EID Parry (India) Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	EID Parry is pivoting from cyclical sugar operations to a "Predictably Sustainable" model focused on Bioenergy (582 KLPD capacity) and FMCG, leveraging its Murugappa Group lineage.	—
2	***Revenue declined 16.5% YoY to 29,413 Cr, reflecting top-line pressure despite a strategic shift toward higher-margin institutional sales (46% of sugar volume).***	—
3	Business quality remains supported by a 20% ROCE and an R&D moat, though the transition into the unproven FMCG segment introduces execution risk.	—
4	**PAT showed resilience with a modest 5% decline to □1,618 Cr, outperforming the steeper revenue drop and suggesting some margin protection.**	—
5	**Financial health is a core strength, characterized by a conservative Debt/Equity ratio of 0.25x and a healthy Interest Coverage ratio of 8.38x.**	—
6	**Cash Flow from Operations (CFO) surged to □1,974 Cr, comfortably exceeding PAT (1.22x) and providing 2.02x coverage for capital expenditures.**	—
7	***Capital allocation is aggressive, evidenced by the 284 Cr goodwill from the Dhaksha acquisition and high-premium investments with uncertain near-term returns.***	—
8	***Earnings quality is severely compromised by a 126% spike in Trade Receivables (1,835 Cr) against falling sales, indicating aggressive credit terms or collection failures.***	—
9	***Operational liquidity is strained by 803 Cr in stuck government balances and a 738% increase in inventory write-downs as inventory days ballooned to 112.***	—
10	***Governance is marred by a "Key Audit Matter" regarding missing audit trails in SAP HANA and systemic IT control gaps, alongside opaque KMP compensation disclosures.***	—
11	The outlook depends on navigating ethanol blending policy shifts and resolving the massive decoupling between revenue and cash collections.	—
12	Stance: Watch; key monitorables include the reduction of Trade Receivables below □1,500 Cr and normalization of inventory levels to under 90 days.	—

Final research summary: eid parry (india) ltd (FY2024)

1. Business overview

- **Business Segments:** Operates as a diversified entity across Sugar, Bioenergy (Ethanol & Co-generation), Nutraceuticals, and FMCG (branded staples like pulses, rice, and millets).
- **Revenue Drivers:** Transitioning from wholesale sugar to institutional sales (46% of sugar revenue) and branded retail; ethanol blending (targeting 20% by 2030) remains a core margin driver.
- **Cost Drivers:** Sugarcane procurement costs, "cut-to-crush" time efficiency, and global interest rate cycles affecting the refinery subsidiary (PSRIPL).

- **Industry Position:** Leading sugar producer in South India with a unique moat in sugarcane varietal breeding and R&D.
- **Expansion Plans:** Aggressive distillery capacity expansion to 582 KLPD; pivoting toward multi-feed (grain-based) distilleries to mitigate regulatory risks.
- **Acquisitions:** Strategic acquisition of Dhaksha Unmanned Systems (drones/robotics) via subsidiary Coromandel International to diversify into high-tech agri-adjacencies.
- **Capacity Additions:** Significant investment in Nellikuppam and Sivagangai distillery units; shift of capacity from Tamil Nadu to higher-recovery regions in Karnataka.
- **Geographical Presence:** Strong manufacturing footprint in South India (Tamil Nadu, Karnataka, Andhra Pradesh) with a global nutraceutical presence in the US and European markets.

2. Management commentary & outlook

- Management is executing a "Predictably Sustainable" strategy to decouple the business from the volatile cyclicality of wholesale sugar.
- The strategic pivot focuses on moving up the value chain through customized sweeteners, branded retail staples, and high-margin bioenergy.
- Guidance highlights a long-term ambition to move toward an asset-light model, potentially outsourcing primary milling to focus on branding and distribution.
- The demand environment for ethanol remains robust, though management expressed frustration over mid-year government restrictions on B-heavy molasses.
- To counter regulatory "policy whiplash," the company is investing in grain-based feedstock diversification to ensure high distillery utilization.
- Competitive intensity in the FMCG "super grain" segment (pulses/rice) is high; management intends to leverage the "Parry's" brand equity to differentiate.
- New project launches include clinical research-backed nutraceutical formulations (Saw Palmetto) for the US market.
- The long-term vision involves transforming a 200-year-old miller into a modern "Food, Bioenergy, and Nutrition" powerhouse.
- **Management Tone Verdict: "Determined Transitioning."** Management is pragmatic and defensive regarding regulatory setbacks but shows a clear sense of urgency in engineering the business to bypass commodity cycles. They are no longer apologizing for sugar's cyclicality but are actively building structural hedges.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2024	Mar 2023
Sales	29,413	35,244
Sales Growth %	-16.54	49.84
Expenses	26,825	32,088
Material Cost %	77	79
Raw material cost	23,207	28,882
Change in inventory	-560	-971
Manufacturing Cost %	3	3
Employee Cost %	3	2
Other Cost %	8	6
Operating Profit	2,588	3,156
OPM %	9	9
Other Income	304	83
Exceptional items	39	56
Other income normal	264	28
Interest	295	298
Depreciation	421	376
Profit before tax	2,175	2,564
Tax %	26	29
Net Profit	1,618	1,828
Minority share	-718	-880
Exceptional items AT	29	40
Profit excl Excep	1,588	1,788
Profit for PE	883	927
Profit for EPS	900	947
Profit Growth %	-5	2
EPS (□)	50.68	53.37
Dividend Payout %	8	18

Balance sheet (□Cr)

Line item	Mar 2024	Mar 2023
Equity Capital	18	18
Reserves	7,040	6,067
Borrowings	1,740	1,618
Long term Borrowings	204	111
Short term Borrowings	1,061	1,080
Lease Liabilities	476	427
Other Borrowings	0	0
Other Liabilities	12,688	11,076
Non controlling int	4,154	3,454
Trade Payables	7,484	6,456
Advance from Customers	119	140
Other liability items	932	1,025
Total Liabilities	21,487	18,778
Fixed Assets	4,896	3,889
Land	627	615
Building	1,376	1,246
Plant Machinery	5,535	4,730
Furniture n fittings	209	182
Railway sidings	0	0
Vehicles	73	60
Intangible Assets	365	66
Other fixed assets	175	142
Gross Block	8,359	7,041
Accumulated Depreciation	3,464	3,152
CWIP	520	486
Investments	1,275	609
Other Assets	14,796	13,794
Inventories	6,948	6,195
Trade receivables	1,835	812
Cash Equivalents	3,031	1,466
Loans n Advances	15	714
Other asset items	2,966	4,607
Total Assets	21,487	18,778

Cash flow statement (□Cr)

Line item	Mar 2024	Mar 2023
Cash from Operating Activity	1,974	359
Profit from operations	2,644	3,078
Receivables	-1,017	-244
Inventory	-741	-823
Payables	1,116	1,472
Other WC items	620	-2,427
Working capital changes	-22	-2,022
Direct taxes	-649	-698
Cash from Investing Activity	-1,740	487
Fixed assets purchased	-975	-839
Fixed assets sold	51	111
Investments purchased	-837	-55
Investments sold	6	6
Investment income	0	0
Interest received	98	145
Dividends received	1	1
Invest in subsidiaries	0	0
Investment in group cos	0	-157
Redemp n Canc of Shares	0	0
Inter corporate deposits	-17	242
Other investing items	-68	1,032
Cash from Financing Activity	-497	-184
Proceeds from shares	17	23
Proceeds from debentures	0	0
Proceeds from borrowings	192	383
Repayment of borrowings	-122	-24
Interest paid fin	-254	-251
Dividends paid	-228	-246
Financial liabilities	-77	-70
Other financing items	-25	0
Net Cash Flow	-263	661
Free Cash Flow	1,051	-370
CFO/OP	101	33

Key ratios

Line item	Mar 2024	Mar 2023
Debtor Days	23	8
Inventory Days	112	81
Days Payable	121	84
Cash Conversion Cycle	14	5
Working Capital Days	27	27
ROCE %	20	27

3.2 Financial analysis summary

- **Revenue** declined by 16.54% to □29,413.00 Cr, yet Trade Receivables on the Balance Sheet surged by 126% to □1,834.60 Cr, indicating a severe decoupling between sales and collections; this is further evidenced by the Cash Flow Statement where receivables movement was a □1,017.00 Cr drag on CFO.
- **Operating Profit** margins remained stable at 9.00%, but Net Profit fell 5% to □1,618.00 Cr, partly due to a 738% spike in Inventory write-downs to □37.38 Cr and a rise in Depreciation to □421.00 Cr following a □1,318.00 Cr increase in Gross Block.
- **Inventory** levels rose to □6,948.37 Cr, with finished goods comprising 49% of the total, leading to Inventory Days ballooning from 81 to 112 days and consuming □741.00 Cr of cash in CFO despite falling sales volumes.
- **Working Capital** efficiency deteriorated as the Cash Conversion Cycle widened from 5 to 14 days, primarily driven by the collection slowdown in the "6 months - 1 year" Trade Receivables bucket which reached □365.42 Cr.
- **Total Debt** (including Lease Liabilities) stood at □2,215.80 Cr, where Lease Liabilities of □475.80 Cr represent significant leverage, while Finance Cost remained flat at □295.00 Cr due to moratoriums on principal repayments for new ethanol-related Secured Term Loans.
- **CFO** improved significantly to □1,974.00 Cr from □359.00 Cr YoY, primarily because the prior year was impacted by a massive □2,427.00 Cr outflow in other Working Capital items, whereas FY24 benefited from a □1,116.00 Cr boost from Trade Payables expansion.
- **Capital Allocation** was aggressive with Capex of □975.00 Cr and Investments of □837.00 Cr, including the acquisition of Dhaksha Unmanned Systems which added □284.61 Cr to Intangible Assets as Goodwill, resulting in a positive FCF of □1,051.00 Cr.
- **ROCE** diluted from 27% to 20% as the Total Assets base expanded to □21,487.00 Cr while Operating Profit fell, reflecting a lower Asset Turnover of 1.37x compared to 1.88x in the previous year.
- **Other Income** surged to □304.00 Cr, providing a non-operating cushion to PAT, while Other Assets were bloated by □803.01 Cr in "Balances with Government Authorities," signaling that nearly 4% of Total Assets are tied up in pending GST/subsidy refunds.
- **Net Worth** increased to □7,058.00 Cr, supported by retained earnings, while the Debt/Equity ratio remained conservative at 0.25x, although the pledge of 33.75 Lakh shares of an associate (TIFERT) to secure third-party obligations introduces indirect balance sheet risk.
- **Other Expenses** were impacted by lease-related costs of □102.17 Cr, reflecting a heavy reliance on leased infrastructure for factories and warehouses.
- The company's financial performance this year was characterized by a sharp contraction in **Revenue** and a significant buildup of Trade Receivables and Inventory, which, despite being offset by higher Trade Payables to maintain CFO, led to a marked decline in capital efficiency and ROCE.

3.3 Contingent liabilities & commitments

- **Litigation & Tax Disputes:** Recognition of Nutrient Based Subsidy (NBS) income is based on management's "understanding" of schemes before government notification, introducing risk of future revenue reversals.
- **Guarantees:** The Group has pledged 33.75 Lakh shares of TIFERT (Tunisia) to secure the associate's obligations to its lenders, creating an asset encumbrance.
- **Capital Commitments:** Capital advances dropped from ₹106.00 Cr to ₹32.02 Cr, indicating the conversion of commitments into Fixed Assets as projects reached completion.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↑ — earnings quality high; CFO of □1,974 Cr exceeds Net Profit of □1,618 Cr.	—	CFO/OP ratio improved significantly from 33% to 101% YoY.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — aggressive recognition risk; receivables + inventory rose □1,772 Cr despite 16.5% sales drop.	—	Note 9: Undisputed receivables (6m-1y) jumped to □365.42 Cr, indicating collection slowdown.
3	Revenue timing (unbilled/contract assets)	Revenue ↑ — subsidy recognition risk; NBS income recognized on "reasonable assurance" pending govt finalization.	—	Note 1A.9.ii: Subsidy income depends on DBT/NBS compliance; estimates subject to future govt revisions.
4	Revenue from related parties %	Neutral — low contagion risk; receivables from related parties are negligible at □0.54 Cr.	—	Note 10: No loans/advances granted to promoters or directors, a strong governance signal.
5	Inventory vs revenue growth	Profit ↓ — margin pressure; inventory rose 12% to □6,948 Cr while sales declined 16.5%.	—	Note 13: Finished goods are 49% of inventory; write-downs increased 7.3x to □37.38 Cr.
6	Inventory valuation method change	Neutral — consistency maintained; group uses weighted average except for refinery subsidiary.	—	Note 1A.7: Inconsistency between refinery and sugar units is justified by business nature.
7	Exceptional items in operating profit	Profit ↑ — non-recurring boost; □39 Cr exceptional gain included in PBT calculation.	—	Note 8.^^: Board approved sale of 50% holding in Indian Potash post-FY24 to unlock liquidity.
8	Depreciation rate vs useful life policy	Profit ↑↓ — management discretion; useful lives differ from Schedule II based on technical evaluation.	—	Note 1A.2: Technical evaluation of PPE lives allows for potential earnings smoothing.
9	Provision reversals boosting PAT	Profit ↑ — non-cash gain; FY23 had □19.01 Cr inventory reversal, none in FY24.	—	Note 13: Shift from reversals to heavy write-downs (□37.38 Cr) suggests conservative current provisioning.
10	Tax rate consistency	Profit ↓ — cash outflow; cash tax paid (□649 Cr) exceeds P&L tax (□557 Cr).	—	P&L tax of □557 Cr is lower than actual cash tax paid.
11	CWIP age and stalling projects	Neutral — project conversion; CWIP stable at □520 Cr while capital advances dropped.	—	Drop in advances suggests conversion to PPE as projects reached completion.
12	Deferred tax asset recognition	Profit ↑↓ — impairment risk; no impairment on loss-making CGUs based on management's "detailed assessment."	—	Note 2.6: Auditors focused on cash flow projections for loss-making factories where no impairment was taken.
13	RPT quantum and trend	Neutral — clean balance sheet; no loans to related parties and minimal receivables.	—	Note 10: Explicit confirmation of no demand loans to promoters or KMPs.
14	Dividend paid vs FCF adequacy	Neutral — sustainable payout; □228 Cr dividend well covered by □1,051 Cr Free Cash Flow.	—	Dividend payout ratio reduced to 8% from 18% to preserve liquidity.
15	Audit Trail Integrity	Neutral — system limitation; SAP HANA lacks application-level audit trail for DB changes.	—	Risk of undetected manual overrides in financial records; management cites software vendor constraints.
16	Government Liquidity Risk	Profit ↓ — liquidity strain; balances with govt authorities rose 67% YoY.	—	Significant GST/subsidy refunds are stuck, straining group liquidity alongside receivables spike.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion Type:** Unqualified.
- **Key Audit Matters (KAMs):**
  1. **Audit Trail (SAP HANA):** Auditor flagged that SAP does not maintain an audit trail at the application level for modifications by IT administrators. Management admitted database-level triggers are limited by software constraints.
  2. **Audit Trail (iCMS):** The in-house cane management software only had the audit trail feature enabled from January 30, 2024, leaving most of the year unmonitored.
  3. **Subsidy Income Recognition:** Recognition of Nutrient Based Subsidy (NBS) is based on management's "understanding" of schemes before government notification, introducing risk of future revenue reversals.
  4. **Inventory Verification:** Bulk stocks are verified using volume-to-weight estimations via third-party surveyors, involving inherent measurement uncertainty.
  5. **Impairment of CGUs:** Management identified loss-making factories as impairment indicators but concluded no write-down was necessary based on "detailed assessments" of future cash flows.

B. Related party transactions

Party	Relationship	Nature	Amount (□Cr)	Concern
TIFERT (Tunisia)	Associate	Share Pledge for Debt	33.75 Lakh Shares	***Asset encumbrance for associate***
Indian Potash Ltd	Associate	Proposed Divestment	Not disclosed	***Post-balance sheet liquidity move***
Ambadi Investments Ltd	Promoter	Shareholding	38.34%	Informational
Related Parties	KMP/ Directors	Receivables	0.54 Cr	Negligible

- **RPT Verdict:** **Monitor ** — While direct tunneling via sales is low, the continued pledge of associate shares and the reclassification of □1,640 Cr in ICDs suggest complex treasury management.

C. Shareholding

Shareholder category	Mar 2024 (%)	Mar 2023 (%)
Promoters	44.52	44.65
FIIs	10.19	8.87
DIIs	4.34	4.45
Public	40.95	42.03

- **Pledged Shares:** 0.00% of promoter holding.

D. Board composition + KMP compensation

- **Total Directors:** 10 | **Independent %:** 50.00% | **Women Directors:** 2.

- **KMP Compensation:**
  - Sridharan Rangarajan (Director): ₹0.13 Cr (0.005% of EBITDA).
  - **M.M. Venkatachalam (Chairman) is the uncle of Muthiah Murugappan (WTD & CEO).**
  - **Transparency Gap:** Detailed remuneration for the MD and CEO was not provided in the consolidated summary notes, preventing a full correlation with the 18% EBITDA decline.

F. Capital allocation & capex

Action	FY current (₹Cr)	FY prior (₹Cr)	% of CFO	Signal
Dividends	228.00 Cr	246.00 Cr	11.55%	—
Capex (Fixed Assets)	975.00 Cr	839.00 Cr	49.39%	—
Net Debt Change	122.00 Cr	359.00 Cr	6.18%	—
Working Capital Investment	-22.00 Cr	-2,022.00 Cr	-1.11%	—
Inventory Write-offs	37.38 Cr	4.46 Cr	1.89%	—
Impairments (PSRIPL)	85.00 Cr	105.96 Cr	4.31%	—

- **CAPEX Analytical Notes:**
  - **CFO Coverage:** Ratio is 2.02; CFO is now sufficient to self-fund capex, a major improvement from FY23 (0.43).
  - **Nature of Capex:** Growth-oriented, focusing on distillery expansion and Industry 4.0 digital solutions.
  - **Deployment Efficiency: Fixed assets increased by 25.8% (₹4,896 Cr)** while Sales dropped 16.5%, signaling a temporary mismatch between capacity addition and revenue realization.
  - **Key Takeaway:** Improved cash flow conversion is offset by significant inventory write-downs and continued losses in the refinery subsidiary.

H. Risks

- ***Audit Trail Failure:*** SAP HANA lacks application-level audit trail for DB changes. **Impact:** Risk of undetected manual overrides in financial records. (High)
- ***Receivables Divergence:*** Trade receivables up 126% while sales fell 16.5%. **Impact:** Signals potential channel stuffing or severe collection breakdown. (High)
- ***Ethanol Policy:*** Govt restrictions on sugar syrup for ethanol. **Impact:** Direct hit to high-margin bio-energy growth and distillery utilization. (High)
- ***Inventory Obsolescence:*** 7.3x increase in inventory write-downs (₹37.38 Cr). **Impact:** Margin erosion and potential overvaluation of stocks. (Medium)
- ***Subsidy Estimation:*** NBS income recognized on management estimates. **Impact:** Future revenue reversals if govt notifications differ. (Medium)

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	Institutional sales 46%; R&D moat	Strong competitive position in sugar/ethanol but FMCG is unproven.
Financial health	4	↑	D/E 0.25x; CFO □1,974 Cr > PAT	Low leverage and improved CFO coverage of capex.
Earnings quality	2	↓	Receivables +126% vs Sales -16.5%	Massive divergence between sales and collections is a major red flag.
Management & governance	3	↓	Audit trail KAM; Family KMP structure	Systemic audit trail gaps and lack of granular KMP pay disclosure.
Capital allocation & visibility	3	→	ROCE 20%; Dhaksha Goodwill □284 Cr	Aggressive capex and high-premium acquisitions with uncertain near-term returns.

Business positives (for this company this year) * **CFO Improvement: CFO** surged to □1,974 Cr, significantly exceeding PAT of □1,618 Cr, providing strong internal accruals for growth. * **De-leveraging: Debt/Equity** remains conservative at 0.25x, with Interest Coverage healthy at 8.38x. * **Strategic Mix:** Institutional sugar sales reached **46%**, reducing reliance on volatile wholesale markets. * **Capacity Growth:** Distillery capacity reached **582 KLPD**, positioning the company for the 20% ethanol blending mandate.

Business negatives / concerns (for this company this year) * **Receivables Spike: Trade Receivables** grew 126% to □1,835 Cr despite a 16.5% decline in Revenue, suggesting aggressive credit or collection issues. * **Inventory Stress: Inventory Days** ballooned to 112 days with a 738% increase in write-downs to □37.38 Cr. * **Audit Red Flag:** Statutory auditors flagged a lack of **audit trail** in SAP HANA for database-level changes, a significant internal control gap. * **Liquidity Trap: □803.01 Cr** is stuck in government balances (GST/Subsidies), up 67% YoY, straining operational liquidity.

OVERALL SCORECARD SUMMARY EID Parry is in a state of aggressive transition, showing strong balance sheet resilience (low D/E) and improved cash flow generation. However, the quality of earnings is currently under pressure due to a massive divergence between revenue and collections, alongside significant inventory buildup. Governance is generally compliant but marred by systemic IT audit trail gaps and a lack of transparency in family-led KMP compensation. The business is on a **stable but high-risk trajectory**, where the success of the "Predictably Sustainable" thesis depends on resolving working capital stress and navigating ethanol policy shifts.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 7.5/10 — Governance Rating: 3

Part c: investor verdict

Thesis: A 200-year-old sugar major transforming into a high-margin Bioenergy and FMCG player, backed by the Murugappa Group's balance sheet but currently facing severe working capital and regulatory headwinds. **Overall stance: Watch Rationale:** Strong cash flows and low debt are offset by a massive 126% spike in receivables and systemic audit trail concerns. **Re-evaluate when:** Trade Receivables drop below □1,200 Cr OR Inventory Days return to <90 days. **BULL CASE:** Normalization of ethanol policy and successful FMCG scale-up leading to ROCE expansion back to >25%. **BEAR CASE:** Further government restrictions on ethanol and continued collection delays leading to a liquidity crunch or major impairments in the refinery/drone subsidiaries. **Key monitorable:** Trade Receivables: □1,835 Cr → Watch threshold: □1,500 Cr.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status (FY23)	Summary b status (FY24)	Forensic takeaway
Capital Allocation	Capex (₹839 Cr) funded by debt/WC depletion; CFO coverage at 0.43.	Capex (₹975 Cr) self-funded by operations; CFO coverage at 2.02.	The company has successfully transitioned from debt-reliant growth to a self-sustaining capital expenditure model.
Working Capital	Massive ₹2,022 Cr drain driven by finished goods buildup.	Marginal ₹22 Cr investment; CFO/PAT improved from 0.20 to 1.22.	While overall cash conversion normalized, the 126% spike in receivables against a 16.5% sales drop suggests aggressive revenue recognition or collection failure.
Margin Trajectory	49.8% sales growth with 9% OPM; pressured by MTM losses.	16.5% sales decline with 9% OPM; supported by other income.	Operating margins are structurally resilient to top-line volatility, though current PAT is increasingly reliant on non-operating income cushions.
Management Tone	Aggressive top-line scaling and capacity expansion.	"Determined Transitioning" focused on "Predictably Sustainable" hedges.	Management has pivoted from raw volume pursuit to a defensive strategy aimed at decoupling from the sugar cycle through grain-based feedstock.
Inventory Health	15.5% growth; ₹19 Cr write-down reversal.	12% growth; ₹37.38 Cr write-down (7.3x increase).	Inventory quality is deteriorating significantly, as evidenced by the shift from provision reversals to heavy obsolescence charges.
Audit/Controls	Internal financial controls deemed adequate.	KAM flags systemic audit trail gaps in SAP HANA and iCMS.	A significant degradation in the internal control environment has emerged, increasing the risk of undetected manual overrides in financial records.

7.2 Persistent patterns

- **Subsidy Recognition Risk:** Management consistently recognizes Nutrient Based Subsidy (NBS) income based on internal estimates before government notifications, creating a recurring risk of revenue reversals.
- **Asset Life Extension:** The group continues to use **stretched useful lives (up to 60 years for buildings)** based on technical evaluations rather than Schedule II, which consistently inflates accounting profits by reducing annual depreciation charges.
- **Subsidiary Value Erosion:** The **PSRIPL refinery subsidiary remains a persistent drag** on consolidated performance, characterized by recurring losses and annual impairment charges.
- **Government Liquidity Trap:** A significant and growing portion of the balance sheet (**₹803 Cr in FY24**) remains locked in government balances (GST/Subsidies), creating a structural strain on operational liquidity.
- **Asset Encumbrance:** The group maintains a **persistent pledge of 33.75 lakh shares of TIFERT** to secure associate debt, representing a long-term contingent risk to the investment base.
- **Strategic Bioenergy Pivot:** There is a **sustained capital commitment toward distillery expansion (582 KLPD)**, signaling a permanent shift in the business model toward ethanol as the primary margin driver.
- **Family-Led Governance:** The leadership structure remains a **concentrated family arrangement** (Chairman is the uncle of the CEO), which correlates with the persistent lack of granular transparency regarding KMP remuneration.