Case Study

Green Energy Ltd. (GEL) based in Chennai is well established player in manufacturing and export of power storage equipment. GEL was incorporated in August, 2010 with technology driven business model in mechanical engineering founded by energetic entrepreneurs by name Vijay and Rishi. Vijay is a management graduate from leading management institute in India and Rishi who is slightly older, is a person with engineering background and holding MBA qualification from an American university. They were childhood friends and they thought that their educational background would have synergetic effect to success and glory in the long run. Considering the thrust of the Government of India in green energy to make our country power surplus and reduce environmental damage happening through traditional coal based power generation method, the duo decided to do backend support as their contribution to nation building by engaging in the business of manufacturing of solar panels and solar modules, for storing solar power.

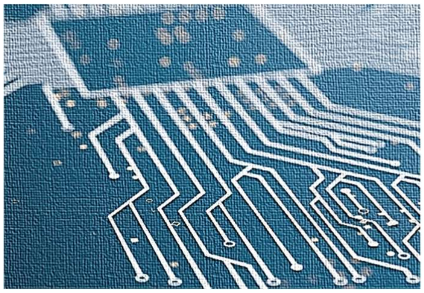
Product of GEL would provide enormous comfort and support to companies moving to green energy to have reasonable power cost with efficient long-term operations and survival. However, the trickle-down effect of the venture is in nascent stage and the business is poised for making giant strides in near future. The time period between the purchase of raw materials and completion of final product to make the buyers ready for power storage would take 10 months for GEL. Customers purchased them immediately once they were ready for installation but the payment was made with a credit period of 6 months. The company took a long-term loan from ABC Ltd. for managing capital expenditure pertaining to new project. However, the installments due in the financial year 2023-2024 could not be paid on time and as a consequence the loan became repayable on demand on 31st day of March, 2024. GEL negotiated in June, 2024 with the lender ABC Ltd for not demanding the entire payment of loan as a consequence of its breach. The lending institution appreciated the attitude and aptitude of entrepreneurs and wanted their journey to blossom in to a great success story. It was decided between the borrower and the lender before approval of audited financial statements of GEL, such that the lender ABC Ltd. will not demand repayment of loan in spite of the breach of repayment terms by GEL.

The duo thought over the matter of having some financial crunch and considering many elite international business houses prefer to support such new angel units decided to raise funds through External Commercial borrowing (INR denominated) by issuing Non-Convertible Debentures with maturity period of 7 years. The foreign investors who will be subscribing to the said debentures requested for interim financial report (to be prepared as per IND AS). GEL instructed GM Finance to prepare the same and provide a copy of the same to auditors for overall review. On reviewing the same, one of the audit team members, Robin, observed the following and is of the view that the treatment/disclosure done for all four issues mentioned below in interim financial report is not as per guidelines prescribed under IND AS :

- *one item of extraordinary nature has not been shown (Issue I)*
- *reversal of impairment loss recognized in a previous interim period in respect of goodwill (Issue II)*
- *disclosure of only basic earnings per share has been made (Issue Ill)*
- *Insignificant changes in contingent ·liabilities has not been disclosed (Issue IV)*

GEL submitted the same interim financial report to investors and went ahead with ECB issue.

Proceeds from issue (INR 4 Crores) will be used for repayment of outstanding balance of Loan of ABC Ltd. (INR 2.50 Crores and working capital purposes INR 1.50 Crores). GEL however did not hedge the exposure of ECBs (principal as well as the coupon) and used the exchange rate prevailing on the date of settlement (01.06.2024) for conversion to rupee as against the exchange rate on the date of agreement (20.05.2024).



GEL is working continuously on improving the production efficiency for a particular product "SAT". SAT was an innovative product introduced for the first time by GEL in the market. Market accepted the product with both hands and company received regular orders for the same. However, existence of competitive products recently has forced GEL not to increase the price for some time. In order to maintain good margin, GEL adopted change in technology by which its productivity increased by 25% due to labour efficiency such that it can produce 10 units in 10 hours. The revised standard labour requirement is 0.75 hours per unit. The details of actual and budget for the month of January, 2024 is given below :

Particulars	***Original standard***	***Revised standard***	***Actual***
No. of units	*3,000*	*3,000*	*3,600*
Labour rate (per hr.)	*₹ 30*	*₹ 30*	*₹ 25*

While implementing new technology, GEL availed the technical services of Mark Ltd., UK on 20th December, 2023 who raised the invoice for GBP 1,00,000 on 28th December, 2023. GEL made payment on 22nd January, 2024.

Once the efficiency was established by costing department of GEL, company started filing its quotations with various government departments for supply of 'SAT' at a price par with its competitors. One of the friends of Rishi, Raman, who has been working with Kerala State Electricity Board (KSEB) for last few years met him in the market and invited him to his office. To his surprise, Raman was heading the purchase department and asked him to submit the quotation for supply of 'SAT' with KSEB. After getting the required approvals, officials of KSEB issued a purchase order and entered into a contract with GEL for supply of twenty lakh units of product with total supply value of ₹ 20 Crores. GEL supplied the product as per terms and conditions of the purchase order and that too· before the deadline. KSEB withheld ₹ 2 Crores which is payable after 12 months and paid the balance after deducting TDS under the Income-tax Act and under GST. GEL earned net profit of ₹ 2 Crores from this supply.

Vijay always had passion in stock market operations. He thought that close study of stock market provided enough and more ideas to improve his overall business acumen and appreciate macro-economic variables. Further the rising level of stock market made him like fear of missing out (FOMO) on making quick money. He could not curb his FOMO and did the following transactions of shares and commodities during the financial year 2023-24 in recognized stock exchange:

	Aggregate value	***Profit (loss)***
Day trade transactions in BSE	*₹ 85,00,000*	*₹ 7,00,000*
Day trade transactions in NSE	*₹ 67,00,000*	*₹ (6,00,000)*
Commodity derivative trade in recognized stock exchange	*₹ 52,00,000*	*₹ 2,00,000*

After getting some experience of stock and commodity market, Vijay formed a view that professionals only could handle the investments and there is no point in burning the hard earned money through unprofessional techniques. Accordingly, he discussed the same with Rishi and proposed that a portfolio may be created of the profit earned by GEL from supplies made to KSEB and CA. Kiran, who is an expert in handling such portfolios, should be appointed for managing it. The terms of his remuneration will be that CA. Kiran is eligible for 0.20% of portfolio as fee. Also, he is eligible for a fee incentive @ 1% which will be linked to gross return in excess of the portfolio maximum value since its inception. The Maximum value of the portfolio reached ₹ 2.20 Crores in last 6 months.