

Table of Contents

Executive Summary	2
Important Disclaimer	2
Detailed Report.....	4
SA 505 – External Confirmations	4
Determining materiality of these Balances.....	5
Ind AS 109 – Financial Instruments.....	5
Ind AS 103 – Business Combinations	7
Inventories	7
Trade Receivables	9
Ind AS 36 – Impairment of Assets	10
SA 540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	11
Ind AS 113 – Fair Value Measurement.....	12
Other Matters	13
Ind AS 1 – Presentation of Financial Statements	13
Ind AS 24 (Related Party Disclosures) read with SA 550 (Related Parties)	13
SA 580 – Written Representations.....	15
SA 315 - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment	15
Audit Report Inconsistencies (SA 701,705,706).....	16
Conclusion.....	17
References	17

Executive Summary

This report presents significant concerns regarding potential non-compliance with Indian Accounting Standards (Ind AS) and Standards on Auditing (SAs) by **Deep Industries Limited** [CIN: L14292GJ2006PLC049371] (herein referred to as “the Company”) and its statutory auditors **M/s Mahendra N. Shah & Co.**, Chartered Accountants [FRN: 105775W] (herein referred to as “the Auditors”). The matters primarily arise from the acquisition of Kandla Energy and Chemicals Limited (KECL) and Dolphin Offshore Enterprises (India) Limited (DOEL) through the CIRP at a nominal consideration, despite these acquired entities carrying substantial trade receivables and other financial assets. The subsequent accounting treatment and audit procedures relating to these balances appear inconsistent inter-alia with the requirements of Ind AS 109, Ind AS 103/113, and SA 505.

A further key concern relates to the treatment and disclosure of goodwill arising from the earlier demerger. The financial statements do not appear to include the disclosures required under Ind AS 36 when goodwill is carried without impairment, including the basis of allocation to cash-generating units, the description of those CGUs, the key assumptions supporting recoverable amounts, and related sensitivity information.

A summary of the principal matters and concerns identified in this report is enclosed on page 3 of the report.

Important Disclaimer

The author of this report has no financial or other incentive in preparing this document and is not a shareholder, creditor, or stakeholder in any company referenced herein. Neither the author nor any family member holds any direct or indirect long or short economic interest, including derivatives, in the companies mentioned.

All observations are based solely on publicly available information, including audited financial statements, quarterly results, exchange filings, and the attached source documents. References to Ind AS are as per the Companies (Indian Accounting Standards) Rules, 2015, and references to Standards on Auditing relate to those issued by the Institute of Chartered Accountants of India. All interpretations represent the author’s understanding and may be incomplete or subject to professional judgment.

Nothing in this report constitutes a statement of fact except where supported by publicly available evidence. Any analysis or illustrations are for educational purposes only and are not indicative of actual or expected investment performance. The author accepts no liability for any financial, notional or other loss arising from the use of this material.

This document is not investment advice. The author is not registered with SEBI, and nothing contained herein should be construed as financial, legal, or investment guidance.

Particulars	Key Concerns
SA 505 (External Confirmations)	The auditors noted that external confirmations were initiated by management, contrary to SA 505, which requires the auditor to control the entire confirmation process (para 7) and obtain independent, reliable audit evidence (para 2). This indicates non-compliance with the fundamental requirements of SA 505 for material balances.
Ind AS 109 (Financial Instruments)	The receivables of KECL and the Dolphin Offshore group have been outstanding for over three years with no confirmations or reliable supporting records. Under Ind AS 109, entities must recognise expected credit losses on financial assets (para 5.5.1), using unbiased, probability-weighted assessments based on past events and forward-looking information (para 5.5.3), and must measure trade receivable impairments at lifetime ECL (para 5.5.15). Prolonged ageing and absence of information are strong indicators of credit deterioration under Ind AS 109, and the failure to recognise any ECL raises concerns regarding compliance with paras 5.5.1, 5.5.3, 5.5.15 and B5.5.35
Ind AS 103 (Business Combination)	<p>Kandla's inventory of ₹25,607.83 lakhs was recognised at carrying value on the acquisition date (31 March 2025) and immediately written down by management after taking control, who confirmed that the entire balance was "irrecoverable or unusable." Under Ind AS 103 para 18 and Appendix B41, acquisition-date fair value must already reflect obsolescence or non-recoverability. Because the write-down occurred in the same reporting period, the conditions clearly existed at the acquisition date, rendering the use of measurement-period adjustments under para 45 inapplicable. This indicates that the inventory fair value was overstated at acquisition, resulting in an inflated capital reserve under paras 34–36 of Ind AS 103.</p> <p>Under Ind AS 103, identifiable assets must exist and be measured at fair value on the acquisition date (paras 10–12 and 18). The long-outstanding, unconfirmed receivables acquired from Kandla and the Dolphin Offshore group raise doubts about whether they met the definition of an asset or were measured at fair value. Appendix B41 requires fair value to reflect expected uncollectibility, yet no such adjustment appears to have been made. Given the recognition of a significant capital reserve, paras 34–36 required a reassessment of these balances, while the continued absence of confirmations triggers para 45 considerations regarding provisional values and the need for revision when acquisition-date conditions cannot be substantiated.</p>
Ind AS 36 (Impairment of Assets)	The Company carries substantial goodwill from the earlier demerger but has not disclosed how this goodwill has been allocated to cash-generating units, as required under Ind AS 36 para 134(a)–(c). Mandatory disclosures such as CGU descriptions, key assumptions, and recoverable-amount methodology are required even when no impairment is recognised under paras 134–135, are also absent. Moreover, significant assets of the acquired subsidiaries—particularly long-outstanding, unverified receivables—create a high risk that the carrying amount of the CGUs exceeds their recoverable amount, triggering an impairment assessment under para 90. The absence of required disclosures indicates non-compliance with Ind AS 36.
SA 705 (Modifications to the Opinion in the Independent Auditor's Report)	The auditors issued an unmodified opinion and included the unconfirmed receivables in an Emphasis of Matter paragraph under SA 706. However, given the prolonged ageing of these balances, the absence of external confirmations, and the resulting inability to obtain sufficient appropriate audit evidence, the situation aligns with paragraph 7(b) of SA 705, which contemplates a qualified opinion when possible misstatements may be material but not pervasive. Since an Emphasis of Matter is permitted only when the audit opinion remains unmodified, the circumstances indicate that a modified opinion was a possible outcome rather than reliance on an Emphasis of Matter.

Detailed Report

SA 505 – External Confirmations

Emphasis of Matter:

Related to Receivables:

We draw attention to Note No. 5 of the Consolidated financial results, with respect to acquired entities, Dolphin Offshore Shipping Limited, Kandla Energy and Chemicals Limited, Dolphin Offshore Enterprises (India) Limited and Dolphin Offshore Enterprises (Mauritius) Private Limited the Outstanding receivables balances as at the end under consideration in respect of sundry debtors, loans & advances and other financial assets which are subject to confirmation from respective parties and consequential reconciliation and adjustments arising there from if any. The impact, if any, of such confirmation and reconciliation on the financial results is presently not ascertainable. The Parent Company has initiated the process of obtaining such confirmations, which constitutes a departure from the requirements of the auditing standards.

Our opinion is not modified in respect of this matter.

Source: BSE India, Reference: Page 8 of the Q2 FY 2025-26 results of Deep Industries Limited

The auditors, in their interim results review report, expressly stated that in respect of sundry debtors, loans and advances, and other financial assets pertaining to Dolphin Offshore Shipping Limited, Kandla Energy & Chemicals Limited, Dolphin Offshore Enterprises (India) Limited, and Dolphin Offshore Enterprises (Mauritius) Private Limited, the balances were not ascertainable as the external confirmations had not been obtained. The auditors further noted that the process of obtaining such confirmations had been initiated by the parent company, rather than by the auditors themselves.

This approach is inconsistent with the requirements of SA 505 (“External Confirmations”). Paragraph 7 of SA 505 states that the auditor shall maintain control over the entire external confirmation process, including determining the information to be confirmed, selecting the confirming parties, designing and properly addressing the requests, and sending them in a manner that ensures responses are received directly by the auditor. By allowing the parent company to initiate and control the confirmation process, the auditors did not obtain reliable, independently sourced audit evidence in accordance with the standard, nor did they meet the objective set out in paragraph 2 to obtain relevant and reliable audit evidence through external confirmation procedures.

In addition, paragraph 8(a) of SA 505 requires the auditor, in situations where external confirmation procedures are not performed, to assess whether such non-performance results from management’s refusal and, if so, to evaluate whether that refusal is reasonable. The auditors have not indicated whether their inability to obtain confirmations was due to any refusal by management, nor have they provided an assessment of the reasonableness of such refusal as required by the standard. This omission further highlights that the auditors did not meet the procedural and evaluative requirements mandated by SA 505.

Determining materiality of these Balances

Particulars	Trade Receivables Balance (Consolidated Financials FY 2024-25) (Rs. In lakhs)	Source Doc
Dolphin Offshore Enterprises (India) Ltd	19,749.46	DOEL India AR 2024-25
Kandla Energy & Chemicals Ltd	20,828.49	KECL AR 2024-25
Total	40,577.95	
Deep Industries Total Current Assets (as at 31.03.2025)	90,933.13	DIL AR 2024-25
Deep Industries Total Equity (as at 31.03.2025)	1,81,960.53	
Receivables as a % of Total Current Assets	44.62%	
Receivables as a % of Total Shareholder's Fund	22.30%	

Source: Self-made analysis, figures taken from respective annual reports

The combined trade receivables of Dolphin Offshore Enterprises (India) Ltd and Kandla Energy & Chemicals Ltd amount to approximately ₹40,577.95 lakhs, which represents 44.62% of the total current assets of Deep Industries Limited as at 31 March 2025, based on the consolidated financial statements. A balance of this magnitude is quantitatively significant and is of such size that any misstatement, including non-confirmation or non-recognition of impairment, could reasonably be expected to influence the economic decisions of the users of the consolidated financial statements. This is consistent with paragraph 2 of Standard on Auditing (SA) 320, which defines materiality. Accordingly, the receivable balances in question constitute a material account balance, requiring appropriate audit attention and reliable audit evidence under the Standards on Auditing.

Further, the same receivable balance represents nearly 22% of the total shareholders' funds of the Company, heightening the significance of these balances from an investor-protection perspective. Accordingly, the receivable balances in question constitute a material account balance requiring heightened audit attention and robust, independent audit evidence under the Standards on Auditing.

Ind AS 109 – Financial Instruments

7 TRADE RECEIVABLES

Particulars	(₹ in Lakhs)	
	As at March 31, 2025	As at March 31, 2024
Unsecured, considered good	19,749.46	14,130.91
Less: Allowances as per Expected Credit Loss model	-	-
Total	19,749.46	14,130.91

Ageing of Trade Receivables :

as at March 31, 2025

Particulars	(₹ in Lakhs)					Total
	Outstanding for following periods from due date					
	< 6 months	6 months - 1 year	1-2 years	2-3 years	> 3 years	
Undisputed Trade Receivables - Considered Good	5,354.67	-	-	-	-	5,354.67
Disputed Trade Receivables - Considered Good	-	-	-	-	14,394.79	14,394.79
Undisputed Trade Receivables - Considered Doubtful	-	-	-	-	-	-
	5,354.67	-	-	-	14,394.79	19,749.46

Source: Dolphin Offshore Enterprises (India) Limited, Annual Report 2024-25

KANDLA ENERGY AND CHEMICALS LIMITED					
CIN : U24230GJ2005PLC045642					
Balance Sheet as at 31st March, 2025					
(Amount In Lakhs)					
Particulars		Notes	As at 31st March, 2025	As at 31st March, 2024	As at 1st April, 2023
1.	ASSETS				
1	Non-Current Assets				
	Property Plant and Equipment & Intangible Assets	4			
	Tangible Assets		653.27	683.79	716.25
	Intangible Assets		-	-	-
	Capital Work in Progress		-	-	-
	Non-Current Investments	5	-	-	133.91
	-		-	-	-
	Total Non-Current Assets		653.27	683.79	850.16
2	Current Assets				
	Current Investments	6	22.38	20.84	19.49
	Inventories	7	-	25,607.83	25,607.83
	Trade Receivables	8	20,828.49	20,828.49	20,828.49
	Cash and Bank Balance	9	1.00	-	-
	Short-Term Loans & Advances	10	-	265.27	265.27
	Total Current Assets		20,851.87	46,722.43	46,721.08
	Total Assets		21,505.14	47,406.22	47,571.24

Source: Kandla Energy & Chemicals Limited, Annual Report 2024-25

The trade receivables relating to Kandla Energy and Chemicals Limited and the Dolphin Offshore group entities have been outstanding for more than three years, with no external confirmations and no reliable supporting documentation. Under Ind AS 109, all financial assets measured at amortised cost, including trade receivables, are subject to the Expected Credit Loss (ECL) model. Paragraph 5.5.1 of Ind AS 109 requires entities to recognise a loss allowance for expected credit losses on such financial assets. Paragraph 5.5.3 clarifies that the measurement of expected credit losses shall reflect an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes and considering both past events and forward-looking information. Given the prolonged ageing and uncertainty surrounding the receivables, the requirement to consider credit deterioration and expected collectability is of particular relevance.

Paragraph 5.5.15 of Ind AS 109 requires that, for trade receivables, the loss allowance shall always be measured at an amount equal to lifetime expected credit losses. In addition, paragraph B5.5.35 permits the use of a provision matrix for such receivables based on historical default experience, adjusted for forward-looking information. Where receivables have been outstanding for multiple years and no confirmations or recoveries have been evidenced, the ageing itself constitutes a significant indicator of credit deterioration. In such circumstances, a lifetime ECL assessment would ordinarily be expected to result in recognition of an impairment allowance. The absence of any ECL recognised on these balances therefore raises concerns regarding compliance with paragraphs 5.5.1, 5.5.3, 5.5.15 and B5.5.35 of Ind AS 109.

Paragraph 5.5.15 of Ind AS 109 requires that, for trade receivables, the loss allowance shall always be measured at an amount equal to lifetime expected credit losses. In addition, paragraph B5.5.35 permits the use of a provision matrix for such receivables based on historical default experience, adjusted for forward-looking information. Where receivables have been outstanding for multiple years and no confirmations or recoveries have been evidenced, the ageing itself constitutes a significant indicator of credit deterioration. In such circumstances, a lifetime ECL assessment would ordinarily be expected to result in recognition of an impairment allowance. The absence of any ECL

recognised on these balances therefore raises concerns regarding compliance with paragraphs 5.5.1, 5.5.3, 5.5.15 and B5.5.35 of Ind AS 109.

Under Ind AS 109, an entity is required to evaluate whether credit risk has increased significantly by considering a broad set of qualitative and quantitative indicators. Relevant indicators in this context include:

- Payments past due, including the past-due information required to be considered under paragraph B5.5.17(p), the 30-day rebuttable presumption in paragraph 5.5.11, and the 90-day default presumption in paragraphs B5.5.36–B5.5.37.
- Operational or financial difficulties of the debtor, including declining operating results, liquidity issues, working-capital deficiencies or organisational changes, in accordance with paragraph B5.5.17(g).
- Lack of reliable or sufficient information regarding the debtor, with paragraph B5.5.18 recognising that qualitative indicators may be used when quantitative data is unavailable, and paragraph 5.5.11 requiring reliance on past-due information when forward-looking information cannot be obtained without undue cost or effort.
- Indicators of restructuring, insolvency, or bankruptcy, consistent with paragraph B5.5.17(g) and the treatment of purchased or originated credit-impaired assets under paragraph 5.5.13.
- **Delays in receiving information or documentation from the counterparty, which align with the qualitative indicators in paragraphs B5.5.17(g), B5.5.18, and 5.5.11 relating to increased credit risk and the absence of reliable evidence.**

Moreover, because the fair value of these receivables at the acquisition date under Ind AS 103 is directly influenced by their collectability and credit risk, the absence of an ECL assessment at initial recognition also affects the validity of the fair value attributed to the receivables at the time of acquisition. Consequently, the non-recognition of ECL has implications not only for subsequent measurement under Ind AS 109 but also for initial measurement under Ind AS 103 and the resulting computation of capital reserve on bargain purchase.

Ind AS 103 – Business Combinations

Inventories

DEEP INDUSTRIES LIMITED

Annual Report 2024-25

Notes Forming Part of Consolidated Financial Statements

for the year ended 31st March, 2025

Particulars	₹ in Lakhs		
	DOSL	KECL	TOTAL
(a) Property, Plant & Equipment	131.26	683.79	815.05
(b) Financial Assets			
(i) Investments	2.00	-	2.00
(ii) Trade receivables	4,049.96	-	4,049.96
(iii) Loan	3,280.09	-	3,280.09
(iv) Others	2.29	-	2.29
(c) Deferred Tax Assets (Net)	120.86	-	120.86
Total Non Current Assets	7,586.46	683.79	8,270.25
(2) Current Assets			
(a) Inventories	-	25,607.83	25,607.83
(b) Financial Assets			

Source: Note 47 (Consolidated) of Deep Industries Annual Report 2024-25

As disclosed in the financial statements, the company recognised Kandla’s inventory at its carrying value of approximately Rs. 25,607.83 lakhs as part of the acquisition-date fair value of net assets. This amount was used directly in computing the capital reserve arising on bargain purchase. Immediately upon taking control, management undertook a review of the assets acquired under the resolution plan, including the large inventory balance recorded by Kandla.

During management’s interaction with investors, it was specifically stated that although the inventory was present in the books at the time of acquisition, once the new management took control they found that the entire balance “needs to be cleaned off” and was effectively “irrecoverable or unusable.” This description demonstrates that the inventory was already obsolete, non-saleable or without realisable value at the time control was obtained. The company then wrote down this inventory in the same financial year, reflecting the understanding that the assets held no net realisable value.

Pujan:	And also, can you elaborate on this INR251 crores tax loss -- sorry, INR251 crores of exceptional loss, was it forecasted when we acquired this entity?
Rohan Shah:	Sorry?
Pujan:	Was this loss forecasted when we acquired this entity?
Rohan Shah:	No. So they had inventory on books and we were of the impression that we could be able to recover a few of it -- but when we've taken a control, we found that it's entirely needs to be written off. So loss was forecasted, but not that full. But as you are aware that we have just paid INR2 crores for acquiring Kandla. So monetary-wise it is not at all affecting us.

Source: Deep Industries Earnings Call Transcript for Quarter & year ended 31 March 2025

Because the acquisition date was 31 March 2025 and the inventory write-down was also recorded in the financial statements for the year ended 31 March 2025, the conditions necessitating the write-down clearly existed at the acquisition date. Under Ind AS 103 paragraph 18, all identifiable assets acquired in a business combination must be measured at their acquisition-date fair value. Appendix B41 further requires that the fair value of assets such as receivables and inventory must already reflect expected uncollectibility, obsolescence, or non-recoverability at the acquisition date. Similarly, Ind AS 2 requires inventory to be measured at the lower of cost and net realisable value. Given management’s own conclusion that the inventory was worthless immediately upon assuming control, its fair value on the acquisition date could not reasonably have equalled the carrying amount at which it was initially recognised.

Ind AS 103 paragraph 45 provides for a measurement period of up to one year if the acquirer requires time to obtain information about facts and circumstances existing at the acquisition date. However, this provision applies only where such information is genuinely unavailable at the acquisition date. In this case, the company wrote off the inventory in the same reporting period as the acquisition, indicating that the information regarding its non-recoverability was already known, or readily obtainable, on 31 March 2025 itself. The use of provisional values or invocation of the measurement period is therefore not applicable, as no additional time was required to determine the condition of the inventory.

Furthermore, paragraphs 34 to 36 of Ind AS 103 require the acquirer to reassess the recognition and measurement of all identifiable assets before recognising any bargain purchase. The immediate write-down of inventory, based on facts existing at the acquisition date, strongly indicates that the fair value of the inventory was overstated at acquisition. Consequently, the fair value of net assets recognised was overstated, resulting in an overstated capital reserve arising on bargain purchase.

In summary, the sequence of events demonstrates that the inventory was already impaired at the acquisition date and that the company had sufficient information to determine its fair value on that date. Recognising inventory at full value and subsequently writing it down within the same reporting period indicates that the acquisition-date fair value was misstated and that the capital reserve recognised on the acquisition of Kandla Energy and Chemicals Limited is likely overstated.

Trade Receivables

Ind AS 103 requires the **acquirer** to recognise all identifiable assets acquired and liabilities assumed as of the acquisition date. Paragraphs 10 to 12 require that identifiable assets, including trade receivables, be recognised only if they meet the definition of an asset at the acquisition date and form part of the business combination exchange. Paragraph 18 further requires that all identifiable assets be measured at their acquisition-date fair values. In the case of Kandla Energy and Chemicals Limited, the trade receivables acquired were extensive, long-outstanding, and subject to significant uncertainty. The absence of confirmations, documentation, or evidence of recoverability raises concerns regarding whether the receivables met the definition of an asset at the acquisition date and whether they were recognised and measured in accordance with paragraphs 10–12 and 18 of Ind AS 103.

Paragraph B41 of Ind AS 103 states that the acquirer shall not recognise a separate valuation allowance for uncollectible receivables at the acquisition date because the fair value measurement should already reflect expectations of uncollectibility. Accordingly, where receivables have been outstanding for several years, and their recoverability is uncertain or unverified, the fair value at acquisition date cannot reasonably be equal to the gross contractual amount. The disclosures in the financial statements do not indicate any such adjustment to reflect credit losses that existed as of the acquisition date. This raises concerns that the receivables may have been recognised at an amount inconsistent with paragraph B41 and therefore not at their fair value as required under paragraph 18.

Paragraph 45 of Ind AS 103 permits provisional measurement only when the acquirer is in the process of obtaining information about circumstances that existed as of the acquisition date and requires retrospective adjustment when such information becomes available or is determined to be unobtainable. The continued absence of confirmations or supporting documents for receivables acquired under the resolution process suggests that management may have been unable to obtain information relating to the acquisition-date conditions. In such circumstances, paragraph 45 would require either revision of provisional amounts or acknowledgment that certain fair value measurements cannot be supported.

Ind AS 36 – Impairment of Assets

The Company has not complied with the mandatory disclosure requirements relating to goodwill impairment under Ind AS 36. At the most basic level, the financial statements do not disclose how goodwill has been allocated to cash-generating units (CGUs), nor do they disclose the carrying amount of goodwill allocated to each CGU, as explicitly required under Ind AS 36 para 134(a). Further, there is no description of the CGUs to which goodwill has been allocated, in contravention of paras 134(a)–(c). These disclosures are not optional and are required even when no impairment loss has been recognised. The absence of such foundational disclosures prevents users of the financial statements from understanding the units to which goodwill relates and from assessing the appropriateness of management’s impairment assessment.

In addition, the Company has failed to disclose the basis on which the recoverable amount of the CGUs has been determined, whether through value in use or fair value less costs of disposal, as required under Ind AS 36 para 134(c). The financial statements do not provide any quantitative or qualitative disclosure of the key assumptions used in determining recoverable amounts, including cash flow projections, growth rates beyond the forecast period, or discount rates, as mandated by para 134(d). There is also no sensitivity analysis disclosed under para 134(f) to demonstrate how changes in key assumptions would affect the recoverable amount. These omissions represent a significant departure from Ind AS 36, particularly given that goodwill constitutes a material balance on the consolidated balance sheet.

More critically, the circumstances surrounding the acquired entities indicate the existence of multiple impairment indicators. The acquired subsidiaries were in financial distress, substantial trade receivables remain long-outstanding and unverified, and key assets lack reliable supporting evidence. Under Ind AS 36 para 90, goodwill must be tested for impairment annually and whenever indicators of impairment exist. The presence of unresolved uncertainty regarding the recoverability of receivables and other assets strongly suggests that the carrying amount of the CGUs may exceed their recoverable amount. In such circumstances, a rigorous impairment assessment supported by transparent disclosures becomes essential.

The absence of CGU-level disclosures, combined with the lack of verifiable evidence supporting the recoverability of major assets, raises serious concerns that the impairment test, if performed, may not have been adequately substantiated, or that impairment indicators may not have been appropriately identified and evaluated. Without compliance with paras 134–135 of Ind AS 36, users of the financial statements are unable to assess whether the goodwill recognised is recoverable or whether the carrying amounts of the CGUs are overstated. Accordingly, the continued recognition of goodwill without the required disclosures and without demonstrable support for recoverable amounts constitutes a material non-compliance with Ind AS 36 and undermines the reliability of the reported financial position.

SA 540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

The determination of the acquisition-date fair value of the trade receivables of Kandla Energy and Chemicals Limited & the Dolphin group constitutes an accounting estimate involving significant management judgment. Paragraph 8(c) of SA 540 requires the auditor to obtain an understanding of how management makes such accounting estimates, including the method used, the assumptions applied, the data relied upon, and the extent to which estimation uncertainty has been considered. In this case, management itself acknowledged that the underlying documentation for the receivables was still being gathered from the erstwhile management, the Resolution Professional, and the liquidator, and that the entire receivable balance remained subject to confirmation and reconciliation. This indicates a high degree of estimation uncertainty. Under paragraph 10 of SA 540, the auditor is required to evaluate this degree of estimation uncertainty when identifying and assessing the risk of material misstatement.

Paragraph 11 of SA 540 requires the auditor to determine whether the estimation uncertainty associated with an accounting estimate gives rise to a significant risk. Given the size of the receivables and the uncertainty surrounding their validity and recoverability, the trade receivable balance appears to give rise to such a significant risk. Paragraphs 12 and 13 of SA 540 then require the auditor, in responding to this risk, to evaluate whether management has applied the requirements of the applicable financial reporting framework appropriately and whether the method, assumptions, and data used in determining the fair value are reasonable. The auditor is also required to either test how management made the estimate, develop an independent point estimate or range, or perform other procedures tailored to the nature of the estimate.

With no confirmations, no reliable underlying documentation, and no evidence of alternative procedures performed, it appears that the auditor may not have obtained sufficient appropriate audit evidence to support management's fair value measurement, as required under paragraphs 12 and 13. Paragraph 15 further requires the auditor, for accounting estimates giving rise to significant risks, to evaluate how management addressed estimation uncertainty and whether the significant assumptions used are reasonable. The absence of audit verification of the receivable balances raises concerns as to whether these requirements were met.

Paragraph 17 of SA 540 requires the auditor to obtain sufficient appropriate evidence regarding whether management's decision to recognise, or not recognise, an accounting estimate and the selected measurement basis comply with the applicable financial reporting framework. As the fair value of the receivables directly affects the computation of the capital reserve on bargain purchase under Ind AS 103, errors in measurement could lead to material misstatement of equity. Paragraph 21 of SA 540 requires the auditor to consider whether management's judgments give rise to indicators of possible management bias, particularly where assumptions lead to results favourable to management objectives. Recognising the receivables at full value despite lack of evidence or confirmations may warrant such consideration. In light of these requirements, the auditor's limited procedures and reliance on management-led processes give rise to a possibility of non-compliance with paragraphs 8(c), 10, 11, 12, 13, 15, 17 and 21 of SA 540.

As explained in the Ind AS 36 section, goodwill impairment testing involves significant management judgment and estimation uncertainty, particularly in relation to the identification of cash-generating units, allocation of goodwill, and determination of recoverable amounts. Such estimates fall within the scope of SA 540, which requires the auditor to evaluate the reasonableness of management's

assumptions, the appropriateness of the methods and data used, and the adequacy of related disclosures.

In the present case, the absence of disclosures relating to the allocation of goodwill to specific CGUs, the basis for determining recoverable amounts, and sensitivity of those estimates, indicates a high degree of estimation uncertainty. Under SA 540, such circumstances ordinarily require enhanced auditor attention and the application of professional scepticism. Without the required disclosures, users of the financial statements are unable to understand the judgments applied in the impairment assessment, and it becomes difficult to assess whether the recoverable amounts support the carrying value of goodwill.

Ind AS 113 – Fair Value Measurement

Ind AS 113 establishes that fair value is a *market-based* measurement and must reflect the assumptions that *market participants* would use in an orderly transaction at the measurement date (paragraphs 2, 9, 22). For a fair value to be valid, the acquirer must consider the *condition and location* of the asset and all characteristics that market participants would take into account (paragraph 11). This includes the physical state of inventory, the recoverability of receivables, and any indications of deterioration, obsolescence, or credit risk.

In the acquisitions of Kandla Energy and Chemicals Limited (KECL) and Dolphin Offshore group entities through CIRP, Deep Industries Limited recognised significant receivables and inventory amounts at or near their pre-acquisition book values. However, under Ind AS 113, fair value must represent the *exit price* that would be received to sell the asset under current market conditions (paragraph 24), and this requires using valuation techniques that maximise observable inputs and incorporate market-participant assumptions (paragraphs 61 and 67). Assets that are aged, disputed, unrecoverable, or physically deteriorated cannot be measured at gross book value, because doing so ignores the adjustments for risk that market participants would require (paragraphs 87–90).

Specifically, for Kandla, inventory was recognised at its full book value of approximately Rs. 256 crore at the acquisition date but was subsequently written down in the *same reporting period* after management determined it was “entirely irrecoverable/unusable.” Under paragraph 11 of Ind AS 113, condition and location must be considered when measuring fair value. Because the write-down was recorded on the acquisition date itself (31 March), the deterioration clearly existed at acquisition, meaning the inventory’s fair value on Day 1 was significantly lower than the carrying value. Recognising inventory at a gross amount and then writing it down immediately indicates that the acquisition-date fair value was overstated.

Receivables also appear to have been recognised at near-book value despite significant ageing (over three years), lack of external confirmations, and doubts regarding recoverability. Under Ind AS 113, a market participant would discount such receivables to reflect credit risk, non-performance risk, and uncertainty (paragraphs 87–90). Instead, they were recognised at undiminished values, without observable support or market-based adjustments. This suggests the use of Level 3 inputs that were not aligned with market-participant assumptions, contrary to the requirements of paragraphs 89–90.

Taken together, these factors indicate that the fair value measurements used for key financial and non-financial assets may not comply with the principles of Ind AS 113.

Other Matters

Ind AS 1 – Presentation of Financial Statements

Even assuming—**purely for argument**—that the Company’s contention is correct and inventory had to be recognised at book value on the acquisition date, Ind AS 2 applies immediately thereafter. Under Ind AS 2, inventory must be measured at the lower of Cost or Net Realisable Value (NRV) (Ind AS 2 para 9). If the NRV was nil or negligible at the time of takeover, the write-down must be recognised in profit or loss in the period in which the loss occurs (Ind AS 2 para 34). Consistent with this requirement, the Company has in fact recognised a substantial inventory write-down for KECL in the same reporting period. Ind AS 2 further requires separate disclosure of the amount of inventory written down (Ind AS 2 para 36(e)), which supports the need for appropriate presentation but does not, in and of itself, justify classification as an exceptional item.

Accordingly, the write-down represents a material NRV adjustment and might not be exceptional in nature. The amount may justify separate disclosure, but the loss arises from an NRV assessment under Ind AS 2 and therefore falls within ordinary business activities. Although acquiring a company through CIRP may be an exceptional event, once the inventories are recognised at book value they form part of the Company’s own financial statements. Any subsequent write-downs are normal valuation adjustments and do not automatically become exceptional merely because the assets were acquired in a business combination. Thus, while material and requiring separate disclosure, the write-down might not meet the threshold of an exceptional item under Ind AS 1 para 97–98 and Schedule III Part II of the Companies Act, 2013. (Note: All income from Kandla in the future will be classified as arising in the ordinary course of business and hence it makes sense to book expenses such as the inventory write-down as a material, separately disclosable item within ordinary business activities rather than as an exceptional item. The definition of “exceptional” has neither been provided in Ind AS 1 nor in Schedule III of the Companies Act, 2013.)

Ind AS 24 (Related Party Disclosures) read with SA 550 (Related Parties)

Standalone Financials (2024-25)			
Particulars	Deep Industries	Prabha Energy	Diff
Interest Income /(Expense)	751.88	(751.88)	0.00
Loan recovered/(Repaid)	1,098.82	(1,098.82)	0.00
Balance outstanding	9740.5	-9740.5	0.00

Consolidated Financials (2024-25)			
Particulars	Deep Industries	Prabha Energy	Diff
Interest Income/(Expense)	1,098.82	(751.88)	346.94
Loan Recovered/(Repaid)	0	(1,098.82)	-1,098.82
Advance Given/(Received)	751.88	0	751.88
		SUM	0.00

Source: All figures taken from notes to accounts of the respective companies from their annual reports

A review of the related party transactions between Deep Industries Limited and its subsidiary, Prabha Energy Private Limited, for FY 2024–25 indicates inconsistencies in the recognition, classification, and presentation of inter-company balances and interest transactions across the standalone and

consolidated financial statements. In the standalone financial statements of Deep Industries Limited, interest income of ₹751.88 lakhs has been recognised. However, Prabha Energy's standalone financial statements reflect total finance costs of only approximately ₹15 lakhs for the year. Upon clarification sought from Prabha Energy's investor relations representative through a publicly accessible forum (Source: <https://forum.valuepickr.com/t/deep-industries-dil/1011/463>), it was stated that the interest payable to Deep Industries had been capitalised by Prabha instead of being recognised as finance cost.

Under Ind AS 24, related party transactions must be disclosed in a manner that enables users of financial statements to understand their nature, terms, and financial effect. Paragraphs 18 and 19 require disclosure of the nature of the related party relationship, the amount of transactions, outstanding balances, and commitments, including whether such balances are secured and the terms and conditions of settlement. Further, paragraph 21 requires disclosure of expenses recognised during the period in respect of bad or doubtful debts due from related parties and similar adjustments. In this context, the capitalisation of interest by Prabha Energy, while corresponding interest income is recognised by Deep Industries, raises questions about whether the nature and substance of the inter-company financing arrangement have been consistently reflected and adequately disclosed across both entities' standalone financial statements.

Additional inconsistencies arise in the consolidated financial statements. Deep Industries recognised interest income of ₹1,098.82 lakhs in the consolidated accounts, an amount that corresponds to loan repayments made by Prabha during the period. **This presentation appears to treat principal recovery as interest income.** Simultaneously, the consolidated financial statements reflect an advance of ₹751.88 lakhs given to Prabha Energy, a balance that does not appear consistently or clearly reconciled in the standalone disclosures of either entity. Under Ind AS 24 para 18, outstanding balances with related parties, including advances and loans, must be disclosed separately along with their nature and terms. The lack of clarity and reconciliation between standalone and consolidated figures impairs users' ability to understand the economic substance of these transactions.

From an audit perspective, SA 550 requires the auditor to perform specific procedures to identify, assess, and respond to the risks of material misstatement associated with related party relationships and transactions. Paragraph 18 requires the auditor to obtain an understanding of related party relationships and transactions sufficient to recognise fraud risk factors. Paragraph 23 requires the auditor to inspect underlying contracts and agreements to evaluate whether related party transactions are conducted on terms consistent with management's explanations. Further, paragraph 25 requires the auditor to obtain sufficient appropriate audit evidence regarding whether related party transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.

Given the material amounts involved, the capitalisation of interest by the subsidiary, the differing treatment of loan repayments and interest income in consolidation, and the apparent lack of consistent disclosure of advances and balances, these transactions represent areas of heightened risk under both Ind AS 24 and SA 550. While audit working papers are not available for review, the inconsistencies observed in the published financial statements raise concerns as to whether the nature, substance, and financial effects of related party transactions have been fully and transparently reflected, and whether the audit procedures required under SA 550 were sufficient to address the associated risks of material misstatement.

SA 580 – Written Representations

Standard on Auditing (SA) 580 governs the auditor’s responsibility to obtain written representations from management and clarifies their role as audit evidence. Paragraph 2 of SA 580 states that written representations are audit evidence; however, paragraph 3 expressly provides that such representations do not, on their own, constitute sufficient appropriate audit evidence for any matter to which they relate and cannot replace other audit procedures. In the present circumstances, several material matters—such as the recoverability of long-outstanding receivables, pending confirmations, valuation of assets acquired through CIRP, and future recognition of expected credit losses—appear to rely significantly on management explanations and representations.

Further, paragraphs 15 and 16 of SA 580 require the auditor, where there are concerns about the reliability of management representations or where such representations are inconsistent with other audit evidence, to perform additional audit procedures to resolve the matter and reassess the reliability of audit evidence as a whole. Given the prolonged absence of confirmations, incomplete documentation, and acknowledged uncertainty surrounding key balances, these conditions elevate the importance of corroborative evidence beyond management representations.

SA 315 - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

The matters identified in this report also have implications under Standard on Auditing (SA) 315, which deals with the identification and assessment of risks of material misstatement. Paragraph 3 of SA 315 requires the auditor to identify and assess risks of material misstatement at the financial statement and assertion levels through an understanding of the entity and its environment. The acquisition of entities through CIRP, recognition of significant receivables with prolonged ageing and uncertain recoverability, immediate post-acquisition asset write-downs, and the continued recognition of substantial goodwill without detailed disclosures collectively increase inherent risk.

Paragraph 25 of SA 315 requires the auditor to identify significant risks, which include risks arising from significant non-routine transactions and matters involving significant judgment. Further, paragraph 28(f) specifically requires special audit consideration for significant non-routine transactions, such as acquisitions, which may give rise to risks relating to valuation, existence, and completeness of assets and liabilities. The acquisition of KECL and DOEL, coupled with the recognition of a substantial capital reserve and material receivables forming a large portion of net assets, would ordinarily warrant classification as significant risks under SA 315.

In addition, paragraphs 27 and 29 of SA 315 require the auditor to understand internal controls relevant to such risks and to design audit procedures responsive to the assessed risks of material misstatement. Where recoverability of assets depends heavily on management judgment and incomplete records inherited through CIRP, heightened professional scepticism and robust risk assessment are required. The circumstances described indicate elevated audit risk that would necessitate careful identification, assessment, and response under SA 315.

Audit Report Inconsistencies (SA 701,705,706)

- Deep Exploration Service Private Limited (previously known as Indra offshore service private limited) (w.e.f. 15th January,2025)
 - Kandla Energy and Chemicals Limited (w.e.f. 31st march,2025)
- b. 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 consolidated state of affairs of the Group as at March 31, 2025, and its consolidated

Source: Independent Auditor's Report for Consolidated Financials, Deep Industries FY 2024-25

The Auditors issued an unmodified opinion on the consolidated financial statements of the Company for the year ended 31 March 2025. Matters relating to the write-off of inventory acquired through CIRP and the uncertainty surrounding the verification and recoverability of trade receivables were presented by the Auditors in an Emphasis of Matter paragraph.

SA 706 expressly requires that when an Emphasis of Matter paragraph is included, the auditor must indicate that the audit opinion is not modified in respect of the matter emphasised (para 9(c)). Further, paragraph 8(a) permits the use of an Emphasis of Matter only where the auditor would not be required to modify the opinion under SA 705. In the present case, the auditors have acknowledged that they did not independently verify the trade receivables and were unable to obtain sufficient appropriate audit evidence regarding their existence and recoverability. In such circumstances, where sufficient appropriate audit evidence is lacking, the auditor cannot conclude that the opinion remains unmodified in respect of those balances. Accordingly, the use of an Emphasis of Matter paragraph in respect of unverified receivables appears inconsistent with the conditions prescribed in paragraphs 8(a) and 9(c) of SA 706.

As highlighted in the NFRA publication titled "Auditor–Audit Committee Interactions Series 4: Audit of Accounting Estimates and Judgements – Impairment of Non-financial Assets (Ind AS 36, SA 540 etc.)", impairment of goodwill is an area involving significant management judgement and high estimation uncertainty. The NFRA guidance explicitly states that the identification of cash-generating units (CGUs), allocation of goodwill to CGUs, assessment of impairment indicators, and related assumptions are matters requiring heightened auditor focus and robust audit procedures (Series 4, paras 32–33 and 46.21–46.24).

Read with SA 701, areas involving significant management judgement and high estimation uncertainty are required to be considered for communication as Key Audit Matters (SA 701, paras 9–10). The NFRA publication further notes that impairment of goodwill, including allocation to CGUs and testing of recoverable amounts, is specifically cited as an example of a matter that would ordinarily warrant KAM consideration due to its complexity and subjectivity (Series 4, paras 45 and 46.31).

Paragraph 7(b) of SA 705 (Revised) states that a qualified opinion is relevant when the auditor is unable to obtain sufficient appropriate audit evidence but concludes that the possible effects of undetected misstatements could be material but not pervasive. Paragraph 6(b) of SA 705 (Revised) further establishes that a modification of opinion is required when the auditor is unable to conclude that the financial statements as a whole are free from material misstatement. Viewed against these requirements, it appears that a modified opinion was a possible outcome in these circumstances.

Summary: Unable to obtain sufficient appropriate audit evidence regarding the existence, accuracy and recoverability of the receivables, the use of an Emphasis of Matter paragraph was not appropriate. An Emphasis of Matter is permitted only when the auditor’s opinion remains unmodified, whereas in the present circumstances the inability to obtain reliable audit evidence constitutes a limitation on the scope of the audit. Further, given the materiality of the balances and the significant judgment and estimation uncertainty involved, the matter would ordinarily warrant consideration as a Key Audit Matter under SA 701 rather than mere emphasis. Accordingly, a qualified opinion—rather than an unmodified opinion with an Emphasis of Matter—would have been more appropriate in view of the materiality, uncertainty and audit risk associated with these receivable balances.

Conclusion

This report is based solely on a review of publicly available information and does not allege misconduct or intent on the part of the statutory auditors except to the extent that departures from the requirements of applicable Standards on Auditing and Indian Accounting Standards are evident from the disclosures contained in the published financial statements and audit reports. The observations made herein are limited to identifying areas where compliance with the relevant standards appears unclear, inconsistent, or insufficiently supported by the information available in the public domain. Further, this report does not analyse or draw conclusions on second-order or consequential effects, including potential deferred tax implications under Ind AS 12, which would require access to detailed internal records and management assessments beyond the scope of publicly available disclosures.

References

Indian Accounting Standards have been referred to from the following source:

<https://www.icai.org/post/compendium-of-indian-accounting-standards>

Standards on Auditing have been referred to from the following source:

<https://resource.cdn.icai.org/76983bos62008.pdf>