paragraph 11 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the financial statements as of and for the year ended March 31, 2017

- i. (a) The Company is maintaining proper records showing full particulars, including quantitative details and situation, of fixed assets.  
(b) The fixed Assets are physically verified by the Management according to a phased programme designed to cover all the items over a period of 3 years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the Management during the year and no material discrepancies have been noticed on such verification.  
(c) The Company does not own any immovable property as disclosed in Note 3 on Property, plant & equipment to the financial statements. Therefore, the provisions of Clause 3(i)(c) of the said Order are not applicable to the Company.
- ii. The physical verification of inventory have been conducted at reasonable intervals by the management during the year. The discrepancies noticed on physical verification of inventory as compared to book records were not material and have been appropriately dealt with in the books of accounts.
- iii. The Company has granted unsecured loans, to a company covered in the register maintained under Section 189 of the Act. The Company has not granted any secured/unsecured loans to firms, Limited Liability Partnerships or other parties covered in the register maintained under Section 189 of the Act.
  - (a) In respect of the aforesaid loans, the terms and conditions under which such loans were granted are not prejudicial to the Company's interest.
  - (b) In respect of the aforesaid loans, no schedule of repayment of principal has been stipulated by the Company. Therefore, in absence of stipulation of repayment terms we do not make any comment on the regularity of repayment of principal and payment of interest.
  - (c) In respect of the aforesaid loans, there is no amount which is overdue for more than ninety days.
- 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 Companies Act, 2013 in respect of the loans and investments made, and guarantees and security provided by it.
- v. The Company has not accepted any deposits from the public within the meaning of Sections 73, 74, 75 and 76 of the Act and the Rules framed there under to the extent notified.
- vi. Pursuant to the rules made by the Central Government of India, the Company is required to maintain cost records as specified under Section 148(1) of the Act in respect of its products. We have broadly reviewed the same, and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
- vii. (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax and value added tax have not been regularly deposited with the appropriate authorities and there have been serious delays in a large number of cases and is regular in

V.C.



**Annexure B to Independent Auditors' Report**

Referred to in paragraph 11 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the financial statements as of and for the year ended March 31, 2017  
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depositing undisputed statutory dues including duty of customs, duty of excise and cess as applicable with appropriate authorities. The extent of the arrears of statutory dues outstanding as at March 31, 2017, for a period of more than six months from the date they became payable are as follows:

Name of Statute	Nature of Dues	Amount ( Rs.)	Period to Which the amount Relates	Due Date	Date of Payment
Income Tax Act, 1961	TDS u/s 194 A	39,938,855	Mar-16	30/04/2016	Not Yet Paid
Income Tax Act, 1961	TDS u/s 195	1,947,064	Jun-15	07/07/2015	Not Yet Paid
Jharkhand VAT Act	JH WCT	389,730	Apr-16	21/05/2016	24/04/2017
Jharkhand VAT Act	JH WCT	3,059,135	May-16	21/06/2016	Not Yet Paid
Jharkhand VAT Act	JH WCT	2,249,798	Jun-16	21/07/2016	Not Yet Paid
Jharkhand VAT Act	JH WCT	1,380,092	Jul-16	21/08/2016	Not Yet Paid
Jharkhand VAT Act	JH WCT	56,187	Aug-16	21/09/2016	Not Yet Paid
Jharkhand VAT Act	JH WCT	898,679	Sep-16	21/10/2016	Not Yet Paid
Bihar VAT Act	Bihar WCT	3,923	May-16	21/06/2016	Not Yet Paid
Bihar VAT Act	Bihar WCT	85,487	Jun-16	21/07/2016	Not Yet Paid
Bihar VAT Act	Bihar WCT	166,872	Jul-16	21/08/2016	Not Yet Paid
Bihar VAT Act	Bihar WCT	62,049	Aug-16	21/09/2016	Not Yet Paid
Bihar VAT Act	Bihar WCT	679,656	Sep-16	21/10/2016	Not Yet Paid
Gujrat VAT Act	GUJ WCT	760,948	Mar-16	21/04/2016	Not Yet Paid
Gujrat VAT Act	GUJ WCT	9,998	Apr-16	21/05/2016	Not Yet Paid
Gujrat VAT Act	GUJ WCT	6,649	Jun-16	21/07/2016	Not Yet Paid
Tamil Nadu VAT Act	TM WCT	104,302	Mar-14	21/04/2014	Not Yet Paid
Tamil Nadu VAT Act	TM WCT	193,551	Mar-15	21/04/2015	Not Yet Paid
Tamil Nadu VAT Act	TM WCT	738,228	Mar-16	21/04/2016	11-May-17
Tamil Nadu VAT Act	TM WCT	61,636	Apr-16	21/05/2016	11-May-17
Tamil Nadu VAT Act	TM WCT	164,363	May-16	21/06/2016	11-May-17
Tamil Nadu VAT Act	TM WCT	82,084	Jun-16	21/07/2016	11-May-17
Tamil Nadu VAT Act	TM WCT	56,308	Jul-16	21/08/2016	11-May-17
Tamil Nadu VAT Act	TM WCT	121,283	Aug-16	21/09/2016	11-May-17
Tamil Nadu VAT Act	TM WCT	20,075	Sep-16	21/10/2016	11-May-17
Uttar Pradesh VAT Act	UP WCT	117,755	Oct-15	21/11/2015	Not Yet Paid
Uttar Pradesh VAT Act	UP WCT	47,306	Mar-16	21/04/2016	Not Yet Paid
Uttar Pradesh VAT Act	UP WCT	58,731	May-16	21/06/2016	Not Yet Paid
Uttar Pradesh VAT Act	UP WCT	26,667	Jun-16	21/07/2016	Not Yet Paid
Employees Provident Fund and Miscellaneous Provisions Act	Provident Fund	5,922,947	Feb-16	15/03/2016	Not Yet Paid



**Annexure B to Independent Auditors' Report**

Referred to in paragraph 11 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the financial statements as of and for the year ended March 31, 2017  
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Name of Statute	Nature of Dues	Amount (Rs.)	Period to Which the amount Relates	Due Date	Date of Payment
Employees Provident Fund and Miscellaneous Provisions Act	Provident Fund	6,356,076	Mar-16	15/04/2016	Not Yet Paid
Employees Provident Fund and Miscellaneous Provisions Act	Provident Fund	5,802,138	Apr-16	15/05/2016	Not Yet Paid
Employees Provident Fund and Miscellaneous Provisions Act	Provident Fund	5,715,100	May-16	15/06/2016	Not Yet Paid
Employees Provident Fund and Miscellaneous Provisions Act	Provident Fund	5,792,201	Jun-16	15/07/2016	Not Yet Paid
Employees Provident Fund and Miscellaneous Provisions Act	Provident Fund	5,587,154	Jul-16	15/08/2016	Not Yet Paid
Employees Provident Fund and Miscellaneous Provisions Act	Provident Fund	5,454,081	Aug-16	15/09/2016	Not Yet Paid
Employees Provident Fund and Miscellaneous Provisions Act	Provident Fund	5,579,015	Sep-16	15/10/2016	Not Yet Paid
Employee's State Insurance Scheme	ESI	3,694	Apr-16	21/05/2016	Not Yet Paid
Employee's State Insurance Scheme	ESI	3,434	May-16	21/06/2016	Not Yet Paid
Employee's State Insurance Scheme	ESI	3,434	Jun-16	21/07/2016	Not Yet Paid
Employee's State Insurance Scheme	ESI	3,351	Jul-16	21/08/2016	Not Yet Paid
Employee's State Insurance Scheme	ESI	1,874	Aug-16	21/09/2016	Not Yet Paid
Employee's State Insurance Scheme	ESI	1,874	Sep-16	21/10/2016	Not Yet Paid

(b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of duty of customs, which have not been deposited on account of any dispute. The particulars of dues of income tax, sales tax, duty of excise, value added tax, service tax as at March 31, 2017 which have not been deposited on account of dispute, are as follows:

Name of the Statute	Nature of Dues	Rs in lacs	Period to which the amount relates	Forum where dispute is pending
Central Sales Tax Act, 1956	CST	470.27	2006-2007	West Bengal Appellate and Revisional Board
Central Sales Tax Act, 1956	CST	26	2007-08	West Bengal Appellate and Revisional Board
Central Sales Tax Act, 1956	CST	29.46	2008-09	West Bengal Appellate and Revisional Board
APCST Act, 1957	CST	60.62	2011-12	Asst. Commissioner Commercial Tax, Andhra Pradesh
Central Sales Tax Act, 1956	CST	133.49	2012-13	Addl Commissioner of CT (Appeals)



V.C.

**Annexure B to Independent Auditors' Report**

Referred to in paragraph 11 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the financial statements as of and for the year ended March 31, 2017

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Name of the Statute	Nature of Dues	Rs in lacs	Period to which the amount relates	Forum where dispute is pending
Central Sales Tax Act, 1956	CST	217.09	2011-12	Addl Commissioner of CT (Appeals)
Central Sales Tax Act, 1956	CST	106.77	2012-13	Addl. Commissioner Appeals West Bengal
Central Sales Tax Act, 1956	CST	293.7	2013-14	Addl. Commissioner Appeals West Bengal
MP VAT ACT	Entry Tax	63.29	2012-13	Addl Commissioner of CT (Appeals)
BIHAR VAT ACT	Entry Tax	11.04	2010-11	JCCT appeals(Patna)
BIHAR VAT ACT	Entry Tax	5.87	2011-12	JCCT appeals(Patna)
Central Excise Act, 1944	Excise Duty	129.51	1989-1993	Commissioner of Central Excise , Pondicherry
APCST Act, 1957	Sales Tax	4.16	1994-95	Sales Tax Appellate Tribunal - Hyderabad
Rajasthan Sales Tax Act, 1994	Sales Tax	1.33	2005-06	Deputy commissioner ( appeals ), Udaipur
UP Trade Tax Act, 1948	Sales Tax	1.3	2003-04	Deputy commissioner ( Appeals ) Robertsgunj , UP
WBST Act, 1994	Sales Tax	3.9	2003-04	Deputy Commissioner, Commercial Taxes, Kolkata
Finance Act'1994	Service Tax	16.81	2005-06	Addl Commissioner of Service Tax
Finance Act'1994	Service Tax	1,385.09	2003-04	Asst. Commissioner (Adjudication) Service Tax.
West Bengal Value Added Tax Act, 2003	VAT	72.27	2005-2006	West Bengal Appellate and Revisional Board
West Bengal Value Added Tax Act, 2003	VAT	65.67	2007-08	West Bengal Appellate and Revisional Board
West Bengal Value Added Tax Act, 2003	VAT	79.84	2008-09	West Bengal Appellate and Revisional Board
West Bengal Value Added Tax Act, 2003	VAT	20.26	2009-10	West Bengal Appellate and Revisional Board
APVAT Act	VAT	12.62	2010-11	Asst. Commissioner Commercial Tax, Andhra Pradesh
KVAT	VAT	670.06	2010-11	Appeal filed before the Jt. Commissioner Appeals Div. V Bangalore
APVAT Act	VAT	0.94	2011-12	Asst. Commissioner Commercial Tax, Andhra Pradesh
BIHAR VAT ACT	VAT	47.12	2010-11	JCCT appeals(Patna)
BIHAR VAT ACT	VAT	29.34	2011-12	JCCT appeals(Patna)

D.C.





**Annexure B to Independent Auditors' Report**

Referred to in paragraph 11 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the financial statements as of and for the year ended March 31, 2017  
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Name of the Statute	Nature of Dues	Rs in lacs	Period to which the amount relates	Forum where dispute is pending
West Bengal Value Added Tax Act, 2003	VAT	763.4	2012-13	Addl. Commissioner Appeals West Bengal
West Bengal Value Added Tax Act, 2003	VAT	703.91	2013-14	Addl. Commissioner Appeals West Bengal
West Bengal Value Added Tax Act, 2003	VAT	182.59	2006-2007	West Bengal Appellate and Revisional Board
Income Tax Act, 1961	Income Tax	3778.89	2012-13	Commissioner of Income Tax(Appeals)

- viii. According to the records of the Company examined by us and the information and explanations given to us, except for loan or borrowings from ICICI Bank for the period from March 26, 2017 to March 31, 2017 aggregating to Rs.3,12,50,000 and from Aditya Birla Finance Limited for 1 day ending March 31, 2017 aggregating to Rs.7,62,00,000 as described below, the Company has not defaulted in repayment of loans or borrowings to any financial institution or bank or Government as at the balance sheet date.

Name	Nature of dues	Period of default	Amount of default (Rs.)
ICICI Bank	Instalment of Long Term Borrowing	6 days	3,12,50,000
Aditya Birla Finance Limited	Instalment of Long Term Borrowing	1 day	7,62,00,000

- ix. In our opinion, and according to the information and explanations given to us, the moneys raised by way of term loans have been applied for the purposes for which they were obtained. The Company has not raised any moneys by way of initial public offer, further public offer (including debt instruments).
- x. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of material fraud by the Company or on the Company by its officers or employees, noticed or reported during the year, nor have we been informed of any such case by the Management.
- xi. Except for managerial remuneration aggregating to Rs. 76.80 lacs, the managerial remuneration paid/provided for by the Company is in accordance with the requisite approvals as mandated by the provisions of Section 197 read with Schedule V to the Act. The Company is in the process of applying to the Central Government for necessary approval mandated under Section 197 read with Schedule V to the Act.
- xii. As the Company is not a Nidhi Company and the Nidhi Rules, 2014 are not applicable to it, the provisions of Clause 3(xii) of the Order are not applicable to the Company.
- xiii. The Company has entered into transactions with related parties in compliance with the provisions of Sections 177 and 188 of the Act. The details of such related party transactions have been disclosed in the financial statements as required under Ind AS 24, Related Party Disclosures specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.



**Annexure B to Independent Auditors' Report**

Referred to in paragraph 11 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the financial statements as of and for the year ended March 31, 2017  
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- xiv. The Company has made a preferential allotment of compulsory convertible preference shares during the year under review, in compliance with the requirements of Section 42 of the Act. Further, the amounts raised have been used for the purpose for which funds were raised.
- xv. The Company has not entered into any non-cash transactions with its directors or persons connected with him. Accordingly, the provisions of Clause 3(xv) of the Order are not applicable to the Company.
- xvi. The Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934. Accordingly, the provisions of Clause 3(xvi) of the Order are not applicable to the Company.

For Lovelock & Lewes  
Firm Registration Number: 301056E  
Chartered Accountants



Prabal Sarkar  
Partner  
Membership Number : 52340

Kolkata  
May 30, 2017

J.C.