Ricoh India Ltd- Reprography for Accounting-Presenting Doubtful Picture

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Background

Ricoh India Limited is currently in the news and for all the wrong reasons.

Three Auditors working separately (**M/S B S R & Co. LLP, M/s S.S Kothari & Mehta & M/s PricewaterhouseCoopers Private Limited ("PwC")**) are not able to decipher work done by erstwhile auditor's **M/s Sahni Natarajan and Bahl (Firm Registration No. 002816N),** who were auditors of the Company for good 15 years. These auditors are unable to give management, shareholders and to regulators a true and fair position of company's financial position. While it is true that auditors work on the basis of records and if records are available it is not an impossible task to come to a conclusion. Inability of auditors to come to a conclusion may be because proper records are not available or they are unable to find what is mandated i.e. they are not giving the required report and that is the reason one after the other auditor is appointed. Many a times difference of opinion can be attributed to incompetence, lack of focus or professional jealousy. However, in this case it may not be the case as it is question of reputation and only the auditor who comes out with true and fair version would be branded as professionally competent. Therefore, logic tells us that in all probability proper records are not available. However, what is fact, one does not know at this stage. What one can tell with certainty is that it is failure on part of management and governance failure at the Company, despite elaborate set of rules & laws which are apparently complied with. This raises a fundamental and relevant question which has been asked since long; Is compliance with law required in letter only or is it required in spirit? Almost all the practitioners agree that compliance is required in spirit to be effective else it is an exercise in futility.

SES has examined information available in public domain and the same is presented herein:

Shareholding- September 2016

Promoters (Ricoh Group)	**73.60%**
Public-Institutional	**3.27%**
Public Non Institutional	**23.13%**

IDFC Mutual fund is largest public shareholder with 1.97% equity.

SES View: Healthy promoter's equity, very low institutional equity. In terms of SES evaluation parameters low institutional equity has great potential for failures. All resolutions except RPTs can be bulldozed by brute majority of promoters. Whether such is the case here or not cannot be said with certainty. However, what impact higher institutional equity could have caused can be seen from voting pattern of Institutional investor in Resolution #3 of AGM held in 2015.

Analysis of Financial Statements

Year Ending	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11
Total Revenue	**1,654.62**	1,050.47	634.64	433.25	**298.04**
Total Non-Current Liabilities	**214.83**	10.40	7.73	7.51	**6.63**
Total Current Liabilities	**911.45**	710.09	614.34	246.66	**115.66**
Total Liabilities	**1126.28**	720.49	622.07	254.17	**122.29**
Total Shareholders Funds	168.6	139.79	122.56	123.88	131.64
Total Funds	1294.88	860.28	744.63	378.05	253.93
Fixed Assets	64.23	73.87	42.39	37.26	15.85
Inventories	195.96	206.41	155.01	73.4	50.4
Trade Receivables	661.9	319.18	184.23	97.21	53.74
Total Current Assets	**1,171.80**	**724.74**	**629.04**	**298.97**	**205.3**
Profit/Loss For The Period	**33.90**	**17.23**	**-1.32**	**-2.61**	**16.38**

SES View:

During 5 year period sales grew almost 5 fold whereas liabilities grew almost 9 times. With no major addition to fixed assets, growth of liabilities almost at a rate twice as much as growth in sales was the first indication of trouble. Either due to changing business scenario leading to more assets required per rupee of sales or questionable allocation of assets and so on.

Similarly, receivables grew almost 13 times compared to sales growth of 5 times. Once again indicating either business conditions were changing to detriment or inefficient debtor collection mechanism or questionable debtors.

At this juncture when everyone knows that something is wrong analysis becomes easy as one looks for signals. In posterity we all are intelligent. However, if right questions are asked at right time probably things can be caught at an early stage, may be much before post mortem stage.

RATIOS					
Year Ending	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11
Debt/Equity	**6.68**	5.15	5.08	2.05	**0.93**
Fixed Assets Turnover	25.76	14.22	14.97	11.63	18.80
Inventories turnover	8.44	5.09	4.09	5.90	5.91
Debtors turnover	2.50	3.29	3.44	4.46	5.55
current Ratio	1.29	1.02	1.02	1.21	1.78
PAT/Turnover	2.05%	1.64%	-0.21%	-0.60%	5.50%

Ratios % change over previous year				
Year Ending	**Mar-15**	**Mar-14**	**Mar-13**	**Mar-12**
Debt/Equity	29.61%	1.55%	147.38%	120.86%
Fixed Assets Turnover	81.15%	-5.02%	28.76%	-38.16%
Inventories turnover	65.91%	24.30%	-30.64%	-0.18%
Debtors turnover	-24.04%	-4.46%	-22.71%	-19.64%
current Ratio	25.97%	-0.32%	-15.52%	-31.72%
PAT/Turnover	24.91%	-888.60%	-65.47%	-110.96%

PAT/Turnover Ratio also improved vastly in last 4 years although not at the same level as was in 2011. Once again the issue is does a business which is facing challenging times multiply it sales and also increase profitability too. This appears to defy the logic yet no one raised a question.

SES in its evaluation model uses yearly change in various ratios as an indicator for changing business conditions. Both positive and negative movement beyond a cut off must be explained by Board to shareholders. This would serve two purpose-shareholders will be informed and can have a better view of business, secondly Board can pay special attention to such areas which are showing drastic changes.

Subsidy and Warranty Receivable

There is an item in balance sheet with above classification. Year on year the amount has increased and stands at Rs 116.6 Crore at end March 2015. There is no explanation in the Annual Report as to its nature. Revenue does not include any item under this head. Only in table relating to RPTs some expenses are booked net of subsidy. The outstanding amount is almost two times of the total profit over last 5 years.

	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11
Subsidy and Warranty Receivable	116.60	81.76	41.34	14.66	8.11
Profit/Loss for The Period	**33.90**	**17.23**	**-1.32**	**-2.61**	**16.38**
5 Year Total Profit	**63.58**				

What is this subsidy and what is Warrant income one does not have any clue? How it has increased to this level is also not understood.

BOARD / MANAGEMENT

Board Composition

- Mr. Tetsuya Takano after completing his tenure as Managing Director and CEO of the Company on 31st March 2015 has been appointed as Non-Executive Chairman of the Company with effect from 1st April 2015.
- Mr. Manoj Kumar was working as Executive Vice President & CEO of the Company from 1st April 2014 to 31st March 2015. However, with effect from 1st April 2015, Mr. Manoj Kumar has been appointed as Managing Director and CEO of the Company.
- Mr. Arvind Singhal and Mr. Manish Sehgal continue to hold the positions of Chief Financial Officer and Company Secretary respectively in the Company.
- Mr. N. Majima has resigned from the Board with effect from 1st April 2015
- Mr. DC Singhania has resigned from the Board with effect from 8th August, 2014. Mr. D.C.Singhania is a Non Executive Independent Director of the Company. Mr. Singhania holds a Degree in Law and has been associated with the Company since July 2001.
- Ms. Ashish Garg has been appointed as Independent Woman Director of the Company on 23rd July 2014

BOARD MEETING ATTENDANCE

Director	Board Meeting held	Attended	AGM Attended
D. C. Singhania*	11	0	No
Mr. U. P. Mathur	11	10	Yes
Mr. R. K. Pandey	11	10	Yes
Mr. T. Takano	11	11	Yes
Mr. N. Majima***	11	1	No
Mr. H. Kitada **	11	2	No
Ms. Ashish Garg	11	5	Yes
Mr. Manoj Kumar	NA	NA	NA

*Mr. D C Singhania did not attend any board meeting in previous year and yet he was nominated for re-appointment

** Mr. H Kitada did not attend any board meeting in previous year and yet he was nominated for re-appointment

*** Mr. N Majima did not attend any board meeting in previous year and yet he was nominated for re-appointment

SES View:

The Board composition clearly indicates that promoters had good representation on the Board and MD was from Promoters side till March 2015. He had 100% attendance in Board meetings and attended AGM. Therefore, if there is a fraud committed prior to 1st April 2015, it cannot be said that promoters were not in day to day operation. The blame will go squarely to them.

The attendance at the Board meeting very clearly indicates that the Board gets constituted only for the purpose of complying with the law. Many directors appointed take their responsibility in a casual manner. IDFC MF the largest shareholder expressed its anguish by voting against the Resolution for appointment of Mr. H Kitada

Voting Result in AGM 2015 -Resolution#3 related to Appointment of H Kitada.

IDFC MF the largest institutional shareholder and other institutional shareholders voted against the Resolution. 100% of the institutional shareholder who voted in AGM voted AGAINST.

IDFC MF gave following reason for its voting against

> *H. Kitada is a former director of Ricoh Finance Ltd. H. Kitada had an attendance level of 18% in FY15 and he attended none of the six meetings held in FY14. We expect directors to take their responsibilities seriously and attend all board meetings. The company can consider appointing an alternate director, who can attend board/general meetings in his absence.*

AUDIT COMMITTEE

What importance was given to audit function is seen from the constitution and attendance of members

Audit Committee (2014)	Meeting	attended
Mr. U. P. Mathur	4	4
Mr. R. K. Pandey	4	4
Mr. D. C. Singhania	4	0
Mr. H. Kitada	4	0

Audit Committee (2015)	Meeting	attended
Mr. U. P. Mathur	4	4
Mr. R. K. Pandey	4	4
Mr. Ashish Garg @	4	2
Mr. H. Kitada	4	1
Mr. D.C Singhania #	4	0

Mr.D.C. Singhania has resigned as Director w.e.f 08th August, 2014

@ Ms.Ashish Garg has been appointed as Woman Independent Director

SES view: Attendance details are eye opener and reflects casual manner in which audit committee went on to do its work. It is evident and staring at our face. Mr. Singhania did not attend any meeting in the two years (he resigned mid-way). He did not attend a single meeting of the Board also. What for he was on the Board and Audit committee? Name lending and providing respectability to the Board? At whose cost? What about governance? Was this of any of his concern? And he chose to quit immediately after new Companies act was implemented. His resignation is very intriguing. He was nominated to be reappointed by the NRC, of which he himself was a member?

Mr. H. Kitada who is from promoter group did not attend any meeting in 2014 and only 1 meeting in 2015

Other two IDs who were on the committee had full attendance and are qualified but it appears they also failed in their duty.

For working of Audit Committee an idea can be had of the importance (or lack of) attached to Audit function. Just 4 meeting in a year indicates that it was only to satisfy the legal requirements.

Nomination & Remuneration Committee

Constitution and attendance

N&R Committee (2014)	Meeting	attended
Mr. U. P. Mathur	1	1
Mr. R. K. Pandey	1	1
Mr. D.C Singhania #	1	0

N&R Committee (2015)	Meeting	attended
Mr. U. P. Mathur	4	4
Mr. R. K. Pandey	4	4
Mr. D.C Singhania #	4	0
Ms. Ashish Garg *	4	1

* Ms. Ashish Garg has been appointed as Woman Independent Director w.e.f 23rd July 2014.
# Mr.D.C. Singhania has resigned as Director w.e.f 08th August 2014

SES View: It appears that the committee is formed because law requires it. In 2014 the committee re-nominates Mr. Singhania, a fellow member on the Board. As per stated mandate the committee has to take into account performance as director while nominating a director. What factors were considered to evaluate a director, when director concerned did not attend a single meeting? Just because he is a fellow director, committee mate and respected person? Did the law intend such a functioning of NRC? If that is the manner in which committee operates, it is better not to have a committee. At least shareholders will be spared of false sense of comfort.

Share Price

The last 5 year share price data of Ricoh India Ltd.

Failed Delisting:

Ricoh had two failed delisting in past first attempt was in **November 2012**. The acquirer offered a floor price of ₹ 53.79 a share. However, the its price surged to a peak of ₹ 130. The acquirer obtained bids for only 40 lakh shares, 62% of the required quantity to successfully delist the shares. The quantity was less than the required quantity of around 65 lakh shares for the delisting offer to be successful.

Ricoh came back with fresh vigour in **November 2013**. The stock price, which was languishing **at ₹ 59** started rising and reached a peak **of ₹ 225**.

The delisting offers failed because the promoter, Ricoh Asia Pacific Pte, had rejected the price of ₹ 225, where the total number of shares to be acquired for successful delisting offer were tendered.

AUDITORS

- On 10th July 2015, the Company's Board appointed BSR & Co LLP as its new statutory auditors for five years in place of retiring auditors Sahni Natarajan and Bahl.
- Sahni Natarajan and Bahl were auditor for last 15 years
- and at such remuneration as may be fixed by the Managing Director & Chief Executive Officer of the Company.
- **The percentage of non-audit fee has been more than 50% of the total Auditors' remuneration in the last 3 years**. ICAI guidelines state that statutory Auditors should not accept assignments if fee earned from these non-audit assignments is more than statutory audit fee.
- The previous auditors have not raised any qualification in last 5 years. However, new auditors raised concern within 5 months.

SES Analysis

- The Company has been following practice of authorising **MD & CEO** of the Company to fix Auditors' remuneration. As a good governance practice the Board should be authorised to fix the Auditors remuneration so as to not to have concentration of power in one person.
- It is established beyond doubt that the four auditors are not on the same page. However it is a fact that even three Auditors, viz, M/S B S R & Co. LLP, M/s S.S Kothari & Mehta & M/s PricewaterhouseCoopers Private Limited ("PwC") are not certain whether the financial statements prior to March 2015 represent true and fair picture (see detailed analysis of September 2015 results)

EVENTS LEADING TO CURRENT SITUATION:

- Delay in filing quarterly results raises concerns:
- The company's Board meetings have also been repeatedly postponed from 5th November 2015 to 10th November 2015, and later to 14th November 2015. On 14th November 2015, the Audit Committee and Board of Directors Meetings was adjourned citing limited review for the quarter ended September 2015 took longer time since it was the first audit from the newly appointed auditors.
- Ricoh India's regulatory filing on 7th December 2015 says that the company has considered and taken note of the recommendations of its statutory auditors. However, there is no mention of key recommendations from the statutory auditors.
- Promoters shareholding frozen by BSE-given time to comply with SEBI Listing Regulation by 20th May, 2016 or face suspension from trading.
- Top management sent on paid leave
- Ricoh files police complaint

Highlights of September 2015 Quarterly financial result

Summary of notes to accounts and Auditors observation is as under (as given in Company disclosure)

Notes to Accounts:

- *In November 2015 at a meeting with the Audit Committee, B S R & Co. LLP ("BSR"), the statutory auditors first raised the issue and expressed that without further procedures and investigations they cannot opine that the draft unaudited financial results for quarter and 6 months ended 30 September 2015 are free of material misstatements and that they had been prepared and presented in accordance with applicable accounting standards and in accordance with the requirements of clause 41 of the listing agreement.*
- *In view of the above, the Company did not adopt the aforesaid financial results and it through its Audit Committee appointed M/s S.S Kothari & Mehta another audit firm to conduct a review of the observations of BSR as per Agreed upon Procedures. The report of M/s S.S Kothari & Mehta was* ***inconclusive and needed further investigation****. Hence, unaudited financial results could not be finalized.*
- *The Audit Committee, thereafter, appointed Shardul Amarchand Mangaldas & Co. ("SAM & Co") as independent legal counsel, and the said law firm appointed M/s PricewaterhouseCoopers Private Limited ("PwC") for conducting a forensic review of the Company's accounts: (i) To identify whether the financial statements, and thereby the underlying books of account, of the Company have been misstated or misrepresented (ii) To quantify the extent of misstatement and/ or misrepresentation including the personnel and entities involved (iii) To identify the modus operandi of the alleged wrong doings and economic· rationale for transactions leading to wrong doings, to the extent possible (iv) To assess whether there was personal profiteering by the Company personnel.* ***The period of PWC review was limited to 1 April 2015 to 30 September 2015.***
- *On March 29, 2016 the Board of Directors directed (i) Mr. Manoj Kumar, Managing Director & Chief Executive Officer (ii) Mr. Anil Saini, Senior Vice President and Chief Operating Officer and (iii) Mr. Arvind Singhal, Chief Financial Officer to go on "paid" leave with effect from 301h March, 2016 till further instructions; to facilitate the free and fair forensic review.*
- *Mr. Manoj Kumar resigned from the Board of Directors on April 2, 2016 and ceased to be a Managing Director. He is serving his notice period of six months.*
- *PwC's report contains only their preliminary findings and specifically states that further procedures were required covering more comprehensive information and further analysis of electronic documents and data extracted from various devices and certain unprocessed information. The preliminary findings in PwC Report inter alia indicate that unsupported out of books' adjustments were made to the net sales, expenses, assets and liabilities, in order to report higher profits or to cover previously unreported losses; revenue was recorded based on orders in hand or on invoicing without dispatch/delivery of goods which may not be in conformity with company's accounting policies on revenue recognition; very substantive back to back purchase I sales transactions with no I minimal value addition; unsupported and backdated transactions recorded in the books of accounts; nexus between the key managerial personnel, vendors and customers of the company; and cases of some customers having bogus addresses and in case of some vendors and customers' undue favor of payment and other arrangements having been given and sale of non-existing products. Their report was submitted to SAM & Co, and the Audit Committee at a meeting of the Audit Committee held on 201h April 2016.*
- *The Audit Committee members were briefed on the outcome of the forensic investigation on April 20, 2016 and immediate disclosure of findings of PwC indicating wrongdoing, were submitted by the Audit Committee to the Bombay Stock Exchange ("BSE"), the Securities and Exchange Board of India (SEBI) and the Ministry of Corporate Affairs on April 20, 2016. The BSE disclosure constitutes a qualifying statement for the financial results. In its letter to SEBI, the Company has requested SEBI to conduct an investigation to ascertain if the incorrect financial statements had any impact on the securities market and the investors, particularly under the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 and the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003.*
- *The PWC report as well as communications of the Company with the regulators were provided to B S R on 3 May 2016. Thereafter, the Company has received Form ADT – 4 regarding reporting of suspected offence involving*

fraud to the Central Government from B S Ron 5 May 2016 as required by Rule 13(12)(a) of the Companies (Audit and Auditors) Rules, 2014. The management is in the process of providing its response thereto.

- *On May 12, 2016 the Company has filed a criminal complaint against certain employees with the Delhi Police.*

Independent Auditor's Review report to the Board of Directors of Ricoh India Limited

"The management has proceeded on the basis that the opening balances as at 1st April 2015 and those as at 1st July 2015 are correctly stated but this assumption may be proved incorrect in which case the accounts as presented above may undergo consequential changes"

Consequently, the opening balances as of 1st April 2015 and 1st July 2015 may need substantive adjustments

- ✓ *The assumption regarding correctness of opening balances as at 1 April 2015 and as at 1 July 2015 may be proved to be incorrect in which case the financial results as presented above may undergo substantive changes (refer to note 14);*
- ✓ *As per the management, the books of account and other relevant books, papers and financial statement for the quarter ended 30 June 2015 and 30 September 2015 do not reflect true and fair view of the state of affairs of the Company. (refer to note 8);*
- ✓ *The findings of our review procedures, those of the independent investigations and of the management (refer note 1 to 14) indicate a large number of irregularities and suspected fraudulent transactions in many areas. In particular:*

  - *unsupported out of books adjustments made to the net sales, expenses, assets and liabilities, in order to repot1 higher profits or to cover previously unreported losses;*
  - *revenue was recorded based on orders in hand or on invoicing without dispatch/delivery of goods. Revenue recognition in respect of composite contracts was on the basis of invoicing without an evaluation of linkage with performance as per terms of the contract. These may not be in conformity with generally accepted accounting principles in India;*
  - *very substantive back to back purchases and sales transactions I rendering or receipt of services to customers I vendors having no I minimal value addition including with those having close connections I possible conflict of interest;*
  - *inconsistencies in product pricing with market rates;*
  - *unsupported and backdated transactions recorded in the books of accounts*
  - *nexus between then key managerial personnel, employees, vendors and customers of the company*
  - *cases of some customers having non-traceable addresses I having unrelated background*
  - *in case of some vendors and customers' undue favour of payment and other arrangements having been given and sale of non-existing products; and*
  - *certain entries recorded in the books of account without appropriate justification I proper supporting documents.*

Full report on financial statements for period ending September 2015 (click here)

SES Analysis:

- From the notes to the accounts it is clear that the Management had referred to Shardul Amarchand Mangaldas & Co. ("SAM & Co") as independent legal counsel, and M/s PricewaterhouseCoopers Private Limited ("PwC"). Investigation by auditors was limited to period ***from to 1 April 2015 to 30 September 2015.***
- Similarly BSR and Kothari also had done investigation for the limited to period ***from to 1 April 2015 to 30 September 2015.***
- Therefore it can be concluded that as far as management is concerned, in their minds accounts for the period prior to 1st April 2015 are in order, reflect true and fair picture of company's affairs.
- All the analysis appearing in newspapers and electronic media has analysed accounts prior to 1st April 2015, as there is nothing to analyse for period beyond as three auditors have not come to any conclusion.
- It is important to note that prior to 1st April 2015, MD of the Company was from promoter group. Does this mean that the Company believes that fraud, if any, started only after 1st April 2015, as if it is a car race with a definite start point.

- The half yearly and quarterly accounts for period ending 30th September 2015 clearly states *"The management has proceeded on the basis that the opening balances as at 1st April 2015 and those as at 1st July 2015 are correctly stated but this assumption may be proved incorrect in which case the accounts as presented above may undergo consequential changes"*
- SES does not understand the contrary stand of management. On one hand they are limiting review by auditors for period starting from 1st April 2015 only, on the other hand they are expressing doubts on the veracity of opening balance as on 1st April 2015 itself. If past accounts are correct then opening balance cannot be incorrect/ doubtful. If that be the case, there is all the more reason to investigate past accounts.
- SES is of the opinion that fraud if any that has been committed could not have had a start date like 1st April 2015 and a stop date.
- The accounts presented for the six months' period show a picture different from accounts for past periods. As against profitable operation, there is a big loss of Rs.147 Crores on sales of Rs 1,104 Crore. This indicates that the company lost about 13.32% on sales against profit of 2.05% for the year ending March 2015. This figure for quarter ending September 2015 is mind boggling at 22.04% in. Yet the Company wants investors to believe that both sets of account are correct, in 12 months ended March 2015 return on sales was 2.05% which went down to 13.32 for half year ended September 2015 and to 22.04% for quarter ending September 2015. Can the performance be so mercurial?
- If the above data is analyzed in the light of the auditors statement "unsupported out of books adjustments made to the net sales, expenses, assets and liabilities, in order to repot higher profits or to cover previously unreported losses;" It indicates that earlier for six months period either the loss figure was less than Rs 147 Crore or there was a profit.
- Consider this against profit of Rs. 33.90 Crore for full year ending on March 2015 and loss of Rs 18.12 Crore for six months ended in September 2014, indicating H2 profit of 2014-15 to be Rs 52.02 Crore, one can simply draw a conclusion that unless the fortunes of industry has taken a drastic turn for worse even profits in year ending 2015 March must be overstated given H1 2015-16 loss of Rs 147 Crore. Then how can the Board and management limit the investigation to a limited period from 1st April 2015 to 30th September 2015.
- Similar observation comes from looking at figure for sales. Auditors have stated that opening balance could be incorrect. Any student of accounting knows that sales do not have any opening balance, therefore that caveat does not apply to sales figure. Reported sales for six months' period ending on 30th September 2015 is Rs. 1,104 Crore up from 600 crore in the previous corresponding year. This represents a whopping 84% increase on annualized basis. This sales figure undoubtedly has to be correct. Can investor believe such a turnaround in sales figure? And resultant loss?
- The allegation of Auditors principally is that higher sales were booked to boost profit and revenue was recognized without dispatch etc and expenses were under reported to boost profit. This indicates that after audit there could be only two main corrective steps-one accounting only for just revenue- indicating possible reduction in revenue and upward revision in expenses-resulting in higher expenses but lower profits. While profits have plummeted revenue has rocketed.
- Other expenses in Q2 of 2015-16 have increased Q to Q by Rs 104 Crore. There is no explanation for the same. This figure for H1 of 2014-15 was Rs 67 Crore against 194 Crore for H1 2015-16, an increase of Rs 127 Crore. The same is unexplained.
- As material cost for both Q1 & Q2 of 2015-16 as reported is close to 100% of sales value against almost 75% for previous year, it makes previous year accounts quite doubtful, as it is not possible that material cost suddenly increased by 33% in 2015-16.

CREDIT RATING

On 22nd January ,2016 India Ratings Upgraded Ricoh India NCDs rating to IND AA- From IND A and also upgraded Ricoh India Limited's Long-Term Issuer Rating January 2016 to 'IND AA-' from 'IND A'

SES View: Rating agencies are regulated by SEBI and work in systematic manner. Arrive at any conclusion based on proper research and analysis of documents, financial statements etc. The question that needs to be asked to the rating agency, what was the basis for their upgrading rating in January 2016 when the Company had not published/ made public its accounts and there was delay? Did the agency issue upgrade based on March 2015 accounts-very unlikely and if yes it makes mockery of entire rating process? Or is it a case that the rating agency was given updated accounts and considered the same for updating, without bothering to check public information about delay in accounts? An audit of standard operating procedure of rating agency appears to be a desirable option to bring about reliability and consistency of rating methodology within the rating agency, as different companies may be having different methodology/ SOP but such an audit will ensure that within the firm there is no inconsistency in rating methodology. Whatever may be the case it once again brings to the focus role of rating agencies in corporate frauds and regulator needs to ask the concerned agency how come in absence of financial information they upgraded rating.

SUMMARY:

- It is not clear when the purported fraud took place. It appears from various audits ordered by management that fraud took place post 1st April 2015 (as the audit by PWC covered period from 1st April 2015 till September 2015). However, when Auditor writes that they are not confident about opening balance being correct, it indicates that fraud could have happened prior to 1st April 2015. September 2015 results are based on assumption that opening balance is correct. **This indicates that investors have not seen the last word on September 2015 results**.
- Promoters are duly represented in Board and till March 2015, MD was from promoter group. Is limiting forensic audit to post 1st April 2015 an attempt to ring-fence promoter MD?
- Functioning of Board, Audit Committee and NRC indicates that despite all efforts compliance with law is still technical and not operational. Regulator must find ways to bring about qualitative improvement in Board and committee functioning.
- Forensic audit must be done for period prior to March 2015 as well. If there are doubts on opening balance as on 1st April 2015, it is logical to conclude that there exists doubt on truthfulness of prior period accounts.
- SEBI as regulator of credit rating agency India Rating must ask a pertinent question, how in absence of accounts/ financial statement the agency upgraded the rating?
- Auditor **M/s Sahni Natarajan and Bahl** be asked to come forward and offer their statement standing by their audit work and also explain what is the item **"Subsidy and Warranties"** in balance sheet**.**
- Half yearly accounts for period ending September 2015 when compared with corresponding period of previous year raises more questions than probable answer. Such comparison creates a doubt on authenticity and truthfulness of accounts. Investors are unable to find which accounts to rely.
- It will be in the interest of capital market and investors that SEBI initiates steps in the right direction to allay the fears of investors and by swift action ensure that investors' confidence in market remains intact. It must be treated as one off case rather than wide spread malaise.
- While SES is certain that there is something wrong. Whether it is just a case of cooking books to show good performance or a case of diversion of funds or siphoning of funds, it is not clear as of now. However, SES is of the opinion that as things stand today, it is not another Satyam as it is made out to be. Neither in size nor in modus operandi.
- The case could be a case study for Tax people as to how when everything is taxed and online, how sales could be jacked up unless tax is also deposited?
- Finally, this proves that low institutional equity has inherent governance risk.

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