Case Study-2

Maxplus Ltd, (herein referred as to the 'company') one of the most trusted gateways to medicines, incorporated in Delhi with an aim to eliminate fake and ineffective medicines, and supply good quality medicines in India. According to WHO research, every 1 or 2 in 10 medicines are adulterated in low/medium income countries like India. Consequently, the company aspires to bring about a change in these statistics. To improve transparency in the functioning of the pharmaceutical industry, the company has been successfully contributing to providing genuine and unadulterated medicines since its incorporation. Also, as the market demands, a constant customer loyalty program is also introduced by the company, where in on eligible purchases, the customers can avail cash discounts or can enjoy incentive points which can be converted into required products like blood pressure testing apparatus, diabetes testing apparatus, medicated / scented floor cleaner etc. Entire operation of the company can be broadly classified into two divisions – (a) Retail outlet Division, and (b) Agency Division.

Retail outlet Division

Currently this chain of medical store, operates in 100 cities in India with 10 stores in each city. As per the accepted policy of the company, it does not involve in franchise model and all the outlets are operated by the company directly. Also, as per its policy, it does not operate its outlet from owned premises and all are in rented properties only which is under lease model. The stocks and sales are accounted and managed through a customised and specialized software developed by the company 2 years ago, which is inbuilt with various features like stock at a glance, outlet wise sales details, frequency of customer purchases etc., The IS officer of the company is a certified professional and the customer data base is protected in all respects.

With regard to its outlets, the company through its legal wing, enters into 3 Years lease agreements with landlords for operating its stores in all the cities. As a part of vendor registration, the company captures all the details of landlords like PAN, TDS deductibility, MSME registration status, details GSTN (if any), type of the building (whether commercial or residential building), onus of payment of electricity payments, etc at the time of entering into lease agreements including the incorporation of escalation clause for rental value. According to the vendor database maintained by the company, out of the total 100 Landlords, only 50 Landlords are registered under GST law and raise GST invoices. 10 other landlords are registered under MSME Act. All the lease contracts stipulate the lessor will perform maintenance of the leased area and receive consideration for that maintenance service.

The company is capable of selecting similar places in different cities having similar lease rents. The company is also capable of finalizing all the lease contracts with similar terms and conditions. The contract includes the following fixed monthly prices payable at the end of every year for the lease and non–lease component: – (a) lease Rs. 27,000, (b) maintenance Rs. 3,000. The stand–alone prices readily observable of the lease and non–lease components, are as follows –

(a) Lease Rs. 28,500,

(b) Maintenance Rs. 1,500.

Maxplus opted the practical expedient provided to the lessee for the accounting purpose.

The company has the ability to forecast demand for its products with high accuracy and it has sufficient working capital requirements that can help it stock up inventory. Demand is continuous throughout the year. Hence, its inventory turnover is high. The profit margin earned from its sales are high and generate sufficient cash flow. The working capital needs of the company are sufficiently met by internal reserves. All these factors can enable the company to sell its products on a large scale in anticipation of demand. Inventory can be stocked up and sold when the demand for it arises.

Agency Division

The company is also the leading trader / dealer of an extensive array of Medical Equipments. Maxplus directs all its activities to cater to the expectations of customers by providing them excellent quality products as per their gratifications. On the basis of its strict quality principles, it has been able to serve its customers earnestly.

In the retail outlet division, the company regularly purchases different varieties of medicines through centralized procurement system, and they are distributed to the outlets which are sold to customers. Unsold medicines are held as stock in hand. However, it buys medical equipment only when the customer gives purchase order along with the product specifications. The delivery of such medical equipment is directly done by the corporate office. During the financial year, Maxplus has imported CT scan machine by air and provided this machine to a hospital governed by a charitable trust. The hospital is registered under section 12AB of the Income Tax Act and involved in healthcare services.

Particulars	**US $**
Price at exporter's factory	8,500
Freight from factory of the exporter to load airport (airport in the country of exporter)	250
Loading and handling charges at the load airport	250
Freight from load airport to the airport of importation in India	4,500
Insurance charges	2,000

Though the aircraft arrived on 22.08.2023, the bill of entry for home consumption was presented on 20.08.2023. The Chief Tax Officer (CTO) of the company is uncertain about the computation of Assessable value of the CT Scan Machine. He needs clarity about the following issues –

1. Which rate of basic customs duty and exchange rate should be applied – Whether the rate prevailing on arrival of aircraft or the rate prevailing on the date of presentation of bill of entry?
2. Which rate of exchange should be applied – Whether the exchange rate notified by CBIC or the exchange rate prescribed by RBI?

Rate of basic customs duty on 20.08.2023 was 20%. On 21.08.2023, the newly elected Government unexpectedly reduced the Rate of basic customs duty to 10%. He furnishes all the relevant details –

Particulars	20.08.2023	22.08.2023
Exchange rate notified by CBIC	Rs. 80 per US$	Rs. 83 per US$
Exchange rate prescribed by RBI	Rs. 81 per US$	Rs. 82 per US$
Integrated tax leviable u/s 3(7) of the Customs Tariff Act, 1975	18%	12%

For the import of the aforesaid machine, the company is liable to settle the exporter in 3 months. Hence, at the time of import of the machine, the company has entered into forward contracts to hedge the foreign currency cash flows without considering the other hedging alternatives like options contract & money market hedging opportunities prevailing at that time. The details of the rates of exchange and other derivative products at the time of acquisition is provided hereunder –

Spot rates Rs. 80.23 – Rs. 80.98

Interest rate in India 10% p.a.

Interest rate in US 4% p.a.

Actual forward rates commensurate with theoretical forward rates. At the time of entering into forward contract, the bank charges a margin of 0.5% on its buying and selling rate.

	Call Option	
Strike Price	Rs. 81.21	0.01218
Premium	Rs. 1.50	50 cents

Particulars of Well-Well Outlet

Well-Well Outlet is located in a town with many colleges and universities around it. The town has a substantial student population, most of whom are health-conscious and regular buyers of health products. Business for this particular outlet has been slow in recent years due to the advent of online pharmacies that offer convenience, discounts, and time-saving benefits. However, the management continues to believe that students would still prefer the personal service, immediate availability, and expert advice that only a physical pharmacy can offer. Accordingly, management have framed a plan to attract students by offering discounts on health products.

The average time a student spends at the college or university is 4 years, which is the average duration of any course. For a nominal one-time subscription fee, Well-Well plans to offer students discounts on health products for a period of 4 years. By attracting more footfalls, Well-Well targets to cross-sell its wellness products and health supplements. This would help it sustain a reasonable revenue each year.

Well-Well would attract attention to the plan by initially offering free health check-ups, wellness products, and gift vouchers. This one-time initial expense, net of the one-time subscription fee collected, would cost Rs. 5,000 per student. On subscription to the plan, the purchases of each student are expected to be as follows:

Particulars	Years 1 and 2	Years 3 and 4
Spend on health products per year	Rs. 2,000	Rs. 1,500
Spend on wellness products per year	Rs. 4,000	Rs. 3,000
Spend on health supplements per year	Rs. 2,250	Rs. 750

Assumptions:

1. Only 50% of the subscribers are expected to visit the pharmacy in years 3 and 4.
2. Across all years, only 75% of the subscribers who visit the outlet are expected to buy wellness products.
3. Only 25% of the subscribers who visit are expected to buy health supplements in years 1 and 2, and 10% of them in years 3 and 4.