

INDEPENDENT AUDITOR'S REPORT

To the Members of Aditya Birla Fashion and Retail Limited

Report on the Ind AS financial statements

We have audited the accompanying Ind AS financial statements of Aditya Birla Fashion and Retail Limited ("the Company") (formerly Pantaloons Fashion & Retail Limited), which comprise the Balance Sheet as at March 31, 2017, the Statement of Profit and Loss and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Ind AS financial statements

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 Ind AS financial statements that give a true and fair view of the state of affairs (financial position), profit or loss (financial performance including other comprehensive income), cash flows and changes in equity of the Company in accordance with accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and the Companies (Indian Accounting Standards) Rules, 2015, as amended.

This responsibility 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 the design, implementation and maintenance of adequate internal financial control that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the 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

Our responsibility is to express an opinion on these Ind AS financial statements based on our 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 thereunder. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, as specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Ind AS financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Ind AS financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 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.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the 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, its profit and its cash flows for the year ended on that date.

Emphasis of Matter

We draw attention to Note - 44 in the financial statements regarding the acquisition of the demerged undertakings i.e Madura Undertaking and MGL Retail Undertaking in the previous year. For reasons more fully described therein regarding the accounting, no adjustments are considered necessary as regards the manner of recording of the said transaction.

Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's report) Order, 2016 ("the Order") issued by the Central Government of India in terms of sub-section 11 of section 143 of the Act, we give in the Annexure 1 a statement on the matters specified in paragraphs 3 and 4 of the Order.
2. 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 purpose 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, Statement of Profit and Loss including the Statement of 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 standalone Ind AS financial statements comply with the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and the Companies (Indian Accounting Standards) Rules, 2015, as amended;
 - (e) On the basis of written representations received from the Directors as on March 31, 2017, and 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 dated May 12, 2017 in "Annexure 2" to this report;
 - (g) 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 Ind AS financial statements – Refer Note - 38 to the Ind AS financial statements;

- ii. The Company did not have any long-term contracts including derivative contracts 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;
- iv. The Company has provided requisite disclosures in Note - 32 to these Ind AS financial statements as to the holding of Specified Bank Notes on November 8, 2016 and December 30, 2016 as well as dealings in Specified Bank Notes during the period from November 8, 2016 to December 30, 2016. Based on our enquiries, test check of the books of account and other details maintained by the Company and relying on the management representation regarding the holding and nature of cash transactions, including Specified Bank Notes, we report that these disclosures are in accordance with the books of account maintained by the Company.

Other Matter

The comparative financial information for the year ended March 31, 2016 and the transition date opening Balance Sheet as at April 1, 2015 pertaining to the Madura division of the Company included in these Ind AS financial statements, are based on the previously issued statutory financial statements prepared in accordance with the Companies (Accounting Standards) Rules, 2006 audited by predecessor branch auditor whose report for the year ended March 31, 2016 and March 31, 2015 dated May 25, 2016 and May 11, 2015 respectively expressed an unmodified opinion on those financial information of the branch, as adjusted for the differences in the accounting principles adopted by the Company on transition to Ind AS, which have been audited by us.

For **S R B C & CO LLP**

Chartered Accountants

ICAI Firm Registration Number: 324982E/E300003

per Vijay Maniar

Partner

Membership No.: 36738

Place: Mumbai

Date: May 12, 2017

Annexure 1 referred to in paragraph 1 under the heading “Report on Other Legal and Regulatory Requirements” of our report of even date.

- (i)(a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (i)(b) All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (i)(c) Based on our audit procedures performed for the purpose of reporting the true and fair view of the financial statements and according to information and explanations given by the management, the title deeds of immovable properties are held in the name of the Company except for the following immovable properties other than self-constructed buildings aggregating to Rs. 605 Lakh which are held in the name of the demerged companies and is in the process of being transferred to the Company (Refer Note - 44 to the financial statements):-

Total number of cases	Asset category	Amount as at March 31, 2017 in Lakhs	Remarks
12	Freehold Land	592	Title deeds are in names of the companies whose divisions got merged with the Company and are pending to be transferred in the name of the Company.
1	Building (Flat)	13	Title deeds are in names of the companies whose divisions got merged with the Company and are pending to be transferred in the name of the Company.

- (ii) The management has conducted physical verification of inventory at reasonable intervals during the year and no material discrepancies were noticed on such physical verification.
- (iii) According to the information and explanations given to us, 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. Accordingly, the provisions of clause 3(iii)(a), (b) and (c) of the Order are not applicable to the Company and hence not commented upon.
- (iv) In our opinion and according to the information and explanations given to us, there are no loans, investments, guarantees, and securities granted in respect of which provisions of section 185 and 186 of the Companies Act, 2013 are applicable and hence not commented upon.
- (v) The Company has not accepted any deposits within the meaning of sections 73 to 76 of the Act and the Companies (Acceptance of Deposits) Rules, 2014 (as amended). Accordingly, the provisions of clause 3(v) of the Order are not applicable.
- (vi) To the best of our knowledge and as explained, the Central Government has not specified the maintenance of cost records under clause 148(1) of the Companies Act, 2013, for the products / services of the Company.
- (vii)(a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, excise duty, income tax, sales tax, wealth tax, service tax, customs duty, value added tax, cess and other material statutory dues have generally been regularly deposited with the appropriate authorities
- (vii)(b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees' state insurance, income tax, wealth tax, service tax,

sales tax, value added tax, excise duty, customs duty, cess and other material statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.

- (vii)(c) According to the records of the Company, the dues outstanding of income tax, sales tax, wealth tax, service tax, duty of customs, excise duty, value added tax and cess on account of any dispute, are as follows:

Name of the statute	Nature of the dues	Unpaid amount (Rs. in Lakhs)*	Period to which the amount relates	Forum where dispute is pending
Karnataka - Value Added Tax	Value Added Tax	8	2008-09	Deputy Commissioner of Commercial Taxes, Bangalore
Madhya Pradesh - Value Added Tax	Value Added Tax	8	2013-14	Commercial Tax Department
Rajasthan - Value Added Tax	Value Added Tax	4	2014-15	Commercial Tax Department
Central Excise Act	Excise duty	186	May'01 to Apr03	Customs, Excise and Service Tax Appellate Tribunal, Bangalore
Central Sales Tax Act	Sales tax	1	2006-07	The Appellate Deputy Commissioner (CT) Secunderabad Division
Customs duty	Customs duty	408	1998-99	Hon'ble High Court – Karnataka
Customs duty	Customs duty	50	2010	Customs, Excise and Service Tax Appellate Tribunal, Chennai
Gujarat - Commercial tax	Sales tax	226	2011-12	DEO - Joint Commissioner - JCCT(A)
Karnataka Sales Tax Act	Sales tax	528	2011-12	Karnataka Appellate Tribunal
Karnataka Sales Tax Act	Sales tax	985	2005-07 to 2014-15	JCCT – Appeals
Karnataka Tax on Entry of Goods Act	Entry tax	2	2002-03 to 2004-05	Joint Commissioner of Commercial Taxes - Appeal - 1
Kerala Commercial Tax	Surcharge	180	April 2008 to June 2017	Kerala High Court, Ernakulum
Kerala General Sales Tax Act	Kerala sales tax	1	2004-05	Kerala Sales Tax Appellate Tribunal, Ernakulum
Orrisa Entry tax	Entry dues	0	2002-03	Assistant Commissioner of Commercial Taxes, Bhubaneshwar
Orrisa Sales Tax Act	Sales tax	0	2002-03	Assistant Commissioner of Commercial Taxes, Bhubaneshwar
Textile Committee Act	Textile cess	122	1981-2005	Honourable High Court
Uttar Pradesh Commercial tax	Value Added Tax	737	2008-2013	DCCT - Uttar Pradesh
Uttarkhand Commercial tax	Value Added Tax	375	2008-2014	Additional Commissioner – Appeal
West Bengal Commercial tax	Sales tax	1	2005-06	Joint Commissioner Appeal - JCCT(A)

* The unpaid amount mentioned above is net of Rs. 3,809 Lakh paid under protest.

- (viii) Based on our audit procedures performed for the purpose of reporting the true and fair view of the financial statements and according to information and explanations given by the management,

we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders. The Company has not taken any loans or borrowings from the government.

- (ix) Based on our audit procedures performed for the purpose of reporting the true and fair view of the financial statements and according to the information and explanations given by the management, the Company has not raised any money by way of initial public offer / further public offer. The monies raised by way of term loans and debt instruments were applied for the purposes for which those were raised.
- (x) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and according to the information and explanations given by the management, we report that no fraud on or by the officers and employees of the Company has been noticed or reported during the year.
- (xi) Based on our audit procedures performed for the purpose of reporting the true and fair view of the financial statements and according to the information and explanations given by the management, we report that the managerial remuneration has been paid / provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013.
- (xii) In our opinion, the Company is not a nidhi company. Therefore, the provisions of clause 3(xii) of the Order are not applicable to the Company and hence not commented upon.
- (xiii) Based on our audit procedures performed for the purpose of reporting the true and fair view of the financial statements and according to the information and explanations given by the management, transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013, where applicable, and the details have been disclosed in the notes to the financial statements, as required by the applicable accounting standards.
- (xiv) According to the information and explanations given to us and on an overall examination of the Balance Sheet, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and hence, reporting requirements under clause 3(xiv) are not applicable to the Company and, not commented upon.
- (xv) According to the information and explanations given by the management, the Company has not entered into any non-cash transactions with Directors or persons connected with him as referred to in section 192 of Companies Act, 2013.
- (xvi) According to the information and explanations given to us, the provisions of section 45-IA of the Reserve Bank of India Act, 1934 are not applicable to the Company.

For **S R B C & CO LLP**

Chartered Accountants

ICAI Firm Registration Number: 324982E/E300003

per Vijay Maniar

Partner

Membership No.: 36738

Place: Mumbai

Date: May 12, 2017

Annexure 2 referred to in paragraph 2 under the heading “Report on Other Legal and Regulatory Requirements” of our report of even date on the financial statements of Aditya Birla Fashion and Retail Limited.

Report on the Internal Financial Controls under clause (i) of sub-section 3 of section 143 of the Companies Act, 2013 (“the Act”)

To the Members of Aditya Birla Fashion and Retail Limited

We have audited the internal financial controls over financial reporting of Aditya Birla Fashion and Retail Limited (“the Company”) (formerly Pantaloons Fashion & Retail Limited) as at March 31, 2017 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 the 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”) and the Standards on Auditing as specified under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor’s 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 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, 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.

For **S R B C & CO LLP**

Chartered Accountants

ICAI Firm Registration Number: 324982E/E300003

per Vijay Maniar

Partner

Membership No.: 36738

Place: Mumbai

Date: May 12, 2017