



**ACQUISORY**

*Your Growth, Our Business*

**Due Diligence Services**

- ✓ **Acquisory** was incorporated in 2010, by highly credentialed and experienced professionals, from PricewaterhouseCoopers, Arthur Andersen and Protiviti.
- ✓ The management team among themselves represent extensive experience in specialized services across M&A Advisory, Investment Banking, Asset Management and Operations & Risk Consulting.
- ✓ We have an appreciation for dynamics of business, operations, transactions and necessary skills to blend practical business & commercial insights with tax & regulatory knowledge to identify effective solutions to all business problems.
- ✓ We partner with our clients through the entire business continuum from identification of the problem, to solution, to implementation.





Locations

4

Directors &  
Principals

15



Professionals

175+



Clients

500+



Services

25+

**OUR FOCUS**

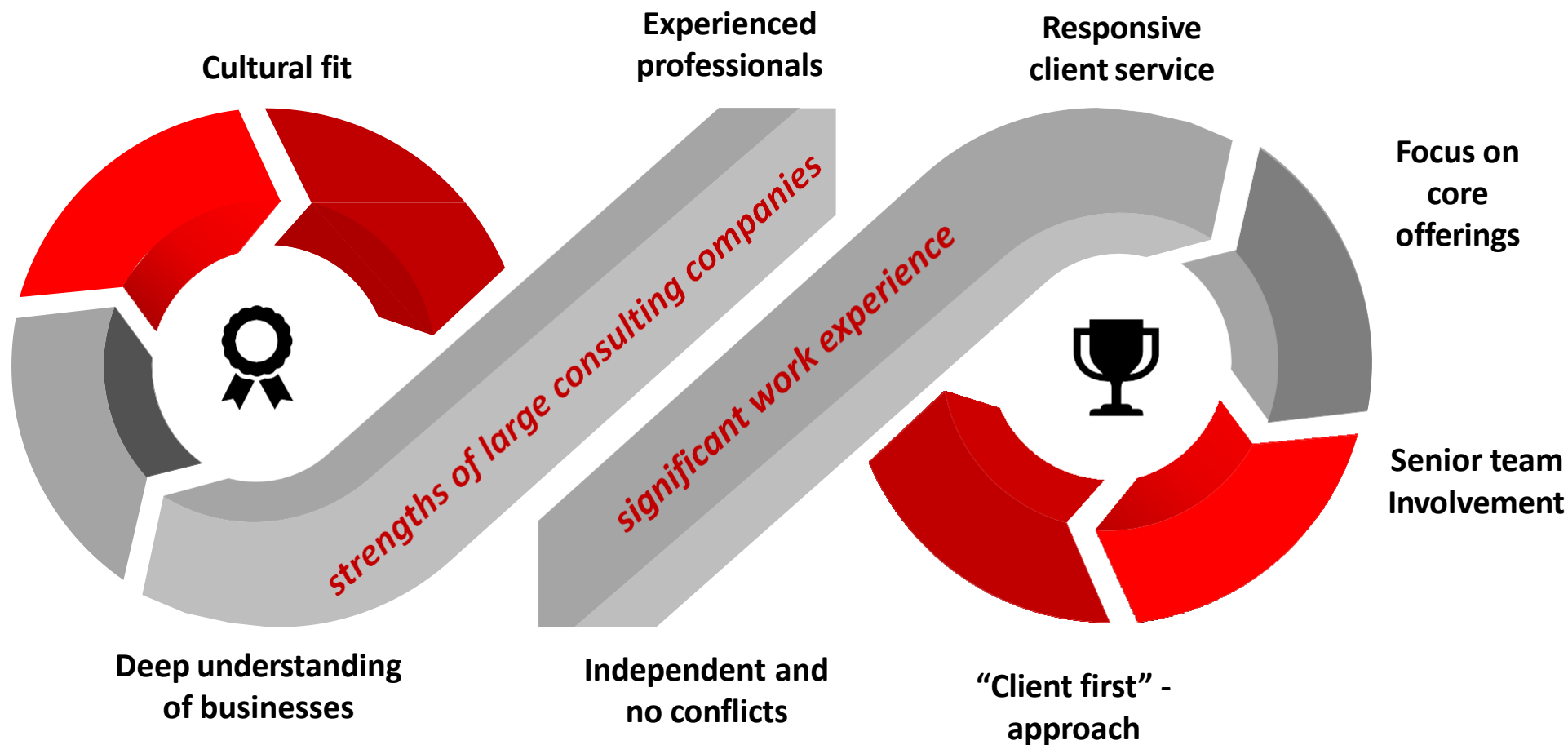
Acquisory assists clients ranging from global enterprises to small and middle market companies that are both publicly held or privately owned, as well as large, mid and small-cap private equity firms, corporate management and boards of directors.

We provide specialist advice for a range of sectors. A personal, partner-led approach, with rich experience have taught us that an understanding of the business, structure and practices of our clients' industries is critical to providing the services our clients' need to reach their goals.

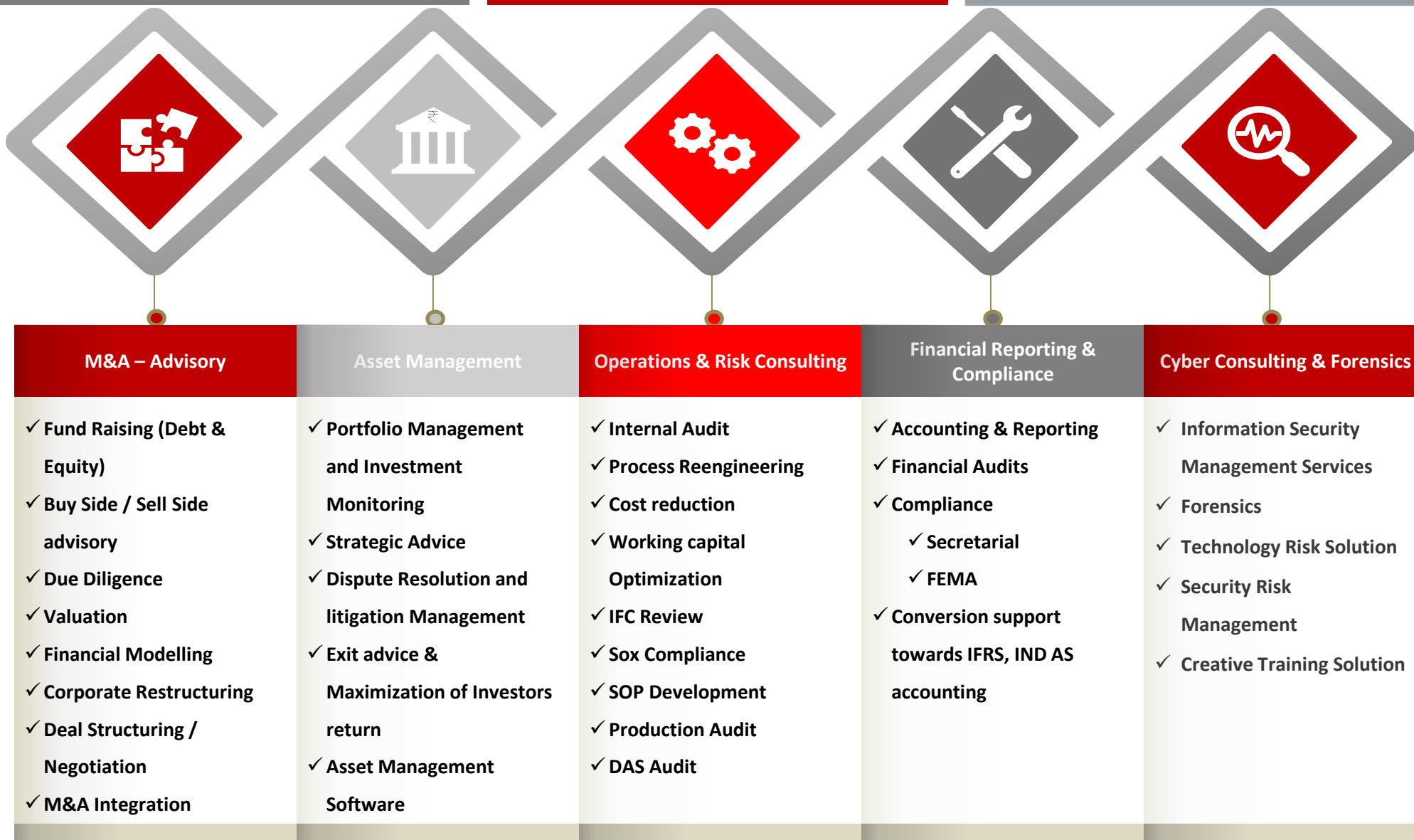
- Real Estate & Infrastructure
- Manufacturing
- Media and Entertainment
- Healthcare and Hospitals
- Hotel, Hospitality and Leisure
- Start-ups
- Private Equity
- Retail
- Telecommunication
- Consumer Products
- Education
- Services



Acquisory fills a unique and valuable position in the market, as depicted below. We bring a unique blend of knowledge and experience to the table which combine the focus, dedication and independence of a boutique firm, with the methodologies & deep skill-sets of the Big 4.



## Our Services Portfolio



We bring a structured approach to each and every assignment, with a unique set of objectives, requiring specific priorities, designed to deliver the best results. With a widespread and detailed understanding of operations, we are able to rapidly formulate and execute practical solutions in complex business problems / environments by:

- Obtaining in-depth business / industry understanding
- Collating all facts and getting them right
- Analyzing and diagnosing the problem
- Identifying practical solutions
- Planning and partnering
- Supporting and leading
- Establishing a self-sustaining organization

## Service Offering classified as Deal Cycle

### Pre-Investment

- ▶ Market Assessment
- ▶ Financial Modeling
- ▶ Feasibility Study
- ▶ Pre – Investment Memorandum

### During Investment

- ▶ Background Checks
- ▶ Due Diligence
- ▶ Pre-disbursement Review
- ▶ Underwriting Support
- ▶ Valuation
- ▶ Deal Negotiations and Closure Support

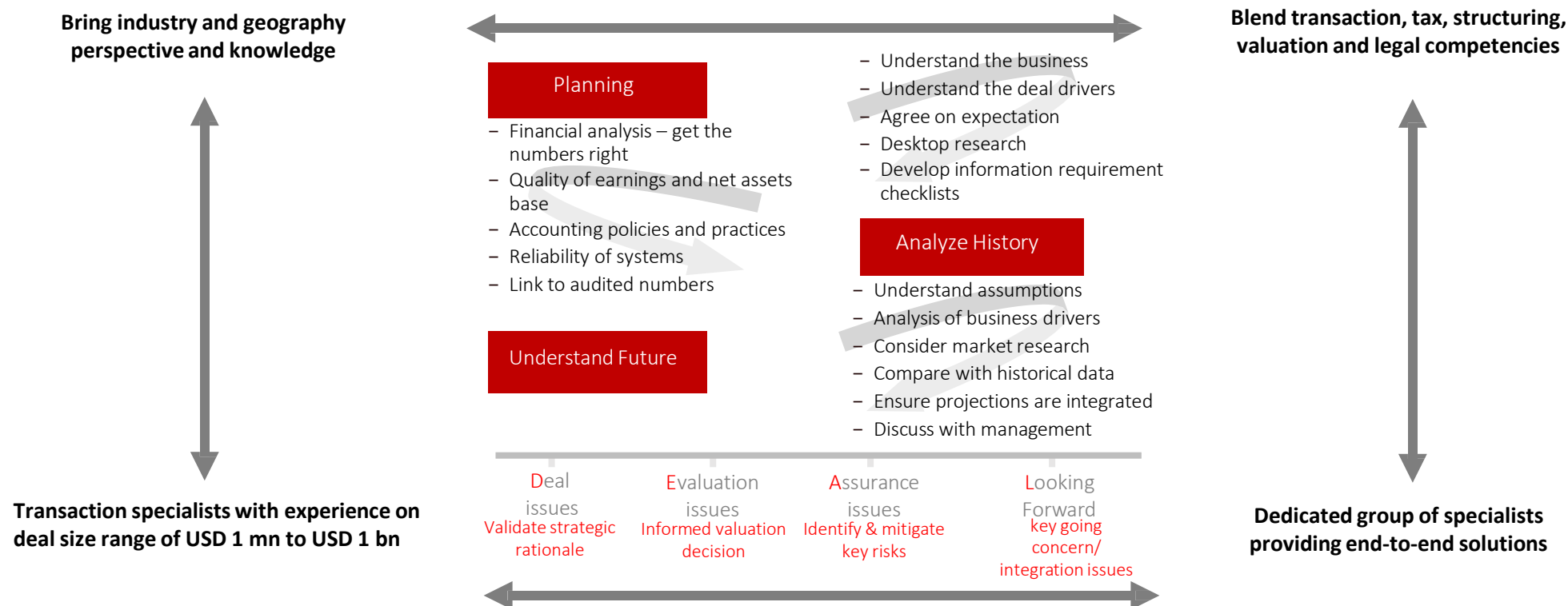
### Post Investment

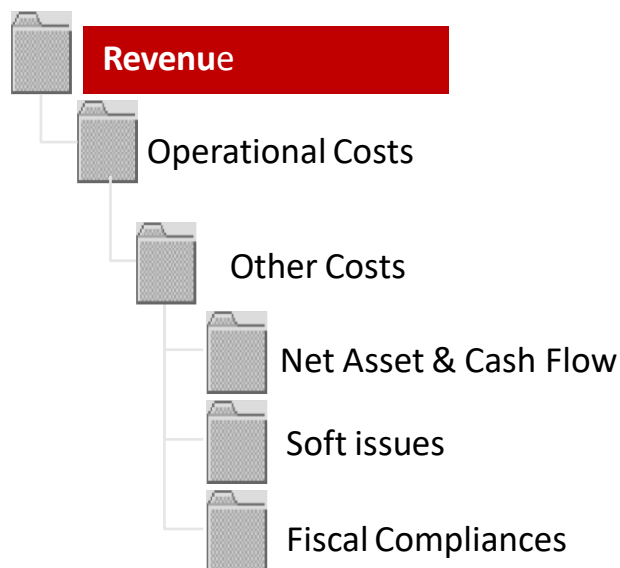
- ▶ Investment Monitoring (Sales, collection, Cost, Construction, etc.) & Asset Management
- ▶ Internal audits
- ▶ Valuations
- ▶ Investor Reporting
- ▶ Exit Advisory

We keep ourselves focused on synergies in business and the overall environment in which the business operates to arrive at a viable merger option. At Acquisory we provide the following categories of due diligence consolidated in one report:

- Business and Financial
- Tax
- Operational
- Legal

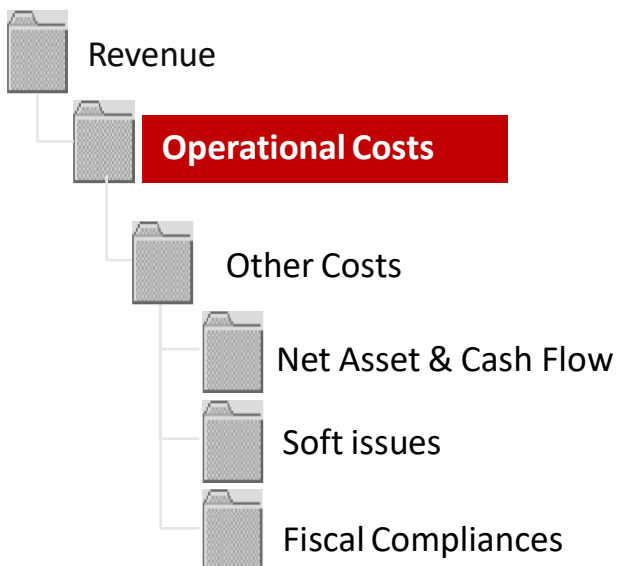
We work with specialists who possess in-depth industry knowledge and market know-how and identify comprehensive key transaction risks and concern areas (*value destroyers*) along with potential upsides (*value enhancers*).



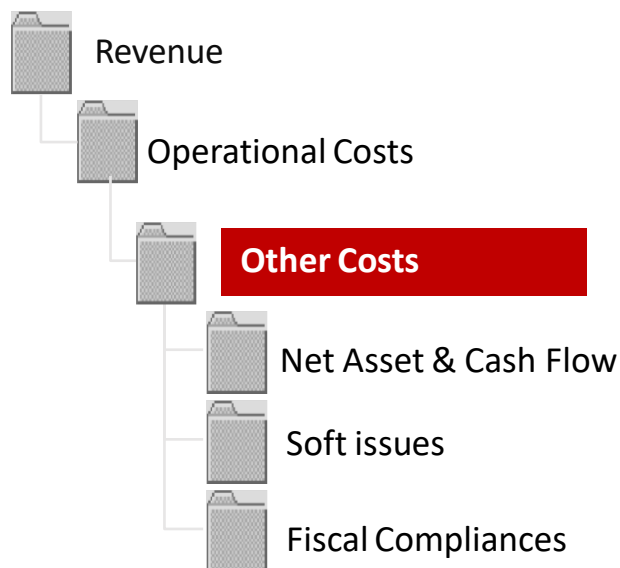


## Revenue

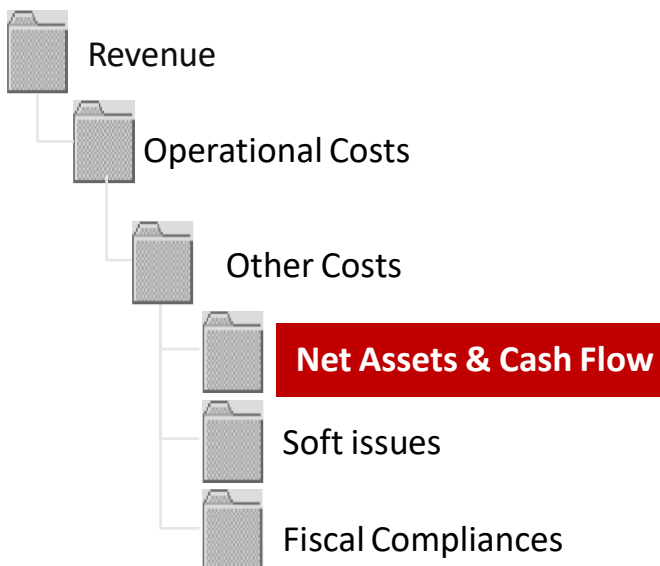
- Revenue Recognition as per AS-9;
- Quality of Revenue;
- Sustainable revenues over last three years and growth pattern;
- Revenue recognition through Contracts with Corporate, Dealers, Retailers etc;
- Understanding of order book;
- Understanding of sales and marketing process;
- Revenue analysis by – customers and clients;
- Revenue analysis by services and by branch;
- Number of customers in each segment;
- Average revenue per service and customer;
- Gross margins\EBITDA per service, segment, geography;
- Revenue per employee;
- Revenue through income earned from other sources; and
- Market share



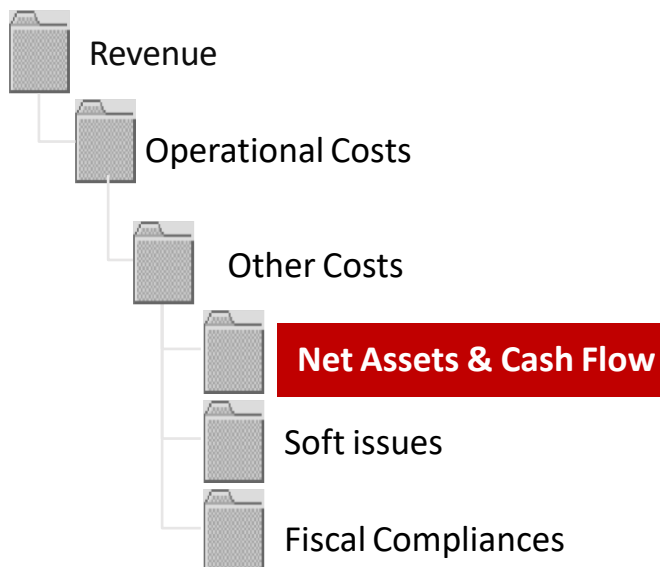
- Analysis of employee costs, business and support;
- Employee cost service and segment wise and per employee analysis;
- Operational cost – fixed and variable in nature
- Operational costs – geography wise analysis;
- Operational costs per branch;
- Understand and assess the basis for allocation of common costs and support expenses, if any
- Analysis of location-wise and grade wise manpower strength bifurcated into own employees and contract manpower



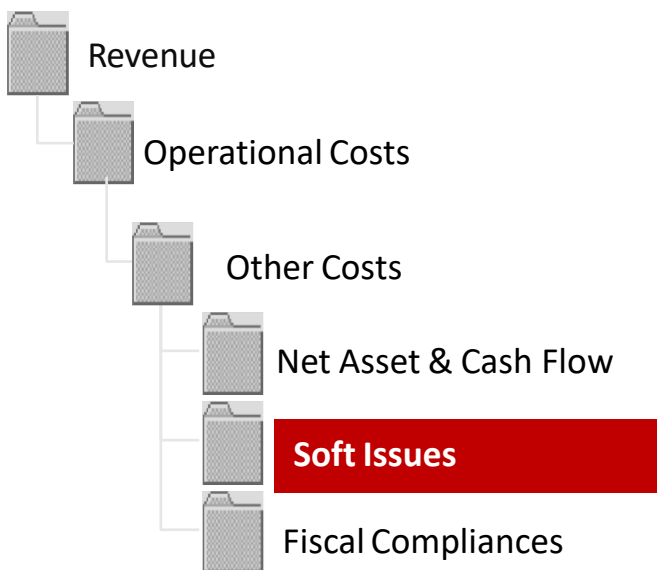
- Details of the principal wage structures and incentive/bonus plans
- Analysis of the number of contract labour and the arrangements for employment. Functional deployment of contract labour;
- Analysis of monthly power purchased (unit and value);
- Breakdown of finance costs for the historical period;
- Analysis of selling expenses by item head – Advertisement cost, commissions and any other form of incentives/ commissions;
- Analysis of rent, rates and taxes for the historical period
- Analysis of repairs and maintenance, Insurance and legal and professional expenses for the historical period
- Analysis of expenses incurred on social causes, if any
- Analysis of employee stock option scheme, if any
- Analysis on the nature of non-operating income/expenses items



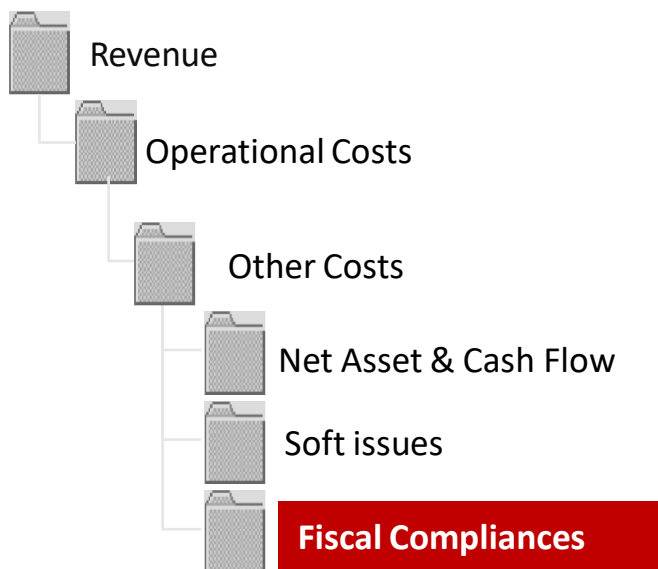
- Analysis of fixed assets by business segments;
- Analysis of significant additions/deletions to/of fixed assets during the historical period
- Analysis of capitalization of pre-operative and other expenses including interest costs
- Capital WIP-ageing, capital commitments, Planned vs Actual Capex & proposed Capex
- Working capital cycle (viz Creditors payout & debtor days etc) & Operating cash flows
- Receivable management-ageing doubtful debts, terms of credit



- Balance confirmations for key receivable balances
- Policy of discounts, price reductions and rebates offered (including contractual arrangements);
- Analysis of loans and advances;
- Analysis of other assts and cash and bank as on review date;
- Other current assets, recoverability, nature, term of advance
- Liabilities- ageing, basis of provisions, hidden liabilities, accrual of all expenses payment terms, contingent liabilities
- Liabilities like PF, Pension, gratuity, leave encashment, superannuation
- Debts- purpose, nature,, repayment terms, penal provisions, restrictive covenants, guarantees
- Working capital facilities and utilization
- Cash flow analysis
- Gearing ratios: (Debt to Equity, Current Ratio, Interest Coverage Ratio etc.)
- Capital Commitment



- Agreement with promoters and group companies
- Margin analysis
- Management team and experience
- Overall internal control environment
- Understand scalability of operations & execution capability
- Related party transactions
- Employee retention – ESOP & Incentive schemes
- Cost records and MIS
- Cash transactions
- Contingent Liabilities



- Understand compliance status of direct & indirect laws
- Identify tax benefits/ concessions available to the targets
- Identify financial exposures on account of applicable tax laws
- Analyze potential liabilities on account of any tax litigation / appeals etc
- Analysis of outstanding demands (tax, interest and penal) levied and tax litigations
- Analysis of open communication with tax authorities and pending tax matters
- ROC Search and Secretarial Audit.

## DEAL ISSUES

- Strategic business risks which depend upon magnitude of risk & likelihood of its occurrence
- Reflect the key risks / challenge the transaction faces

## EVALUATION ISSUES

- Risks that have an impact on the valuation of the target companies
- Risks which help bring out the future maintainable profits & gives the investor a perspective on the correct valuation of the target

## Dependence on Customers

### Dependence on Customers

Customers	FY06	%	FY07	%	FY08*	%	Assured FY09	Period of order
<b>Export Sales</b>								
Davos	18	13%	22	12%	34	26%	19	15-Nov-08
Fermion	24	17%	20	11%	25	19%	25	1-Aug-08
Shanghai Desino	-	-	2	1%	21	15%	5	30-Jun-08
Gurukul	18	13%	15	8%	16	12%	11	31-Dec-08
Bhorenger Ingelham	17	12%	54	29%	-	-	-	-
Inocyte Corp	-	-	21	11%	-	-	-	-
Others	17	12%	22	12%	4	3%	13	-
<b>Total</b>	<b>94</b>	<b>66%</b>	<b>156</b>	<b>84%</b>	<b>100</b>	<b>74%</b>	<b>73</b>	-
<b>Domestic Sales</b>								
Dabur Pharma	-	-	-	-	14	11%	5	15-May-08
Catalogue Sales	-	-	-	-	9	6%	-	-
Ships Medicare	7	5%	10	5%	10	7%	6	30-Jun-08
Cadilla	8	5%	12	6%	-	-	-	-
Cipla	17	12%	6	3%	-	-	-	-
Others	17	12%	1	1%	3	1%	7	-
<b>Total</b>	<b>49</b>	<b>34%</b>	<b>30</b>	<b>16%</b>	<b>35</b>	<b>26%</b>	<b>16</b>	-
<b>Grand Total</b>	<b>143</b>	<b>100%</b>	<b>186</b>	<b>100%</b>	<b>135</b>	<b>100%</b>	<b>89</b>	-

\* Intercompany sales has been excluded from the above sales numbers

- Company continued to depend heavily on few customers: Concentration of revenues on the top 5 customers have increased from 70% in FY07 to 82% in FY08, thereby indicating a heavy dependence
- Assured revenue from these customers, based on the PO's existing with the Company as at May 24, 2008, during FY09 will be Rs 65MM. However the Company has projected a revenue of Rs 300MM for FY09. (Refer slide 36 for details)

## Net Adjusted PAT for FY08

Particulars	Details	FY08
Net Reported PAT(Loss) as at March 31, 2008		12
Less: Proposed Adjustments		
Revenue		
- Overstatement of revenue	7	7
Raw Material Consumption		
- Overstatement of inventory	4	
- Provision for slow moving items	N.Q	4
Salaries		
- No provision of gratuity	3	
- No provision for staff welfare	0.5	
- No provision of leave encashment	0.1	
- No provision for bonus	0.4	4
Depreciation		
- Assets less than Rs 5K not charged off	N.Q	N.Q
Reinstatement of foreign debtors and creditors	N.Q	N.Q
Financial Expenses		
- Wrong capitalization of interest to RVZig land	5	
- Wrong capitalization of interest to RSynthasis Unit	0.2	5
Provision for expenses		
- Under provision for expenses	1	1
<b>Total Adjustments</b>		<b>21</b>
<b>Net Reported PAT(Loss) as at March 31, 2008</b>		<b>(10)</b>

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### Related Analysis

- Overstatement of Revenue:** Per discussion with management, we understand that, the Company is recognizing revenue on dispatch of goods from the factory as against CIF terms with customers. However reading of the agreements/PO's with the customer and per AS "3" indicated that revenue should be recognized when goods reaches the customer location. Hence the goods in transit on March 31, 2008 may be negated from revenues till March 31 2008. Impact of such goods in transit on gross margins is given below:

Particulars	Date	Product	Amount
Sale to Shanghai Desino	31-Mar-08	S.N-38	4
Gross Margin (60%)			2
Sales to Dabur	31-Mar-08	S.N-38	7
Gross Margin (60%)			4
<b>Net Adjustment</b>			<b>7</b>

Sales done on March 31, 2007 has been netted from the above numbers

Management informed us that all the international consignments (Shanghai Desino) are dispatched by air and reach the customer within three to four days from despatch.



## ASSURANCE ISSUES

- Risks regarding indemnity/ warranty/ representation to be obtained from the existing promoters/management of target company in order to protect the interest of the investor

## LOOKING FORWARD ISSUES

- Risks that give an insight on the post merger / transaction completion issues that the client might face
- Our aim is to identify areas to focus on post acquisition to secure and build value, resolve short term weaknesses & mitigate risks

## Assurance Risks – Direct Taxes

### Disallowances in the income tax return for A.Y 2005-06

- As per the computation of income, under the normal provisions of the Income Tax Act, the Company declared a loss and paid Minimum Alternate Tax (MAT) on book profits of Rs 21MM.
- The Income tax return under the normal provisions of the Company was scrutinized by the A.O and in his assessment order the income was enhanced on the following grounds :
  - Capital expenditure of Rs 420K was inadvertently claimed u/s 35 due to typographical error.
  - Rs 836K paid to foreign delegates for conveyance and travel was disallowed due to non availability of necessary supportings
  - Entrance Fee and Subscription fees of Rs 350K was disallowed and capitalised
  - Expenses on increase in authorised share capital of Rs 50K disallowed
  - Claim u/s 10B for 100% EOU was reduced by Rs 236K due to disproportionate allocation of expenses resulting in higher profit in 100% EOU (tax exempt) unit and decrease in the profit in non-EOU unit.
  - The tax department held that since the Company is in contract research (business of conducting research for others) and does not conduct research related to its own business, it should not be allowed 100% deduction of capital expenditure on research of Rs 23MM. However, such expenditure was allowed to be capitalized and depreciation claimed thereon. Penalty proceedings were also initiated against the Company.

## Looking Forward Risks

### Unsupported Transactions

- Analysis of data indicates that there are transactions under various expenses in the books of accounts for FY07 and FY08 which have no supportings. A few examples of such expenses are:
  - Staff Welfare amounting to Rs 20K (source: management discussions)
  - Travel and conveyance amounting to Rs 600K (source: management discussions)
- There might be a possibility of tax disallowance due to no supporting.
- Details of such transactions were not made available for our review.

### Way Forward / Recommendation

We recommend \_\_\_\_\_ to evaluate the nature of these transactions and ensure that in future, systems are put into place so that no unsupported transactions are accounted for in the books.

### Useful life of assets

- Analysis of data indicates that the Company is depreciating its assets on a written down value basis as per rates prescribed for single shift under Companies Act, 1956. Discussions with management indicated that some of the machines during three to four months in a year runs at double shift and triple shift. The Company has also not provided for extra shift depreciation for the same due to lack of accurate records for the same.
- Further no physical verification of the assets has been carried out by the Company

### Way Forward / Recommendation

We recommend \_\_\_\_\_ as a condition precedent, before the closure of the transaction should ensure that all the fixed assets should be physically verified and discrepancies if any should be adjusted in the valuation model.

- Acquisory Consulting LLP ranked in the top 5 amongst 25 Top Transaction Advisors on 'Venture Intelligence League Tables' for CY 2023
- Acquisory received the Indian Achievers' award for "Promising MSME – 2022"
- Acquisory received the Indian Excellence Award for "Best M&A Advisory Firm – 2018"
- Acquisory received the award of "Due Diligence Experts of the Year" in 2014
- Acquisory received the award of "M&A Advisory Firm of the Year" in 2013









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Experience – 15+ Years

**Ami Shah**

Qualification - CA  
Experience – 8+ Years

**Saurabh Goyal**

Qualification - CA  
Experience – 8+ Years

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Experience – 4+ Years

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