



FINAL SURVEY REPORT

Our Ref:	Insurer's Ref :
Our Ref No. 14444/ICICI/19-20	Insured : M/s Jain Agarbatti
	Claim No. FIR000488582
	Policy No: 1001/128580970/00/000
Date: October 9, 2019	Date of loss: 23 rd March 2017

Final Survey report regarding claim preferred by M/s Jain Agarbatti, for reported loss/damage to their property due to fire insured under Standard Fire & Special Perils Policy.

- Insured : M/s Jain Agarbatti,
Shree Paraswath Complex Unit No. 6,
Bldg No C-16, Anjurphata Dapoda
Road Val Village, Bhiwandi,
Dist.-Thane - 412302
- Insurers : ICICI Lombard Gen. Insurance Co. Ltd.
- Type of Policy : Standard Fire & Special Perils Policy
- Policy No. : 1001/128580970/00/000
- Period of Insurance : 07.03.2017 to 06.03.2018
- Total Sum Insured : Rs. 1,06,00,000.00
- Affected item : Stock
- Sum Insured for the : Rs. 100,00,000.00

➤ Location of Risk	M/s Jain Agarbatii Shree Paraswath Complex Unit No. 6, Bldg No C-16, Anjurphata Dapoda Road Val Village, Bhiwandi, Dist.- Thane - 412302
➤ Clauses	: <ul style="list-style-type: none"> • Goods Held in trust • Designation of property clause, • Earthquake etc

- 1.1 M/s. Jain Agarbatti, has suffered a fire loss at their premises reportedly on 23rd March 2017. They have initially lodged claim against HDFC Ergo General Insurance Co. Ltd. The HDFC Ergo General Insurance Co. Ltd., had appointed a surveyor Sudhir Tondan & Co. who has surveyed the loss and issued the survey report. The surveyor had assessed the loss for Rs. 9132500.00 and restricted the liability to the sum insured Rs. 52,71,000.00. As we understand, after considerable period the insured had lodged the claim against their another policy with ICICI Lombard General Insurance Co. Ltd.
- 1.2 On 16th March 2019 ICICI Lombard General Insurance Co. Ltd., Mumbai appointed us for the survey of the same loss.
- 1.3 As the instructions were received after considerable period, the physical inspection was not possible. ICICI Lombard General Insurance Co. Ltd., forwarded an unsigned copy of survey report of Sudhir Tandon & Co. In continuation, we advised insured to forward us the supporting documents, more particularly the tally data. The submitted documents were analyzed in detail and various

discrepancies were observed. These were forwarded to the insured vide mail dated 15th April 2019 (Enclosure 1). Insured vide their mail dated 11th May 2019 had forwarded their reply (Enclosure 2). However, the queries were not answered completely. After some efforts by way of telephonic discussion, a meeting was held at insurers' office with the insured and their chartered accountant on 4th July 2019, wherein all the queries were once again explained. The minutes were forwarded to the insured vide mail dated 4th July 2019, which reads as under....

1. Goods return amount to INR 675,015.00. We believe that these are not good returns but are write offs which should be booked in profit and loss account and not in trading account. The value of closing stock will reduce by 675,015.00: You will be providing the supporting details of the original sales, return and reasons for the returns with supporting details.
2. Quantitative details are not maintained. Closing stock value is not auto-calculated through system but punched into the system: During the meeting you have provided us the signed copy of the breakup. However, the basis of such breakup could not be provided by you. You have agreed to provide the exact methodology (with detailed calculations) of ascertaining the quantity damaged and rates claimed. Similar breakup for the opening stocks also need to be provided. We would be requiring the statement to be certified by your CA.
3. Increase in GP: You have explained that this is in lieu of the increase in the sales value. You have agreed to provide the comparative details to establish such increase in sales value. This analysis should be mainly done for other than Paresh

Marketing. If it is pertaining to Paresh Marketing, then we may require similar working for Paresh Marketing also.

4. Increase in stock holding: The importance of this aspect was once again explained to you. It was once again explained in detail that to keep stocks as high as 453 days is beyond any business logic. You have explained that this was due to cancellation of order by one of your customer. We have already advised you to kindly provide the detailed reasoning of such increase in the stock holding giving exact details (giving amounts)
5. Raw Material Purchase from Shrinivas Sugandhalaya LLP of INR 5,14,154, payment made through cash amount to Rs. 1,01,556 and remaining payment of 4,12,598 is routed through Jain Products: You have agreed to provide confirmation from the respective parties.
6. List of Creditors: You have agreed to provide the comparative data – earlier creditors, payment done post loss, mode of payment, creditor confirmation, present outstanding

1.4 The insured forwarded us some documents/clarifications vide their mail dated 3rd August 2019 (Enclosure 3). However, the submission was not at all in line with the requirement/deficiency discussed with the insured and their CA. None of the reply has given any satisfactory explanation. Our brief observations in seriatim are as under....

- 1.5
1. Some breakup of values was provided. However, the details such as the date of original supply, date of return, reasons for return etc. were not provided.
 2. No details were provided. No quantitative details, its

methodology of ascertainment, CA certificate etc. were not provided.

3. No explanation was provided. Rather it was projected that there is no significant increase in GP
4. Some explanation was provided. However, the exact arithmetic calculations to work out the impact was not provided. The insured agreed that there was accumulation of stocks due to cancellation of order.
5. It was informed that the substantial payment of Rs. 1,01,556.00 was paid in cash. This is not as per the prevailing law.
6. Some ledger accounts were submitted. In some ledgers multiple cash payment exactly of Rs. 19500.00 were observed.

1.6 Hence, we are constrained to release the report on the basis of available information.

2.0 OBSERVATIONS ON ACCOUNTS SUBMITTED BY THE INSURED

2.1 Based on analysis of data/documents submitted, the summary of the findings are as under....

Punched In Closing Stocks

2.2 The closing stock value is not auto-calculated through system but punched into the system. As a matter of fact, any figure could have been punched-in. Hence, such punched-in figure cannot be accepted unless supported by documents/working. During our meeting with the insured and their chartered accountant, when we asked the basis of arriving the closing stocks (as on date of loss), the Chartered Accountant, clarified that it is as provided by the insured. The CA has qualified their audit report of 2016-17, accordingly. Thus,

this figure cannot be taken as certified/verified by the auditors.

- 2.3 The insured had provided us the item wise breakup of the closing stocks inventory. As the stocks was completely burnt, we asked insured, how an item wise list was prepared by them, after the loss. The insured could not provide any back up working. Hence, the closing stocks figure given by the insured is not accepted as it was not derived by any process, but simply put in the tally data.

Inconsistent Gross Profit

Financial Year	Gross Profit Ratio
14-15	8.35%
15-16	11.47%
16-17	12.44%

- 2.4 GP ratio has increased by 49% in FY 16-17 as compared to FY 14-15 though sales has declined by 193% from FY 14-15 to FY 16-17. This is completely incomprehensible and not accepted. When the business is having downtrend, the profit always follows negative path, as any trader will like to increase the sale by decreasing the profit.

Irrational Inventory:

Year	Closing Stock in Rs.	Sales in Rs.	Stock holding days
FY 14-15	26,61,960.00	2,07,67,614.00	44 days

FY 15-16	62,44,120.00	1,33,35,658.00	138 days
FY 16-17	91,32,500.00	70,79,131.00	453 days

2.5 The closing stocks had substantially increased from Rs. 26.61 Lakhs to Rs. 91.32 Lakhs. As on date of loss, the inventory holding in days worked out to be 453 days (of sales of value). Such inventory holding is against any prudential business logic. It is noteworthy that the manufacturing process was very simple, as the insured only coat the raw agarbatti with liquid incense. Most of the sale and purchases are local only. Thus, the lead time for procurement (except for packing material) would be very less. The increase in the inventory is more noteworthy against the backdrop of substantial increase of creditors.

2.6 Thus, such increase of stocks without any corresponding increase in sales indicate the accumulation of dead/non-moving stocks. The insured himself have agreed that the inventory had increased due to cancellation of order by one customer, M/s Thakkar Perfumery. The printing material pertaining to the cancelled order was reportedly lying in the stocks. Such printing material was not useful for any other purpose and hence it had no market value. The insured had not provided complete details, and hence the entire value is considered **as non-moving**. Insured had further confirmed that they had also lost a major customer, M/s. Phalke FMCG Pvt. Ltd. It is also obvious that the packing material pertaining to this customer would also be part of the closing stocks.

2.7 It may be noted that another firm Paresh Marketing operates out of same premises. This firm is owned by the father of the Mr. Paresh Jain. This firm markets the product of Jain Agarbatii. Most of the

sales of Jain Agarbatii is done to Paresh Marketing. There is no physical demarcation of the area. Paresh Marketing had also got their claim from two insurers. If we add, the closing stocks inventory of Paresh Marketing (Rs.35,50,000.00), the closing stocks increases phenomenally to Rs.1,26,82,500.00.

Goods Return:

- 2.8 Goods return amounted to INR 675,015.00. Most of these are return from more than a year old sales. Why would one return the sold goods after one year? Moreover, even if we accept it, whether those returned goods were marketable further. In absence of any verifiable evidences, these are not taken as good returns but are write offs which should be booked in profit and loss account and not in trading account.
- 2.9 For Raw Material Purchase from Shrinivas Sugandhalaya LLP of INR 5,14,154.00, payment was made through cash amount to Rs. 1,01,556.00 and remaining payment of 4,12,598.00 was routed through Jain Products. Such payment is not as per the accounting standards and hence, this purchase is not considered by us.
- 2.10 Factory rent, Freight charges, Salesman Salary, Staff salary is paid upto December 2016 and also there is very less transaction in cash from December 2016 onwards as compared to previous years and previous months. Does it mean that factory was shut from December 2016 ? Insured had not provided any explanation for this.
- 2.11 Some of the ledgers submitted by the insured shows multiple cash payments of Rs. 19,500.00 to same party even when the outstanding was in Lakhs. Such multiple cash payments were obviously doubtful.

The amount of just below (20000.00) was noteworthy.

2.12 Hence, while assessing the loss, we have done required adjustments. The details calculations are placed as **Annexure** to the report.

2.13 Thus, to summarize, the Net Assessment works out to be Rs. 39,72,422.51 (before excess). The insured had already received Rs. 50,07,450.00 (after excess) from HDFC Ergo General Insurance Co. Ltd. Thus, the insured is already indemnified fully (rather more). **Thus, the share of ICICI Lombard General Insurance Co. Ltd. is NIL.**

3.0 CONCLUSIONS

3.1 The share of ICICI Lombard General Insurance Co. Ltd. is NIL.

4.0 This report is issued **without prejudice & subject** to the terms, conditions and warranties to the Policy issued to & held by the Insured.

5.0 DECLARATIONS

5.1 *We hereby declare that we have no interest in the subject matter in question and reported as above. We are neither related to the Insured nor the business either by blood, business or share-holding of whatsoever nature.*



K R BIYANI

License No. SLA 34365 valid till 27.11.2019

Encl :

❖ Assessment as annexure