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# READING BETWEEN THE LINES

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Presented by Dhiraj Dave

*Private and confidential*  
November, 2016

# Annual report

- § Financials
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  - § Profit and Loss
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    - § Secretarial Audit Report
    - § Subsidiary and Associate Companies
    - § Conservation of energy, technology absorption and foreign exchange earnings and outgo

# Other information

## § Management conduct in past

- § Change of name/ Financial year (Early 90s: NBFC, Late 90s: IT, 2000s: Infra, 2010s: Healthcare)
- § Debt/ FCCB/ECB funded acquisition (Specially Loss making overseas)

## § Legal cases

- § Details about accounting in case of income tax dispute
- § Dispute with customer/arbitration etc.

## § Power consumption/R&D details (if available)

## § SEC filing (if applicable)

- § Banks NPL in US GAAP were generally higher than what was reported under Indian GAAP during 2002-2005 period

# Balance sheet : Fixed Assets

Typically Plant and machinery account for around than 60-80% of gross block in manufacturing company

- Dekhbhal Limited AR FY15 (Consolidated)

Sr. No.	Items of Asset	Gross Block at Cost or Book Value				Depreciation					Net Block	
		As on 01/04/2014	Additions during the year	Deductions during the year	As on 31/03/2015	As on 01/04/2014	Adjustment During The Year	For The Year	Deductions during the year	As on 31/03/2015	As on 31/03/2015	As on 31/03/2014
01	Land	227.20	-	-	227.20	-	-	-	-	-	227.20	227.20
02	Building	5,691.12	148.48	-	5,839.60	1,520.23	-	166.12	-	1,686.35	4,153.25	4,170.89
03	Plant & Machinery	67,262.09	6,877.09	-	74,139.18	16,985.82	431.19	4,938.70	-	22,355.71	51,783.47	50,276.27
04	Vehicles	170.21	-	20.40	149.81	123.64	1.22	15.95	19.38	121.43	28.38	46.57
05	Electric Fitting	1,700.85	31.69	-	1,732.54	677.49	138.40	392.80	-	1,208.69	523.85	1,023.36
06	Furniture & Fixture	714.62	10.43	-	725.05	370.39	15.38	92.40	-	478.17	246.88	344.23
07	Office Equipments	895.56	19.83	-	915.39	787.99	17.84	27.58	-	833.41	81.98	107.57
08	Tools & Equipments	68,536.70	-	-	68,536.70	1,911.13	-	4,386.30	-	6,297.43	62,239.27	66,625.57
	<b>TOTAL</b>	<b>145,198.35</b>	<b>7,087.52</b>	<b>20.40</b>	<b>152,265.47</b>	<b>22,376.69</b>	<b>604.03</b>	<b>10,019.85</b>	<b>19.38</b>	<b>32,981.19</b>	<b>119,284.28</b>	<b>122,821.66</b>

# Balance sheet : Capital WIP

- Capital working in progress ([Dekhbhal Limited](#))
  - Check likely date of completion of projects and reason for delay in completion, if any

Narration	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Net Block	1,408.33	1,582.10	1,492.93	2,126.44	1,925.78
Capital Work in Progress	35.59	55.08	845.87	262.32	218.41
Investments	0.23	0.09	0.09	0.15	0.18
Other Assets	1,675.21	2,141.43	2,086.19	2,041.45	2,293.08
<b>Total</b>	<b>3,119.36</b>	<b>3,778.70</b>	<b>4,425.08</b>	<b>4,430.36</b>	<b>4,437.45</b>

Balancesheet as at March 31, 2015			(Rs Lakhs)
Related party	Short term Provision	Short term loan and advance	Fixed Assets*
Promoter 1	-4.01	-222	6951.29
Last year figures	-10.1		6675.29
KMP 1		-3.43	
Last year figures		-22.53	
Promoter 2			2358.38
Last year figures			2358.38
<b>Total</b>	<b>-4.01</b>	<b>-7853.04</b>	<b>9309.67</b>
Last year figures	-10.1	-16,219.97	9033.67

# Balance sheet : Investment

## § Goodwill/Intangible assets

- § Check who owns trademarks related to business
- § Empanelment of the company with various clients

## § Investment

- § Consistently Loss making subsidiary with increasing investment trend over the years (Rosestem Global in RoseStem Overseas)

Narration (Rs Cr)	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
<b>Total Assets</b>	<b>868.90</b>	<b>1,150.75</b>	<b>1,206.33</b>	<b>1,336.11</b>	<b>1,422.01</b>	<b>1,455.73</b>
Total investment	340.54	463.92	464.82	459.16	526.82	586.70
Others Investment	297.80	16.12	17.02	11.36	11.03	9.03
Investment in ROL	331.42	447.80	447.80	447.80	515.79	577.67
Long term Advance ROL	288.73	520.71	0.00	500.45	552.99	575.91
Short term Advance ROL	169.47	98.24	139.31	62.35	73.17	<b>82.71</b>
Share application to ROL	0.00	0.00	520.71	244.75	195.32	133.44
Total Exposure to ROL Dubai	789.62	1,066.75	1,107.82	1,255.35	1,337.28	1,369.73
ROL Dubai/Total Assets Stanalone	91%	93%	92%	94%	94%	94%
ROL Sales	208.91	289.26	297.15	312.29	319.65	169.25
ROL PAT	81.93	87.57	120.69	159.09	68.49	31.37

# Balance sheet : Current Assets

## § Why-dance Industries

- § Loan and advances breakup
  - § If more than 15% of current assets

## § Debtors more than six months

Rs Crore	31-Mar-09	30-Jun-10	30-Jun-11	30-Jun-12	30-Sep-13
<b>Months</b>	<b>12</b>	<b>15</b>	<b>12</b>	<b>12</b>	<b>15</b>
Net Block	281.45	492.79	676.21	624.68	1417.31
Capital Work in Progress	155.31	329.31	98.82	373.95	240.82
Investments	2.01	91.01	92.77	132.09	482.94
Total Current Assets (A)	560.57	811.85	960.39	1556.97	874.44
Total Assets	881.12	1488.51	1880.08	2821.43	1155.49
Loans and Advances	14.28	84.78	100.42	292.22	352.43
Adv Recoverable in Cash or Kind (B)	10.94	78.81	81.22	260.99	291.58
B/A %	2%	10%	8%	17%	33%
Receivable	262.91	315.66	449.71	637.44	389.01
Debtors more than Six months	106.91	65.31	101.97	494.93	500.75
Debtors Others	156.00	250.35	352.32	154.91	55.92
Less : Provisions for Doubtful Debts	0	0	4.58	12.4	167.67
Debtors more than Six months (Net of provision) (C)	106.91	65.31	97.39	482.53	333.08
C/A %	19%	8%	10%	31%	38%

# Balance sheet: Networth

- § Preference capital/Share application money
  - § Mostly in restructured cases /Loss making cases
- § Check for capital reserve
  - § Again resulting from capital write-down or debt waiver
- § In FY12, [SpiceCo](#) has financed same subsidiary with Rs 744.3 Crores by subscription in equity to purchase [Immortal Pharma](#) brand portfolio from the FMCG company which resulted spurt in share premium account in the company



# Balance sheet: Debts

## § Banker details

- § Constantly increasing number of bankers
- § No facility with Banks despite large debt and long existence history
- § Entry of State Finance Corporation/Co-operative Bank giving exit to Foreign Bank/Private Bank

## § Secured debt

- § Breakup between working capital and term loan
  - § Typically working capital shall be 25% of sales
  - § Check security offered, loan only pledge and personal guarantee of directors needs special attention
  - § Large proportion of short term loan is concern
  - § Interest accrued and due

## § Unsecured loan

- § FCCB (Usage)
- § From Relative/Directors

# P&L : Overstatement of Sale

Power Pump has consistent marketing expenditure of around 20% of sales. Above 10% sales is due to trade discount / Other expense. Generally, sales are booked at net of trade discounts.

	Consolidated	Consolidated	Consolidated	Consolidated	Standalone	Standalone
	31-03-2015	31-03-2014	31-03-2013	31-03-2012	31-03-2011	30-06-2010
Months	12	12	12	12	9	12
Net Sales	296.62	292.09	208.80	193.52	134.93	131.68
Selling Expenditure	65.11	81.49	45.80	41.78	27.87	14.62
Market Development Charge	4.94	7.21	3.00	9.28	9.38	2.34
Travelling Expenditure	7.47	5.20	3.96	3.40	2.12	2.38
Trade discounts	-	-	-	24.66	13.08	7.90
Other expense	34.51	58.03	31.87	-	-	-
Selling Exp/ Net sales %	22.0%	27.9%	21.9%	21.6%	20.7%	11.1%

# P&L : Trading business

- Trading profit margin (SmallFish Laboratory)
  - Trading margin (Sales of trading good- Purchase of traded goods increased from 21% in FY13 to 31% in FY14)

## 45 Purchase of Traded Goods

(Rs.In Lakhs)

Category	30-06-14	30-06-13
Tablets	1,876.45	1,604.06
Capsules	2,469.21	1,439.42
Liquids	408.50	262.04
Injectibles	1,676.68	1,141.19
Ointments	549.74	308.02
Others	600.46	518.61
<b>Total</b>	<b>7,581.04</b>	<b>5,273.34</b>

## 46 Sale of Products comprises

(Rs. In Lakhs)

Category	Manufactured Goods		Traded Goods	
	30-06-14	30-06-13	30-06-14	30-06-13
Tablets	2,836.02	3,264.18	2,950.03	2,042.37
Capsules	456.83	1,126.18	3,657.78	1,839.05
Liquids	535.48	444.08	611.79	331.11
Injectibles	7.29	-	2,732.95	1,500.05
Ointments	-	-	689.05	378.91
Others	6.83	4.58	962.32	598.37
<b>Total</b>	<b>3,842.45</b>	<b>4,839.02</b>	<b>11,603.92</b>	<b>6,689.86</b>

# P&L : Regulatory expense

SmallFish Laboratory - Payment of sales tax/excise duty/income tax

Despite spurt in sales, excise duty decline by 90%. Possible due to exports growth but need more understanding

<b>NOTE 19</b>	<b>For the Year Ended 30-06-14 (Rs. In Lakhs)</b>	<b>For the Year Ended 30-06-13 (Rs. In Lakhs)</b>
<b>REVENUE FROM OPERATIONS</b>		
Sale of products	15,450.77	11,570.84
<b>Other operating revenues</b>		
Export Incentives	359.81	349.29
Share of Profit from Argus Salud Pharma LLP	833.62	389.05
	16,644.20	12,309.18
Less : Excise Duty	4.40	41.96
<b>Total</b>	<b>16,639.80</b>	<b>12,267.22</b>

Provision for tax

Check Exports/MAT/R&D

Why company has lower tax rate?

III Profit before tax	3,337.94	2,151.80
IV Tax Expense:		
- Current Year - Income Tax	500.00	475.00
- MAT Credit Entitlement	-	8.56
- Deferred tax	274.40	232.32
- Earlier Years	-	5.27
V Profit After Tax for the year	<b>2,563.54</b>	<b>1,430.65</b>

# P&L: Other expenditures

- § Provision for doubtful debt/Bad debts
  - § If more than 1% of sales check, seek information of names of debtors written-off/provided for
  - § Favorite way for companies to go under BIFR
- § Provision for investment
  - § No provision for listed companies in name of strategic investment
- § Extra ordinary income
  - § Insurance claim ; A favourite route for weak companies to book income
- § Audit Fees
  - § PWC audit fees for Truth in FY2007 increased by 113% vis Revenue growth of 34% and Net profit growth of 15% over FY2006

# Cashflow Statement

## Prosperity Ratan Ltd AR FY13 (notes to accounts)

### Consolidated Cash Flow Statement for the Year ended 31st March, 2013

Particulars	Year ended 31st March, 2013 (₹)	Year ended 31st March, 2012 (₹)
<b>A. Cash Flow from Operating Activities</b>		
Net Profit / (Loss) before tax	(839,455,119)	687,375,168
Adjustment for :		
Depreciation	73,203,622	90,830,072
Employee compensation Expenses	4,773,619	3,145
Exceptional Item	1,637,274,304	-
Profit/Loss on sales of Investment	-	14,251,892
Loss/(Profit) on sale of Fixed Assets	1,031,546	2,837,006
Liability No Longer required	(756,546)	(2,143,357)
Gratuity Expenses	3,116,431	2,544,626
Interest and Dividend earned	(22,285,237)	(21,360,217)
Interest paid on borrowings	124,194,878	127,605,262
<b>Operating Profit before working Capital Changes</b>	<b>981,097,498</b>	<b>901,943,597</b>
Adjustment for		
Trade and other Receivables	194,871,339	(548,669,118)
Trade payables, Provisions, Other Current Liabilities	(19,990,919)	352,211,148
Stock- in - Trade	(372,958,582)	(239,064,610)
<b>Cash generated from Operations</b>	<b>783,019,336</b>	<b>466,421,017</b>
Direct Taxes paid	(16,553,551)	(1,014,140)
Earlier Year Tax	876,284	(21,526)
<b>Net Cash from operating activities</b>	<b>767,342,069</b>	<b>465,385,351</b>

# Cash flow statement

§ LakdaGhar: Positive Operating Cashflow, but equity funded capex

Rs Cr	FY10	FY11	FY12	FY13	FY14	FY15
<b>Cashflow from Opeating Activities</b>						
PBT	4.01	13.26	31.59	48.87	66.02	83.73
Depreciation	2.93	3.96	7.80	13.38	16.96	26.82
Others	0.41	-0.18	2.67	-0.14	6.39	4.95
<b>Operating profit before WC</b>	<b>7.35</b>	<b>17.04</b>	<b>42.06</b>	<b>62.11</b>	<b>89.37</b>	<b>115.50</b>
(Increase)/Decrease in inventory	-0.14	-1.17	-2.19	-0.95	-1.02	0.41
Deposit given to K-12	-	-	-20.18	-54.19	-14.60	-28.12
(Increase)/Decrease in Debtors	-6.53	5.18	-4.04	-1.07	-22.12	-13.97
(Increase)/Decrease in Loan	-0.09	-15.97	-8.37	-7.73	-0.92	4.35
Increase/(Decrease) in Provision	2.06	8.73	5.64	5.60	3.42	2.44
Tax paid	-0.74	-3.16	-6.54	-17.64	-18.89	-21.60
<b>Net cash from operating activities</b>	<b>1.92</b>	<b>10.65</b>	<b>6.38</b>	<b>-13.87</b>	<b>35.24</b>	<b>59.02</b>
<b>Cashflow from Investing Activities</b>						
Purchase of fixed assets	-27.75	-69.46	-81.93	-78.64	-101.08	-130.45
Sales of Fixed assets	-	-	6.65	3.19	1.02	18.07
Others	-0.52	-0.70	-25.80	26.02	2.69	4.03
<b>Net cash from investing activities</b>	<b>-28.27</b>	<b>-70.16</b>	<b>-101.09</b>	<b>-49.42</b>	<b>-97.38</b>	<b>-108.35</b>
<b>Cashflow from Financing activities</b>						
Share issue+Premium	23.16	51.69	131.03	60.33	20.11	209.94
Dividend paid	-	-	-	-3.37	-4.50	-5.58
Net Term loan Increase/(Decrease)	11.97	-5.00	-	40.18	23.27	29.62
Net Increase/(Decrease) in WC	-	39.65	3.77	-24.86	-7.35	-6.43
Interest paid	-0.58	-1.26	-6.27	-6.50	-7.30	-14.12
Others	-	-8.04	-15.02	-1.46	-	-13.54
<b>Net cash from Financing activities</b>	<b>34.55</b>	<b>77.04</b>	<b>113.50</b>	<b>64.31</b>	<b>24.23</b>	<b>199.90</b>

# Cash flow statement

§ Truth - Interest income between Cashflow and P&L

<b>Rs Crores</b>	<b>200803</b>	<b>200703</b>	<b>200603</b>	<b>200503</b>	<b>200403</b>	<b>200303</b>	<b>FY08-03</b>
Fixed deposits	3,318.58	3,366.66	1,908.15	1,804.39	1,469.16	1,276.20	
Interest income in P&L	<b>270.01</b>	<b>165.77</b>	<b>115.77</b>	<b>100.05</b>	<b>93.07</b>	<b>31.93</b>	<b>776.60</b>
Average Fixed Deposits	3,342.62	2,637.41	1,856.27	1,636.78	1,372.68	1,048.38	
Intest income /Average FD	8.1%	6.3%	6.2%	6.1%	6.8%	3.0%	
Interest received as per Cashflow	<b>62.38</b>	<b>211.55</b>	<b>29.66</b>	<b>167.05</b>	<b>20.10</b>	<b>15.20</b>	<b>505.94</b>
Cashflow Int/P&L Income	23.1%	127.6%	25.6%	167.0%	21.6%	47.6%	65.1%



# Notes to accounts/ Accounting policy

## § Chhota Communication AR FY11 (notes to accounts)

Description	Rs cr	Rs cr
General reserve		22,340.94
Adjustment		
Less: Dividend	216.19	
Less: Bad debts for previous year, Page 107	159.41	
Less: Goodwill for current year, Page 108	6.61	
Less: Perpaid expense for CTIL adjusted Page 108	890.98	
Less: Amount written of by Chotta in pervious years, is charged of from general reserve, page 108	950	
Less: Additional depreciation for revalued assets being transferred from General reserve, Page 107	629.9	
Less: Fuel expense charged to general reserve, Page 107	77.35	
Less: Additional depreciation arising from fair value of the assets adjusted from General reserve	1291.47	
Add: Minority interest	55.73	4,166.18
Closing balance of general reserve		18,174.76
Net profit overstated		2,158.13
Cash profit overstated		236.76
Consolidated profit after tax		1,345.65
Consolidated loss after tax (post adjustment)		-812.48

# Example of other red flags

- § Resignation of Lady promoter director from Board
- § Private Placement New Equity investor
  - § Many name like Vinamay/ Trade link specifically based out of Kolkatta are shadow companies investing in equities

# Case Study: Lady Padamja Ltd

- § Change in Name from 1988 to 1992 to 2002 to 2005
- § Constant equity dilution and debt raising
- § Nearly 20% management discussion about defense market since 2008 which accounted for only 0.83% of revenue in FY11, declined to 0.63% in FY12, increased marginally to 0.96% in FY13
- § Year end change from June 2013 to March 2014 (9 months)
- § Board meeting: Average attendance of independent board member for full year was around 37% of board meeting during FY08 to FY15 period

# Case Study: Lady Padamja Ltd

## § Chairman speech

- § FY09: Venture into the production of vest using NCT Technology by March 2011
- § FY10: Tie up with BEML for supplying vehicle, no update of bulletproof jacket
- § FY12: During FY12 we successfully introduced NBC (Nuclear Bio-Chemical) and IR (Infrared reflective) fabric.
- § FY15: Substantial order from defense were cancelled due to shortage of working capital, causing huge loss

# Case Study: Lady Padamja Ltd

Just a matter of time!

March 2015

June 2010

**NOFULLSTOPS**

*Survive Sustain Secure*

March 2014

June 2011

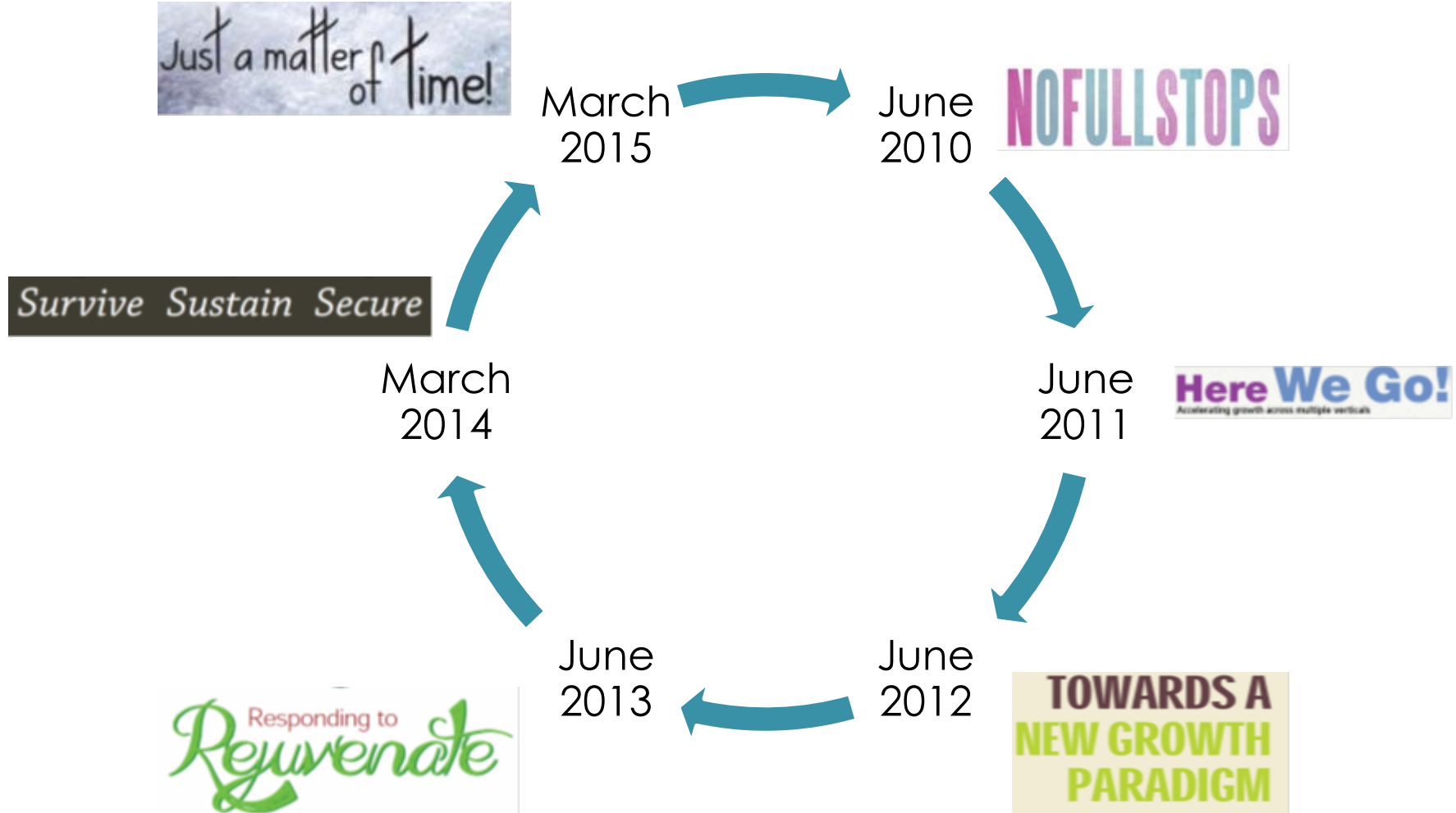
**Here We Go!**  
Accelerating growth across multiple verticals

June 2013

June 2012

**TOWARDS A  
NEW GROWTH  
PARADIGM**

Responding to  
**Rejuvenate**



# Thank you

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