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9B17B009

RICOH INDIA LIMITED: FINANCIAL SHENANIGANS[[1]](#endnote-1)

Barnali Chaklader wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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Ricoh India Limited (Ricoh India), a subsidiary of Ricoh Japan, failed to submit its quarterly results in September and December 2015, causing the Bombay Stock Exchange (BSE) to announce on March 21, 2016, that it would move the company’s shares from the B category to the Z category[[2]](#endnote-2) on March 28, 2016. The announcement caused Ricoh India’s stock price to drop by 6.4 per cent.[[3]](#endnote-3) The company’s share price was ₹299[[4]](#endnote-4) in January 2015, increased to ₹595.75 by January 2016, and dropped to ₹422 in March 2016, after the company’s reassignment to the Z category. Between March 2016 and May 2016, the company’s shares had lost 42.3 per cent in market value (see Exhibit 1).

On June 20, 2016, the national daily newspaper, the Indian Express, reported the fraud. “Ricoh India admits to ‘falsified accounts:’ ₹11.23 billion estimated loss. The suspected accounting fraud at Ricoh India is one of the biggest corporate frauds involving a local company since the Satyam scandal came to light in 2009.”[[5]](#endnote-5)

Another business news source suggested that the fraudulent activity should have been obvious. “A cursory look at the nature of the irregularities reported suggested that only an extremely careless and happy-go-lucky auditor would have not noticed the deviations.”[[6]](#endnote-6) What signs were missed in the company’s financial statements that should have warned the auditors about possible fraud? After the auditor’s report was made public, what investment strategy was left for an investor to pursue? Knowing that the company had falsified financial statements, should an investor continue to hold, or divest, the Ricoh India shares?

About Ricoh Limited

In 1936, Rikagaku Kogyo established Riken Kankoshi Co., Ltd. to manufacture and sell sensitized paper. The company was renamed Riken Optical Co., Ltd. in 1938, and Ricoh Company, Ltd. (Ricoh) in 1963.[[7]](#endnote-7) In 1950, the company launched the Ricohflex III camera, which prompted the popularization of cameras. In 1955, the company introduced Ricoh’s first diazo copier, the Ricopy 101, and in 1957, it established Japan’s first camera mass-production system.[[8]](#endnote-8) From 1960 to 2015, the company extended its reach to Korea, Taiwan, Hong Kong, Thailand, the United States, Germany, Sweden, Switzerland, Spain, France, Italy, China, and India. The period from 1985 to 1999 represented the digitization years. Ricoh introduced the Ricoh Color 5000, the first analogue colour copier, and developed speech-recognition and optical character-recognition technology.[[9]](#endnote-9) In 2000, Ricoh began strengthening its overseas sales network.[[10]](#endnote-10) The global technology giant had 230 consolidated companies, 108,195 employees, and a market capitalization of ¥135.3 billion[[11]](#endnote-11) on March 31, 2015.[[12]](#endnote-12)

From its headquarters in Japan, Ricoh was led by Zenji Miura as its chairman and chief executive officer (CEO). Ricoh specialized in office-imaging equipment, production print solutions, document management systems, and information technology (IT) services.[[13]](#endnote-13) In 2015, Ricoh had global sales of ¥2,231 billion (approximately US$18.5 billion) and operated in 200 countries and regions.[[14]](#endnote-14) Known for its wide range of products and services, including printing, document services, IT services, and communication systems, Ricoh offered customized products and services for various business practices as a global company with one central point of coordination.[[15]](#endnote-15) The company was known for exceptional customer service and sustainability initiatives, having won various awards for its innovation and environmental initiatives.[[16]](#endnote-16) In 2016, the Ethisphere Institute honoured Ricoh as the World’s Most Ethical Company for the seventh time.[[17]](#endnote-17)

Ricoh India

RPG Ricoh Ltd., incorporated on October 22, 1993, in Bombay, India, was renamed Ricoh India Limited in 1998. The company’s business included office-imaging equipment, production print services, document management systems, and IT services.[[18]](#endnote-18) Ricoh India received awards for environmental initiatives related to resource extractions, chemical emissions, and discharges. The company also took part in socially responsible corporate activities through education, skill development, and community development.[[19]](#endnote-19)

In March 2015, Ricoh India had an authorized capital of 45 million shares priced at ₹10 per share, of which the Ricoh parent company held 46.04 per cent and NRG Group Limited held 27.56 per cent.[[20]](#endnote-20) In India, the company operated through a robust network of 24 offices, with over 2,500 dealers and business associates spread across the country.[[21]](#endnote-21) In 2012, Ricoh India established Ricoh Thermal Media Asia Pacific Private Limited, which was responsible for thermal media and related business in Mumbai. In 2014, Ricoh India was chosen to supply rural information and communication technology services to India’s Department of Posts to modernize and automate approximately 129,000 post offices.[[22]](#endnote-22) In the company’s 2014–15 annual report, the managing director and CEO boasted a growth rate of 213 per cent in IT services. The company’s delivery of technology to its customers included digitization services, applications, networking, data management, hosting, surveillance services, and other products.[[23]](#endnote-23)

The company’s multi-function printer helped Ricoh India dominate the market with significant sales growth of 16 per cent year on year. Within four years of launching a laser printer, the company secured a position among the top three market leaders.[[24]](#endnote-24) In March 2015, Ricoh India’s assets were ₹12.9 billion, for an increase of 50 per cent over the previous year. Its total revenue was ₹16.5 billion, for an increase of 57 per cent over the previous year, and profit after tax was ₹339 million, which was also an increase of 96.7 per cent over the previous year (see Exhibits 2 and 3).

A Financial Overview of Ricoh India

Ricoh India went from no long-term debt in 2013–14 to a debt of ₹2 billion the following year. The new debt consisted of non-convertible debentures with a coupon rate of 7.8 per cent that were issued through private placements, to be redeemed on September 10, 2017.[[25]](#endnote-25) From 2011–12 to 2014–15, the company’s compound annual growth rate (CAGR) grew by 56 per cent for sales and by 107 per cent for trade receivables. The company’s other income also jumped by 871 per cent during the same period (see Exhibits 2 and 3).

From 2013–14 to 2014–15, Ricoh India posted an increase in profit before tax of 67 per cent, from ₹301.2 million to ₹504.9 million. However, the company generated negative cash from operations of ₹588.5 million in 2013–14 and ₹2,224 million in 2014–15 (see Exhibit 4).

Ricoh India had a negative cash flow from investment from 2011–12 onward, but saw a drop of ₹360 million in cash flow from investment in 2013–14 and 2014–15 (see Exhibit 4). Despite a robust increase in sales revenue and profit before tax, and a much lower outflow in cash outlay in investment activities in 2014–15 compared to the previous financial year, the company’s positive cash from financing activities increased by ₹1.9 billion (see Exhibits 2, 3, and 4).

Corporate Governance in Ricoh India

According to its annual report, Ricoh India conducted its business with the highest ethical standards and sound corporate governance practices. The company believed that, to retain the trust and interest of investors, sound corporate governance practices and ethical standards were essential.[[26]](#endnote-26)

The company also claimed that its board of directors provided strategic guidance with the highest level of integrity, values, and personal and professional ethics. As of March 31, 2015, the company’s board of directors comprised an executive director, two non-executive directors, and three non-executive independent directors, one of whom was a woman. The fact that 50 per cent of the directors were independent was consistent with clause 49 of India’s listing requirements.[[27]](#endnote-27)

Tetsuya Takano was appointed chairman on April 1, 2015, after completing his term as managing director and CEO. Manoj Kumar, an executive director who had been associated with Ricoh since 1995, replaced Takano as the company’s managing director and CEO. None of the directors were related to other directors on the board in respect of the definition of relative under India’s *Companies Act* (2013). All directors were professionally qualified and had rich professional experience. Also, none of the directors held any shares in the company.[[28]](#endnote-28)

The company had a proper internal control system in place. The director’s report confirmed that Ricoh India consistently selected and applied accounting policies, and made judgments and estimates that provided a true and fair view of the financial statements of the company. The directors claimed to have maintained adequate accounting records, as required by the act. They also created a system that would prevent and detect fraud and other irregularities.[[29]](#endnote-29)

Special Investigation of the Company Accounts

Although there was some indication that Ricoh India was having problems with its financial statements, the rating agency Credit Analysis and Research Limited upgraded the company’s credit rating of non-convertible debentures from IND AA– to IND AA in January 2016. The rating agency’s motives were unclear, especially considering that the financial statements of the past two quarters were not available. J. N. Gupta, the former executive director of the Securities Exchange Board of India, suggested that the stock market regulator should investigate the issue. However, to retain the faith of investors in the stock market, Gupta advised that the investigation should be conducted as an isolated case, rather than making it indicative of widespread malaise.[[30]](#endnote-30)

In July 2015, the accounting firm Sahni Natarajan and Bahl retired as auditors of Ricoh India. The company’s audit committee then appointed BSR & Co. LLP (BSR) as its new statutory auditors. After a preliminary review, BSR requested that the company undergo a further review of certain transactions. On the recommendation of BSR, the audit committee appointed the accounting firm SS Kothari Mehta & Co. for additional services. However, the new firm offered recommendations that did not meet with the approval of BSR. The audit committee then appointed the law firm Shardul Amarchand Mangaldas & Co. as its counsel, which arranged for the accounting firm PricewaterhouseCoopers Private Limited (PWC) to conduct a forensic review.

On April 1, 2016, Kumar was asked to step down from his position of managing director and CEO, to be replaced by A. T. Rajan. Also asked to step down were the company’s chief financial officer, Arvind Singhal, and its chief operating officer, Anil Sahni.[[31]](#endnote-31)

Based on PWC’s preliminary findings from the forensic review of the two quarters beginning April 1, 2015, and July 1, 2015, the board and audit committee announced that the books of accounts and other relevant documents from the financial statements did not reflect a true and fair view of those two quarters.[[32]](#endnote-32)

FACTS FROM THE AUDIT REPORT OF THE INDEPENDENT AUDITOR

According to the revenue recognition policy detailed in Ricoh India’s annual report, funds should be recognized as revenue only when significant risks and rewards were transferred to the customer (usually when the goods were delivered).[[33]](#endnote-33) However, the preliminary findings of the independent auditor indicated that the revenue of the company was recognized based on orders on hand or on invoicing without the dispatch or delivery of goods, clearly contradicting company policy. In its report, BSR also mentioned that a considerable amount of the company’s purchase and sales transactions added little value.[[34]](#endnote-34) The management of the company observed that some of the entries were recorded in the books of accounts without proper justification. The independent auditor drew attention to the notes of the financial results showing that, in its opinion, irregular and fraudulent transactions were present.[[35]](#endnote-35)

Adjustments had been made in net sales, expenses, assets, and liabilities to show higher profits. The books also showed backdated transactions with inconsistent prices and no supporting evidence. There was a link between the prominent management personnel, suppliers, and customers of the company. In fact, certain customers had untraceable addresses. Reconciliation of some large advances of customers and vendors had not been done. Therefore, the auditors could not be sure that the stated amounts of provisions were adequate. The auditor had provided a qualified report for the year based on the assumption that the opening balances on April 1, 2015, had been correctly stated. If that assumption was proven incorrect, the financial results would need to change substantively.[[36]](#endnote-36)

Therefore, the audit committee issued its findings that the books and accounts for the two quarters of the company ending June 30 and September 30, 2015, did not reflect a true and fair view of the company’s state of affairs.[[37]](#endnote-37)

investment decision

# Ricoh India had posted profits of ₹172.3 million in 2013–14 and ₹339.0 million 2014–15, after a negative profit result of ₹13.1 million in 2012–13. The company’s earnings per share (EPS) of ₹8.52 in 2014–15 was almost double the EPS of the previous financial year, and share prices were continuing to rise. And then, on July 20, 2016, leading newspapers in India published the news that Ricoh India had admitted to manipulating ₹11.23 billion in funds on its accounts.[[38]](#endnote-38)

# Based on the company’s published annual reports, Ricoh India appeared to be a well-governed company. Therefore, the prospect of analyzing the financial health of a company based on its public financial statements had become a questionable exercise. The news raised concerns about the quality of the company’s earnings. On June 20, 2016, after the company publicly admitted to having falsified its accounts, the opening share price of the company was ₹219.50 per share, down from ₹595.75 per share in January.

The Indian proxy advisory firm Institutional Investor Advisory Services, commented that Ricoh India’s parent company had admitted to having been caught unaware of its subsidiary’s affairs.[[39]](#endnote-39) Once news about fraud committed by a company was made public in a leading national newspaper, how should investors react?

Should investors continue to hold the company’s shares, hoping that the parent company might infuse funds in the embattled subsidiary? The value of Ricoh India’s shares had already eroded by 75 per cent between June 20, 2015, and June 20, 2016.

Could the shares regain their value; and if so, was it the right time to buy even more company shares, while the value was so low? Or would it be a better decision to sell the shares to prevent further losses? Could an analysis of the company’s financial statements help an investor determine whether there were signs of financial gain in the future? Investment decisions needed to be made—while there was still time.

EXHIBIT 1: MONTHLY SHARE PRICES OF RICOH INDIA LIMITED, January 2015–June 2016

(in ₹)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Month** | **Open Price** | **High Price** | **Low Price** | **Close Price** |
| January 2015 | 295.75 | 333.00 | 290.30 | 299.00 |
| February 2015 | 296.60 | 570.00 | 264.00 | 494.10 |
| March 2015 | 499.00 | 626.70 | 462.00 | 552.70 |
| April 2015 | 555.00 | 749.00 | 540.00 | 695.75 |
| May 2015 | 695.75 | 956.75 | 620.50 | 891.50 |
| June 2015 | 899.00 | 1,049.00 | 789.00 | 1,029.50 |
| July 2015 | 1,037.00 | 1,072.25 | 930.00 | 1,024.50 |
| August 2015 | 1,033.00 | 1,069.00 | 635.25 | 737.25 |
| September 2015 | 721.00 | 940.00 | 580.00 | 905.50 |
| October 2015 | 915.00 | 960.00 | 835.00 | 899.00 |
| November 2015 | 900.00 | 970.00 | 807.25 | 945.25 |
| December 2015 | 947.50 | 958.75 | 702.00 | 788.75 |
| January 2016 | 790.75 | 800.00 | 590.00 | 595.75 |
| February 2016 | 610.00 | 671.00 | 490.00 | 533.25 |
| March 2016 | 530.00 | 647.00 | 422.00 | 422.00 |
| April 2016 | 413.00 | 413.00 | 304.30 | 332.40 |
| May 2016 | 330.00 | 330.00 | 240.10 | 243.20 |
| June 2016 | 219.50 | 219.50 | 219.50 | 219.50 |

Note: ₹ = INR = Indian rupee; US$1 = ₹63.16 on January 1, 2015.

Source: “Ricoh India Ltd.,” BSE (Bombay Stock Exchange), accessed August 16, 2016, www.bseindia.com/stock-share-price/ricoh-india-ltd/ricohq/517496/#.

EXHIBIT 2: RICOH INDIA LIMITED PROFIT AND LOSS ACCOUNT, 2011–12 to 2014–15   
(IN ₹ Million)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year end: March 31 | **2011–12** | **2012–13** | **2013–14** | **2014–15** |
| **INCOME** |  |  |  |  |
| Revenue from Operations | 4,315.2 | 6,331.2 | 10,486.5 | 16,378.2 |
| Other Income | 17.3 | 15.3 | 18.2 | 168.0 |
|  | **4,332.5** | **6,346.5** | **10,504.7** | **16,546.2** |
| **EXPENSES** |  |  |  |  |
| Cost of Goods Sold | 2,696.8 | 4,344.6 | 7,370.7 | 12,503.8 |
| Employee Benefits Expense | 660.8 | 787.5 | 890.2 | 1,010.5 |
| Depreciation and Amortization | 73.1 | 80.9 | 161.5 | 214.4 |
| Corporate Social Responsibility | — | — | — | 2.1 |
| Finance Cost | 57.5 | 139.7 | 317.2 | 853.5 |
| Other Expenses | 869.0 | 989.8 | 1,463.9 | 1,457.0 |
|  | **4,357.2** | **6,342.5** | **10,203.5** | **16,041.3** |
| **Loss Before Tax** | **–24.7** | **4** | **301.2** | **504.9** |
|  |  |  |  |  |
| Tax Expense |  |  |  |  |
| Current Tax | — | –52.8 | –138.2 | –220.6 |
| Deferred Tax | –0.3 | 35.7 | 9.3 | 29.3 |
| Tax for Earlier Years | –1.0 | — | — | 25.4 |
|  |  |  |  |  |
| **Net Profit/(Loss)** | **–26.0** | **–13.1** | **172.3** | **339.0** |
| Earnings Per Share, Basic and Diluted  (Equity Share Par Value) | –0.65 | –0.33 | 4.33 | 8.52 |

Note: ₹ = INR = Indian rupee; US$1 = ₹63.16 on January 1, 2015.

Source: Prepared by the author with information from Ricoh India Limited, *22nd Annual Report, 2014–15*, accessed August 18, 2016, www.ricoh.co.in/RID/sites/www.ricoh.co.in/files/Annual-Report-of-Ricoh-India-Limited-2014-2015.pdf.

EXHIBIT 3: RICOH INDIA LIMITED BALANCE SHEET, 2011–12 to 2014–15 (IN ₹ Million)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2011–12** | **2012–13** | **2013–14** | **2014–15** |
| **EQUITY AND LIABILTIES** |  |  |  |  |
| Shareholder's Funds | 1,238.8 | 1,225.6 | 1,397.9 | 1,686.0 |
| **Non-Current Liabilities** |  |  |  |  |
| Long-Term Borrowings | 0 | 0 | 0 | 2000 |
| Other Long-Term Liabilities | 75.1 | 77.3 | 104.0 | 148.3 |
| **Current Liabilities** | 2,466.5 | 6,143.4 | 7,100.9 | 9,114.5 |
| **Total** | **3,780.4** | **7,446.3** | **8,602.8** | **12,948.8** |
|  |  |  |  |  |
| **ASSETS** |  |  |  |  |
| **Non-Current Assets** | 790.8 | 1,155.9 | 1,355.4 | 1,230.8 |
| **Current Assets** | 2,989.6 | 6,290.6 | 7,247.3 | 11,718.0 |
| **3,780.4** | **7,446.5** | **8,602.7** | **12,948.8** |

Note: ₹ = INR = Indian rupee; US$1 = ₹63.16 on January 1, 2015.

Source: Prepared by the author with information from Ricoh India Limited, *22nd Annual Report, 2014–15*, accessed August 18, 2016, www.ricoh.co.in/RID/sites/www.ricoh.co.in/files/Annual-Report-of-Ricoh-India-Limited-2014-2015.pdf.

EXHIBIT 4: RICOH INDIA LIMITED CASH FLOW STATEMENT, 2012–13 to 2014–15 (IN ₹ Million)

|  |
| --- |
|  |

|  |  |  |  |
| --- | --- | --- | --- |
| **PARTICULARS** | **2012–13** | **2013–14** | **2014–15** |
| **Cash Flow from Operating Activities** |  |  |  |
| **Net Profit/(Loss) before Tax** | 3.9 | 301.2 | 504.9 |
| **Adjustments for:** |  |  |  |
| Depreciation and Amortization | 80.9 | 161.5 | 214.4 |
| Loss/(Profit) on Sale of Fixed Assets | 0.1 | –0.042 | –13.6 |
| Provision for Bad Debts | — | — | 16.0 |
| Dividend Income (Net) | — | — | — |
| Bad Debts Write-off | — | — | — |
| Liability Written Back | –2.4 | –0.003 | 41.9 |
| Advances Deposits Written-off | 0.1 | 1.0 |  |
| Finance Cost |  |  | 797.2 |
| Interest Paid | 127.8 | 364.7 |  |
| Interest Received | –5.2 | –6.9 | –9.9 |
| Unrealized Foreign Exchange Loss/(Gain) | 22.6 | –112.3 | 140.2 |
| Operating Profit/(Loss) Before Working Capital Changes | 227.8 | 709.1 | 1,691.1 |
| **Adjustments For:** |  |  |  |
| (Decrease)/Increase in Current Liabilities and Provisions | 2,267.1 | –48.6 | 401.0 |
| (Increase)/Decrease in Inventories | –816.1 | –514.0 | 104.5 |
| (Increase)/Decrease in Sundry Debtors | –870.2 | –1,349.5 | –3,443.2 |
| Decrease/(Increase) in Loans and Advances | –1,755.8 | 731.0 | –797.6 |
| **Cash Generated from Operations** | –947.0 | –472.0 | –2,128.0 |
| (Net Taxes Paid) | –19.7 | –116.5 | −96.5 |
| **Net Cash (Used) In Operations (A)** | –966.7 | –588.5 | –2,224.5 |
| **Cash Flow From Investing Activities** |  |  |  |
| Purchase of Fixed Assets | –133.7 | –476.5 | –376.1 |
| Sale of Fixed Assets | 1.6 | 0.1 | 267.2 |
| Interest Received | 5.1 | 7.1 | 3.3 |
| Dividend Income (Net) | — | — | — |
| Increase in Margin Money | –20.2 | –32.7 | –37.0 |
| Sale/(Purchase) of Investments | — | — | — |
| Purchase Consideration Paid to Inforprint Solutions India | — | — | — |
| Purchase Consideration Paid to Momentum Infocare | — | — | — |
| **Net Cash (Used) In Investing Activities (B)** | –147.2 | –502.0 | –142.6 |
| **Cash Flow from Financing Activities** |  |  |  |
| Interest Paid | –124.5 | –358.4 | –782.1 |
| Proceeds from Long-Term Borrowings | — | — | 2,000.0 |
| Proceeds from Short-Term Borrowings | 1,394.2 | 1,079.4 | 1,432.7 |
| **Net Cash from Financing Activities (C)** | 1,269.7 | 721.1 | 2,650.6 |
| **Net Increase/(Decrease) in** |  |  |  |
| **Cash and Cash Equivalents (A + B + C)** | 155.8 | –369.4 | 283.5 |
| Cash and Bank Balances | 506.2 | 662.0 | 293.5 |
|  | 662.0 | 292.6 | 577.0 |
| **Cash and Cash Equivalents (Closing Balance)** |  |  |  |
| Cash and Bank Balances | 662.0 | 292.6 | 577.0 |

Note: ₹ = INR = Indian rupee; US$1 = ₹63.16 on January 1, 2015.

Source: Prepared by the author with information from Ricoh India Limited, *22nd Annual Report, 2014–15*, accessed August 18, 2016, www.ricoh.co.in/RID/sites/www.ricoh.co.in/files/Annual-Report-of-Ricoh-India-Limited-2014-2015.pdf.

**EXHIBIT 5: RICOH INDIA LIMITED NOTES TO ACCOUNTS, 2011–12 to 2014–15 (IN ₹ MILLION)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **TRADE RECEIVABLE / DEBTORS** | **2011–12** | **2012–13** | **2013–14** | **2014–15** |
|  |  |  |  |  |
| Trade Receivables (Unsecured) |  |  |  |  |
| Debts Outstanding for a Period Exceeding Six Months |  |  |  |  |
| Considered Good | 162.5 | 235.6 | 414.7 | 745.9 |
| Doubtful | 6.4 | 6.0 | 6.0 | 22.0 |
|  |  |  |  |  |
| Less: Provision for Doubtful Debts | –6.4 | –6.0 | –6.0 | –22.0 |
|  | 162.5 | 235.6 | 414.7 | 745.9 |
| Other Debts |  |  |  |  |
| Considered Good | 517.7 | 1,288.8 | 2,236.0 | 5,185.6 |
| Lease Receivable | 291.9 | 317.9 | 541.1 | 687.5 |
|  | 972.1 | 1,842.3 | 3,191.8 | 6,619.0 |
|  |  |  |  |  |
| **CASH AND CASH EQUIVALENTS** | **2011–12** | **2012–13** | **2013–14** | **2014–15** |
|  |  |  |  |  |
| Balances with Banks | 173.7 | 180.6 | 270.3 | 172.0 |
| Cheques in Hand | 331.7 | 480.5 | 21.7 | 404.3 |
| Cash on Hand | 0.9 | 0.8 | 0.6 | 0.7 |
|  | 506.2 | 662.0 | 292.6 | 577.0 |
| **Other Bank Balance** |  |  |  |  |
| Unpaid Dividends | 0.4 | 0.4 | 0.4 | 0.4 |
| Margin Money | 36.6 | 56.8 | 89.5 | 126.5 |
| Bank Deposits with More than 12 Months Maturity | 0.8 | 0.8 | 0.8 | — |
|  | 37.8 | 58.0 | 90.7 | 126.9 |
|  | 544.1 | 720.0 | 383.4 | 703.9 |
|  |  |  |  |  |
| **SHORT-TERM LOANS AND ADVANCES** | **2011–12** | **2012–13** | **2013–14** | **2014–15** |
| (Unsecured and Considered Good) |  |  |  |  |
|  |  |  |  |  |
| Advances Recoverable in Cash or in Kind or for Value to Be Received | 16.0 | 104.7 | 119.7 | 93.2 |
| Advance Income Tax (Net of Provision) | 78.2 | 35.2 | 79.2 | 42.3 |
| Other Loans and Advances | 37.6 | 189.0 | 199.8 | 503.0 |
| Balance of CENVAT/VAT | 135.6 | 91.4 | 136.0 | 312.5 |
| Prepaid Expenses | 34.0 | 41.3 | 47.7 | 44.2 |
|  | 301.5 | 461.5 | 582.3 | 995.2 |

EXHIBIT 5: (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **OTHER CURRENT ASSETS** | **2011–12** | **2012–13** | **2013–14** | **2014–15** |
| Accrued Revenue | 152.5 | 237.5 | 204.8 | 246.1 |
| Interest Receivable | 3.5 | 3.6 | 3.3 | 9.9 |
| Foreign Currency Receivable | 139.1 | 1,062.2 | 817.6 | 1,166.0 |
| Subsidy and Warranty Receivable | 146.6 | 413.4 | — | 18.4 |
| Total | **441.7** | **1,716.7** | **1,025.7** | **1,440.3** |
| **DEPRECIATION AND AMORTIZATION** | **2011–12** | **2012–13** | **2013–14** | **2014–15** |
| Depreciation on Tangible Assets | 37.8 | 45.3 | 122.8 | 178.5 |
| Amortization | 35.3 | 35.6 | 38.6 | 35.9 |
| Total | **73.1** | **80.9** | **161.5** | **214.4** |
| **CONTINGENT LIABILITIES** | **2011–12** | **2012–13** | **2013–14** | **2014–15** |
| Sales Tax Demands Disputed by the Company | 273.5 | 264.6 | 483.8 | 746.6 |
| Income-Tax Demands Disputed by the Company | 1.3 | 0.8 | 2.8 | — |
| Bank Guarantees Given to Customers | 38.3 | 255.1 | 796.8 | 2,937.0 |
| Rent Cases | 2.9 | 2.9 | 2.9 | 2.9 |
| Consumer Claims | 0.5 | 0.5 | 0.5 | 0.2 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **LONG-TERM LOANS AND ADVANCES** | **2011–12** | **2012–13** | **2013–14** | **2014–15** |
| Security Deposits |  |  |  |  |
| Unsecured, Considered Good | 115.7 | 128.4 | 118.5 | 95.3 |
| Doubtful | 0.5 | 0.5 | 0.5 | 0.5 |
|  |  |  |  |  |
| Less Provision for Doubtful Security Deposits | –0.5 | –0.5 | –0.5 | –0.5 |
|  |  |  |  |  |
|  | 115.7 | 128.4 | 118.5 | 95.3 |
| Other Loans and Advances |  |  |  |  |
| Unsecured, Considered Good | 78.5 | 104.5 | 106.7 | 116.1 |
| Doubtful | 18.0 | 18.0 | 18.0 | 18.0 |
| Less Provision for Doubtful Loans and Advances | –18.0 | –18.0 | –18.0 | –18.0 |
|  | 194.2 | 232.9 | 225.2 | 211.4 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SHORT-TERM BORROWINGS** | **2011–12** | **2012–13** | **2013–14** | **2014–15** |
| (a) Loans Repayable on Demand Unsecured |  |  |  |  |
| ● From Banks |  |  | 1,348.1 | 1,552.8 |
| (b) Other Loans and Advances Secured |  |  |  |  |
| ● From Banks Against Book Debts |  |  | — | 1,820.0 |
| **Unsecured** |  |  |  |  |
| ● Buyer’s Line Credit |  |  | 1,830.1 | 1,642.4 |
| ● Working Capital Loan |  |  | 395.0 | — |
|  |  |  | 3,573.3 | 5,015.2 |

Note: ₹ = INR = Indian rupee; US$1 = ₹63.16 on January 1, 2015; CENVAT = central value added tax; VAT = value added tax.

Source: Prepared by the author with information from Ricoh India Limited, *22nd Annual Report, 2014–15*, accessed August 18, 2016, www.ricoh.co.in/RID/sites/www.ricoh.co.in/files/Annual-Report-of-Ricoh-India-Limited-2014-2015.pdf.

EXHIBIT 6: ricoh india limited QUARTERLY PROFITS or LOSSES, March 31, 2013, to september 30, 2015 (IN ₹ Million)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Particulars** |  | **Quarter Ended:** | | | | | | | | | |
| **March 31, 2013** | **June 30, 2013** | **September 30, 2013** | **December 31, 2013** | **March 31, 2014** | **June 30, 2014** | **September 30, 2014** | **December 31, 2014** | **March 31, 2015** | **June 30, 2015** | **September 30, 2015** |
| Total Income from Operations (net) | 2,394.680 | 1,710.907 | 2,962.288 | 2,267.926 | 3,545.365 | 2,265.127 | 3,738.309 | 4,093.926 | 6,280.789 | 4,428.609 | 6,614.481 |
| Total Expenses | 1,747.565 | 1,653.047 | 2,857.453 | 2,144.489 | 3,231.302 | 2,265.565 | 3,605.635 | 3,801.043 | 5,515.452 | 4,183.721 | 7,762.502 |
| Profit/(Loss) from Operations before Other Income, Finance Costs and Exceptional Items (1–2) | 647.115 | 57.86 | 104.835 | 123.437 | 314.063 | (0.438) | 132.674 | 292.883 | 765.337 | 244.888 | –1,148.021 |
| Other Income | 3.313 | 4.182 | 4.187 | 4.914 | 4.907 | 22.683 | 4.809 | 12.038 | 128.444 | 20.496 | 12.332 |
| Finance Costs | 38.512 | 42.199 | 62.656 | 114.488 | 97.834 | 150.916 | 185.658 | 202.103 | 314.848 | 239.437 | 249.413 |
| Net Profit (+) or Loss (–) for the Period (11–12) | 612.261 | 31.811 | 0.276 | (2.084) | 142.275 | –152.981 | (28.294) | 105.503 | 414.783 | 4.054 | –1,433.857 |
| Earnings per share |  | \_ |  |  | \_ |  |  |  |  |  |  |
| Basic (in ₹ each) | 1.540 | 0.080 | 0.001 | (0.005) | 0.358 | (0.385) | (0.071) | 0.265 | 1.043 | 0.010 | (3.706) |

Note: ₹ = INR = Indian rupee; US$1 = ₹63.16 on January 1, 2015.

Source: Created by the author with information from “Quarterly Financial Reports,” Ricoh India Limited, accessed August 23, 2016, www.ricoh.co.in/about/investors/quarterly-financial-reports.

Endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretations and perspectives presented in this case are not necessarily those of Ricoh India Limited or any of its employees. [↑](#endnote-ref-1)
2. The B category of shares included companies with small- and mid-capitalization rates. The Z category of shares included companies that had failed to comply with listing requirements or had failed to resolve investor complaints. The Z category was the caution group. [↑](#endnote-ref-2)
3. “Ricoh India to Shift to Z Group; Stock Drops 6%,” *Business Standard,* March 28, 2016, accessed August 16, 2016, www.business-standard.com/article/markets/ricoh-india-dips-on-bse-plans-to-shift-stock-to-z-group-116032100105\_1.html. [↑](#endnote-ref-3)
4. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; US$1 = ₹63.16 on January 1, 2015. [↑](#endnote-ref-4)
5. “Ricoh India Admits to ‘Falsified Accounts’; Rs. 1,123-Cr Estimated Loss,” *India Express,* July 20, 2016, accessed August 16, 2016, http://indianexpress.com/article/business/companies/ricoh-india-admits-to-falsified-accounts-rs-1123-cr-estimated-loss-2924743/. [↑](#endnote-ref-5)
6. R. Lavi Mohan, “Satyam 2.0?” *The Hindu Business Line*, August 3, 2016, accessed November 23, 2016, www.thehindubusinessline.com/opinion/satyam-20/article8938927.ece. [↑](#endnote-ref-6)
7. Ricoh India Limited, “Company Data,” accessed August 15, 2016, www.ricoh.com/about/company/data. [↑](#endnote-ref-7)
8. Ricoh India Limited, “Company History, 1936–1939,” accessed August 15, 2016, www.ricoh.com/about/company/history/1936. [↑](#endnote-ref-8)
9. Ricoh India Limited, “Company History, 1985–1999,” accessed August 15, 2016, www.ricoh.com/about/company/history/1985. [↑](#endnote-ref-9)
10. Ricoh India Limited, “Company History, 2000–2009,” accessed August 15, 2016, www.ricoh.com/about/company/history/2000/. [↑](#endnote-ref-10)
11. ¥ = JPY = Japanese yen; US$1 = ¥119.99 on March 31, 2015. [↑](#endnote-ref-11)
12. Ricoh India Limited, “Company Data,” [op](http://op). cit. [↑](#endnote-ref-12)
13. Ibid. [↑](#endnote-ref-13)
14. Ibid. [↑](#endnote-ref-14)
15. “Company Profile,” India Mart, accessed August 17, 2016, www.indiamart.com/proddetail/fa-5-mega-pixel-lens-9309226912.html/. [↑](#endnote-ref-15)
16. Ricoh India Limited, *22nd Annual Report, 2014–15*, 23, accessed August 17, 2016, www.ricoh.co.in/RID/sites/www.ricoh.co.in/files/Annual-Report-of-Ricoh-India-Limited-2014-2015.pdf. [↑](#endnote-ref-16)
17. Anurag Kotoky and Santanu Chakraborty, “Alleged Fraud Undoes 5,800% Surge at Unit of ‘Most Ethical’ Firm,” *Bloomberg Technology*, June 20, 2016, accessed August 23, 2016, www.bloomberg.com/news/articles/2016-06-20/alleged-fraud-undoes-5-800-surge-at-unit-of-most-ethical-firm. [↑](#endnote-ref-17)
18. Ricoh India Limited, *22nd Annual Report, 2014–15,* [op](http://op). cit., 13. [↑](#endnote-ref-18)
19. Ibid., 46. [↑](#endnote-ref-19)
20. Ibid., 38. [↑](#endnote-ref-20)
21. Ricoh India Limited, “Ricoh Healthcare Solutions,” accessed August 16, 2016, www.ricoh.co.in/sites/www.ricoh.co.in/files/Healthcareconceptbrochure2june15.pdf. [↑](#endnote-ref-21)
22. Ricoh India Limited, “Ricoh India Chosen to Supply Rural ICT Solution for Department of Posts,” press release, November 24, 2014, accessed August 18, 2016, www.ricoh.co.in/node/15982. [↑](#endnote-ref-22)
23. Ricoh India Limited, *22nd Annual Report, 2014–15*, [op](http://op). cit., 4–5. [↑](#endnote-ref-23)
24. Ibid. [↑](#endnote-ref-24)
25. Ibid., 59. [↑](#endnote-ref-25)
26. Ibid., 48. [↑](#endnote-ref-26)
27. Ibid. [↑](#endnote-ref-27)
28. Ibid., 51. [↑](#endnote-ref-28)
29. Ibid., 24. [↑](#endnote-ref-29)
30. Shrimi Choudhary, “SES Questions Ricoh’s Audit Period,” *Business Standard*, May 26, 2016, accessed August 25, 2016, www.business-standard.com/article/markets/ses-questions-ricoh-s-audit-period-116052501409\_1.html. [↑](#endnote-ref-30)
31. Shrimi Choudhary, “Sebi Might Conduct Forensic Audit of Ricoh India Accounts,” *Business Standard*, May 24, 2016, accessed August 25, 2016, www.business-standard.com/article/markets/sebi-might-conduct-forensic-audit-of-ricoh-india-accounts-116052401070\_1.html. [↑](#endnote-ref-31)
32. Ricoh India Limited, “BSE Disclosure, 201 April 2016,” accessed August 25, 2016, https://ricoh.co.in/uploads/PDFs/about/investors/BSE-Disclosure-20th-April-2016.pdf. [↑](#endnote-ref-32)
33. Ricoh India Limited, *22nd Annual Report*, *2014–15*, [op](http://op). cit., 77. [↑](#endnote-ref-33)
34. Ricoh India Limited, “Outcome of Board Meeting, May 18, 2016,” accessed August 20, 2016, https://ricoh.co.in/uploads/PDFs/about/investors/outcome-of-board-meeting-18thMay2016.pdf. [↑](#endnote-ref-34)
35. Ibid. [↑](#endnote-ref-35)
36. Ibid. [↑](#endnote-ref-36)
37. Ibid. [↑](#endnote-ref-37)
38. “Ricoh India Admits to ‘Falsified Accounts’; Rs. 1,123-Cr Estimated Loss,” [op](file:///C:\Users\caanderson\Downloads\op). cit. [↑](#endnote-ref-38)
39. “Lessons from Ricoh India Episode,” *Business Line*, July 22, 2016, accessed August 25, 2016, www.thehindubusinessline.com/markets/stock-markets/lessons-from-ricoh-india-episode/article8887522.ece. [↑](#endnote-ref-39)