

## **INDEPENDENT AUDITOR'S REPORT**

### **To The Members of Hinduja Leyland Finance Limited Report on the Audit of the Standalone Financial Statements**

#### **Opinion**

We have audited the accompanying standalone financial statements of **Hinduja Leyland Finance Limited** ("the Company"), which comprise the Balance Sheet as at 31<sup>st</sup> March 2020, and 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 significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 ("the Act") in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, ("Ind AS") and other accounting principles generally accepted in India, of the state of affairs of the Company as at 31<sup>st</sup> March 2020, and its profit, total comprehensive income, its cash flows and the changes in equity for the year ended on that date.

#### **Basis for Opinion**

We conducted our audit of the standalone financial statements in accordance with the Standards on Auditing specified under section 143(10) of the Act (SAs). Our responsibilities under those Standards are further described in the Auditor's Responsibility for the Audit of the Standalone financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India (ICAI) together with the ethical requirements that are relevant to our audit of the standalone financial statements under the provisions of the Act and the Rules made thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the standalone financial statements.

#### **Emphasis of Matter**

We draw attention to Note 49 to the Standalone Financial Statements in which the Company describes the uncertainties arising from the COVID 19 pandemic. Our report is not modified in respect of this matter.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

<b>Description of Key Audit Matters</b>	
<b>Key Audit Matters</b>	<b>Auditor's Response</b>
<p><b>1. Impairment of Financial Assets</b></p> <p>Management estimates impairment provision using Expected Credit loss model (ECL) for the loan exposure. Measurement of loan impairment involves application of significant judgement by the management. The most significant judgements are:</p> <ul style="list-style-type: none"> <li>• Timely identification and classification of the impaired loans, and</li> <li>• Determination of probability of defaults (PD) and estimation of loss given defaults (LGD) based on the value of collaterals and relevant factors</li> </ul> <p>The estimation of Expected Credit Loss on financial instruments involve significant judgements and estimates. Following are points with increased level of audit focus:</p> <ul style="list-style-type: none"> <li>• Classification of assets to stage 1, 2, or 3 using criteria in accordance with Ind AS 109;</li> <li>• Accounting interpretations, modelling assumptions and data used to build and run the models;</li> <li>• Measurement of individual borrowers' capacity including Covid-19 impact assessment of multiple economic scenarios;</li> <li>• Inputs and Judgements used in determination of management overlay at various asset stages considering the current uncertain economic environment with the range of possible effects unknown to the country arising out of the COVID 19 Pandemic which also include considering the impact of recent RBI's Covid-19 regulatory circular and</li> <li>• The disclosures made in financial statements for ECL especially in relation to judgements and estimates made by the Management in determination of the ECL. Refer note 46 to the standalone financial statements.</li> </ul>	<p><b>Principal audit procedures performed:</b></p> <ul style="list-style-type: none"> <li>• We examined Board Policy approving methodologies for computation of ECL that address policies, procedures and controls for assessing and measuring credit risk on all lending exposures, commensurate with the size, complexity and risk profile specific to the Company. The parameters and assumptions used and their rationale and basis are clearly documented.</li> <li>• We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the judgements and estimates.</li> <li>• These controls, among others, included controls over the allocation of assets into stages including management's monitoring of stage effectiveness, model monitoring including the need for post model adjustments, model validation, credit monitoring, multiple economic scenarios, individual provisions and recording of journal entries and disclosures.</li> <li>• We tested the completeness of loans and advances included in the Expected Credit Loss calculations as of 31 March 2020 by reconciling it with the balances as per loan balance register and loan commitment report as on that date.</li> <li>• Engage independent modelling specialist to test the methodology and reasonableness of assumptions;</li> <li>• We tested assets in stage 1, 2 and 3 on sample basis to verify that they were allocated to the appropriate stage. For samples of exposure, we tested the appropriateness of determining EAD, PD and LGD Test of details over calculation of impairment allowance for assessing completeness and accuracy of data</li> <li>• For exposure determined to be individually impaired, we tested a samples of loans and advances and examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant provision calculations.</li> <li>• We performed an overall assessment of the ECL provision levels at each stage including management's assessment on Covid-19 impact to determine if they were reasonable considering the Company's portfolio, risk profile, credit risk management practices and the macroeconomic environment.</li> <li>• We assessed the adequacy and appropriateness of disclosures in compliance with the Ind AS 107 in relation to ECL especially in relation to judgements used in estimation of ECL provision.</li> </ul>

<p><b>2. Valuation of Financial Instruments</b>  Financial Instruments carried at Fair value and measured at fair value through other comprehensive income, account for a significant part of the Company's assets. The valuation of the Company's financial instruments is based on a combination of market data and valuation models which often require significant management judgement. The most significant judgements are:</p> <ul style="list-style-type: none"> <li>Assessing the fair value of financial instruments based on the significant degree of judgement exercised by management in determining the inputs used in the valuation.</li> </ul> <p>Refer Note 2 and 45 of the standalone financial statements for accounting policy, valuation and the related disclosures in respect of the financial instruments.</p>	<p>Our audit procedures include:</p> <ul style="list-style-type: none"> <li>Obtain an understanding of the fair valuation methodology;</li> <li>Obtained valuation reports, considered by the Company;</li> <li>Engaging independent valuation specialist to assist us in the evaluation of valuation models used by the Company.</li> <li>Testing the design and operating effectiveness of controls over the <ul style="list-style-type: none"> <li>(1) management's methodology for determining Fair Value, including consideration of the current and estimated future economic conditions</li> <li>(2) completeness and accuracy of information used in determining Fair Value.</li> </ul> </li> </ul>
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**Information Other than the Standalone financial statements and Auditor's Report Thereon**

The Company's Board of Directors is responsible for the other information. The other information comprises the information included in the Director's report, but does not include the standalone financial statements and our auditors' report thereon.

Our opinion on the standalone financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Management's Responsibility for the Standalone financial statements**

The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the Company in accordance with the Ind AS and other accounting principles generally accepted in India. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting

records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those Board of Directors are also responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibility for the Audit of the Standalone financial statements**

Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal financial control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements

represent the underlying transactions and events in a manner that achieves fair presentation.

Materiality is the magnitude of misstatements in the standalone financial statements that, individually or in aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the standalone financial statements may be influenced. We consider quantitative materiality and qualitative factors in (i) planning the scope of our audit work and in evaluating the results of our work; and (ii) to evaluate the effect of any identified misstatements in the standalone financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Other Matter**

The comparative financial information of the Company for the year ended 31<sup>st</sup> March 2019 prepared in accordance with Ind AS included in these standalone financial statements have been audited by the predecessor auditor. The report of the predecessor auditor on the comparative financial information dated 22<sup>nd</sup> May 2019 expressed an unmodified opinion.

Our opinion on the standalone financial statements is not modified in respect of the above matter on the comparative financial information.

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

1. As required by Section 143(3) of the Act, based on our audit we report that:
  - a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
  - b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.
  - c) The Balance Sheet, the Statement of Profit and Loss including Other Comprehensive Income, the Statement of Cash Flows and Statement of Changes in Equity dealt with by this Report are in agreement with the books of account.
  - d) In our opinion, the aforesaid financial statements comply with the Ind AS specified under Section 133 of the Act.

- e) On the basis of the written representations received from the directors as on 31<sup>st</sup> March, 2020 taken on record by the Board of Directors, none of the directors is disqualified as on 31<sup>st</sup> March, 2020 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**". Our report expresses an unmodified opinion on the adequacy and operating effectiveness of the Company's internal financial controls over financial reporting.
  - g) With respect to the other matters to be included in the Auditors' Report in accordance with the requirements of section 197(16) of the Act, as amended, in our opinion and to the best of our information and according to the explanations given to us, the remuneration paid by the Company to its directors during the year is in accordance with the provisions of section 197 of the Act.
  - h) 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, as amended in our opinion and to the best of our information and according to the explanations given to us:
    - i. The Company has disclosed the impact of pending litigations on its financial position in its standalone financial statements (Refer Note 38 to Standalone financial statements)
    - ii. The Company did not have any long-term contracts including derivative contracts, as at the year-end for which there were any material foreseeable losses.
    - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.
2. As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government in terms of Section 143(11) of the Act, we give in "**Annexure B**" a statement on the matters specified in paragraphs 3 and 4 of the Order.

For **DELOITTE HASKINS & SELLS**  
Chartered Accountants  
(Firm's Registration No. 008072S)

**G. K. Subramaniam**  
(Partner)  
(Membership No. 109839)  
UDIN: 20109839AAAIZ6033

MUMBAI, June 20, 2020

## **ANNEXURE "A" TO THE INDEPENDENT AUDITORS' REPORT**

**(Referred to in paragraph 1(f) under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)**

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

We have audited the internal financial controls over financial reporting of **Hinduja Leyland Finance Limited** ("the Company") as of March 31, 2020 in conjunction with our audit of the financial statements of the Company for the year ended on that date.

#### **Management's Responsibility for Internal Financial Controls**

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") issued by the Institute of Chartered Accountants of India 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

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

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

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## **Opinion**

In our opinion, to the best of our information and according to the explanations given to us, 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, 2020, based on the criteria for internal financial control over financial reporting 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.

For **DELOITTE HASKINS & SELLS**  
Chartered Accountants  
(Firm's Registration No. 008072S)

**G. K. Subramaniam**  
(Partner)  
(Membership No. 109839)  
UDIN: 20109839AAAAIZ6033

MUMBAI, June 20, 2020

## **ANNEXURE "B" TO THE INDEPENDENT AUDITORS' REPORT**

### **(Referred to in paragraph 2 under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)**

- (i) In respect of fixed assets
  - a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
  - b) The Company has a regular programme of physical verification of its fixed assets and accordingly all the fixed assets are verified during the year and according to the information and explanation given to us, no material discrepancies were noticed on such verification.
  - c) With respect to immovable property of land which is freehold, according to the information and explanations given to us and the records examined by us and based on the examination of the registered sale deed provided to us, we report that, the title deed of such immovable property is held in the name of the Company as at the balance sheet date.
- (ii) As explained to us, the company does not have inventory. Accordingly, the provisions of Clause 3(ii) of the Order are not applicable to the Company.
- (iii) The Company has not granted any loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013.
- (iv) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 185 and 186 of the Companies Act, 2013 in respect of grant of loans, making investments and providing guarantees and securities, as applicable.
- (v) According to the information and explanations given to us, the Company has not accepted any deposit during the year. In respect of unclaimed deposits, the Company has complied with the provisions of Sections 73 to 76 or any other relevant provisions of the Companies Act, 2013.
- (vi) According to the information and explanations given to us, the Company is not required to maintain cost records under sub-section (1) of Section 148 of the Act. Accordingly, paragraph 3(vi) of the Order is not applicable to the Company.
- (vii) According to the information and explanations given to us, in respect of statutory dues:
  - a) The Company has been regular in depositing undisputed statutory dues, including Provident fund, Employees' State Insurance, Income-tax, Goods and Services Tax, Customs Duty, Works Contract Tax, cess and other material statutory dues applicable to it to the appropriate authorities.
  - b) There were no undisputed amounts payable in respect of Provident fund, Employees' State Insurance, Income-tax, Goods and services Tax,

Customs Duty, Works Contract Tax, cess and other material statutory dues in arrears as at March 31, 2020 for a period of more than six months from the date they became payable.

- c) Details of dues of Value Added Tax which have not been deposited as on March 31, 2020 on account of disputes are given below:

Name of Statute	Nature of Dues	Forum where Dispute is Pending	Period to which the Amount Relates	Amount Involved (Rs.)
Rajasthan VAT Act, 2003	Value added Tax	High Court of Judicature at Rajasthan	2011-12 to 2014-15	40,57,000
Odisha VAT Act, 2004	Value added Tax	High Court of Judicature at Orissa	April 2012 to March 2013	39,000
Andhra Pradesh Value Added Tax Act, 2005	Value added Tax	High Court of Judicature at Hyderabad	April 2011 to March 2012	17,55,000
Karnataka VAT Act, 2003	Value added Tax	High Court of Judicature at Bangalore, Karnataka	2012-13 to 2016-17	1,21,16,000

- (viii) In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of loans or borrowings to banks or dues to debenture holders. The Company has not taken loans or borrowings from government and financial institutions.
- (ix) The Company has not raised moneys by way of initial public offer or further public offer (including debt instruments) or term loans and hence reporting under clause (ix) of the Order is not applicable.
- (x) To the best of our knowledge and according to the information and explanations given to us, no fraud by the Company and no material fraud on the Company by its officers or employees has been noticed or reported during the year.
- (xi) In our opinion and according to the information and explanations given to us, the Company has paid / provided managerial remuneration in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013.
- (xii) The Company is not a Nidhi Company and hence reporting under clause (xii) of the Order is not applicable.
- (xiii) In our opinion and according to the information and explanations given to us

the Company is in compliance with Section 188 and 177 of the Companies Act, 2013, where applicable, for all transactions with the related parties and the details of related party transactions have been disclosed in the financial statements etc. as required by the applicable accounting standards.

- (xiv) According to the information and explanations given to us, the Company has made private placement of non-convertible debentures during the year under review.

In respect of the above issue, we further report that:

- a) the requirement of Section 42 of the Companies Act, 2013, as applicable, have been complied with; and
- b) the amounts raised have been applied by the Company during the year for the purposes for which the funds were raised, other than temporary deployment pending application.

- (xv) In our opinion and according to the information and explanations given to us, during the year the Company has not entered into any non-cash transactions with its directors or persons connected with the directors and hence provisions of section 192 of the Act are not applicable.

- (xvi) The Company is required to be registered under section 45-I of the Reserve Bank of India Act, 1934 and it has obtained the registration.

For **DELOITTE HASKINS & SELLS**

Chartered Accountants

(Firm's Registration No. 008072S)

**G. K. Subramaniam**

(Partner)

(Membership No. 109839)

UDIN: 20109839AAAAIZ6033

MUMBAI, June 20, 2020