



# Financial Reporting Quality Review Report (FRQRR)

**Company: Prabhu Steel Industries Limited**

**CIN: L28100MH1972PLC015817**

**Financial Reporting for the Financial Year: 2019-20**

**Financial Reporting Framework: Indian Accounting Standards (Ind AS)**

**Report No: NF-20011/24/2021**

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**List of Abbreviations and Acronyms**

AS	Accounting Standard notified under Companies (Accounting Standards) Rules 2006 (re-notified in 2021)
CA, 2013	Companies Act, 2013
Company/PSIL	Prabhu Steel Industries Limited
FRQR	Financial Reporting Quality Review
FRQRR	Financial Reporting Quality Review Report
FY	Financial Year
Ind AS	Indian Accounting Standard notified under Companies (Indian Accounting Standards) Rules 2015
NFRA/Authority	National Financial Reporting Authority, Government of India

## **A. INTRODUCTION**

### **1. About Financial Reporting Quality Review (FRQR)**

- 1.1** Section 132 (2) (b) of the Companies Act, 2013 stipulates that NFRA shall monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed. Rule 4(1) of NFRA Rules 2018 states that the Authority shall protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate governed under Rule 3 by establishing high quality standards of accounting and auditing and exercising effective oversight of accounting functions performed by the companies and bodies corporates and auditing functions performed by auditors. Rule 7 of the NFRA Rules 2018 lays down the key aspects to accomplish the above objectives of NFRA.
- 1.2** In pursuance of the above objectives, NFRA has undertaken a Financial Reporting Quality Review, which primarily involves the examination of the Financial Statements and the Annual Report of Prabhu Steel Industries Limited (the Company/PSIL) for the FY 2019-2020 and other information sought from the Company during NFRA's review. Based on this examination and review, NFRA has prepared this Financial Reporting Quality Review Report (FRQRR).
- 1.3** This FRQR focuses on the role of preparers, i.e., those responsible for the preparation of Financial Statements and Annual Reports. The primary goal of the FRQR is to assess and evaluate how well the information needs of users of the Financial Statements and the Annual Report have been met. The FRQR also has the objective of assessing the Financial Reporting Quality Control System of the Company and the extent to which the same has been complied with in the preparation and presentation of the Financial Statements. It is important to note the following key provisions of the Companies Act, 2013 (CA, 2013) in this regard.
- 1.3.1** According to Section 129(1) of the CA, 2013, the Financial Statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under Section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III of CA, 2013.
- 1.3.2** Section 129(7) of CA, 2013 contains penal provisions for non-compliance with the requirements of Section 129 i.e. if a company contravenes the provisions of the section, the Managing Director, the Whole-time Director in charge of Finance, the Chief Financial Officer or any other person charged by the Board with the duty of complying with the requirements of the Section and in the absence of any of the officers mentioned above, all the Directors shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.
- 1.3.3** Section 134(5) of CA, 2013 requires the Directors' Responsibility Statement to state that-
- (a) in the preparation of the Annual Accounts, the applicable Accounting Standards had been followed along with proper explanation relating to material departures;
  - (b) the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of

the profit and loss of the company for that period;

- (c) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (d) the Directors had prepared the Annual Accounts on a going concern basis; and
- (e) the Directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.

**1.4** The FRQR also involves verification of compliance with the requirement of the applicable Accounting Standards Framework by the Company in the preparation and presentation of the Financial Statements.

**1.5** The FRQR is thus designed to bring out insufficiencies in the preparation and presentation of Financial Statements by the Company and to identify and highlight non-compliance with the requirements of the applicable Accounting Standards Framework. The FRQR is, therefore, not to be treated as an overall rating tool.

**1.6** The FRQRR will be published in compliance with Rule 7(3) of NFRA Rules, 2018, which requires NFRA to publish its findings relating to non-compliances on its website.

**1.7** The FRQRR will also be sent to the Central Government for appropriate action.

**1.8** The FRQRR should be placed before the Board of Directors of PSIL for its information and for taking appropriate action.

#### **Summary of FRQR**

**1.9** NFRA's FRQR started with seeking, vide NFRA letter dated 15<sup>th</sup> April 2021, information/certified copies of documents from PSIL pertaining to the Financial Statements. The Company had provided such information vide its email communication dated 15<sup>th</sup> June 2021. NFRA has examined this information and after a preliminary examination of the Financial Statements of the Company for the Financial Year 2019-20, had sent a questionnaire dated 7<sup>th</sup> October 2021. On failure of the Company to furnish its replies to the queries within the stipulated time, NFRA has issued a notice dated 12<sup>th</sup> November 2021 under Rule 13 of NFRA Rules 2018 invoking Section 450 of the CA, 2013. The Company then provided its unsigned response to the queries vide its email dated 22<sup>nd</sup> November 2021. On further intervention from NFRA the Company provided its modified replies vide email dated 1<sup>st</sup> December 2021, which contained a signed reply letter dated 30<sup>th</sup> November 2021. A draft FRQRR was finalised based on the queries raised by NFRA, the responses received from PSIL, and the information on record. The draft FRQRR was sent to the Company for further comments on 11<sup>th</sup> January 2022. Also, an opportunity for a personal hearing was offered to the Company. The Company responded to the Draft FRQRR vide its letter dated 25<sup>th</sup> January 2022. In the said letter the Company has noted all the issues/observations reported by NFRA for compliance and requested 90 days to restate Financial Statements for the Financial Year 2019-20 and to get it re-audited. The FRQRR is thus finalised after considering all the written representations made by the Company.

**1.10** NFRA's observations in this FRQRR are divided into two categories viz. High and Moderate Impact. There are no observations classified as 'Low Impact' category. The specific observations along with the Company Management's response to NFRA's queries/issues reported in the draft FRQRR and NFRA's conclusions/recommendations thereof are given in Part B Detailed Observations of this report.

**1.11** Following is a summary of NFRA's key observations categorized as 'High' Impact.

- (a) The Company is a Listed Company and therefore, according to the Companies (Indian Accounting Standards) Rules 2015 (hereinafter referred to as Indian Accounting Standards Framework) it is required to follow the Indian Accounting Standards notified by the Central Government under Companies (Indian Accounting Standards) Rules 2015 in exercise of the powers under section 133 of the Companies Act, 2013. However, the Company has provided contradictory disclosures in the Director's Report and the Notes to Annual Accounts regarding the fundamental aspect of the applicable Accounting Standards Framework followed in the preparation of Financial Statements for the year 2019-20. i.e., the Directors' Report states the Company has followed Accounting Standards (AS) issued by the Institute of Chartered Accountants of India whereas the Notes to Annual Accounts state the Financial Statements are prepared in compliance with the Indian Accounting Standards notified under Section 133 of the Companies Act, 2013. Further, the Independent Auditor's Report states the Financial Statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India. Though the Company submits that it has followed Indian Accounting Standards Framework (Ind AS Framework), the disclosures at several places are made in accordance with the Companies (Accounting Standards) Rules 2006 (hereinafter referred to as Accounting Standards Framework (AS Framework)), which Framework is no longer applicable to the Company. The selection and application of appropriate Accounting Standards Framework in the preparation of Financial Statements are fundamental to provide a true and fair view of the financial information. By providing contradictory disclosures in this regard, and by providing material disclosures under an inappropriate Accounting Standards Framework, the Company has violated the provisions of the CA, 2013 regarding the preparation and presentation of the Financial Statements. Thus, the Company has been grossly negligent in the selection and application of correct Accounting Standards Framework applicable to it. The Company is advised to comprehensively re-check all its accounting policies and disclosures to ensure compliance with Ind AS Framework prescribed under Companies (Indian Accounting Standards) Rules, 2015 and present the restated Financial Statements along with revised Independent Auditors' Report and other reports as considered necessary.
- (b) The Company failed to present a Statement of Changes in Equity in the Financial Statements as required by sub-section 40 of Section 2 of the CA, 2013, Indian Accounting Standard (Ind AS) 1 - *Presentation of Financial Statements* (Ind AS 1), and Schedule III to the CA, 2013. The manner, style and contents of information presented in PSIL's Annual Financial Statements for the Financial Year 2019-20 indicates that it continues to follow the requirements of Division I of Schedule III to the CA, 2013 which do not apply to the companies that are required to prepare and present the Financial Statements under Ind AS Framework.
- (c) The Annual Financial Statements published by the Company are incomplete in material aspects

such as the absence of disclosures regarding property, plant and equipment. The Company has given false information regarding the date of incorporation in its Annual Report published on its website, knowing it to be false. The Company also failed to prepare Consolidated Financial Statements as required by Section 129(3) of the CA, 2013 though it has disclosed certain companies as Associate Companies in the Financial Statements.

- (d) The disclosures regarding balances relating to Income Taxes and the related accounting policy are deficient and erroneous. The Directors' Responsibility Statement made by the Company in this regard is thus false and misleading.
- (e) Because of the explicit requirements of Indian Accounting Standard (Ind AS) 109, *Financial Instruments* (Ind AS 109), the Company was required to consider all the factors in the recognition and measurement of impairment loss based on expected credit loss approach for Trade Receivables, Loans and Advances and Bank Balances. The full amount of Trade Receivables and Loans and Advances of the Company are unsecured and Bank balances are with non-scheduled lesser-known Banks. Thus, it becomes even more necessary to assess the credit risk holistically as required by the principles of Ind AS 109. However, the Company has not done a proper evaluation of impairment loss allowance for these Financial Assets.
- (f) The Company has not provided the disclosures required as per Indian Accounting Standard (Ind AS) 19, *Employee Benefits* (Ind AS 19), regarding Defined Contribution Plans.
- (g) The Company has not given any explanation why financial asset in the form of investment in shares and non-financial asset in the form of Land are classified as Stock in Trade-Inventories. Also, the accounting policy on Inventories is incomplete and erroneous. The Company does not comply with the requirements of Indian Accounting Standard (Ind AS) 32, *Financial Instruments: Presentation* (Ind AS 32), Ind AS 109, and Indian Accounting Standard (Ind AS) 2, *Inventories* (Ind AS 2).
- (h) Disclosures as required by Paragraphs 45, 46 and 48 of Indian Accounting Standard (Ind AS) 7, *Statement of Cash Flows* (Ind AS 7), have not been made by the Company. Thus, the Financial Statements of the Company do not comply with Ind AS 7.
- (i) Important disclosures prescribed by Indian Accounting Standard (Ind AS) 107, *Financial Instruments: Disclosures* (Ind AS 107) have not been made by the Company. The disclosure requirements of this Ind AS relate to significance of financial instruments for the company's financial position and performance and the nature and extent of risks arising from Financial Instruments to which the Company is exposed during the period and at the end of the reporting period, and how the Company manages those risks.
- (j) Disclosures relating to fair value measurement prescribed by Indian Accounting Standard (Ind AS) 113, *Fair Value Measurement* (Ind AS 113) have not been made by the Company.
- (k) There is no disclosure of the nature of loans given and other advances in the Notes to Accounts. Therefore, PSIL's Annual Financial Statements do not comply with the statutory disclosure requirements specified in Division II of Schedule III to the Companies Act, 2013 in respect of the Financial Assets reported in the form of loans and advances. Amount of these loans and advances is material having regard to the overall Balance Sheet size. Further, some of the sub-

items, e.g., the deposit of taxes and duties with government departments etc., forming part of the balances reported under this line item 'Current Loans & Advances-Others' are not Financial Instruments and Financial Assets as defined in paragraph 11 and explained in paragraphs AG3 -AG12 of Ind AS 32. Therefore, there are fundamental errors in the classification and presentation of line items in the Balance Sheet and the disclosures made are therefore not in conformity with relevant Ind AS. The Company has failed to make appropriate disclosure as required by Schedule III regarding its Borrowings in the form of loans taken. Thus, the Financial Statements are not in compliance with the requirements of Schedule III of the CA, 2013 and thus the Company has violated Section 129 of the CA, 2013.

- (l) The Company has violated Indian Accounting Standard (Ind AS) 16, *Property, Plant and Equipment* (Ind AS 16), in the preparation of Financial Statements by not providing for required depreciation on plant and machinery.
- (m) Apart from the above, the Company has made serious violations of the Companies Act, 2013 and applicable Ind AS provisions in almost all the areas of accounting as detailed in Part B of this FRQRR.

**1.12** Based on the above observations and considering the cumulative effect of deficiencies classified as 'Moderate Impact (in Part B, paragraph 3 of this FRQRR) NFRA finds that the Company has blatantly and grossly violated the provisions of the CA, 2013 and applicable Ind AS Framework while preparing Financial Statements for the year 2019-20. The actions/omissions of the Company clearly show gross negligence and absence of due diligence on the part of the Board and Management in the preparation and presentation of Annual Financial Statements. Some of such instances also raise serious doubts about the genuineness of the business activities conducted by the Company. The so-called Financial Statements published by the Company appear to be false and misleading in several material aspects. Such violations make the Financial Statements null and void as it does not comply with the basic requirements of the CA, 2013 as laid down in Sections 2(40), 128, 129, and 134. The actions/omissions of the Company and its Management/Board falls under Sections 129 (7) and 448 of the CA, 2013, liable for consequential actions.



## B. DETAILED OBSERVATIONS

### 2. OBSERVATIONS ON THE ANNUAL FINANCIAL STATEMENTS AND THE ANNUAL REPORT CLASSIFIED AS HIGH IMPACT

#### Observations on Annual Financial Statements

#### 2.1 Applicable Accounting Standards Framework

##### Subject Matter of the Issue

NFRA observed the following contradictory disclosures in the Annual Report of the Company.

- i Disclosure in the Directors' Report - Standalone Financial Statement: In the Director's Report it is stated that *"The audited Standalone financial statement of the Company prepared in accordance with relevant Accounting Standards (AS) issued by the Institute of Chartered Accountants of India forms part of this Annual Report."* (Emphasis added)
- ii Disclosure in the Standalone Financial Statements – Schedule 10 Significant Accounting Policies: Note 1, *"System of Accounting" states that "The financial statements have been prepared to comply in all material respects with the generally accepted accounting principles, Indian Accounting Standards notified under Section 133 of the Companies Act 2013, read with read with relevant rules issued thereunder and the relevant provisions thereof" [sic].* (Emphasis added).
- iii Note 9 under Significant Accounting Policies refers to Ind AS when it states that *"The preparation of financial statements in conformity with Ind AS requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognized in the period in which the results are known/materialized."* (Emphasis added).
- iv Independent Auditor's Report: The second paragraph of the opinion part of the Independent Auditor's Report states that *"In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2020, and of profit, changes in equity and its cash flows for the year ended on that date."* (Emphasis Added).

##### NFRA Observation

The Company is a Listed Company on a stock exchange in India and therefore, as per Rule 4 of The Companies (Indian Accounting Standards) Rules, 2015, it is required to comply with the Indian Accounting Standards (Ind AS) prescribed under these Rules for the preparation and presentation of its Annual Financial Statements.

However, the disclosures made by the Company in the Director's Report and Notes to the Annual Financial Statements, read with the opinion given in the Independent Auditor's Report, are contradictory and misleading.

### **PSIL Response**

The Company submits that the *“preparation of financial statements is as per Rule 4 of the Companies (Indian Accounting Standards) Rules 2015. We duly apologise for such non-disclosure in Board’s report. ....will upload the revised annual report on the website of the Company”*

### **NFRA Conclusions/Recommendations**

The selection, application and disclosure of appropriate Accounting Standards Framework prescribed under the CA, 2013 is fundamental to ensure that the Financial Statements are reflecting a true and fair view of the state of affairs of the Company as required by Section 129 of the CA, 2013. In respect of the fundamental information regarding the applicable Accounting Standards Framework, the disclosures made by the Company in the Director’s Report and Notes to the Annual Financial Statements, read with the opinion given in the Independent Auditor’s Report, are contradictory and misleading.

NFRA also notes that in Note 2, the Company has reported an amount of ₹7,73,670 as Non-Current Investments, classified as ‘Trade Investments’ and ‘Other Investments’. In this case, PSIL has followed the classification requirements prescribed in Division I of Schedule III to the CA, 2013 which applies to Companies that are required to follow Companies (Accounting Standards) Rules 2006 (AS Framework), whereas PSIL is required to follow the classification requirements prescribed in Division II of Schedule III to the CA, 2013. Inter alia, PSIL has not made the disclosures required as per Division II of Schedule III to the CA, 2013 in respect of Current Investments as well. Similarly, the accounting policy of classification and measurement of investments in Equity Instruments and Mutual Funds as disclosed by the Company is erroneous and not relevant for companies falling under the Ind AS Framework. Such policies are relevant for companies that follow the AS Framework (also refer to observations in other sections of this FRQRR for details in this regard).

It also noted that while Indian Accounting Standard (Ind AS) 7, *Statement of Cash Flows* (Ind AS 7) requires preparing the “Statement of Cash Flows”, PSIL has titled the Statement of Cash Flows as “Cash Flow Statement”, which is a title used in AS 3, notified under Accounting Standards Rules 2006 which are applicable to non-Ind AS Companies. Similarly, in the head “Cash Flow from Investing Activities”, PSIL has used the nomenclatures “Purchase of Fixed Assets” and “Proceeds from sales of Fixed Assets” instead of the nomenclatures “Property, Plant and Equipment”. This is contrary to the requirement of Paragraph 16(b) of Ind AS 7. The same presentation style has been adopted in the disclosure of Cash Flow from Operating Activities where PSIL has mentioned “Profit on sale of Fixed assets.” The terminologies used by the Company are again as prevalent in the AS Framework.

Similarly, observations in other sections of this FRQRR makes it clear that the Company has followed AS Framework for disclosures regarding many of the Balance Sheet items.

Thus, the Company has been grossly negligent in the selection and application of the required Accounting Standards Framework viz. Ind AS Framework. The Company is advised to comprehensively re-check all its accounting policies and disclosures to ensure compliance with Ind AS Framework i.e., Companies (Indian Accounting Standards) Rules, 2015 and present the restated Financial Statements along with revised Independent Auditors’ Report.

## 2.2 Incomplete Financial Statements: Absence of Statement of Changes in Equity

### Subject Matter of the Issue

Financial Statements presented by the PSIL does not include the Statement of Changes in Equity (SOCIE). It has disclosed the details of “Share Capital” and “Reserves and Surplus” in Note 9 and 10, respectively. Following are the requirements Indian Accounting Standard (Ind AS) 1, *Presentation of Financial Statements* (Ind AS 1) and Division II to Schedule III to the CA, 2013.

Section 2 (40) of the CA, 2013 states “*financial statement*” in relation to a company, includes—

- i a balance sheet as at the end of the financial year;*
- ii a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;*
- iii cash flow statement for the financial year;*
- iv a statement of changes in equity, if applicable; and*
- v any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):*
- vi Provided that the financial statement, with respect to One Person Company, small company, and dormant company, may not include the cash flow statement.*

Paragraph 10 of Ind AS 1 mentions the components that comprise a complete set of Financial Statements and sub-paragraph (a) of paragraph 10 of Ind AS 1 requires the Companies to present SOCIE as part of the Balance Sheet of the Company. Further, general instructions for preparation of Financial Statements of a Company contained in Division II of Schedule III to the CA, 2013, requires the below-mentioned disclosure in respect of SOCIE:

- i Name of the Company*
- ii Statement of Changes in Equity for the period ended*
- iii Equity Share Capital*
- iv Balance at the beginning of the reporting period*
- v Changes in equity share capital during the year*
- vi Balance at the end of the reporting period*
- vii Other Equity*

As per Paragraph 79(b) of Ind AS 1, a description of the nature and purpose of each Reserve within Equity shall be disclosed in the Notes.

### NFRA Observation

NFRA observes that PSIL’s Annual Financial Statements have the following errors/omissions:

- i PSIL has not presented a component of the Financial Statements as required under the CA, 2013*

and applicable Accounting Standards Framework viz. Ind AS Framework. PSIL continues to follow the presentation and disclosure norms of Division I of Schedule III to the Companies Act, 2013, which do not apply to the Company.

- ii Without prejudice to the above, NFRA also observes that the disclosures made in Note 9 and Note 10 cannot be considered as presentation of SOCIE, as it has the following deficiencies:
- a) Note 9 and Note 10 do not contain all the information that is required to be presented in the SOCIE as per paragraph 106 of Ind AS 1 and Division II of Schedule to the CA, 2013. E.g., changes in the opening and closing balances are not distinguished between those arising from Profit or Loss and Other Comprehensive Income (OCI) are not given in Note 10.
  - b) A description of the nature and purpose of each reserve was not disclosed.
  - c) Terminologies/Headings used in Note 9 and Note 10 are different from those cross-referenced for the line items presented on the face of the Balance Sheet. e.g., on the face of the Balance Sheet, the line item is titled 'Equity Share Capital' but in the Note 9 cross-referenced to this line item it is mentioned as 'Share Capital'. Similarly, on the face of the Balances Sheet, the line item is titled 'Other Equity' but in the Note 10 cross-referenced to this line item, it is mentioned as 'Reserves and Surplus'.

#### **PSIL Response**

*“As per para 6 of Ind AS 1 Information is to be presented in the statement of changes in equity or in the notes. The details required which are relevant and applicable have been shown in note 9 and 10 of the financial statements.”*

#### **NFRA Conclusions/Recommendations**

NFRA notes that the PSIL has incorrectly quoted paragraph 6 of Ind AS 1 instead of paragraph 106 of Ind AS 1. However, the sentence quoted by PSIL does not allow complete omission of presentation of SOCIE but is intended to only allow disclosure of analysis of OCI (which is one of the items presented in SOCIE) in the Notes. Preparation and Presentation of SOCIE as part of a set of Financial Statements is not optional but mandatory.

NFRA concludes that the PSIL has not properly and completely understood the requirements of presentation requirements of Ind AS 1 and Division II to the Schedule III to the Companies Act, 2013. The manner, style and contents of information presented in PSIL's Annual Financial Statements for the Financial Year 2019-20 indicates that it continues to follow the requirements of Division I of Schedule III to the CA, 2013 which do not apply to the companies that are required to prepare and present the financial statements under Ind AS Framework. As the Financial Statements presented by the Company do not comply with Section 2(40) of the Companies Act, 2013, such Financial Statements are null and void.

### **2.3 Incomplete Annual Report published on the Company's website**

#### **Subject Matter of the Issue**

There are differences in the Annual Report (2019-20) available on the website of the Company and the Annual Report provided by the Company to NFRA. The Annual Report published is incomplete in

material aspects as explained in the table below.

S. No.	Particulars	Annual Report available on the website of the Company	Annual Report provided by the Company to NFRA.
1)	Year of Incorporation	1970	1973 (Whereas the date of incorporation stated on MCA Master data is 29th May 1972).
2)	Nature of Business stated on the page “About Prabhu Steel Industries Limited”	It has been stated that <b>manufacturing operations</b> were commenced during 1970-71. It has no mention of the present activities of the business.	It has been stated that they are at present <b>trader and supplier</b> of HR Sheet & Plate, MS beam and many more.
3)	Total number of pages	92 pages	93 pages
4)	Property Plant and Equipment (PPE)	Note 1 on PPE is not available.	Note 1 is available.

#### PSIL Response

The Company submitted as follows:

*“We wish to clarify that we have inadvertently mentioned the year of incorporation as 1973 instead of Year 1972. Since, Company have commenced its business in the year 1973 and incorporated in 1972. Hence, it was inadvertently mentioned as 1973 instead of 1972. We will rectify the same in the Annual Report and will be upload the revised annual report on the website of the Company. We duly apologize for the same.” [sic].*

*“We wish to clarify that Company during its incorporation have commenced its business as manufacturing Operations and recently company is into Trading business. Hence, currently we are not carrying any manufacturing business activity in the Company. We will change the information accordingly on website of the Company.”*

*“We have inadvertently and unintentionally skipped the Note as mentioned by you in the financial statements and uploaded on the website of the Company. We duly apologise for the same and we will rectify the same and update in the website of the Company”*

#### NFRA Conclusions/Recommendations

NFRA observes that the Company has not mentioned anything in its response regarding the discrepancies in the Annual Report published on the website. The Company has not explained why Note No. 1 (on PPE) is omitted in the Annual Report published on the website. Further, as per the Company’s response if it was incorporated in 1972 and business commenced in 1973 then why does the Annual Report available on the website mentions the year of incorporation as 1970.

Further, the “Property, Plant and Equipment” appearing in the Balance Sheet has a cross-reference to Note 1. However, the Annual Financial Statements published on the Company’s website do not contain any such Note giving supporting details of amounts reported under this line item. Therefore, the Annual Financial Statements published on the Company’s website are incomplete in respect of a significant area of Financial Statements i.e., Note 1- Schedule of Property, Plant and Equipment and are not compliant with the disclosure requirements of Indian Accounting Standard (Ind AS) 16, *Property, Plant and Equipment* (Ind AS 16) and Schedule III to CA, 2013. Thus, the Financial Statements published by the Company does not comply with the requirements of the CA, 2013.

Thus, NFRA observes that the Company has given false information in the Annual Report published on its website, knowing it to be false, as clear from the replies. The actions/omissions of the Company fall under Section 448 of the CA, 2013, liable for consequences under Section 447.

## **2.4 Classification and Accounting for investment in shares of a Company called Hariyana Metals Ltd**

### **Subject Matter of the Issue**

It is stated in Part III (Particulars of Holding, Subsidiary and Associate Companies) in Form No. MGT-9 that Hariyana Metals Limited as an Associate Company.

Whereas item IV (i) “Shareholding of Promoters” of Form MGT 9 states that Hariyana Metals Limited is holding only 8.46% shares of Prabhu Steel Industries Limited.

### **NFRA Observation**

NFRA observes that the Companies Act, 2013 defines an associate company as follows:

*“associate company”, in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.*

*Explanation —For the purpose of this clause—*

- i the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement.*
- ii the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement;”*

NFRA asked the Company to explain with supporting documents the relationship between the two entities.

### **PSIL Response**

The Company submitted that since the management of both the companies is common it shall be considered as an associate company due to significant influence. The Company further states that “*We thank you for guiding us on the same and we shall in all manners rectify the same.*”

### **NFRA Conclusions/Recommendations**

As already explained “*the expression "significant influence" means control of at least twenty per cent of total voting power, or control of or participation in business decisions under an agreement.*” In the

present case, the Company does not hold twenty per cent of the total voting power. PSIL also failed to provide evidence showing the existence of any control or agreement of participation in business decisions of Hariyana Metals Ltd. NFRA also observes that the disclosures made by PSIL in this regard are contradictory and misleading since form MGT 9, item III states that PSIL is holding 8.46% shares in Hariyana Metals Ltd whereas item IV (i) of form MGT 9 states Hariyana Metals is holding 8.46% in PSIL. In cases Hariyana Metals Ltd is an Associate Company, then PSIL shall prepare Consolidated Financial Statements as required by Section 129(3) of the CA, 2013. However, no Consolidated Financial Statements have been prepared and presented by the Company.

NFRA also observes that in Schedule 10 Significant Accounting Policies, point # 6 of Part B Notes on Accounts, the Company has disclosed Hariyana Metals Ltd and Celestial Steel Structure Pvt Ltd as Associate Companies. However, the carrying amount of such investment has not been disclosed as a separate line item on the face of the Balance Sheet as required by paragraph 54 of Ind AS 1. Further, the details (e.g., name of company, nature, and extent of investment etc.) of such investments are not given in Note 2, which is required as per the requirements of Division II of Schedule III to the Companies Act, 2013.

Hence, NFRA observes that the Financial Statements of PSIL do not comply with the requirements of the Companies Act, 2013 and are null and void. This calls for a restatement of the Financial Statements for the Financial Year 2019-20 after complying with the provisions of Section 131 of the CA, 2013 and Indian Accounting Standard (Ind AS) 8, *Accounting Polices, Changes in Accounting Estimates and Errors* (Ind AS 8).

## **2.5 Deferred Tax Liabilities and Significant Accounting Policies, Note 11- Taxes on Income**

### **Subject Matter of the Issue**

The Company has reported an amount of ₹ 3,24,661 (2018-19 ₹ 3,15,792) under the line item 'Deferred Tax Liabilities' in the Balance Sheet. NFRA also notes that the Company has disclosed the following wrong accounting policy, in respect of accounting for Deferred Tax.

*“Provision for current tax is made based on the tax payable under the current provisions of the tax laws applicable in the jurisdiction where in the income is assessable.*

*Deferred tax expenses or benefit is recognized on timing differences being the difference between taxable income and accounting income that arises in one period and are capable of reversal in one or more subsequent periods. Deferred Tax assets and liabilities are accounted for, using the tax rates and tax laws applicable as on the Balance Sheet date.”*

### **NFRA Observation**

The Accounting Policy is erroneous and is not in accordance with Indian Accounting Standard (Ind AS) 12, *Income Taxes* (Ind AS 12).

### **PSIL Response**

The Company has submitted that the *“recognition requirement of Ind AS 12 states that current and prior period taxes to the extent unpaid shall be recognised as a liability. Since provision for prior period taxes had been made in excess the same has been reversed. Regarding taxes of current year into consideration the amount of taxes paid is in excess of tax liability hence excess tax paid has been recognised as an*

*asset as per Ind AS 12.”*

#### **NFRA Conclusions/Recommendations**

NFRA has examined the response of the Company and observes that no current tax asset has been recognized in the Balance Sheet for the year ended 31<sup>st</sup> March 2020 as claimed in the above reply.

NFRA also notes that in Schedule 10 Significant Accounting Policies, point # 5 of Part B Notes on Accounts, it has disclosed Depreciation of ₹8,869 as the only major component of Deferred Tax Liability. In this regard, paragraph 81(g) (i) of Ind AS 12 requires an entity to disclose the amount of the Deferred Tax Assets and Liabilities recognised in the Balance Sheet for each period in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits. However, the Company has not disclosed the type of temporary difference or type of unused tax losses or unused tax credits for which it has recognised the net Deferred Tax Liabilities of ₹3,24,661 in the Financial Statements of 2019-20. The information disclosed in the above-mentioned note relates to the deferred tax component of income tax expense recognised in the Statement of Profit and Loss for the Financial Year 2019-20 and incorrectly mentioned as Net Deferred Tax Liabilities/(Assets). Further, previous year comparatives have also not been disclosed in the above-mentioned table.

Further paragraph 81(C) of Ind AS 12 requires an entity to disclose separately an explanation of the relationship between tax expense (income) –

- i a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or*
- ii a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed.*

NFRA concludes that the PSIL has not complied with the above disclosure requirement para 81(c) of Ind AS 12.

PSIL's accounting policy for recognising and measuring the Deferred Tax Expenses or Benefits is incorrect and inconsistent with the accounting required under Ind AS 12. As per Ind AS 12, Deferred Tax Expense or Benefits are computed based on the 'Balance Sheet' approach wherein these items are determined based on recognition of Deferred Tax Assets and Deferred Tax Liabilities, which in turn is based on the concept of 'Temporary Differences'. These Temporary Differences are differences between the carrying amount of an Asset or Liability in the Balance Sheet and its Tax Base. However, PSIL continues to follow the 'Income Statement' and 'Timing Differences' approach which are prescribed under AS 22, under AS Framework which is no longer applicable to PSIL.

NFRA thus concludes that the current tax is not properly disclosed in the Financial Statements. PSIL has not complied with the disclosure requirements of Ind AS 12 relating to the nature of the carrying amount of Deferred Tax Assets or Liabilities recognised in the Balance Sheet. This results in the Financial Statements not disclosing a true and fair view as required by Section 129 of the Companies Act, 2013. The Directors' Responsibility Statement made by the Company in this regard is thus false and misleading.



## 2.6 Note 5. Trade Receivables

### Impairment Loss Recognition and Measurement

#### Subject Matter of the Issue

As part of Financial Assets, the Company has reported an amount of ₹ 2,20,90,515 (2018-19: ₹ 10,27,69,807) as outstanding Trade Receivables; of which ₹ 33,73,555 (2018-19: ₹ 45,20,369) are reported as outstanding for more than six months. Provision for doubtful debts i.e., provision for impairment loss, is reported as Nil. The total outstanding amount of 'Trade Receivables' is 13.79% (2018-19: 42.87%) of the Total Assets. Further, the Company has not disclosed its accounting policy for recognition and measurement of impairment loss for Trade Receivables.

#### NFRA Observation

NFRA observes that there is no impairment loss allowance recognised in respect of the above Financial Assets as required under Ind AS 109.

#### PSIL Response

The Company has submitted that *“As per Ind AS 109 an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:*

*(a) Trade receivables or contract assets that result from transactions that are within the scope of Ind AS 115*

*Since the management expects to recover trade receivables at their book values in normal course of business and there are no uncertainties expected in the same, no loss allowance has been made.”*

#### NFRA Conclusions/Recommendations

The relevant provisions of Ind AS 109 in respect of recognition and measurement of impairment loss, which is based on the expected credit loss approach, are as follows.

*Paragraph 5.5.15 of Ind AS 109* states that an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not have a significant financing component in accordance with Ind AS 115, *Revenue from Contracts with Customers* or the entity chooses as its accounting policy to measure the loss allowance at an amount equal to the lifetime expected credit losses.

*Further, as per Paragraph 5.5.17 of Ind AS 109*, an entity shall measure expected credit losses of a financial instrument in a way that reflects:

- i an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- ii the time value of money; and
- iii reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

***Paragraph 5.5.18 of Ind AS 109 states that:***

When measuring expected credit losses, an entity need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

***Paragraph B5.5.52 of Ind AS 109 states as follows.***

Historical information is an important anchor or base from which to measure expected credit losses. However, an entity shall adjust historical data, such as credit loss experience, on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions that did not affect the period on which the historical data is based, and to remove the effects of the conditions in the historical period that are not relevant to the future contractual cash flows.

***Paragraph B5, 5.16 of Ind AS 109 states that Credit risk analysis is a multifactor and holistic analysis.***

Because of the above explicit requirements of Ind AS 109, the Company was required to consider all the factors in the recognition and measurement of impairment loss allowance, which is based on expected credit loss approach. NFRA observes that the full amount of Trade Receivables of the Company is unsecured thus it becomes even more necessary to assess the credit risk holistically as required by the prescriptions of Ind AS 109. The assumption of PSIL that there is no uncertainty expected in the recovery of Trade Receivables, hence no loss allowance is erroneous and not in the 'letter and spirit' of the principle prescribed under Ind AS 109. Therefore, the impairment loss recognition and measurement requirements of paragraphs 5.5.15 and 5.5.17 have not been met in the Financial Statements. Thus, NFRA observes that the Company has failed to properly and adequately assess the impairment loss allowance for the Financial Year 2019-20 holistically by taking into account various relevant factors as per Ind AS 109.

## **2.7 Part b of Note 8 - Current Loans and Advances – Others**

### **Impairment Loss Recognition and Measurement**

#### **Subject Matter of the Issue**

The Company has reported an amount of ₹ 6,36,29,593 (2018-19: ₹ 5,13,04,066) under current loans and advances-Others in the category of Financial Assets. These balances account for 39.73% (2018-19: 21.40%) of the Total Assets. These have been classified as unsecured considered good but provision for doubtful debts i.e., provision for impairment loss is reported as Nil. Further, the Company has not disclosed its accounting policy for recognition and measurement of impairment loss on these Financial Assets as per Ind AS 109.

Contrary to the requirement of schedule III to disclose the specific nature of amounts reported under sub-line items 'Others', details of the nature of these loans and advances have also not been disclosed in the Notes to Accounts.

#### **NFRA Observation**

Since the above-mentioned loans and advances are reported as Financial Assets, the classification and

measurement requirements of Ind AS 109 apply to these Financial Assets. In the absence of disclosure of accounting policy on classification of these loans and advances, these financial assets shall be considered as subject to classification and measurement requirements of the following paragraphs of Ind AS 109.

**Paragraph 4.1.2** states that-

*A financial asset shall be measured at amortised cost if both of the following conditions are met:*

- i the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.*
- ii the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding*

**Paragraph 5.2.2** states that *an entity shall apply the impairment requirements in Section 5.5 to financial assets that are measured at amortised cost in accordance with paragraph 4.1.2.*

**Paragraph 5.5** states that *an entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2, a contract asset or a loan commitment.*

#### **PSIL Response**

*“Loans and advances are financial assets as covered under Para 11 of Ind AS 32, however it provides for recognition of expected credit losses. The management does not expect credit losses on short term loans and advances hence these have been recognised at actual amounts of loan or actual amount of advance as the case maybe.”*

*“Moreover para 4.1.2 states that financial asset shall be measured at amortised cost where the business model is to hold financial assets in order to collect contractual cash flows and contractual terms of financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The company’s business model is not to hold loans and advances for contractual cash flows, but the purpose is totally different. Hence the requirements of para 5.2.2 of Ind AS 109 have been met.”*

#### **NFRA Conclusions/Recommendations**

PSIL’s response regarding the classification and measurement of its loans and advances in the nature of Financial Assets is misleading. This fact, coupled with the absence of disclosures of accounting policy and various other aspects relating to Financial Instruments, indicates the complete lack of understanding of the accounting requirements of Ind ASs relating to Financial Instruments i.e., Ind AS 109, Ind AS 32, Indian Accounting Standard (Ind AS) 107, *Financial Instruments: Disclosures* (Ind AS 107) and Indian Accounting Standard (Ind AS) 113, *Fair Value Measurement* (Ind AS 113).

PSIL’s response that it does not expect credit loss on short term loans and advances is not justifiable given the provisions regarding the impairment loss allowance recognition and measurement based on expected credit loss approach of Ind AS 109. Considering the unsecured nature of the loans and advances it becomes even more necessary to assess the credit risk holistically as required by the principles of Ind AS 109. Accordingly, the Company has not complied with some of the key requirements relating to

impairment loss recognition and measurement principles of Ind AS 109 stated below.

**Para 5.5.17** states that:

*An entity shall measure expected credit losses of a financial instrument in a way that reflects:*

- i an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;*
- ii the time value of money; and*
- iii reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.*

**Para 5.5.18** further states that:

*When measuring expected credit losses, an entity need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.*

**Paragraph B5.5.52** states that *historical information is an important anchor or base from which to measure expected credit losses. However, an entity shall adjust historical data, such as credit loss experience, on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions that did not affect the period on which the historical data is based, and to remove the effects of the conditions in the historical period that are not relevant to the future contractual cash flows.*

**Paragraph B5.5.16** states that *Credit risk analysis is a multifactor and holistic analysis.*

## **2.8 Note 7 – Bank Balances**

### **Impairment Loss Recognition and Measurement**

#### **Subject Matter of the Issue**

The Company has reported an amount of ₹ 2,47,16,741 (2018-19: ₹ 1,82,07,022 ) under 'Bank Balances' in the category of Financial Assets. A substantial part (96.64% (2018-19: 95.73%)) of these balances are held with non-scheduled and lesser-known Banks. Impairment loss allowance has not been made against these Financial Assets. Further, the Company has not disclosed its accounting policy for recognition and measurement of impairment loss on these Financial Assets as per Ind AS 109.

#### **NFRA Observation**

Since the above-mentioned Bank balances are Financial Assets within the scope of Ind AS 109, the classification and measurement requirements of Ind AS 109 apply to these Financial Assets. In the absence of disclosure of accounting policy on classification of these bank balances, the Financial Assets shall be considered as subject to classification and measurement requirements of the following paragraphs of Ind AS 109.

**Paragraph 4.1.2** states that

*A financial asset shall be measured at amortised cost if both of the following conditions are met:*

- i the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.*
- ii the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding*

*Paragraph 5.2.2 states that an entity shall apply the impairment requirements in Section 5.5 to financial assets that are measured at amortised cost in accordance with paragraph 4.1.2.*

*Paragraph 5.5 states that an entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2, a contract asset or a loan commitment.*

#### **PSIL Response**

Company vide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

The absence of disclosures of accounting policy and various other aspects relating to Financial Instruments in this Listed Company's Financial Statements indicates the complete lack of understanding of the accounting requirements Ind AS 109, Ind AS 32, Ind AS 107 and Ind AS 113.

It is important to note that Banks and Financial Institutions may also possess the risk of default on their payment/credit obligations. Therefore, there is a need to assess the credit risk on the receivables from Banks and Financial Institutions holistically as required by Ind AS 109. However, the Company has not complied with some of the key requirements relating to impairment loss recognition and measurement principles of Ind AS 109 as stated in the conclusions part in para 2.7 above.

### **2.9 Note.3: Inventories**

#### **Subject Matter of the Issue**

The Company has disclosed the following type of assets as Inventories in its Balance Sheet.

Land ₹ 1,29,75,000 (2018-19: ₹ 1,29,75,000)

Shares ₹ 10,61,396 (2018-19: ₹ 10,50,947)

#### **NFRA Observation**

NFRA observes that the type of items classified and measured as Inventories is not in compliance with the prescriptions of Indian Accounting Standard (Ind AS) 2, *Inventories* (Ind AS 2), due to the following reasons.

*Paragraph 6 of Ind AS 2 defines the inventories as follows:*

*Inventories are assets:*

- i held for sale in the ordinary course of business.*

ii *in the process of production for such sale; or*

iii *in the form of materials or supplies to be consumed in the production process or in the rendering of services.*

Further **paragraph 8** of Ind AS 2 states that *inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale.*

Given the stated nature of the business operations of the Company, the classification of land as inventory is erroneous.

**Paragraph 2 of Ind AS 2** excludes from its scope the Financial Instruments within the scope of Ind AS 32, and Ind AS 109. Therefore, investments in shares made by the Company, which are Financial Instruments and Financial Assets within the scope of Ind AS 32 and Ind AS 109, cannot be accounted as Inventories under Ind AS 2.

#### **PSIL Response**

The Company submits as follows:

*“The Company has purchased land with an intention of resale and does not intend to use the said land. Hence the same has been classified as stock in trade. The company had purchased the equity instrument i.e., shares with an intention of resale and to earn gains in the short term and hence been shown under stock in trade”*

#### **NFRA Conclusions/Recommendations**

NFRA observes that the Company has not provided any supporting documents for its explanation. Also, the stated objectives of the Company as disclosed in the Annual Report/Financial Statements is contradictory to the present submission. In the absence of any evidence, NFRA rejects the explanation given for the erroneous application of Ind AS 2 for Non-financial assets in the nature of land and Financial Assets in the form of Investment in Shares of other entities. The Company is advised to correct the accounting errors by applying Ind AS 16 for the accounting of land and Ind AS 109 for the accounting of Investment in Shares. While doing so, the provisions of Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* shall be kept in mind.

NFRA also observes that PSL has reported an amount of ₹ 11,215 (2018-19: ₹ 231,718,56) relating to the sale of shares as Revenue from Operations. The Company has considered the Investment in Shares as Inventories under Ind AS 2 and recognised the sale amount of these shares as Revenue from Operations. According to paragraph 11 of Ind AS 32, Investment in Shares is a Financial Asset. These Financial Assets are subject to the accounting prescriptions of Ind AS 109 except those specifically excluded from the scope of Ind AS 109. Chapter 3 and 5 of Ind AS 109 lay down specific requirements for recognition and presentation of Gains and Losses on Financial Assets depending on the classification of these Financial Assets into different measurement categories. Therefore, recognition of the sale of shares as Revenue from Operations by PSIL is incorrect.

### **2.10 Disclosures relating to Inventories**

#### **Subject Matter of the Issue**

The Company has disclosed the following accounting policy in respect of Inventories in point #6 of Schedule 10 Significant Accounting Policies.

“Inventories valued at cost or net realizable value whichever is lower.”

In Note 3, it has disclosed the following information regarding inventories.

- i Finished Goods ( Iron & steel ) ₹ 2,26,47,810 (2018-19: ₹ 1,69,07,572)
- ii Land ₹ 1,29,75,000 (2018-19: ₹ 1,29,75,000)
- iii Shares ₹ 10,61,396 (2018-19: ₹ 10,50,947)
- iv Total ₹ 3,66,84,206 (2018-19: ₹ 3,09,33,519)

#### **NFRA Observation**

It is to be noted that paragraph 36 of Ind AS 2 requires the following disclosures.

*The financial statements shall disclose:*

- i the accounting policies adopted in measuring inventories, including the cost formula used;*
- ii the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;*
- iii the carrying amount of inventories carried at fair value less costs to sell;*
- iv the amount of inventories recognised as an expense during the period;*
- v the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;*
- vi the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;*
- vii the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34;*
- viii the carrying amount of inventories pledged as security for liabilities.*

NFRA observes that the disclosures made by the Company in the Significant Accounting Policies as well as the Note giving details of the carrying amounts of Inventories presented in the Balance Sheet are inadequate and incomplete vis-à-vis the requirements of Paragraph 36 of Ind AS 2. In particular, the disclosures of accounting policy do not mention the critical information about the cost formula used in measuring the Inventories.

#### **PSIL Response**

The Company submits that “In note number 22 Part A significant accounting policies point number 6 states that inventories are valued at cost or net realisable value whichever is less on FIFO. Since the management has confirmed that the cost of purchase of stock is less than its net realisable value, inventories have been valued at cost. The total carrying amounts of inventories has been mentioned on the basis of its classification appropriate to the entity. None of the other clauses of para 36 of Ind AS 2

*are applicable hence no disclosures for the same have been made.” [sic].*

#### **NFRA Conclusions/Recommendations**

The disclosure of just the fact that Inventories are valued at cost or net realizable value whichever is less is Not the only requirement of Paragraph 36 of Ind AS 2. Further, the accounting policy for Inventories disclosed under schedule 10 (page 64 of the published Annual Report) states only “*Inventories valued at cost or net realizable value whichever is lower*”. The policy does not disclose the cost formula used. The Company had given an untrue reply intentionally to mislead NFRA. There is no such Note No. 22 (though mentioned in the Balance Sheet) seen attached to the published Annual Report. Thus, the response of the Company is not justifiable. NFRA observes that the Company does not comply with Paragraph 36 of Ind AS 2. Also, the Company had provided incorrect information to mislead NFRA. Please also refer to NFRA’s observations regarding the erroneous application of Ind AS 2 for classification and measurement of Land and Investment in Shares in paragraph 2.9 above.

### **2.11 Schedule 10- Significant Accounting Policies: Note 4: – Depreciation on Property, Plant and Equipment**

#### **Subject Matter of the Issue**

In the above-mentioned note, the Company has stated the accounting policy as follows.

*“Depreciation is provided on property plant & equipment on written down value basis in accordance with the useful life of the assets as prescribed in Schedule II to the Companies Act, 2013.*

*The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal and external factors. An impairment loss is recognized wherever the carrying amount of assets exceeds its recoverable amount. The recoverable amount is the greater of the assets’ net selling price and the value in use. The assessment by the management shows no impairment.*

*Till 31ST March 1993:*

*Depreciation on assets installed up to 30th June 1987 is provided at the rate of depreciation prevalent at the time of installation of assets as per clarification by the ministry of industry, department of company affairs, vide its circular no. 1/86 dt. 21st may,1986.*

*Deprecation on installation of fixed assets after 30th June 1987 is provided as per rates specified in the schedule XIV of The Companies Act,1956.*

*After 31ST March 1993:*

*Depreciation on all Assets installed after 31ST March 1993 is provided at the new rates as amended by the Notification no. GSR756(E) DT.16/12/93 read with circular no. 14 Dt. 20/12/93 issued by the Department of Company Affairs.*

*Depreciation on assets except Building and Shed and Plant and Machinery is provided on “Written down value method” as per provision of section 205(2) Schedule XIV of The Companies Act,1956.*

*From 1st April 2014:*

*Depreciation on all Assets is provided as per the useful life of the assets as prescribed in Schedule II to*



*the Companies Act, 2013. There had been a revision in the estimated useful life of the assets as per the Companies act 2013 and the unamortized depreciable amount is being charged over the revised remaining useful life since 2014.*

*Depreciation on assets except Building and Shed and Plant and Machinery is provided on “Written down value method.”*

*Since no manufacturing activity has been carried out during the year depreciation on such plant & machinery used in manufacturing process has not been provided.”*

#### **NFRA Observation**

In respect of recognition and measurement of depreciation on any items of Property, Plant and Equipment, Paragraph 55 of Indian Accounting Standard (Ind AS) 16, *Property, Plant and Equipment* (Ind AS 16) states that:

*“Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 and the date that the asset is derecognised. **Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.** However, under usage methods of depreciation the depreciation charge can be zero while there is no production.”* (Emphasis added)

Therefore, the non-provision of depreciation on plant and machinery simply due to reason of not carrying any manufacturing activity during the year is contrary to the provisions of Ind AS 16.

#### **PSIL Response**

The Company submits that *“As per the para 55 of Ind AS 16 the last line of the para states that “under usage methods of depreciation the depreciation charge can be zero while there is no production”. Since no production activity has been carried out by the company and the company is dealing only in trading of goods; under depreciation charged on plant & machinery is zero. Hence there is compliance with provisions of Ind AS 16.”*

#### **NFRA Conclusions/Recommendations**

NFRA observes that it is nowhere disclosed in the Annual Report that depreciation is provided on plant and machinery as per usage method. Instead, the disclosure note states *“Depreciation on all Assets is provided as per the useful life of the assets”*. Further, the Company has not considered the prescriptions of paragraph 56 of Ind AS 16 which states that other factors such as technical and commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been from the asset. Accordingly, this paragraph also includes technical and commercial obsolescence as one of the factors to be considered in estimating the useful life of an asset. Therefore, the reply of the Company is false and intended to mislead NFRA. The Company has violated Ind AS 16 in the preparation of Financial Statements.

NFRA also observes that the Company has applied depreciation rates as per Schedule XIV to the old Companies Act, 1956 to some of the assets and useful life as per schedule II to the CA, 2013 to some other assets. This is not in accordance with the statutory provisions and hence the Financial Statements

do not comply with the requirements of the CA, 2013.

## **2.12 Schedule 10 - Significant Accounting Policies: Note 4: Depreciation on Property, Plant and Equipment**

### **Subject Matter of the Issue**

The above-mentioned note, in respect of impairment loss recognition and measurement, states as follows.

*“The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal and external factors. An impairment loss is recognized wherever the carrying amount of assets exceeds its recoverable amount. The recoverable amount is the greater of the assets’ net selling price and the value in use. The assessment by the management shows no impairment.”*

Further, the Company has also stated that no depreciation has been charged on Plant and Machinery since no manufacturing activity has been carried out during the year.

Further, in Clause II of the Company’s Extract of Annual Return (Form MGT-9) presented on page 26 of the Annual Report 2019-20, the principal business activity of the Company is stated as ‘Commercial Steel Trading – Wholesale’ contributing 100% of the turnover of the Company.

The carrying amount of the plant and machinery as of 31 March 2020 is ₹ 24,43,751.72.

### **NFRA Observation**

NFRA observes that the Company Management’s assessment is that there is no impairment of plant and machinery even though the Company is no longer carrying on any manufacturing activity. In this regard, the following requirements of Indian Accounting Standard (Ind AS) 36, *Impairment of Assets* (Ind AS 36) are pertinent.

#### **Paragraph 8**

*An asset is impaired when its carrying amount exceeds its recoverable amount. Paragraphs 12–14 describe some indications that an impairment loss may have occurred. If any of those indications is present, an entity is required to make a formal estimate of recoverable amount. Except as described in paragraph 10, this Standard does not require an entity to make a formal estimate of recoverable amount if no indication of an impairment loss is present.*

#### **Paragraph 9**

*An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.*

#### **Paragraph 12 states inter alia that:**

*In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:*

*External sources of information*

- i there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.*
- ii significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.*

*Internal sources of information*

- i evidence is available of obsolescence or physical damage of an asset.*
- ii significant changes with an adverse effect on the entity have taken place during the period or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.*

The fact is that the Company has stopped its manufacturing activity and wholesale trading has become its sole business activity. This is a clear indication that plants and machinery become idle and significant changes with adverse effects in the technological, market and economic environment have taken place. Therefore, the Company should have disclosed adequate and suitable information as to how it has assessed the recoverable amount i.e., the estimation techniques and approaches used in determining the value in use (cash flow projections period, growth rate, discount rates and assumptions used) and fair value less cost of disposal. Paragraphs 30 to 57 of Ind AS 36 stipulates specific requirements in respect of measurement of value in use. Paragraphs 28 & 29 of Ind AS 36 prescribe specific requirements in respect of measurement of fair value less cost of disposal.

Further, it is not appropriate to mix up disclosures regarding the recognition and measurement of impairment loss with the accounting policy relating to depreciation on Property, Plant and Equipment.

**PSIL Response**

Company vide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

**NFRA Conclusions/Recommendations**

PSIL's disclosure regarding the recognition and measurement of impairment loss on idle plants and machinery is inadequate. Because the Company is no longer carrying on manufacturing activity and therefore indicating that the plant and machinery would have impaired, the Financial Statements of PSIL for the year 2019-20, in the absence of recognition of impairment loss on non-financial assets, do not reflect a true and fair view of the state of affairs of the Company as required by Section 129 of the CA, 2013.

**2.13 Schedule 10- Significant Accounting Policies: Note 2: – Property, Plant and Equipment**

**Subject Matter of the Issue**

In the above-mentioned note, the Company has stated the accounting policy as follows.

*“Property Plant & Equipment are stated at historical cost, except part of leasehold land, building, shed*

*and Plant & Machinery revalued and stated at Cost less accumulated depreciation and impairment losses if any. Cost comprises of the purchase price (net of tax/duty credit availed) and any cost direct / incidental and borrowing cost attributable bringing the asset to its working condition for its intended use.*

*Flat at Dadar included under the head of building includes cost of share in co-operative society of the value of Rs. 100/-.”*

In Note 1 under the heading ‘Notes forming part of the Balance Sheet’, the Company has disclosed reconciliation of the carrying amount at the beginning and end of the period.

In this regard, Paragraph 77 of Ind AS 16 requires the following disclosures:

*If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed in addition to the disclosures required by Ind AS 113:*

- (a) the effective date of the revaluation;*
- (b) whether an independent valuer was involved;*
- (c) [Refer Appendix 1]*
- (d) [Refer Appendix 1]*
- (e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and*
- (f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.*

#### **NFRA Observation**

NFRA observes that the Company has not made disclosures required by paragraph 77 of Ind AS 16 in respect of certain items of Property, Plant and Equipment viz. part of leasehold land, building, shed and Plant & Machinery, which are stated as revalued amounts.

#### **PSIL Response**

Company vide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days’ time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

NFRA concludes that the PSIL has not complied with the disclosures required by Ind AS 16 in respect of certain items of Property, Plant and Equipment which are stated as revalued amounts. The Annual Financial Statements of PSIL for the year 2019-20, therefore, do not reflect a true and fair view of the state of affairs of the Company as required by Section 129 of the Companies Act, 2013.

### **2.14 Statement of Profit and Loss: Employee benefit expenses**

#### **Subject Matter of the Issue**

The Statement of Profit and Loss for the FY 2019-20t shows Employee Benefit Expenses amounting to

₹22,93,816 (2018-19: ₹22,27,381). Clause (vii) of Annexure A (Companies (Auditor's Report) 2020) referred in the Independent Auditor's Report states that "the company was generally regular in depositing dues in respect of Employees Provident Fund, Employees State Insurance Fund, and other statutory dues".

Note 19 Employees Benefit Expenses discloses the following details in support of the relevant line item reported in the Statement of Profit and Loss for the year ended 31 March 2020.

Salary, Wages, Bonus and Allowances ₹10,93,816 (2018-19: ₹10,27,381)

Salary to Directors ₹12,00,000 (2018-19: ₹12,00,000)

Welfare Expenses Nil (2018-19: Nil)

Total ₹22,93,816 (2018-19: ₹22,27,381)

#### **NFRA Observation**

PSIL's Annual Financial Statements do not have any disclosure required under Indian Accounting Standard (Ind AS) 19, *Employee Benefits* (Ind AS 19) regarding recognition and measurement of post-employment benefits such as defined contribution plans, defined plans or other long-term benefits. PSIL has also not disclosed its accounting policy in respect of this significant expense item.

#### **PSIL Response**

*"The company has not incurred any expenditure for defined benefit/ defined contribution plans for employees because manpower supply is outsourced from third party service providers, and some are hired on retainer basis."*

#### **NFRA Conclusions/Recommendations**

NFRA observes that the Company's reply is not supported by any evidence. PSIL has not explained the reason for not incurring any expenses towards any post-employment benefits in the form of either defined benefit plans or defined contribution plans for the employees although it has reported an amount of ₹10,93,816 under the line item salaries, wages/allowances in the Statement of Profit and Loss. Further, the reply of the Company is contradictory to what is stated by the Independent Auditor in clause (vii) of the CARO 2020 Report, where it is stated that the EPF (presumably, a defined contribution plan) dues are deposited regularly. Thus, the response of the Company is false and hence unacceptable. NFRA, therefore, observes that the Company's Annual Financial Statements are not in compliance with the disclosure requirements of Ind AS 19.

Note: Error in Independent Auditor's Report: Annexure A to the Independent Auditor's Report for the Financial Year 2019-20 contains the Auditor's reporting requirements under Companies (Auditor's Report) Order 2020 that are applicable from the future Financial Year i.e., 2021-22 instead of the CARO requirements applicable for the Financial Year 2019-20.

## 2.15 Part b of Note 8 - Current Loans and Advances- Others

### Schedule III Disclosure Requirements

#### Subject Matter of the Issue

The Company has reported an amount of ₹6,36,29,593 (2018-19: ₹5,13,04,066) under current loans and advances-others in the category of financial assets. These balances account for 39.73% (2018-19: 21.40%) of the Total Assets. Division II of Schedule III to the CA, 2013 requires the disclosure of the specific nature of amounts reported under sub-line items 'others', details of the nature of these loans and advances. However, such disclosures have NOT been made in the Notes to Accounts.

#### NFRA Observation

According to Section 129 of the CA, 2013, the Financial Statements shall be in the form prescribed under Schedule III to the Act. PSIL's Annual Financial Statements do not comply with the disclosure requirements of Division II of Schedule III to the CA, 2013.

#### PSIL response

*"The amount of 6,36,29,593/- relates to advances made to suppliers for business, deposits to suppliers of goods, deposits of taxes and duties with government department, deposits for godowns, interest receivable on deposits with banks, advance for purchase of goods etc. It does not include loans except for Rs 80,00,000/- loans given to Renaissance fiscal services pvt. ltd. The detailed list of short-term loans & advances has been attached to the financial statements."*

#### NFRA Conclusions/Recommendations

As submitted by PSIL, the outstanding amount reported in Part b of Note 8 under sub-line item 'Financial Assets- Current Loans & advances' presented on the face of the Balance Sheet includes sub-items of different nature and type. However, there is no disclosure of the nature of such items in the Notes to Accounts. Therefore, PSIL's Annual Financial Statements do not comply with the statutory disclosure requirements specified in Division II of Schedule III to the CA, 2013 in respect of the loans and advances reported in the Balance Sheet. The outstanding balances of Current Loans and Advances-Others is material having regard to the overall Balance Sheet size of the Company.

Some of the sub-items, e.g., the deposit of taxes and duties with government departments etc., included (as stated by the Management) under the line item 'Current Loans & Advances-Others' are not Financial Instruments and Financial Assets as defined in paragraph 11 and explained in paragraphs AG3 -AG12 of Ind AS 32. Therefore, there are fundamental errors in the classification and presentation of line items in the Balance Sheet and the disclosures made are therefore not in conformity with Ind AS Framework.

## 2.16 Note 11- Non-Current Borrowing

### Subject Matter of the Issue

In the above-mentioned note, the Company has disclosed secured borrowing amounting to ₹2,65,12,583.50 (2018-19: ₹2,96,61,058.50) and unsecured borrowing amounting to ₹2,20,00,000 (2018-19: ₹2,20,00,000.00). Division II of Schedule III of the CA, 2013 stipulates the disclosure requirements in respect of borrowings as follows:

1. Borrowings shall be classified as-

- i Bonds or debentures*
- ii Term loans*
  - a) from banks*
  - b) from other Parties*
- iii Deferred payment liabilities*
- iv Deposits.*
- v Loans from related parties*
- vi Liability component of compound financial instruments*
- vii Other loans (specify nature).*

2. Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

3. Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed;

4. Bonds or debentures (along with the rate of interest, and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be, where bonds/debentures are redeemable by instalments, the date of maturity for this purpose must be reckoned as the date on which the first instalment becomes due;

5. Particulars of any redeemed bonds or debentures which the company has power to reissue shall be disclosed;

6. Terms of repayment of term loans and other loans shall be stated; and

7. Period and amount of default as on the balance sheet date in repayment of borrowings and interest shall be specified separately in each case.

**NFRA Observation**

NFRA observes that information specified by Division II to Schedule III of the CA, 2013 has not been disclosed in the Financial Statements. Thus, the Financial Statements do not comply with the disclosure requirements prescribed under the CA, 2013.

**PSIL Response**

*“The company has no borrowings from banks or from related party, hence disclosure for the same has not been made since there is no borrowings from banks or related party. It has a borrowing from a credit society against” [sic].*

*“The company has not defaulted in repayment of principal amount of borrowings or interest as at the date of balance sheet, hence the disclosure is in accordance with law.”*

### NFRA Conclusions/Recommendations

NFRA observes that the Company has failed to make adequate and appropriate disclosure as required by Division II of Schedule III to the CA, 2013 elaborated above. The Company did not disclose the critical information about its borrowings such as nature/type of the borrowing, terms of repayments, the status of repayment etc. The Company's response that disclosure is in accordance with law is false and misleading. Also, the Company's response that it has no borrowing from Banks is false and misleading as the Company has disclosed an amount of ₹1,59,96,169.82 (2018-19: ₹1,52,83,496.16) as secured loans repayable on demand from Banks as disclosed in Note 13, Current Borrowings.

The disclosure of whether the Company has 'taken loans from banks or related parties or not' and whether it has 'defaulted in repayment of loans or not, are not the only requirements of the provisions of Division II of Schedule III to the CA, 2013. The Company had to classify the Loans taken as per the categorisation mentioned in Division II of Schedule III to the CA, 2013. Further, for secured loans, the nature of security should have been disclosed. The Company did not make any such disclosures. Thus, the Financial Statements are not in compliance with the requirements of Division II of Schedule III and Section 129 of the CA, 2013.

### 2.17 Statement of Cash Flows (incorrectly titled by PSIL as Cash Flow Statement): Cash and Cash Equivalents

#### Subject Matter of the Issue

Cash and Cash equivalents presented in the Statement of Cash Flows and the Balance Sheet are as follows:

	Statement of Cash Flows	Balance Sheet
Opening Balance (as of 31 March 2019)	₹ 1,95,20,350	₹ 13,13,327
Closing Balance (as of 31 March 2020)	₹ 2,61,41,721	₹ 14,24,979

As can be seen, from the above, there are differences between the items considered as Cash and Cash Equivalents for presentation in the Statement of Cash Flows and the Balance Sheet. In this regard, the following requirements of Ind AS 7 are pertinent to bear in mind.

- i **Paragraph 45** of Ind AS 7 states that an entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.
- ii **Paragraph 46** of Ind AS 7 states that in view of the variety of cash management practices and banking arrangements around the world and in order to comply with Ind AS 1, *Presentation of Financial Statements*, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.
- iii **Paragraph 48** of Ind AS 7 states that an entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.



**NFRA Observation**

PSIL has not provided the reconciliation of Cash and Cash Equivalents considered for the Statement of Cash Flows with those used for presentation in the Balance Sheet.

Further, PSIL’s Annual Financial Statements do not have the disclosures required under paragraphs 46 and 48 of Ind AS 7.

**PSIL Response**

*“As per Ind AS 7 Cash comprises cash on hand and demand deposits which are readily convertible into known amounts of cash and be subject to an insignificant change in value. Hence the opening and closing balances of cash and cash equivalents as per cash flow statement includes the following:*

	<i>Opening Balances</i>	<i>Closing Balances</i>
<i>Cash &amp; cash equivalents</i>	<i>13,13,327/-</i>	<i>14,24,979/-</i>
<i>Demand deposits</i>	<i>1,82,07,022/-</i>	<i>2,47,16,742/-</i>
	-----	-----
<i>Total as per cash flow Statement</i>	<i>1,95,20,349/-</i>	<i>2,61,41,721/-”</i>

**NFRA Conclusions/Recommendations**

The explanation makes it clear that PSIL has not complied with the important disclosure requirements of Ind AS 7 as observed above.

**2.18 Statement of Cash Flows**

**Subject Matter of the Issue**

In the Statement of Cash Flows (incorrectly titled as Cash Flow Statement by the PSIL), the Company has reported the following line items within the component titled ‘Cashflows from Operating Activities.’

- i CASH FLOW BEFORE EXTRAORDINARY ITEMS
- ii SETTLEMENTS, IF ANY

**NFRA Observation**

Usage of line items “Cash flows before extraordinary items” is permitted under Accounting Standard 3, Cash Flow Statements which is not the accounting standard presently applicable to PSIL. The presentation concept of extraordinary items is not recognised in Ind AS Framework applicable to the PSIL. It may also be relevant to note that paragraph 87 of Ind AS 1 specifically prohibits the presentation of any items of income or expense as extraordinary items, in the Statement of Profit and Loss or the Notes.

Also, the purpose and disclosure of the line item under the title “settlement if any” is unclear and misleading.

**PSIL Response**

*“The statement of cash flows have been made in compliance with Ind AS 7, which does not specifically prohibit from using the words extraordinary items. Hence there is compliance with Ind AS 7.”*

**NFRA Conclusions/Recommendations**

PSIL has used the terminologies and concepts prevalent under the AS Framework of Companies (Accounting Standards) Rules 2006 previously applicable to PSIL (observations in para 2.1 also may be referred in this regard). Continuation of these old terminologies and presentation practices is misleading. This also leads to non-compliance with the Ind AS Framework applicable to PSIL as per the provisions of the CA, 2013.

**2.19 Schedule 10: Significant Accounting Policies (page 64 of Annual Report 2019-20)**

**Subject Matter of the Issue**

The Company has presented Significant Accounting Policies as Part A of ‘Schedule 10’ immediately after presentation of the Independent Auditor’s Report and before the presentation of a set of Financial Statements comprising the Balance Sheet, Statement of Profit and Loss, Statement of Cash Flows (incorrectly titled as Cash Flow Statement) and Notes (2 to 21) forming part of the Balance Sheet and Statement of Profit and Loss.

In the Annual Report, there are no Schedules numbered as 1 to 9 nor any schedule numbered after 10.

Further, the title of this Schedule 10 indicates that it is intended to cover Significant Accounting Policies. However, it also includes a sub-section titled ‘Notes on Accounts’ which contains 7 items giving some explanatory information about the line items presented in the Balance Sheet and Statement of Profit and Loss. Another 21 items of Notes giving explanatory information about the line items presented in the Balance Sheet and Statement of Profit and Loss are given in another section of the Financial Statements.

**NFRA Observation**

For better clarity and to avoid confusion to the users of the financial statements, Ind AS 1 prescribes certain basic requirements regarding the structure of the notes which are highlighted below.

**Paragraph 112**

The notes shall:

- a) *present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;*
- b) *disclose the information required by Ind ASs that is not presented elsewhere in the financial statements; and*
- c) *provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.*

**Paragraph 113**

*An entity shall present notes in a systematic manner. In determining a systematic manner, the entity*

*shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows to any related information in the notes.*

**Paragraph 114**

*An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:*

- (a) statement of compliance with Ind ASs (see paragraph 16);*
- (b) summary of significant accounting policies applied (see paragraph 117);*
- (c) supporting information for items presented in the balance sheet, and in the statement of profit and loss, and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and*
- (d) other disclosures, including:*
  - (i) contingent liabilities (see Ind AS 37) and unrecognised contractual commitments, and*
  - (ii) non-financial disclosures, e.g., the entity's financial risk management objectives and policies (see Ind AS 107).*

PSIL's structure and order presentation of Notes on Accounts and order of presentation of Significant Accounting Policies is not in accordance with the principles and requirements of Ind AS 1 and also the prescriptions in Division II of Schedule III to the Companies Act, 2013 about the order of presentation of Financial Statements. It is incorrect to present various notes on accounts in different places of the Annual Financial Statements.

**PSIL Response**

Company vide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

**NFRA Conclusions/Recommendations**

PSIL's manner and style of presentation of various sections of the Financial Statements are incorrect and misleading and have the potential to obscure the material information. So, PSIL's Annual Financial Statements for the Financial Year 2019-20 are not in compliance with the requirements of Section 129 of the CA, 2013.

**2.20 Schedule 10: Significant Accounting Policies – Note 5 - Investments**

**Subject Matter of the Issue**

It is stated in Note 5 of Significant Accounting Policies that *"Noncurrent Investments are of long-term in nature and stated at cost. Current investments have been stated at lower of cost or fair value as on 31.03.2020. Since the fair value of investment on the said date was higher, they have been stated at cost."*

The non-current investment comprises of investment in Equity Instruments amounting to ₹7,73,670.75 (2018-19 ₹7,73,670.75) and current investment comprising of investment in Mutual Funds amounting

to ₹ Nil ( 2018-19 ₹ 1,00,00,000) according to Note 2 and Note 4 respectively of Notes forming part of the Balance Sheet.

#### **NFRA Observation**

Above mentioned accounting policy of classification and measurement of Investments in Equity Instruments and Mutual Funds is erroneous and not relevant for Companies falling under the Ind AS Framework. Investments in Equity Instruments and Mutual Funds are recognised and measured in the Separate Financial Statements of the investor by applying the following Ind ASs depending upon the type/category of those investments.

- i **Ind AS 28: Investments in Associates and Joint Ventures:** According to paragraph 44 of Ind AS 28, investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 10 of Ind AS 27.
- ii **Ind AS 27, Separate Financial Statements:** Paragraph 10 of Ind AS 27 prescribes the accounting requirements which are reproduced below:

*When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:*

- a) *at cost, or*
- b) *in accordance with Ind AS 109.*

*The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations, when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with Ind AS 109 is not changed in such circumstances.*

- iii **Ind AS 109, Financial Instruments:** Paragraphs relevant to classification and measurement of investments in equity instruments and mutual funds are as follows.

**Classification of Financial Assets:** *According to paragraph 4.1, an entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:*

- a) *the entity's business model for managing the financial assets and*
- b) *the contractual cash flow characteristics of the financial asset.*

**Initial Measurement of Financial Assets:** *Paragraph 5.1.1 of Ind AS 109 states that except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.*

**Subsequent Measurement of Financial Assets:** *Paragraph 5.2.1 of Ind AS 109 which states that:*

*After initial recognition, an entity shall measure a financial asset in accordance with paragraphs*

4.1.1–4.1.5 at:

- a) *amortised cost;*
- b) *fair value through other comprehensive income; or*
- c) *fair value through profit or loss.*

***Investment in equity instruments: Paragraph 5.7.5 of Ind AS 109***

*At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which Ind AS103 applies. (See paragraph B5.7.3 for guidance on foreign exchange gains or losses.)*

**PSIL Response**

*“As on the date of balance sheet the company does not hold any current investments but what are held are non-current investments for which no quotation is available in open market. The company expects the fair value of non-current investments to be equal to cost since they are mostly shares of credit co-operative societies & co-operative banks which when sold back shall return the cash flows of amount stated in the financial statements of the company. Hence the accounting policy is in accordance with Ind AS 109.”*

**NFRA Conclusions/Recommendations**

The accounting policy followed by PSIL for its investments is completely erroneous and does not comply with the relevant Ind ASs. Therefore, PSIL’s Annual Financial Statements for the Financial Year 2019-20 are not in compliance with the accounting standards required to be followed by PSIL in terms of Section 129 of the CA, 2013.

**2.21 Schedule 10: Significant Accounting Policies**

**Subject Matter of the Issue**

PSIL has reported material amount of assets and liabilities within the line items Financial Assets and Financial Liabilities in the Balance Sheet. The details of outstanding amounts are as follows.

- i Financial Assets ₹ 9,20,61,829 (2018-19: ₹ 18,68,56,571)
- ii Trade Receivables ₹ 2,20,90,515 (2018-19: ₹ 10,27,69,807)
- iii Current Loans & advances ₹ 6,36,29,593 (2018-19: ₹ 6,45,66,415)
- iv Bank balances ₹ 2,47,16,742 (2018-19: ₹ 1,82,07,022)
- v Cash and Cash Equivalents ₹ 14,24,979 (2018-19: ₹ 13,13,327)
- vi Financial Liabilities ₹ 9,23,19,158 (2018-19: ₹ 17,02,56,217)
- vii Non-current Borrowings: ₹ 4,85,12,584 (2018-19: ₹ 5,16,61,059)

viii Current Borrowings ₹ 1,59,96,170 (2018-19: ₹ 1,52,83,496)

ix Trade Payables ₹ 2,78,10,404 (2018-19: ₹ 10,33,11,662)

Carrying amount of Financial Assets constitutes 57.48% (2018-19: 77.94%) of the Total Assets and carrying amount of Financial Liabilities constitutes 98.50% (2018-19: 97.98%).

The Financial Assets and Financial Liabilities mentioned above are subject to specific recognition and measurement requirements of the following key Ind ASs relevant to accounting aspects of Financial Instruments in nature of Financial Assets and Financial Liabilities.

**Ind AS 109, Financial Instruments:** This Ind AS lays down comprehensive specific recognition and measurements in the following areas which will have a material impact on the amounts reported in the Financial Statements.

- i Recognition and Derecognition principles and criteria
- ii Classification of Financial Assets and Financial Liabilities will determine the measurement of these items at each reporting date and how to account for changes in the carrying amounts which will have an impact on the statement of profit and loss also.
- iii Measurement – Initial and subsequent measurement principles

Initially, all Financial Assets and Financial Liabilities have to be measured at Fair Value except for certain specified items like Trade Receivables. Subsequent measurement norms i.e., Amortised Cost or Fair Value and how to account for changes in Fair Value at each reporting date depends upon the specific classification criteria prescribed.

There are comprehensive and robust principles laid down regarding the recognition and measurement of impairment loss on Financial Assets with specific options of adopting Simplified Approach available for Trade Receivables and Lease Receivables.

**Ind AS 107, Financial Instruments: Disclosures:** This Ind AS prescribes comprehensive set of disclosure requirements in respect of Financial Instruments. Following paragraphs of Ind AS 107 are relevant to note in this regard.

**Paragraph 1 states the Objective of Ind AS 107 as follows.**

The objective of this Indian Accounting Standard (Ind AS) is to require entities to provide disclosures in their financial statements that enable users to evaluate:

- (a) the significance of financial instruments for the entity's financial position and performance; and
- (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

**Paragraph 2 states the inter-link between Ind AS 107 and Other Ind ASs on Financial Instruments as follows.**

The principles in this Ind AS complement the principles for recognising, measuring, and presenting financial assets and financial liabilities in Ind AS 32, *Financial Instruments: Presentation*, and Ind AS 109, *Financial Instruments*.

**Ind AS 113- Fair Value Measurement:** This Ind AS defines Fair Value and prescribes rigorous principles and approaches regarding the determination of Fair Value for various Financial and Non-financial items and the disclosure requirements thereof.

#### **NFRA Observation**

PSIL's disclosure of Significant Accounting Policies and the disclosures required Ind AS 107 and Ind AS 113 is completely deficient in respect of the material category of Financial Assets and Financial Liabilities that could have a significant impact on the amounts reported in the Financial Statements.

#### **PSIL Response**

Company wide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

Disclosures in the PSIL's Annual Financial Statements for the FY 2019-20 are incomplete and inadequate in respect of financial instruments and therefore, PSIL's Annual Financial Statements are not in compliance with the accounting standards required to be followed by PSIL in terms of Section 129 of the CA, 2013.

In addition to the above, in view of the total absence of disclosures regarding Financial Instruments as required by Ind AS 107 and Ind AS 113, users of the Financial Statements will not be able to evaluate the significance of the Financial Instruments to the financial position and financial performance of PSIL and the nature and extent of risks to which the PSIL is exposed.

### **2.22 Schedule 10: Significant Accounting Policies – Note 2 - Revenue Recognition**

#### **Subject Matter of the Issue**

In respect of a key element of the Financial Statements, i.e., Revenue from Operations, PSIL has disclosed its significant accounting policy by way of cryptic sentence reproduced below.

*“Expenses and Income considered payable and receivable respectively are accounted for on accrual.”*

PSIL is stated as engaged in the business of wholesale trading of steel and has reported revenue from the sale of iron and steel of ₹16,07,55,103.69 (2018-19: ₹ 27,59,49,231.11). This amount constitutes almost 100% (2018-19: 99.91%) of its total revenue from operations.

Revenue from Operations of PSIL is subject to recognition measurement, presentation and disclosure requirements of comprehensive and robust Ind AS on revenue recognition viz. Indian Accounting Standard (Ind AS) 115, *Revenue from Contracts with Customers* (Ind AS 115). Ind AS 115 became effective from 1st April 2018 and replaced two Ind ASs viz. Ind AS 18 and Ind AS 11. Ind AS 115 establishes a comprehensive framework for determining when to recognise revenue and how to measure the amount of revenue to be recognised. Its core principle for the timing of recognition of revenue is based on the transfer of promised goods/services rather than the erstwhile transfer of risk/rewards approach; Secondly, the determination or measurement amount of revenue is based on the Transaction Price, replacing the previous concept of Fair Value of the consideration receivable. Ind AS 115 lays down the '5' step recognition and measurement model; In respect of the timing of revenue recognition,

the model prescribes revenue recognition either at a point in time or over a period of time depending upon the fulfilment of the stipulated criteria. In respect of measurement (amount) of revenue Ind AS 115 requires allocation of the Transaction Price to distinct goods/services (multiple elements, if any), consideration of discounts/refunds/variable amount of consideration and separation of significant financing component if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.

Further, paragraphs 111 to 128 of Ind AS 115 stipulate several disclosures requiring qualitative and quantitative information about its contracts with customers, the significant judgements, and changes in the judgements made in applying this standard to those contracts, and any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95.

#### **NFRA Observation**

PSIL's Significant Accounting Policy disclosed is completely misleading, irrelevant and absent in respect of key elements of its Financial Statements i.e., 'Revenue from Operations' recognised in the Statement of Profit and Loss.

PSIL also has not made any disclosures required under paragraphs 11 to 128 of Ind AS 115.

#### **PSIL Response**

Company wide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

In view of the total absence of accounting policy disclosure relating to revenue from operations, PSIL's Annual Financial Statements for the Financial Year 2019-20 are not in compliance with the Ind ASs that are required to be followed by PSIL in terms of Section 129 of the CA, 2013

### **2.23 Schedule 10: Significant Accounting Policies – Note 7 Provisions**

#### **Subject Matter of the Issue**

Regarding accounting for provisions, the Company has disclosed the following accounting policy, which is incorrect and outdated.

*"A provision is recognized when an enterprise has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation in respect of which reliable estimates can be made.*

*Provisions are not discounted to its present value and are determined based on best management estimates required to settle the obligations at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best management estimates."*

#### **NFRA Observation**

PSIL's accounting policy for measuring the provisions on an undiscounted basis is incorrect and contrary to the requirement of Indian Accounting Standard (Ind AS) - 37, *Provisions, Contingent*



*Liabilities and Contingent Assets (Ind AS 37). Relevant Paragraphs of Ind AS 37 are reproduced below.*

***Paragraph 45***

*Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.*

***Paragraph 46***

*Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.*

***Paragraph 47***

*The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.*

The accounting policy stated by PSIL is prescribed under paragraph 35 of AS 29; a standard under AS Framework i.e., Companies (Accounting Standards) Rules 2006, which is no longer applicable to PSIL.

**PSIL Response**

Company vide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

**NFRA Conclusions/Recommendations**

PSIL is continuing to follow the accounting standard which is no longer applicable to it. This indicates a complete lack of knowledge of the applicable accounting standards framework viz. Ind AS Framework and negligence of Company's Management in ensuring the compliance with Ind ASs that are required to be followed by PSIL in terms of Section 129 of the CA, 2013.

### 3. OBSERVATIONS ON THE ANNUAL FINANCIAL STATEMENTS AND THE ANNUAL REPORT CLASSIFIED AS MODERATE IMPACT

#### Observations on Annual Financial Statements

#### 3.1 Schedule 10 - Significant Accounting Policies: Recent Accounting Pronouncements

##### Subject Matter of the Issue

In the Accounting Standards Framework applicable to the PSIL, i.e., Ind AS Framework, the following changes/amendments have taken place which are applicable for the Financial Year 2019-20.

- i New Ind AS: In respect of accounting for leases, a new Ind AS viz Indian Accounting Standard 116, *Leases* replacing existing Ind AS 17, *Leases* has been notified by the Central Government for accounting period beginning on or after 1<sup>st</sup> April 2019.
- ii Amendments to Ind AS 12, *Income Taxes – Deferred taxes on Dividends and uncertain tax treatment*
- iii Amendments to Ind AS 109, *Financial Instruments: Prepayment of loans*
- iv Amendments to Ind AS 19, *Employee Benefits: Changes in Employee benefit plan*
- v Amendments to Ind AS 28, *Investments in Associates and Joint Ventures*

##### NFRA Observation

In respect of the above changes in Ind AS Framework, the Company has not complied with the disclosure requirements of paragraph 28 of Ind AS 8, which are reproduced below.

*Paragraph 28: When initial application of an Ind AS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:*

- a) *the title of the Ind AS;*
- b) *when applicable, that the change in accounting policy is made in accordance with its transitional provisions;*
- c) *the nature of the change in accounting policy;*
- d) *when applicable, a description of the transitional provisions;*
- e) *when applicable, the transitional provisions that might have an effect on future periods;*
- f) *for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:*
  - (i) *for each financial statement line item affected; and*
  - (ii) *if Ind AS 33, Earnings per Share, applies to the entity, for basic and diluted earnings per share;*
- g) *the amount of the adjustment relating to periods before those presented, to the extent practicable;*

*and*

- h) if retrospective application required by paragraph 19(a) or is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.*

*Financial statements of subsequent periods need not repeat these disclosures.*

#### **PSIL Response**

Company wide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

PSIL's Annual Financial Statements for the year 2019-20 are not compliant with the basic disclosure requirements of Ind AS 8 in respect of the initial application of changes/amendments in the applicable Ind AS Framework. The Company is advised to make the required disclosures while restating its Financial Statements for the Financial Year 2019-20.

### **3.2 Incorrect use of heading for the schedules relating to the statement of profit and loss: (pages 79-80 of Annual Report)**

#### **Subject Matter of the Issue**

Note No. 15 to Note No. 21 relate to line items presented on the face of the Statement of Profit and Loss. The heading of these notes should be described as "Year ended March 31, 2020" and "Year ended March 31, 2019". However, PSIL has mentioned it as "As at March 31, 2020" and "As at March 31, 2019, the description of heading relevant for line items presented in the Balance Sheet.

#### **NFRA Observation**

Use of incorrect accounting period description to Notes relating to line items of the Statement of Profit and Loss will be misleading to the users of the Financial Statements.

#### **PSIL Response**

Company wide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

PSIL's Annual Financial Statements reflect the lack of understanding of the basic accounting concepts and terminologies to be used in the primary set of Financial Statements. The Company is advised to make the required disclosures while restating its Financial Statements for the Financial Year 2019-20.

### **3.3 Schedule 10: Significant Accounting Policies**

#### **Subject Matter of the Issue**

PSIL has presented Significant Accounting Policies in respect of 11 areas in Part A of 'Schedule 10': Significant Accounting Policies. In Note # 9, 'Use of Estimates', PSIL has stated the following

accounting policy relating to the use of estimates and management assumptions.

*“The preparation of financial statements in conformity with Ind AS requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognized in the period in which the results are known/ materialized.”*

However, the above-referred accounting policy does not disclose the information mandated in the following paragraphs of Ind AS 1. Further, the Significant Accounting Policies disclosed by PSIL have many deficiencies and inaccuracies, which are detailed in other paragraphs of this FRQRR.

**Paragraph 122**

*An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.*

**Paragraph 125**

*An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:*

- a) their nature, and*
- b) their carrying amount as at the end of the reporting period.*

**Paragraph 126**

*Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.*

**Paragraph 127**

*The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management’s most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.*

**NFRA Observation**

Disclosures relating to judgements made by the Management and sources of significant areas of

uncertainty are not in compliance with the above requirements of Ind AS 1. In the economic environment adversely affected by the COVID-19, adequate and comprehensive disclosures of the judgements that Management makes about the future and other sources of estimation uncertainty is critical to users of Financial Statements.

#### **PSIL Response**

Company vide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

PSIL's Annual Financial Statements for the Financial Year 2019-20 are not in compliance with the requirements of Section 129 of the CA, 2013 as the disclosures are incomplete in respect of certain critical areas about the preparation of Financial Statements in times of high-level uncertainty caused by the global pandemic COVID 19. The Company is advised to make the required disclosures while restating its Financial Statements for the Financial Year 2019-20.

### **3.4 Schedule 10: Significant Accounting Policies — Part B Notes on Accounts**

#### **Subject Matter of the Issue**

PSIL has not disclosed the following information required by Ind AS 1 in respect of its capital management.

#### ***Paragraph 134***

*An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.*

#### ***Paragraph 135***

*To comply with paragraph 134, the entity discloses the following:*

- a) qualitative information about its objectives, policies and processes for managing capital, including:
  - (i) a description of what it manages as capital;*
  - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and*
  - (iii) how it is meeting its objectives for managing capital.**
- b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg. components arising from cash flow hedges).*
- c) any changes in (a) and (b) from the previous period.*
- d) whether during the period it complied with any externally imposed capital requirements to which it is subject.*
- e) when the entity has not complied with such externally imposed capital requirements, the*

*consequences of such noncompliance.*

*The entity bases these disclosures on the information provided internally to key management personnel.*

#### **NFRA Observation**

PSIL's Annual Financial Statements are incomplete and deficient in respect of disclosure regarding its capital management as required by Ind AS 1.

#### **PSIL Response**

Company wide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

Because of the absence of disclosure regarding capital management as required by Ind AS 1, PSIL's Annual Financial Statements for the Financial Year 2019-20 are not in compliance with the Ind AS required to be followed by PSIL in terms of Section 129 of the CA, 2013. The Company is advised to make the required disclosures while restating its Financial Statements for the Financial Year 2019-20.

### **3.5 Schedule 10: Significant Accounting Policies – Note 1 Part B Notes on Accounts**

#### **Subject Matter of the Issue**

In the above-mentioned note, the Company has made the following disclosure

*"Sundry Creditors, Sundry Debtors, Loans & Advances have been taken at their book value subject to confirmation and reconciliation."*

#### **NFRA Observation**

The purpose of this disclosure is not clear. Further, the impact of this disclosure on the recognition and measurement of these Financial Assets and Financial Liabilities in the Financial Statements is also not clear.

#### **PSIL Response**

Company wide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

The disclosure made by PSIL is misleading and raises doubts in the minds of the users of the Financial Statements regarding the accuracy and correctness of the amounts reported in the Financial Statements. The Company is advised to make the required corrections while restating its Financial Statements for the Financial Year 2019-20.

### **3.6 Presentation of Financial Statements – Rounding Off**

#### **Subject Matter of the Issue**

The Company has presented full figures in the Financial Statements without rounding off to the nearest hundred or lakhs. In respect of the Notes (Note # 2 to 21) relating to line items reported in the Balance

Sheet and Statement of Profit and Loss, figures have been presented up to two decimals.

#### **NFRA Observation**

The Company's turnover (Revenue from Operations) is ₹16,07,66,319 (2018-19: ₹27,61,80,950). According to the requirements of Division II of Schedule III to the CA, 2013 (General Instructions for Preparation of Financial Statement of a Company required to comply with Ind AS), the Company was required to round off the figures presented in the Financial Statements to the nearest hundred.

#### **PSIL Response**

Company vide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

The Company has not complied with the statutory provisions regarding the presentation of figures in the Financial Statements. The Company is advised to make the required disclosures while restating its Financial Statements for the Financial Year 2019-20.

### **3.8 Schedule 10: Significant Accounting Policies – Note 1 Part B Notes on Accounts**

#### **Subject Matter of the Issue**

In the above-mentioned note, the Company has made the following disclosure at the bottom of the note.

*“Previous year figures have been regrouped or rearranged whenever necessary.”*

#### **NFRA Observation**

NFRA observes that there are no details of the regroupings made to enable the users of the Financial Statements to understand the impact of the above reclassifications and regroupings. Also, it is not clear whether these reclassifications and regroupings were due to correction of prior period errors as defined in Ind AS 8. If so, it is unclear whether these errors needed any restatement of amounts as required by Paragraph 42 of Ind AS 8 or the reclassifications due to changes in the presentation/classification of items under paragraph 41 of Ind AS 1.

Further, *Paragraph 41 of Ind AS 1* requires that:

*“If an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):*

- a) the nature of the reclassification;*
- b) the amount of each item or class of items that is reclassified; and*
- c) the reason for the reclassification.”*

However, PSIL has not made disclosures as per the requirement of Paragraph 41 of Ind AS 1.

#### **PSIL Response**

Company vide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR

and has sought 90 days' time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

The disclosure made by PSIL is misleading and raises doubts in the minds of the users of the Financial Statements regarding the accuracy, correctness and consistency of the amounts reported in the Financial Statements. The Company is advised to make the required corrections/disclosures while restating its Financial Statements for the Financial Year 2019-20.

### **3.9 Notes the Financial Statements: Background**

#### **Subject Matter of the Issue**

Paragraph 17 of Indian Accounting Standard (Ind AS) 10, *Events after the Reporting Period* (Ind AS 10) states that “*An entity shall disclose the date when the financial statements were approved for issue and who gave that approval. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.*”

Further Paragraph 18 of Ind AS 10 states that “*It is important for users to know when the financial statements were approved for issue, because the financial statements do not reflect events after this date.*”

#### **NFRA Observation**

NFRA observes that the Company has not complied with the above disclosure requirements of Paragraphs 17 & 18 of Ind AS 10.

#### **PSIL Response**

Company wide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days' time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

The Company is advised to make the required disclosures while restating its Financial Statements for the FY 2019-20. The Company is advised to make the required disclosures while restating its Financial Statements for the Financial Year 2019-20.

### **3.10 Segment Reporting**

#### **Subject Matter of the Issue**

There are no disclosures in the Annual Financial Statements in respect of the operating and reportable segments of the PSIL, except the following cryptic statement in the Director's Report (Page 16 of the Annual Report)

i) “*SEGMENT-WISE PERFORMANCE*

*The Company is into single reportable segment only.*”

ii) “*BUSINESS PERFORMANCE AND SEGMENT REPORTING* (page 15 of the Annual Report)

*Your Company continues to trade in steel plates, which is major source of segment in the Company.*”



In this regard, Paragraph 31 to 34 of the Indian Accounting Standard (Ind AS) 108, *Operating Segments* (Ind AS 108) mandate certain disclosures called ‘Entity-wide Disclosures’; these disclosures are required by all entities including those entities that have a single reportable segment. The disclosure required by these paragraphs requires useful information in respect of the following areas.

- a) Information about products and services
- b) Information about geographical areas
- c) Information about major customers

#### **NFRA Observation**

NFRA observes that the disclosures of the Company are not in compliance with the mandatory disclosure requirements of Ind AS 108 quoted above.

#### **PSIL Response**

Company wide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days’ time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

NFRA concludes that the PSIL has been negligent in ensuring compliance with the minimum mandatory disclosure requirements of the Ind AS applicable to the PSIL in accordance with Section 129 of the CA, 2013. The Company is advised to make the required disclosures while restating its Financial Statements for the Financial Year 2019-20.

### **3.11 Other Observations: Inconsistency in cross-referencing: (page 71 & 74 of Annual Report)**

#### **Subject Matter of the Issue**

Paragraph 113 of Ind AS 1 requires that “*An entity shall present notes in a systematic manner. An entity shall cross-reference each item in the Balance Sheet and in the Statement of Profit and Loss, and in the Statement of Changes in Equity and of cash flows to any related information in the notes.*”

On the face of the Statement of Profit and Loss, PSIL has reported an amount ₹5,42,556 (2018-19: ₹7,35,478) under the heading ‘Depreciation and amortisation Expenses’ and the same is cross-referenced to Note 1 where the description used is ‘Depreciation charge for the year’.

Further, in the Statement of Cash Flows (incorrectly titled as Cash Flow Statement by PSIL), the title of the related item used is ‘Depreciation’

#### **NFRA Observation**

PSIL has not been consistent and systematic in using the titles of line items in different parts of the Financial Statements which are cross-referenced to each other.

#### **PSIL Response**

Company wide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days’ time to comply with the issues/observations as reported.

### **NFRA Conclusions/Recommendations**

The Company is advised to rectify the error in the restated Financial Statements for the Financial Year 2019-20. Such practices show negligence on the part of the Company in the preparation and presentation of its Financial Statements.

### **3.12 Other Observations (Different Terminologies / Heading used, Inconsistency in cross-referencing)**

#### **Subject Matter of the Issue**

As per the format of Balance Sheet given in Part I of Division II of Schedule III, Trade Payables shall be disclosed as:

*“Trade Payables:*

*(A) total outstanding dues of micro enterprises and small enterprises; and*

*(B) total outstanding dues of creditors other than micro enterprises and small enterprises.”*

#### **NFRA Observation**

NFRA observes that PSIL has not disclosed the bifurcation of the Trade Payables on the face of the Balance Sheet as required by the requirements of Schedule III to the Companies Act, 2013.

Similarly, On the Face of the Statement of Profit and Loss, PSIL has mentioned “Total Revenue” of ₹16,75,11,428 (2018-19 ₹28,04,15,680) however Part II of Division II of Schedule III requires the use of the description “Total Income”.

#### **PSIL Response**

Company wide letter dated 25 January 2022 has noted the issues reported by NFRA in the Draft FRQRR and has sought 90 days’ time to comply with the issues/observations as reported.

#### **NFRA Conclusions/Recommendations**

NFRA concludes that the PSIL has not complied with critical disclosures required by Schedule III to CA, 2013 in respect of amounts payable to Micro and Small Enterprises. Accordingly, the Annual Financial Statements of PSIL for the FY 2019-20 are not in compliance with the requirements of Section 129 of the CA, 2013.

### **Observations on other parts of the Annual Report**

### **3.13 Irrelevant Disclosures**

#### **Subject Matter of the Issue**

The ‘business performance and segment reporting’ section under the Directors’ Report states that *“During the financial year ended 31st March 2020, the Company has recorded total revenue of Rs. 16,07,66,319 and earned net profit of Rs. 4,54,696. Your Company continues to trade in steel plates, which is major source of segment in the Company.”*

#### **NFRA Observation**

These sentences give no value addition to the readers of the Annual Report as these are redundant and irrelevant information since these numbers are already given in the Directors' Report in the immediately preceding section.

A normal investor will certainly be interested in information like the status of orders with the company, the growth or degrowth of key numbers like turnover/PBIT, visibility to the future revenue streams, reasons for movements in turnover/PBIT etc. No such information is available in the Annual Report.

#### **PSIL Response**

“We wish to clarify that we will rectify the same and upload the revised annual report on the website of the Company. We duly apologize for the same.”

#### **NFRA Conclusions/Recommendations**

The Company is advised to make the required corrections/disclosures while restating its Financial Statements for the Financial Year 2019-20.

### **3.14 Risk Management Policy**

#### **Subject Matter of the Issue**

The only instance when Risk Management Policy is mentioned is under section ‘implementation of risk management policy, in the Directors' Report. In the absence of a Risk Management Sub-committee of the Board, an explanation of the details and the process of Risk Management, (which are not explained anywhere in the Annual Report) is critical to the readers of the Annual Report.

#### **NFRA Observation**

NFRA observes that there is inadequate coverage of Risk Management Policy in the Annual Report.

#### **PSIL Response**

*“We wish to clarify that the Company has framed a Risk Management Policy to identify and access the key business risk areas and a risk mitigation process. A detailed excise is being carried out that the organization faces such as strategic, financial, credit, market, liquidity, legal, regulatory and other risks. The Board periodically reviews the risks and suggests steps to be taken to control and mitigate the same through a properly defined framework. Further, the provisions of Regulation 21 of SEBI Listing Regulations 2015 pertaining to Risk Management Committee are not applicable to the company.*

*As mentioned above we will update the same in the Annual Report and we will upload the revised annual report on the website of the Company.”*

#### **NFRA Conclusions/Recommendations**

The Company is advised to make the required disclosures while restating its Financial Statements for the FY 2019-20.

### **3.15 The Management Discussion and Analysis**

#### **Subject Matter of the Issue**

The Management Discussion and analysis (the analysis) stated that *“In view of sluggish global demand, the Company repositioned some of its supplies to favourable markets. The company has passed through a very unusual phase, any worthwhile comparison of performance between two periods would be inconclusive.”*

#### **NFRA Observation**

NFRA observes that such vague statements as stated above need further explanations. In the absence of details, the above statements in the Analysis are misleading.

The analysis does not convey any meaningful information about the Company. It only gives some statements about the global and Indian scenario of the steel sector. There is no mention of how the global factors or the Indian conditions affect the business of the Company and how the Company is going to drive business growth.

There is no business overview, no business strategy, no operational overview, no performance analysis, no key financial ratios, and no futuristic business outlook explained in the Analysis.

Also, there is no opportunities and threats, strengths and weaknesses, risks and concerns relevant to the Company are explained. Though it is stated in the Analysis that *“Statements in the Management Discussion and Analysis describing the Company’s objectives, projections, estimates and expectations may be ‘forward looking statements’ within the meaning of applicable securities laws and regulations”* there are no such forward-looking matters in the Analysis.

In the absence of any such details, the financial information disclosed in the Annual Report may not convey any meaningful information to the readers.

#### **PSIL Response**

*“We wish to clarify that we have disclosed the current business profile in the beginning of the Annual Report. Further, we will also disclose the business structure in brief under Chapter “Management Discussion and Analysis Report” and we will update the same in the Annual Report and upload the revised annual report on the website of the Company accordingly.”*

#### **NFRA Conclusions/Recommendations**

NFRA observes that the Company is not only required to disclose the business structure under the “Management Discussion and Analysis Report” but also various other matters like performance analysis, operational overview, key financial ratios, futuristic business outlook etc. Further, the Company is also required to disclose the opportunities and threats, strengths and weaknesses, risks and concerns relevant to the Company. The absence of such matters in the Annual Report raises serious doubts regarding the genuineness of the business activities of the Company. The Company is advised to make the required corrections/disclosures while restating its Financial Statements for the Financial Year 2019-20.

### 3.16 Corporate Governance Report

#### Subject Matter of the Issue

It is stated in the Corporate Governance Report that “*Regulations 17(5) of the SEBI (LODR) Regulations, 2015, requires listed Companies to lay down a Code of Conduct for its Directors and Senior Management, incorporating duties of a directors as laid down in the Companies Act, 2013. The Board has adopted a Code of Conduct for all Directors and Senior Management of the Company and the same has been placed on Company's website.*”

#### NFRA Observation

NFRA observes that no such document is available on the website of the Company. The link ‘Code of Conduct’ available on the website opens a document titled ‘Code of Practices and Procedures for Fair Disclosure of Unpublished Price Sensitive Information’, ([https://0cbbb2ae-07ea-419fbe6311b18d1c041e.filesusr.com/ugd/d8d45a\\_44eeadd2e24483d9881d551bc25bcfb.pdf](https://0cbbb2ae-07ea-419fbe6311b18d1c041e.filesusr.com/ugd/d8d45a_44eeadd2e24483d9881d551bc25bcfb.pdf)) prepared to comply with the SEBI (Prohibition of Insider Trading) Regulations 2015. Please explain

#### PSIL Response

*“We wish to clarify that Company have adopted a Code of Conduct for all Directors and Senior Management of the Company, due to some technical glitch some of the policies unable to get opened on the website of the Company. We duly apologize for such technical issues. Further, we have solved such issues and following is the link which can be access on the website of the Company under ‘Code of Conduct’”*

#### NFRA Conclusions/Recommendations

NFRA has subsequently verified from the website of the Company and observes that the Company has solved the issue and now Code of Conduct for all Directors and Senior Management of the Company is available on the website (last accessed 20-10-2021). However, such practices show negligence on the part of the Company.

### 3.17 Corporate Governance Report

#### Subject Matter of the Issue

It is stated in the Corporate Governance Report that ‘Financial reporting for 1st Quarter ending on June 30, 2019’ has been released on 13.08.2018.

#### NFRA Observation

NFRA observed that the above statement is factually incorrect.

#### PSIL Response

*“We wish to clarify that due to typographical error the release date was mentioned as 13.08.2018 instead of 13.08.2019. We duly apologize for such typographical error and we will rectify the same and upload the revised annual report on the website of the Company accordingly.”*

#### **NFRA Conclusions/Recommendations**

The Company is advised to rectify the error while presenting its restated Financial Statements for the Financial Year 2019-20. Such practices show negligence on the part of the Company.

### **3.18 Corporate Governance Report**

#### **Subject Matter of the Issue**

It is stated in the Corporate Governance Report that *“The Company has established a vigil mechanism by adopting a Whistle Blower Policy .....The Whistle Blower Policy of the Company is available on its website.”*

#### **NFRA Observation**

However, no such policy is available on the website. Please explain.

#### **PSIL Response**

*“We wish to clarify that Company have adopted a Code of Conduct for all Directors and Senior Management of the Company, due to some technical glitch some of the policies unable to get opened on the website of the Company. We duly apologize for such technical issues. Further, we have solved such issues and following is the link which can be access on the website of the Company under ‘Code of Conduct’ – Whistle Blower Policies:”*

#### **NFRA Conclusions/Recommendations**

NFRA subsequently verified from the website of the Company and observes that the Company has solved the issue and now the Whistle Blower Policy of the Company is available on the website (last accessed 20-10-2021). However, such practices show negligence on the part of the Company.

### **3.19 Secretarial Audit Report**

#### **Subject Matter of the Issue**

It is stated in the Secretarial Audit Report that *“The management has identified and confirmed that apart from Companies Act, 2013; SEBI Act & Income-Tax Act, 1961, no other laws is specifically applicable to the Company”.*

#### **NFRA Observation**

NFRA observes that this is a false and misleading statement. There are several other acts (like The Contract Labour (Regulation and Abolition) Act, 1970, The Employees’ Provident Fund and Miscellaneous Provisions Act, 1952, The Payment of Gratuity Act, The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, The Information Technology Act, 2000, The GST Act etc.) that may apply to the Company.

#### **PSIL Response**

*“After consultation with Secretarial Auditor we come to on conclusion that yes we didn’t identify the other acts applicable to the Company. As we were of a view that the Secretarial Auditor scope is limited to the Compliance and listing and Companies Act matters. We are sorry for not just this matter but all*

*the above matters and we promise your goodself that henceforth such kind of mistakes will never be repeated and we shall appoint some special professional to rectify the same at the earliest.”*

#### **NFRA Conclusions/Recommendations**

NFRA observes that the disclosure made by the Company in this regard is misleading. The Company is advised to correct the error while presenting its restated Financial Statements for the FY 2019-20. Such practices show negligence on the part of the Company.

### **3.20 Suspension of Trading of Company’s shares on the recognised stock exchange.**

#### **Subject Matter of the Issue**

The Secretarial Audit Report states that *“Trading in securities of the Prabhu Steel Industries Limited were suspended w.e.f. January 18, 2019, on account of non-compliance with Regulation 34 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.”*

#### **NFRA Observation**

On scrutiny of stock exchange filings, it was found that trading of PSIL’s shares was suspended on account of non-compliance with submission of the Company’s Annual Report to the stock exchange and publication of the same on the Company’s website as required by Regulation 34 of *SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015* for two consecutive years i.e. March 2017 & March 2018 (According to provisions of Circular no. SEBI/HO/CFD/CMD/CIR/P/2018/77 dated May 3, 2018).

It is observed that the Company has failed to disclose in the Annual Report the reasons for the suspension of trading of its shares by India’s capital market regulator (SEBI) as required by Point C (9)(h) of Schedule V of SEBI (*Listing Obligations and Disclosure Requirements) Regulations, 2015*).

#### **PSIL Response**

*“We are hereby attaching BSE Circular as Annexure A dated 27th December 2018 for suspension of trading in securities of the Company will be suspended w.e.f. January 18, 2019 (being 21 days from issue of this notice); on account of non-compliance with Regulation 34 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for two consecutive years i.e., March 2017 & March 2018.”*

*“We wish to clarify that we have inadvertently not disclosed the same in the annual report regards to suspension of securities under Directors Report, further we will rectify the same in the Annual Report and will upload the revised annual report on the website of the Company. We duly apologize for such non-disclosure.”*

#### **NFRA Conclusions/Recommendations**

Regulation 34 requires the submission of Annual Accounts to the stock exchange and its publication on its website. The regulation also deals with certain contents of the Annual Report. In the absence of a proper explanation regarding the exact reasons for the suspension of trading, the Company has misguided its users. The Company has not even provided any explanations to NFRA though specifically asked in this regard.

Point C (9)(h) of Schedule V of SEBI (*Listing Obligations and Disclosure Requirements*) Regulations, 2015)) states that “*in case the securities are suspended from trading, the directors report shall explain the reasons thereof.*” The Company’s response that they have inadvertently not disclosed the same in the Annual Report is not acceptable. In the absence of any information and explanations from PSIL in this regard, NFRA concludes that the Company has hidden critical information from the users of the financial statements. The Company is advised to correct the error while restating the financial statements. Such practices show negligence on the part of the Company.

### **3.21 Changes to Memorandum and Articles of Association**

#### **Subject Matter of the Issue**

Notice for 48<sup>th</sup> Annual General Meeting includes a resolution for replacing the existing Memorandum of Association (MOA) and Articles of Association (AOA) of the Company with a new set of MOA and AOA in place to realign with the provisions of the new Companies Act viz. Companies Act, 2013.

It is also stated in the notice that the changes have been made according to the provisions of Section 13 and Section 14 of the Companies Act, 2013 read with the Companies (Incorporation) Rules, 2014.

#### **NFRA Observation**

NFRA observes that as per Section 13 and 14 of the Companies Act, 2013, there is no such provision to completely replace the MOA and AOA of the Company. Section 13 (deals with Alteration of Memorandum (and Section 14 (deals with alteration of articles) of Companies Act, 2013 has been in effect since 1<sup>st</sup> April 2014.

Therefore, NFRA asked the Company to explain the reasons and justifications for a complete change in MOA and AOA. Also, to explain the exact nature of changes that have been made and the reason behind non-disclosure in the Annual Report of such specific changes made.

#### **PSIL Response**

The Company states as follows:

*“We wish to clarify that the Company was incorporated under the provisions of the Companies Act, 1956. The existing Memorandum of Association (“MOA”) and Articles of Association (“AOA”) is based on the Companies Act, 1956 and since the Company Act, 2013 has come in to force from 1st April 2014, several clauses/regulations in the existing MOA and AOA contain references to specific sections of the Companies Act, 1956 which are no longer in force.”*

*“Accordingly, with a view to align the existing MOA of the Company with Table A of the Schedule I of the Company Act, 2013 it was proposed to alter the MOA of the Company and replace by new MOA.”*

*“The Existing regulations of AOA were replaced by the new set of regulations and adopted as new set of Articles of Association. The modification in the Articles of Association is carried out to give effect to the provisions of the Companies Act, 2013.”*

#### **NFRA Conclusions/Recommendations**

NFRA examined the response of PSIL and observes that the Company has given a vague reply regarding the changes made to MOA and AOA and has not explained the exact changes made. As per Sections 13



and 14 of the CA, 2013, there is no such provision to completely replace the MOA and AOA of the Company. Thus, the actions of the Company amount to a violation of Sections 13 and 14 of the CA, 2013. By not disclosing the matter properly, the Company has misguided the users of the financial statements. The Company is advised to correct the error while restating the financial statements. Such practices show negligence on the part of the Company.

### 3.22 Form No. AOC-2

#### Subject Matter of the Issue

Form No. AOC-2 provides the following information in the following format:

Sr No	Name of Related Parties	Nature and value of contract/ arrangement	Amount
1.	Harish Agrawal	Remuneration	6,00,000/-
2.	Dinesh Agrawal	Remuneration	6,00,000/-
3.	Hariyana Metals Limited	Interest Received	13,77,242/-
4.	Hariyana Metals Limited	Loan Paid and Received	1,52,50,000/-

According to the Companies (Accounts) Rules 2014, the following information needs to be stated in form AOC 2.

Details of contracts or arrangements or transactions not at arm's length basis

- i Name(s) of the related party and nature of relationship
- ii Nature of contracts/arrangements/transactions
- iii Duration of the contracts / arrangements/transactions
- iv Salient terms of the contracts or arrangements or transactions including the value, if any
- v Justification for entering into such contracts or arrangements or transactions
- vi Date(s) of approval by the Board
- vii Amount paid as advances, if any:
- viii Date on which the special resolution was passed in general meeting as required under first proviso to Section 188

Details of material contracts or arrangement or transactions at arm's length basis

- i Name(s) of the related party and nature of relationship
- ii Nature of contracts/arrangements/transactions
- iii Duration of the contracts / arrangements/transactions
- iv Salient terms of the contracts or arrangements or transactions including the value, if any:

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v Date(s) of approval by the Board, if any:

vi Amount paid as advances, if any:

The form shall be signed by the persons who have signed the Board's Report

**NFRA Observation**

NFRA observes that neither the format nor the contents of Form No-AOC 2 given in the Annual Report comply with the format and contents of form AOC 2 specified in Companies (Accounts) Rules, 2014.

**PSIL Response**

*“We will rectify the same as per the format specified in Companies (Accounts) Rules, 2014 in the annual report and upload the revised annual report on the website of the Company. We duly apologize for not mentioning as per the format specified.”*

**NFRA Conclusions/Recommendations**

The Company is advised to correct the error while presenting its restated Financial Statements for the FY 2019-20. Such practices show negligence on the part of the Company.

Approved for issue by the Executive Body of NFRA

*Vivek Narayan*  
(Vivek Narayan)  
Secretary *14/2/2022*

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सचिव/Secretary  
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