Sumeet Industries Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	Sumeet Industries is a distressed commodity player currently in terminal decline and undergoing a formal Corporate Insolvency Resolution Process (CIRP) with a suspended Board.	Negative
2	**Revenue grew 15.6% to □1,033 Cr, driven by domestic volume resilience, though this was offset by a catastrophic 90% collapse in export sales.**	Neutral
3	***Operating margins have swung to a loss of 39 Cr as the company failed to pass on rising raw material and power costs to its concentrated customer base.***	Negative
4	***The reported net loss of 59 Cr is artificially suppressed and understated due to the non-provisioning of interest on NPA bank loans and MSME dues.***	Negative
5	***The company is technically insolvent with a negative net worth of 116.34 Cr and total equity erosion, leaving negligible value for shareholders.***	Negative
6	**Cash Flow from Operations was positive at □73 Cr, but this was lower-quality liquidity generated primarily through a □53 Cr inventory "fire sale."**	Neutral
7	***Capital expenditure has effectively ceased at a negligible 0.86 Cr, resulting in a value-destructive ROCE of -13% and zero growth visibility.***	Negative
8	***Earnings quality is critically low, characterized by a qualified audit opinion, "material uncertainty" regarding going concern, and aggressive accounting via interest suppression.***	Negative
9	***Governance is compromised by SEBI disgorgement orders against promoters for unlawful gains and a 12.5% hike in KMP pay despite insolvency proceedings.***	Negative
10	***Extreme concentration risk exists with two customers accounting for 60.5% of revenue, alongside a 64.18 Cr high-risk guarantee for a dormant Singapore subsidiary.***	Negative
11	***The outlook is grim as admitted claims of 727.73 Cr far exceed the book value of debt, suggesting a high probability of zero recovery for equity holders.***	Negative
12	***Investment View: Avoid; monitor the gap between admitted claims and realizable asset value during the NCLT resolution process.***	Negative

1. Business overview (In Bullet Points)

- **Business Segments:** Sumeet Industries operates in the polyester value chain, primarily manufacturing **Pet Chips**, Polyester Filament Yarn (POY & FDY), and Texturized Yarns.
- **Revenue Drivers:** Revenue is volume-led, reaching **□1,033.12 Cr** (up 15.6%), though growth is entirely domestic as the company faces severe distress.
- **Cost Drivers:** The cost structure is heavily weighted toward raw materials (**PTA/MEG**) and Power & Fuel, which rose 10.5% to □113.01 Cr.
- **Industry Position:** The company is currently a "distressed commodity play" operating in a highly competitive and capital-intensive environment.

- **Expansion Plans:** While management mentions modifications in the Continuous Polymerization Plant for capacity enhancement, these plans are likely frozen due to the **Corporate Insolvency Resolution Process (CIRP)**.
- **Acquisitions & Capacity:** No new acquisitions; the business is in "survival mode" with the Board suspended and a Resolution Professional (RP) in control.
- **Segment Performance:** The company has lost its ability to pass on costs, resulting in an **EBITDA-level loss** despite an "uptrend in demand" claimed by management.
- **Geographical Presence:** Almost entirely dependent on the domestic market (Surat/Gujarat hub). The Singapore subsidiary, **Sumeet Global Pte Limited**, is dormant with no business activities.
- **Export Collapse:** Export revenue plummeted by **89.9%** (from □44.89 Cr to □4.54 Cr), indicating a total loss of international competitiveness.

2. Management commentary & outlook

- The company was admitted into **Corporate Insolvency Resolution Process (CIRP)** on December 20, 2022, following a petition by IDBI Bank, leading to the suspension of the Board of Directors.
- Management claims to be "reassessing strategies" and pursuing "growth-focused and opportunity-driven strategies," yet there is no evidence of execution under the current insolvency status.
- The transition from an Interim Resolution Professional (IRP) to a new RP (Satyendra P. Khorania) mid-year suggests friction or complexities in the resolution process.
- Promoters are facing significant regulatory pressure, including **SEBI orders** to disgorge "unlawful gains" with 12% interest dating back to 2007; a stay was granted only upon a □3 Cr deposit.
- Management has stopped providing for interest on bank loans since July 2022 due to NPA status, and is disputing **□0.70 Cr** in MSME interest dues citing "quality issues," a move that artificially supports the bottom line.
- The company faces listing non-compliance fines from both NSE and BSE due to improper Board composition (lack of independent directors).
- Management highlights an "uptrend in demand" for polyester, but the company's transition to a loss-making entity while peers remain operational suggests idiosyncratic debt-related failures.
- The long-term vision is currently moot for equity holders, as the company's survival depends entirely on the NCLT resolution plan and the outcome of the CIRP.
- **Management Tone:** The management tone is **defensive and non-transparent**, characterized by a significant "say-do" gap. While projecting operational resilience through 15% sales growth, the narrative fails to address the terminal risk of insolvency or the collapse of the export business. The reliance on "disputes" to justify non-payment of dues and the suppression of interest costs reflects a loss of control over the financial narrative. The presence of SEBI-mandated disgorgement for "unlawful gains" creates a permanent cloud over promoter integrity.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	1,033	894
Sales Growth %	15.63	55.70
Expenses	1,073	859
Material Cost %	85	74
Raw material cost	831	656
Change in inventory	48	6
Manufacturing Cost %	15	16
Employee Cost %	2	3
Other Cost %	1	3
Operating Profit	-39	34
OPM %	-4	4
Other Income	10	21
Exceptional items	-0.02	-0.04
Other income normal	10.22	20.91
Interest	7	27
Depreciation	27	31
Profit before tax	-64	-3
Tax %	-8	-204
Net Profit	-59	3
Profit from Associates	0	0
Exceptional items AT	0	0
Profit excl Excep	-59	3
Profit for PE	-59	3
Profit for EPS	-59	3
Profit Growth %	-2,090	141
EPS (□)	-1.13	0.06
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	104	104
Reserves	-220	-156
Borrowings	489	551
Long term Borrowings	41	46
Short term Borrowings	448	505
Lease Liabilities	0	0
Preference Capital	30	30
Other Borrowings	-30	-30
Other Liabilities	82	98
Trade Payables	38	49
Advance from Customers	0	0
Other liability items	44	49
Total Liabilities	455	597
Fixed Assets	185	212
Land	0.50	0.50
Building	29.57	29.53
Plant Machinery	551.61	550.99
Furniture n fittings	2.64	2.60
Vehicles	2.46	2.41
Other fixed assets	0.01	0
Gross Block	586.79	586.03
Accumulated Depreciation	401.93	374.51
CWIP	0	0
Investments	0	0
Other Assets	270	385
Inventories	103	156
Trade receivables	105	117
Cash Equivalents	5	0
Loans n Advances	0	0
Other asset items	58	113
Total Assets	455	597

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	73	61
Profit from operations	-35	50
Receivables	12	-12
Inventory	53	8
Payables	-11	14
Other WC items	55	2
Working capital changes	108	11
Interest paid	0	0
Direct taxes	0	0
Other operating items	0	0
Cash from Investing Activity	-1	1
Fixed assets purchased	-0.86	-1.22
Fixed assets sold	0	0.04
Capital WIP	0	0
Investments purchased	0	-0.03
Investments sold	0.08	0
Interest received	0.01	1.74
Dividends received	0	0
Loans to subsidiaries	0	0
Other investing items	0	0
Cash from Financing Activity	-68	-62
Proceeds from shares	0	0
Proceeds from borrowings	0	0
Repayment of borrowings	-62	-37
Interest paid fin	-6	-24
Other financing items	0	0
Net Cash Flow	4	-1
Free Cash Flow	72	59
CFO/OP	-185	176

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	37	48
Inventory Days	43	86
Days Payable	16	27
Cash Conversion Cycle	64	106
Working Capital Days	-86	-82
ROCE %	-13	5

3.2 Financial analysis summary

- **Revenue** from operations grew by 15.63% to □1,033.00 Cr, yet the company entered CIRP in December 2022; this growth was entirely domestic as Export Sales collapsed by 90% to □4.54 Cr, and customer concentration reached a critical level with two entities accounting for 60.49% of total Revenue.
- The **Operating Profit** swung from a profit of □34.00 Cr to a loss of □39.00 Cr as Raw material cost surged to 85% of Sales (□831.00 Cr) and Power & Fuel expenses rose 10.5% to □113.01 Cr, indicating a total inability to pass on cost increases.
- **Net Profit** deteriorated to a loss of □59.00 Cr, but this figure is artificially supported by a non-recurring "Claim Received" of □9.89 Cr in Other Income and a Deferred Tax asset recognition of □5.05 Cr, without which the loss would be significantly deeper.
- **Finance Cost** reported on the P&L dropped sharply to □7.00 Cr from □27.00 Cr because the company ceased providing for interest on bank loans following NPA classification; the actual Net Profit loss is unquantifiably understated.
- **Cash from Operating Activity (CFO)** remained positive at □73.00 Cr despite the heavy Net Profit loss, primarily driven by a □108.00 Cr release from Working Capital, specifically a massive □53.00 Cr reduction in Inventory which was a liquidation of finished goods to generate immediate liquidity.
- **Trade Receivables** decreased to □105.00 Cr, improving Debtor Days to 37, but there is a major risk with □4.46 Cr outstanding for over 3 years from a subsidiary (Sumeet Global PTE) that has NIL assets and negative net worth.
- The **Balance Sheet** reflects technical insolvency with Reserves falling to -□220.00 Cr, resulting in a negative Net Worth of □116.34 Cr; the auditor has issued a "Material Uncertainty" regarding the Going Concern status.
- **Total Debt** stands at □489.00 Cr, with □448.00 Cr reclassified as Short term Borrowings because lenders have "called up" all major term loans, making them strictly payable on demand.
- **Total Liabilities** are likely understated as the Resolution Professional has admitted secured claims of □583.48 Cr and unsecured claims of □107.61 Cr, which significantly exceed the carrying values of Borrowings and Trade Payables.
- **Fixed Assets** (Gross Block) remained stagnant at □586.79 Cr with negligible Capex of □0.86 Cr, while Accumulated Depreciation reached □401.93 Cr, suggesting aging machinery may not be realizable at book value.
- **Contingent Liabilities** pose a terminal threat, specifically a □64.18 Cr corporate guarantee for the Singapore subsidiary and □36.64 Cr in operational claims filed with the RP that are not yet recognized as Trade Payables.
- **ROCE** collapsed to -13.00% and Interest Coverage is deeply negative at -8.14, confirming the business cannot service its debt or maintain operations without external intervention.

- **Other Assets** were impacted by the resolution of a ₹37.77 Cr "Claim Receivable" from FY22, of which ₹9.89 Cr was credited to P&L to "find" income during the crisis, while Other Expenses remain elevated due to Legal & Professional fees of ₹2.63 Cr related to CIRP.
- Sumeet Industries is in a state of financial collapse where positive **CFO** is merely a byproduct of Inventory liquidation and the suppression of Finance Cost accruals during a formal insolvency process.

3.3 Contingent liabilities & commitments

- **Corporate Guarantee: ₹64.18 Cr** ($7.81 million) given to Bank of Baroda, Singapore, for subsidiary Sumeet Global PTE Ltd. The subsidiary has NIL assets, making invocation highly likely.
- **Operational Claims: ₹36.64 Cr** in claims filed by operational creditors with the Resolution Professional, not yet recognized on the balance sheet.
- **Tax Disputes: ₹0.38 Cr** in disputed Income Tax demands.
- **MSME Interest: ₹0.70 Cr** in unprovided interest on delayed payments to MSMEs, a violation of the MSMED Act.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; ₹73 Cr CFO driven by ₹53 Cr inventory liquidation during insolvency.	—	CFO is positive only due to massive stock reduction and non-payment of interest.
2	Receivables & channel-stuffing signal	Revenue ↑ — liquidation of stock; inventory fell 34% while sales grew 15.6% during CIRP.	—	Inventory reduction from ₹156 Cr to ₹103 Cr suggests "fire sale" to generate liquidity.
3	Revenue timing	Revenue ↑ — aggressive recognition; ₹9.89 Cr insurance claim booked as income to soften losses.	—	Auditor flagged ₹9.89 Cr claim transfer to P&L as a key audit matter.
4	Revenue from related parties %	Revenue ↑↓ — high concentration; two customers (Aadhidev & Pallas) account for 60.5% of sales.	—	Extreme dependency on two counterparties increases risk during the insolvency process.
5	Inventory vs revenue growth	Profit ↓ — margin squeeze; raw material costs rose to 85% of sales vs 74% YoY.	—	Finished goods inventory crashed from ₹50.5 Cr to ₹9.8 Cr, signaling operational distress.
6	Inventory valuation method change	Neutral — consistent policy; company continues using lower of cost or net realizable value.	—	No change in method, but realizable value in liquidation is likely below book value.
7	Exceptional items in operating profit	Profit ↑ — loss suppression; company stopped providing for interest on bank loans post-NPA.	—	Auditor qualified the report as interest on bank loans and MSME dues was not provided.
8	Depreciation rate vs useful life policy	Profit ↑ — non-cash boost; WDV method used but no revaluation despite insolvency status.	—	Carrying value of ₹185 Cr may not reflect actual market value in a forced sale.
9	Provision reversals boosting PAT	Profit ↑ — accounting gain; ₹37.77 Cr claim receivable adjusted, including ₹9.89 Cr to P&L.	—	Use of old "Claim Receivables" to boost income during a year of heavy operating losses.
10	Tax rate consistency	Profit ↑ — non-cash credit; negative tax rate (-8%) due to recognition of deferred tax.	—	Recognition of DTA is questionable given the lack of virtual certainty of future profits.
11	CWIP age and stalling projects	Neutral — no active projects; CWIP remains at zero for both years.	—	No capital expenditure risk, but existing plant machinery is aging (Accumulated Dep. at 68%).
12	Deferred tax asset recognition	Profit ↑ — asset inflation; ₹5.05 Cr DTA recognized despite negative net worth of ₹116 Cr.	—	Auditor highlighted material uncertainty regarding going concern, making DTA recovery unlikely.
13	RPT quantum and trend	Profit ↓ — value leakage; ₹4.46 Cr receivable from Singapore subsidiary with NIL assets.	—	Auditor flagged recovery of investment and receivables from the subsidiary as highly doubtful.
14	Dividend paid vs FCF adequacy	Neutral — no dividends; company is in insolvency and conserving all possible cash.	—	FCF of ₹72 Cr is artificial, driven by working capital liquidation rather than earnings.
15	Auditor Qualification on Interest	Profit ↑ — Understatement of finance costs due to non-provision of interest on NPA loans.	—	Reported loss of ₹58.72 Cr is significantly understated; impact is unquantifiable.
16	Going Concern Uncertainty	Neutral — Survival risk; negative net worth of ₹116.34 Cr and CIRP status.	—	Survival depends entirely on NCLT resolution plan; material uncertainty exists.

#	Check	Impact	Status	Notes detail
17	Subsidiary Impairment	Profit ↑ — Failure to impair □22.73 Cr investment in subsidiary with NIL assets.	—	Auditor flagged that management has not provided for impairment despite negative net worth of subsidiary.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Qualified Opinion. * **KAM - Investment in Subsidiary:** Sumeet Global PTE (Singapore) has NIL assets and a negative net worth of □64.31 Cr. Management has not provided for impairment of the □22.73 Cr investment or □7.38 Cr receivable. * **KAM - Insurance Claim Receivable:** Management transferred □9.89 Cr from a claim account to Other Income. Auditor flagged this as a significant judgment area impacting the bottom line. * **KAM - Going Concern:** The company has a negative net worth of □116.34 Cr and is under CIRP. Survival depends entirely on the NCLT resolution plan. * **Emphasis of Matter:** Admitted claims from secured (□583.48 Cr) and unsecured (□107.61 Cr) creditors significantly exceed book values due to unrecorded interest. * **Modifications:** Qualified due to non-provision of interest on bank loans and MSME dues (□0.70 Cr). * **Independence Assessment:** Auditor fees of □0.075 Cr are exceptionally low (0.007% of Revenue), raising concerns regarding audit depth.

B. Related Party Transactions

Party	Relationship	Nature	Amount (□ Cr)	Concern
Somani Overseas Pvt Ltd	Promoter Group	Loan Repayment	1.47 Cr	***Cash outflow to promoters during insolvency***
Sumeet Global PTE Ltd	Subsidiary	Receivables	4.46 Cr	***Doubtful recovery; subsidiary has NIL assets***
Durga Transport Company	Promoter Entity	Transportation	1.10 Cr	Operational dependency on promoter entities
Somani Overseas Pvt Ltd	Promoter Group	Balance Due To	11.05 Cr	High promoter-linked liability

- **RPT Risk:** Transactions with promoter-controlled entities continued despite CIRP. Corporate guarantee of **□64.18 Cr** given to Bank of Baroda, Singapore for a subsidiary with zero assets.

C. Shareholding * Promoter Pledged Shares: Not disclosed in AR. * Equity Capital: □104.00 Cr.

D. Board Composition + KMP Compensation * **Total Directors:** 6 | **Independent %:** 66.67% | **Women Directors:** 1. * **KMP Compensation:** Anil Kumar Jain (CS) and Abhishek Prasad (CFO) saw **12.5% pay increases** despite insolvency and a □39 Cr operating loss. * **Family Compensation:** Sumeet Kumar Somani (MD) and Shankarlal Somani (Chairman) share the same family name; both drew NIL remuneration this year.

F. Capital Allocation & Capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Capex	0.86	1.22	1.18%	—
Net Debt Change	-62.00	-37.00	-84.93%	—
Interest Payments	6.00	24.00	8.22%	—

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex**: Ratio is 84.88, but misleading as CFO is derived from inventory liquidation.

- **Nature of Capex**: Minimal maintenance capex (□**0.86 Cr**) suggests no growth initiatives are possible.
- **Deployment Efficiency**: Revenue grew 15.63% without growth capex, likely inflationary or volume-based from existing capacity, but failed to translate to profit.
- **Key Takeaways**: **The company has ceased all meaningful capital expenditure, focusing solely on survival and debt reduction under the Resolution Professional.**

H. Risks * **Insolvency (CIRP):** Total loss of equity value; management control lost to RP. **Severity: High** * **Going Concern:** Negative net worth of □116.34 Cr; liquidation risk if resolution plan fails. **Severity: High** * **Customer Concentration:** 60% of revenue from two customers; loss of one would cause collapse. **Severity: High** * **Subsidiary Default:** □64.18 Cr guarantee for a subsidiary with NIL assets likely to be invoked. **Severity: High** * **Interest Understatement:** Non-provision of interest on NPA loans masks the true depth of loss. **Severity: Medium**

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	1	↓	Export collapse 90%, 60% revenue concentration	Commoditized business in terminal distress with no pricing power.
Financial health	1	↓	Net Worth -□116 Cr, D/E -4.2x, CIRP status	Technically insolvent with all major loans called up by lenders.
Earnings quality	1	↓	CFO from inventory fire-sale, interest suppression	Profits are aggressively managed via non-provisioning and one-time claims.
Management & governance	1	↓	SEBI disgorgement order, low audit fees, CIRP	Promoter integrity issues and total loss of control to creditors.
Capital allocation & earnings visibility	1	↓	Capex □0.86 Cr, ROCE -13%	Value-destructive state with no growth visibility and assets in liquidation.

Business positives (for this company this year) * **Domestic Revenue Growth:** Revenue from operations grew by **15.63%** to □1,033.00 Cr, showing some domestic volume resilience. * **Debt Reduction:** Repaid □**62.00 Cr** of borrowings during the year, although this was under the direction of the insolvency process. * **Positive CFO:** Generated □**73.00 Cr** in Cash from Operations, providing temporary liquidity.

Business negatives / concerns (for this company this year) * **Technical Insolvency:** Negative net worth of □**116.34 Cr** and reserves of -□220.00 Cr indicate total equity erosion. * **Export Collapse:** Export sales fell **89.9%** to □4.54 Cr, signaling a loss of international market standing. * **Audit Qualification:** Auditor flagged the non-provision of interest on bank loans and MSME dues, meaning the □**58.72 Cr** loss is understated. * **Customer Concentration:** Two customers account for **60.49%** of total revenue, creating extreme counterparty risk. * **Subsidiary Risk:** A □**64.18 Cr** corporate guarantee exists for a Singapore subsidiary with NIL assets and negative net worth. * **Forensic Red Flag:** Positive CFO was driven by a □**53.00 Cr** inventory liquidation ("fire sale") rather than operational profits. * **Regulatory Action:** Promoters ordered by SEBI to disgorge "unlawful gains" with 12% interest dating back to 2007.

Overall scorecard summary Sumeet Industries is in a state of terminal financial and operational collapse, currently undergoing formal insolvency proceedings (CIRP). The company's financial health is poor, with a fully eroded net worth and a transition to technical insolvency. Earnings quality is at its lowest, as reported losses are suppressed by the non-accrual of interest and positive cash flows are merely the result of liquidating stock.

Governance is a major concern given the SEBI disgorgement orders and the suspension of the Board, placing the company on a deteriorating trajectory where equity value is likely negligible.

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: 6/10 — Governance Rating: 1

Part c: investor verdict

Thesis: Sumeet Industries is a distressed commodity player in terminal decline, where the equity value is likely to be wiped out in the ongoing NCLT resolution process. **Overall stance:** Avoid **Rationale:** The company is technically insolvent with a negative net worth of □116 Cr and is liquidating assets to satisfy creditors under CIRP. **Re-evaluate when:** A resolution plan is approved that provides for significant equity retention for minority shareholders (highly unlikely). **BULL CASE:** A white-knight investor acquires the company at a premium that covers all □727 Cr of admitted claims and leaves value for equity (Magnitude: Low probability). **BEAR CASE:** Liquidation of assets results in zero recovery for equity shareholders after satisfying □583 Cr in secured claims (Magnitude: High probability). **Key monitorable:** Admitted Claims vs. Realizable Value of Assets: □727.73 Cr → Watch for any further increase in admitted claims.