

Investment Due Diligence Summary

Target: Cash-based retail/service business (≈21M annual sales)

Analysis Date: February 9, 2026

Analyst: Verch (PE Fund Due Diligence)

Executive Summary

This is a **HARD PASS** or requires immediate forensic audit before any valuation discussion. The company shows deteriorating financial controls with **≈26.99M (47% of total sales) unaccounted for across 2022-2024**. 2024 shows catastrophic collapse in deposit discipline.

Critical Red Flags

1. Fraud/Embezzlement Risk - CRITICAL

- **≈13.6M missing in 2024 alone** (64% of sales undeposited)
- Deposit ratio collapsed from 65% (2023) to 36% (2024) despite stable sales
- Every single month in 2024 showed under-deposits — systematic pattern, not random variance
- July 2024: **≈1.61M single-month gap** (76% unaccounted)

Assessment: This pattern screams internal theft or systematic diversion of cash.

2. No Financial Controls

- No daily reconciliation evident
- No documented deposit proof/audit trail mentioned
- "Over-deposits" in some months (2023: Aug/Sep/Oct) suggest retroactive adjustments to hide shortfalls
- Sales data exists but cash doesn't reach the bank = zero accountability

3. Working Capital Black Hole

- \$26.99M cumulative unexplained difference = **1.3x annual sales**
- If cash isn't stolen, where is it? COGS? Undisclosed expenses? Off-book operations?
- No inventory/AP/AR context provided to explain cash burn

4. Management Dysfunction

- 2024 shows no corrective action despite worsening trend
- Report prepared by "Maydeline del Rosario" (bookkeeper?) — no CFO/controller oversight evident
- Recommendations are basic hygiene (daily reconciliation, deposit slips) = these don't exist now

Deal-Killer Questions

1. Where is the \$26.99M?

- **If embezzled** → fraud liability, potential lawsuits, criminal exposure
- **If legitimate expenses** → EBITDA is fictitious, business is cash-flow negative
- **If tied up in inventory/AR** → working capital crisis

2. Why did 2024 collapse?

- Key employee quit/fired?
- Owner health issue reducing oversight?
- Business model change (credit sales not captured)?

3. Are sales figures real?

- If deposits don't match sales, who verified the sales data?
- Could be inflated top-line to mask declining business

4. What's the actual profitability?

- No P&L, no COGS, no expense breakdown
- Reported sales mean nothing if cash doesn't materialize

Valuation Impact

Current asking price: TBD

Adjusted value: £0 until proven otherwise

- Cannot value a business where 47% of revenue disappears
- Enterprise value = recoverable assets (inventory, equipment, customer base) minus fraud liabilities
- Likely worth only **liquidation value** unless audit clears the £26.99M

Mitigation Strategy (If You Still Want This Deal)

Immediate Actions (Pre-LOI)

1. Forensic Audit

Timeline: 2-3 weeks | **Cost:** \$200K-500K

Scope:

- Trace \$26.99M: bank statements, personal accounts, inventory purchases, supplier payments
- Interview staff confidentially (someone knows where the cash went)
- Review POS data vs bank deposits by day

2. Seller Representations & Warranties

- Personal guarantee from owner for undisclosed liabilities
- Holdback 50%+ of purchase price in escrow for 24 months
- Right to clawback if fraud discovered

3. Staff Interviews

- Meet the cashiers, bookkeeper, anyone handling money
- Assess if this is known/tolerated vs management complicity

Post-Acquisition Actions (If Deal Proceeds)

1. Install Controls Day 1

- New POS system with real-time bank integration
- Daily manager reconciliation (sales vs deposits vs register count)
- Segregate duties: different people handle cash, record sales, make deposits

2. Replace Entire Finance Function

- Bring in your own CFO/controller
- Assume current bookkeeper is compromised (complicit or incompetent)

3. Customer Revenue Audit

- **If B2B:** verify receivables with customers
- **If retail:** install cameras on registers, mystery shoppers

Financial Summary (2022-2024)

Year	Total Sales	Total Deposited	Difference	Deposit Ratio
2022	¥14,356,353	¥8,561,101	¥5,795,252	60%
2023	¥21,813,012	¥14,188,953	¥7,624,059	65%
2024	¥21,269,857	¥7,672,424	¥13,597,433	36%
Total	¥57,439,222	¥30,422,478	¥26,999,744	53%

Key Observations:

- Sales grew 48% from 2022 to 2023 (healthy growth)
- Sales flat in 2024 (-2.5% YoY)
- **Deposits collapsed 46% in 2024 despite stable sales**
- **2024 gap (¥13.6M) is 2.3x larger than 2023 gap (¥7.6M)**

Bottom Line

Do Not Proceed Without Full Explanation of the ₹26.99M

This isn't "weak controls" — this is a business where half the cash vanishes. You'd be buying a liability unless the owner can prove:

1. The missing cash went to legitimate business expenses (and show receipts), **OR**
2. They've already recovered the funds and prosecuted the fraudster, **OR**
3. They'll discount the purchase price by ₹26.99M + a fraud risk premium (50%+ haircut)

Even then, the infrastructure to allow this level of leakage means you're buying a **turnaround project**, not a performing asset.

Investment Required for Professionalization:

- **Timeline:** 12-18 months
- **Cost:** ₹2-3M for systems, controls, and management team
- **Risk:** High execution risk given current state

Opportunity Cost:

Time spent investigating this mess could be spent on cleaner deals with audited financials.

Recommendation

PASS — unless seller provides:

- **Complete forensic audit results (at their expense)**
- **Full explanation with supporting documentation for ₹26.99M**
- **50%+ purchase price discount to compensate for fraud risk and turnaround effort**

Risk Rating: ⚠️ EXTREME

Priority: Low (investigate only if no better alternatives)

This analysis is based on the "Sales vs. Deposits Summary Report (2022-2024)" prepared by Maydeline del Rosario. Additional due diligence required before making any investment decision.