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मद्रास फर्टिलाइज़र्स लिमिटेड Madras Fertilizers Limited

(भारत सरकार का उपक्रम / A Government of India Undertaking)

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Annexure I

Statement on Impact of Audit Qualifications (for audit report with modified opinion) submitted along-with Annual Audited Financial Results - (Standalone and Consolidated separately)

Statement on Impact of Audit Qualifications for the Financial Year ended March 31, 2016
[See Regulation 33 / 52 of the SEBI (LODR) (Amendment) Regulations, 2016]

I.	Sl. No.	Particulars	Audited Figures (as reported before adjusting for qualifications)	Adjusted Figures (audited figures after adjusting for qualifications)
	1.	Turnover / Total income	1224.36	1224.36
	2.	Total Expenditure	1414.30	1414.30
	3.	Net Profit/(Loss)	(189.54)	(189.54)
	4.	Earnings Per Share	(11.77)	(11.77)
	5.	Total Assets	1251.92	1251.92
	6.	Total Liabilities	1251.92	1251.92
	7.	Net Worth	(532.15)	(532.15)
	8.	Any other financial item(s) (as felt appropriate by the management)	-	-

II. Audit Qualification (each audit qualification separately):

- Ammonia is valued at cost which is not in accordance with Accounting Standard 2 (Valuation of Inventories) which requires inventory to be valued at lower of cost and Net Realisable Value (NRV);*
- Accounting of a sum of Rs 882.63 crores towards de-escalation in input prices which has been considered as payable to Fertilizer Industry Coordination Committee (FICC) for the year ended 31st March 2016 under New Pricing Scheme (NPS) for Urea. Adjustments may arise in future in respect of the above on final payment.*
- balances in Long term borrowings from GOI, Trade Receivable/Payables, Claim recoverable and loans and advances are subject to confirmation and consequential adjustments*

- a. **Type of Audit Qualification :** Qualified Opinion / Disclaimer of Opinion / Adverse Opinion:

Reply : Qualified Opinion

- b. **Frequency of qualification:** Whether appeared first time / repetitive / since how long continuing:

Reply : Repetitive

- c. **For Audit Qualification(s) where the impact is quantified by the auditor, Management's Views:**

Reply : For the a above qualification, Auditor has not quantified since, in his opinion the impact is not ascertainable.

- d. **For Audit Qualification(s) where the impact is not quantified by the auditor:**

- (i) **Management's estimation on the impact of audit qualification:**

Reply: The Management is unable to estimate the impact.

- (ii) **If management is unable to estimate the impact, reasons for the same:**

- (a) Ammonia is only an intermediary and not a finished product for the Company as it is meant for captive consumption only. As per the Government guideline, Urea manufacturers are not allowed to sell Ammonia unless declared as surplus and with prior permission of GOI.

Per Para 24 of AS – 2 (Valuation of Inventories) materials and other supplies held for use in the production are not written down below cost if the finished products in which they will be incorporated or expected to be sold at or above cost. Hence, the valuation adopted by the Company is in line with AS-2 (Valuation of Inventories).

Being industry practice, valuation of Ammonia at cost is adequately disclosed under Significant Accounting Policies

- (b) FICC have not notified the final concession rates for 2015-16. Hence the Company has realistically estimated the escalation as disclosed under the Significant Accounting Policies - Note 24 (A) 10 (i) which is in line with principles and disclosure practices as stipulated in AS 9 (Revenue Recognition).
- (c) Adequate disclosure in this regard is made under note 29(g) annexed to Accounts. The Company has obtained confirmation from most of the high value debtors and

creditors. Hence there is no possibility of consequential adjustments.

(iii) **Auditors' Comments on (i) or (ii) above:**

- a) Work in progress (Ammonia) has been valued at estimated cost though Net Realizable Value is lower than cost. However, as per the accepted accounting policy followed by the company and as per Accounting Standard 2 on "Valuation of Inventories", the same should always be valued at Net Realizable Value;
- b) Since the Company has not received the final notified price, there may be adjustments to revenue recognised and correspondingly in claims recoverable balances;
- c) In the absence of confirmation of balances including balances in Long term borrowings from COI, Trade Receivable/Payables, Claim recoverable and loans and advances, we are unable to comment on whether any adjustments are required in respect of those balances.

(ii) **Signatories:**

CEO/Managing Director



CFO



Audit Committee Chairman

Statutory Auditor



Place:

Date: