MADRAS FERTILIZERS LIMITED
(A Government of India Undertaking)
CIN – L32201TN1966GOI005469
Regd. Office: Post Bag No.2, Manali, Chennai 600 068
Tel.044-25942281 / 25945489
Website: www.madrasfert.co.in email: cs@madrasfert.co.in

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) OF THE COMPANIES ACT, 2013 ON THE FINANCIAL STATEMENTS OF MADRAS FERTILIZERS LIMITED FOR THE YEAR ENDED 31 MARCH 2022

The preparation of financial statements of Madras Fertilizers Ltd for the year ended 31 March 2022 in accordance with the financial reporting framework prescribed under the Companies Act, 2013 is the responsibility of the management of the Company. The Statutory auditor / auditors appointed by the Comptroller and Auditor General of India under section 139 (5) of the Act is responsible for expressing opinion on the financial statements under section 143 of the Act based on independent audit in accordance with Standards of Auditing prescribed under Section 143 (10) of the Act. This is stated to have been done by them **vide their revised audit report 20 July 2022** which supersedes their earlier audit report dated 19 May 2022.

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit of the financial statements of **Madras Fertilizers Limited** for the year ended 31 March 2022 under section 143(6)(a) of the Act. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and Company personnel and a selective examination of some of the accounting records. Based on my supplementary audit, I would like to highlight the following significant matters under section 143(6)(b) of the Act which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related audit report.

A. Comments on Financial Position
Equity and Liabilities
Non-Current Liabilities
Deferred Tax Liability (Note 5.1.a) : Rs. 25.17 crore.

The above does not include Rs.24.52 crore being the deferred tax liability on account of tax effect due to fair market value change of investment with reference to cost of acquisition of the investment. Company held 5,28,000 shares of Indian Potash Limited (IPL) as on 1 April 2001 and had received 10,56,000 bonus shares in subsequent years. Company has assessed fair market value of investment in IPL at Rs.249.63 crore as on 31 March 2022. As per section 52 (2)(aa)(B)(iiia) of Income Tax Act, 1961, in relation to financial assets allotted to the assessee without any payment and on the basis of holding any other financial assets, cost of acquisition shall be taken to be nil.

To compute the cost of acquisition of investment in IPL, Company had considered all shares held in IPL including 10,56,000 bonus shares. Company had computed cost of acquisition of shares held on 1 April 2001 in IPL at Rs.160.72 crore with cost indexation up to 2021-22 which includes Rs.107.17 crore cost of acquisition assigned to bonus shares. This was in violation of provision of Income Tax Act, 1961 and had resulted in incorrect computation of deferred tax liability as on 31 March 2022. The tax liability on account of fair valuation of investment in IPL with nil acquisition cost to bonus shares worked out to Rs.44.86 crore as against Rs.20.34 crore accounted by the Company.

This has resulted in understatement of 'Deferred Tax Liabilities' and overstatement of 'Other Comprehensive Income' by Rs.24.52 crore.

For and on the behalf of the
Comptroller & Auditor General of India

Place : New Delhi
Date : 09.09.2022

Sd/-
(Keerti Tewari)
Director General of Audit (AF&WR)

REPLY TO THE COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA (C&AG) BY MADRAS FERTILIZRS LIMITED MANAGEMENT ON THE FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR ENDED MARCH 31, 2022

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<tr><th>COMMENTS OF THE CAG</th><th>REPLY</th></tr>
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Equity and Liabilities
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The findings of Comptroller and Auditor General of India (C&AG) is mainly due to consideration of acquisition cost of bonus shares as NIL, whereas the company has considered acquisition cost as that including the bonus shares.

The company's decision is based on the following factors:

i. Basically, the investment in equity shares of Indian Potash Limited classified under "Financial Assets- Investments (Non-Current)" in the standalone financial statements of the Company, which are not intended for sale in near future.

ii. The measurement of deferred tax assets and liabilities are mere accounting estimates which will be reviewed at the end of each reporting period. *(Emphasis added to Para 56 of Ind AS 12 Income Taxes).*

iii. Fair market value measurement is also a best estimate and takes into account the characteristics of the relevant Asset/liability if market participants would take those characteristics into account when pricing the asset/liability at the measurement date. The unlisted equity shares viz., Indian Potash Limited do not have observable market to provide pricing information about the sale of such shares at the measurement date, the fair value measurement is assumed as if a transaction has taken place at that considered from the perspective of market

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against Rs.20.34 crore accounted by the Company. This has resulted in understatement of 'Deferred Tax Liabilities' and overstatement of 'Other Comprehensive Income' by Rs.24.52 crore.	participants *(Refer Ind AS 113-Fair Value Measurement)* iv. That post the issuance of bonus shares, the market value and the intrinsic value of the original shares and bonus shares put together, will be nearly the same as per the value of the original share before the issue of bonus shares. Thus, any profit derived by the taxpayer from the receipt of bonus shares is adjusted by the depreciation in the value of the equity shares held. Section 55 of The Income Tax Act is applicable when actual sale transaction takes place. Since here it is only fair valuation of the shares in hand, cost of acquisition is shown for entire shares held on the closing date, which in our view is in accordance with the conservative principle on this matter. v. The Company had incurred operating losses till the year ended 31st March,2020 and made a nominal profit of Rs.2.87 Cr for the year ended 31st March,2021. The company has accumulated business losses of Rs.58.02 Cr and unabsorbed depreciation losses of Rs.47.34 Cr available and being carried forward for set off under the Income Tax Act as at 31st March,2021. vi. During the current period, the Company made a profit before tax of Rs.166.72 Cr and no provision was made for the current tax in view of brought forward business losses and unabsorbed depreciation losses. vii. Deferred tax expenses were recognised for the first time during the Financial year 2021-22, post transition to Ind AS by the company and entire portion is

	getting reflected under OCI only on account of fair value measurement of unlisted Equity shares. viii. Deferred tax measurement involves significant management judgements and other estimates over the applicable tax provisions. ix. Fair market value measurement is also a best estimate and takes into account the characteristics of the relevant Asset/liability if market participants would take those characteristics into account when pricing the asset/liability at the measurement date. The unlisted equity shares viz., Indian Potash Limited do not have observable market to provide pricing information about the sale of such shares at the measurement date, the fair value measurement is assumed as if a transaction has taken place at that considered from the perspective of market participants. x. Further, an estimate may need revision if changes occur in the circumstances on which the estimates were based or as a result of new information or out of experience. By its nature the revision of an estimate does not relate to prior periods and not the correction of the error. xi. The total other comprehensive income recognised in statement of profit and loss account towards fair valuation of non-current investments is Rs.46.50 Cr (Gross) for the current year. The actual impact on account of deferred taxes is only Rs.10.64 Cr for the fair valuation gain recognised during the current year.

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<tr><td></td><td>xii. The fair value measurement of unlisted Equity shares and the deferred tax thereon are mere accounting estimates and are reflected under “Other Comprehensive Income”, which is a notional recognition of unrealised gain/loss, which will not be reckoned either for Earnings per share nor net worth computation of company. The Other Comprehensive income is just a notional income and expenditure, which will not impact company’s financial performance, financial position and liquidity thereon.

The findings of Comptroller and Auditor General of India (C&AG) is noted for future guidance and will be reviewed during the next year for appropriate action.</td></tr>
<tr><td>For and on the behalf of the
Comptroller & Auditor General of India
Sd/-
(Keerti Tewari)
Director General of Audit (AF&WR)

Place : New Delhi
Date : 09.09.2022</td><td>For and on behalf of the Board of Directors
Sd/-
U Saravanan
Chairman & Managing Director

Place : Chennai
Date : 12.09.2022</td></tr>
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