CA FINAL - PAPER 6: INTEGRATED BUSINESS SOLUTIONS (IBS)

"The blind pursuit of profit at all costs is untenable. It is essential that we make money the right way. After all, if communities suffer as a result of a company's actions, those returns are not sustainable."

- Indra Nooyi, the former CEO of PepsiCo.

Effective decision-making requires a *holistic view* of the business, where decisions are not made in isolation but with an understanding of how different areas are interconnected. Business operates as an integrated system, where decisions in one area can significantly impact others. Reflecting these principles, two comprehensive *agrochemical industry* case studies were presented in the previous issue. This issue offers the Questions and Answers for those case studies, providing students with an opportunity to practice a wide range of questions on corporate governance, taxation, and strategic decision-making, all grounded in real-world scenarios.



Synopsis of Dakshin Fertilizers and Petrochem Ltd. (DFPL)

Headquartered in Thiruvananthapuram, Kerala, DFPL's main manufacturing facility is in Eloor, Ernakulam, along with additional plants in Dahej (Gujarat), Hisar (Haryana) and Brahmapur (Odisha). The company is a leading producer of industrial chemicals, crop nutrition and mining chemicals.

Backward integration: Despite strong financial results for FY 2023-24 (revenue of ₹12,000 crores and 60% increase in expected profits compared to the previous year), the company continues to face supply chain disruptions and huge volatility in import prices of ammonia. In order to build an agile and resilient supply chain that can also aid operational efficiencies, the management has taken a *strategic decision* to set up an ammonia manufacturing plant within DFPL's main manufacturing complex at Eloor. With a capacity of 1,500 MTPD, the piped ammonia will be supplied directly to the finished goods manufacturing unit within the same complex. The advantages of this project are summarized include:

(i) *Backward integration* allows for better realignment of supply chain, developing operational efficiencies that ensure seamless production of its core products

(ii) *Forex savings* due to import substitution and

(iii) *Cost efficiencies* due to reduced storage, transportation and logistics costs.

The initial capital expenditure is estimated to be around ₹2,000 crores, for which purpose DFPL decides to borrow an additional sum of ₹1,500 crores from the company's bankers by following the due procedure as per Companies Act, 2013. In order to establish better credibility with the bankers, CA. Fiona, the proprietor of FRP & Co., the statutory auditors of DFPL, has been approached by DFPL to have the prospective financial information examined. She must now decide whether she can get involved in such an examination. In order to complete the legal formalities relating to the project, DFPL hired Y & E law firm for a consolidated fee of ₹10,00,000. The work was completed by Y&E within 30 days. Ms. Aditi Singh who has been appointed as an Independent Director in Aug'24 at DFPL is also a partner at Y&E law firm. The law firm has an annual turnover of less than ₹1 crore. Post sanctioning of additional loan of ₹1,500 crores, the case study provides the timeline for utilization of these funds towards the project. This would determine the capitalization of borrowing costs (Ind AS 23).

Environment sustainability and CSR initiatives: From a strategic perspective, the selling price of the product should support long-term profitability and competitiveness. To do this, the management explores incorporating *environment costs* into pricing. For two of the main types of fertilizers, Grade A and Grade B that the crop nutrition business unit of DFPL produces, information is provided cost centre wise about the cost incurred to produce them. Further information regarding the disposal of solid waste (generated during production) using incinerator is also provided in the case study. It explores how the unit head of the crop nutrition business would like to incorporate this information, to rework the pricing of each grade of fertilizer depending on their environmental impact. DFPL has undertaken several CSR initiatives. These include vendor management adhering to ethical labour practices, using technology to mitigate risks posed to the environment from ammonia emissions, increasing share of environmentally friendly fertilizers. To get information on these initiatives and their impact, the management uses *Triple Bottom Line* Reporting Framework. Many of the Key Performance Indicators (KPIs) included in this report are non-financial metrics.

Strategic expansion: Gaspro India Limited (GIL) is the main supplier of natural gas to DFPL's unit at Brahmapur, Odisha. Incidentally, GIL is setting up a Liquified Natural Gas (LPG) receipt facility at Gopalpur. DFPL finds this an opportunity to increase its market presence in Odisha and northern belt of Andra Pradesh by setting up a fertilizer manufacturing unit at Gopalpur. This strategic decision is taken due to the locational advantages that CYPL can have by being in close vicinity to Gaspro India Limited (GIL) at Gopalpur. This increases the ability to scale up operations and the venture can benefit from economies of scale. The new unit, Crop Yield Private Limited (CYPL) will be a joint venture with Greenspan Gmbh. DFPL's unit at Brahmapur will be shut down following the establishment of CYPL at Gopalpur. Following this the machineries will then be transferred to CYPL. In addition, machineries with better technology and larger capacities will also be imported from one of Greenspan Gmbh's subsidiaries in Germany. As part of project planning, the case study highlights the need to consider *tax planning* that can be done by claiming certain investment linked tax incentives that are available to specified businesses as contained in the Income Tax Act, 1961.

Corporate governance and accountability: The case study highlights the number of strategic initiatives that the management of DFPL has to take to navigate this challenging industry landscape. It is important to have professionals with expertise in diverse fields as part of the company's Board of Directors in order to have a strong corporate governance. Appointments and reappointments to various positions of key management personnel should be based on proper performance evaluation and in conformance with the regulations. Many of the key management personnel render their expertise during the course of their tenure, for which they may be adequately compensated in the form of professional fees. The case study highlights the importance of adhering to proper procedures to ensure compliance with laws and regulations, particularly under the Companies Act, 2013 and SEBI regulations. All of this has an immense bearing on the ability, quality and effectiveness of strategic decisions made by a company.

Corporate governance involves overseeing business strategies while ensuring fiscal accountability, ethical corporate behaviour, fairness to both internal and external stakeholders. Accountability extends to statutory auditors as well, who as a part of their role are privy to sensitive and confidential information about the company. Accountability for decisions and ethical corporate responsibility can boost stakeholder confidence.

Students should read FY 2024-25 as 2023-24 and FY 2023-24 as 2022-23 in the first paragraph, where Mr. Venkata Ravi, Chairman of DFPL, addresses the board. The ₹1,600 Crores from EFF is for FY 2023-24, and the AGM is on 9th Sept' 2024.



Synopsis of Crop Yield Private Limited (CYPL)

In continuation to case study above, CYPL is established as a Joint Venture between Dakshin Fertilizers and Petrochem Ltd. (DFPL) and Greenspan Gmbh at Gopalpur, Odisha. Greenspan Gmbh, widely recognized for its advanced fertilizer technologies and energy efficient manufacturing processes, would provide the technical assistance to CYPL. This is extremely beneficial for DFPL's strategic expansion plans to expand its reach in the eastern cost. Meanwhile, by partnering with a domestically reputed company like DFPL, Greenspan would be able to establish its presence in India.

As outlined above, the locational advantage of being in close vicinity to Gaspro India Limited (GIL), Gopalpur, its main supplier of natural gas along with developing cost efficiencies by operating on a larger scale with a planned capacity of 10,00,000 MT per year are the key benefits of this *strategic decision*. Both parties have hired Pro International (PI), to guide with legal and regulatory compliance, facilitating establishment of the manufacturing facility and providing management consulting service to ensure smooth operations and strategic alignment.

Establishing of CYPL: Since natural gas is a key raw material in the production of fertilizers, the company entered into a 5-year long-term contract with GIL, Gopalpur. GIL will be the sole supplier of this critical raw material. Land worth ₹100 crores has been procured in Gopalpur to set up CYPL. Machineries from DFPL's erstwhile Brahmapur facility, along with imported machineries from subsidiary of Greenspan Gmbh will form part of the total plant and machinery of CYPL. Since these require constant maintenance, CYPL has entered into short term contracts for factory consumables, primary tools and maintenance equipment to be supplied by small enterprises located in Gopalpur.

Resistance to CYPL's establishment and labour unrest at Brahmapur: During project implementation, CYPL faces resistance from the local public who feel that the company's location within 1 kilometre of the town's public settlements in a densely populated area could result in concerns about public health safety. This stems from a recent gas leak incident from a similar fertilizer plant in Paradip, Odisha. More than 1,000 residents from Gopalpur and Brahmapur gathered to protest against the establishment of CYPL in the location, albeit it being approved by the government after complying with necessary regulations. Relocation would entail establishing CYPL 600 kms. away, effectively making the project unviable on both operational and cost considerations. Similarly, there is resistance from the workers at DFPL's Brahmapur facility, spearheaded by their workers' union, who are unhappy with the compensation package being offered by the company to relocate to CYPL's facility at Gopalpur. These issues can also come under the radar of government regulatory authorities and company shareholders both in India and Germany.

There is a very real risk of these developments snowballing into a huge public outcry, that can be disastrous for both operations and reputation of DFPL and Greenspan Gmbh. Hence, Mr. Venkata Ravi (Chairman of DFPL) and Mr. Gerhard Braun (Managing Director of Greenspan Gmbh) approach Mr. Jeevan Sampath (partner at Pro International) to effectively handle the situation. The case study discusses how PI makes use of *Mendelow's Matrix* to guide CYPL to effectively handle each of the stakeholders influencing this issue. Eventually an amicable settlement is reached with the disgruntled workers while all issues relating to public resistance are addressed and resolved. Production at CYPL's Gopalpur facility commences on January 1, 2025.

Supply Disruption and subsequent scaling down of operations at CYPL: On September 30,2025 following a massive fire at GIL's underground natural gas pipeline at Arjyapalli, Odisha, 15 people tragically lost their lives and there was significant damage to property in that area. Thereby for safety reasons GIL was forced to halt supply of natural gas through its pipelines in Odisha. Extensive repair of its pipelines and safety tests were conducted across the entire pipeline network originating from its LNG facility. While the technical team at GIL worked on this, supply was completely suspended due to which many of its customers including CYPL suffered significant losses due to unexpected stoppage of a critical raw material. To maintain operations at a minimum scale, in October 2025 Mr. Ramakant Bhushan, Managing Director of CYPL entered into another 5-year fixed price contract with Natural Gas Suppliers Limited (NGSL), a competitor of GIL. However, NGSL's limited capability of meeting CYPL's entire requirement of natural gas, inability to find other alternate suppliers forced the company to scale down its operations. In place of GIL, NGSL became CYPL's supplier of natural gas. This highlights the critical need for managing the upstream supplier chain to address unforeseen exigencies.

Going concern issues at CYPL: Since the cost structure consisted majorly of fixed costs that need to be incurred regardless of scale of operations, CYPL lost its cost efficiencies. Financial instability impacted CYPL's ability to enter and terminate contracts with suppliers. Due to *regulatory constraints governed by the government's subsidy mechanism* and market competition, the company could not pass on the increased cost of production to customers. Fertilizers were sold at a loss thereby straining its financial position. CYPL established a recovery committee comprising of key management personnel as well as invited Mr. Jeevan Sampath to provide consulting services in this regard. Strategic tools such as the *Altman's Z-score* were used to assess CYPL's financial stability and take appropriate measures to address them.

CA. Bharat Chowdhary, the statutory auditor had to carefully assess the issue of *going concern* at CYPL, at the time of issuing the audit report for the financial year 2025-26.

Additional capital infusion, optimally utilizing the subsidy support from the government and market repositioning were all part of the *multi-pronged strategy* that eventually were undertaken to stabilize operations at CYPL. Eventually in March 2028, almost 30 months after the tragic accident, GIL resumed supply of natural gas to CYPL. Due to GIL, Gopalpur's ability to meet the entirety of its natural gas requirements, CYPL renewed its business with the supplier by entering into a fresh contract. This will enable CYPL to scale back its operations to originally planned levels as decided at the time of its inception. This also led to CYPL prematurely cancelling its contract with NGSL. GIL once again became CYPL's sole supplier of natural gas. The case study highlights that *the impact that supply chain management decisions can have on the long-term sustainability and profitability of business.*

Performance assessment of Mr. Ramakant Bhushan, Managing Director at CYPL: Due to the extra-ordinary nature of business environment at CYPL, rather than focusing on financial metrics alone, the performance assessment of Mr. Ramakant Bhushan for the financial years 2025-26 to 2027-28 had to also be based on many *non-financial metrics* like building supply chain resilience, improving market share, improving sales, reducing costs.

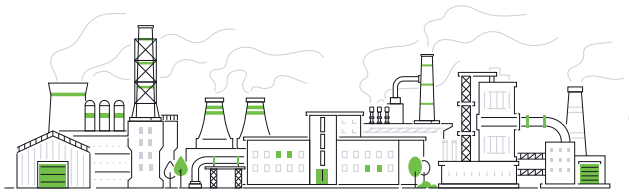
Indirect tax a significant component of CYPL's cost structure: The profitability of the company is significantly influenced by the tax structure. Regarding the Goods and Services Tax (GST), the case study includes a discussion on the inverted duty structure, the determination of the value of supply for GST on fertilizers that receive government subsidies, and GST on the procurement of natural gas. Additionally, CYPL relies heavily on imports for its raw material requirements. The case study also explores the company's liability and rights concerning customs duty payments in cases where raw materials are pilfered while in the custody of Port Trusts, which act as custodians.



KEY TAKEWAYS

Based on *real life scenarios* within this *highly regulated* agrochemical industry, the above case studies bring out a series of interconnected issues that need to be tackled often time simultaneously in order to build a profitable and sustainable business. *Businesses do not work in silos*, the decision taken in one area can impact another. Often business leaders need to consider not just the financial aspects but also the *non-financial aspects* as well. For example, the establishment of CYPL in Gopalpur, Odisha not only made financial sense due to the cost advantages it offered, but also leveraged the capability of scaling up operations (a non-financial consideration) due to proximity to GIL, the supplier of its key raw material. This decision simultaneously resulted in other issues that the management had to tackle namely labour unrest at Brahmapur facility of DFPL as well as public resistance to establishment of CYPL at Gopalpur. Therefore, it requires the management, who is the decision maker to have a complete, *holistic view of business* rather than having a restricted view of only profitability of the venture. Therefore, business decisions should be based on *strategic objectives*. Decisions that can build dexterity and agility in business operations can be effective in having a positive impact on productivity, profitability and long-term growth. In today's scenario, sustainability of business also depends on having a healthy business *eco-system* which requires business decisions to be compliant with various laws and regulations, be agile to supply chain disruptions, have sustainable business models that take care of environmental, societal and corporate governance issues. Only then will the company be able to garner *stakeholder confidence* that can significantly influence its *brand image*.

Timeline of Key Activities



February 24

The Board approved the proposal for a 1,500 MTPD ammonia plant at Eloor

June 24

Plans for a unit in Gopalpur & media scrutiny of insider trading allegations



August 24

Construction work on the ammonia project commenced

September 24

The company purchased ₹100 crore land in Gopalpur and held its 43rd AGM

December 24

The facility in Brahmapur was officially closed

November 24

The union leader raised objection to relocation package

October 24

Media discussion on development at the cost of public safety



January 25

Production at Gopalpur facility began & GIL signed a 5-year long-term contract



April 25

Mr. Shah, the newly appointed finance head, joined CYPL

July 25

Assistance with indirect taxation matters for CYPL

June 26

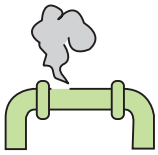
CA. Bharat Chowdhary issued the audit report for the FY 2025-26

October 25

CYPL entered a 5-year fixed-price contract with NGSL

September 25

A gas leak explosion caused a massive fire in GIL's underground pipeline



August 26

CYPL established a recovery committee

September 26

Extracts of Minutes of meeting of recovery committee

March 28

GIL restored normal supply levels to the market



April 28

GIL became the sole supplier of natural gas to CYPL

QUESTIONS CASE STUDY 1

Multiple Choice Questions

1.1 With respect to the fresh borrowing of ₹1,500 crore loan for the project (qualifying asset), identify the commencement date for capitalization of borrowing cost:

(a) 1st May, 2024

(b) 1st June, 2024

(c) 15th June, 2024

(d) 1st August, 2024

1.2 As a peer Chartered Accountant, what advise will CA. T. Ramaswamy give to CA. Fiona-

(a) No, CA. Fiona should not accept the assignment. The Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed of professional misconduct, if he permits his name or the name of the firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast.

(b) Yes, CA. Fiona can accept the assignment. There is no restriction contained within the Chartered Accountants Act, 1949 regarding association of a Chartered Accountant's name with prospective financial information.

(c) Yes, CA. Fiona can accept the assignment. The Chartered Accountants Act, 1949 does not preclude a Chartered Accountant from being associated with prospective financial information. She should clearly indicate in her report, the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts. She can then vouch for the accuracy of the forecasts that will provide requisite credibility to the information.

(d) Yes, CA. Fiona can accept the assignment. The Chartered Accountants Act, 1949 does not preclude a Chartered Accountant from being associated with prospective financial information as long as she does not vouch for the accuracy of the forecasts. Moreover, she should clearly indicate in her report, the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts.

1.3 Setting up an in-house ammonia manufacturing plant will provide which of the following advantages to DFPL?

i. Allows DFPL to use product differentiation as a strategy since none of the company's competitors have the capability to set up such a unit within India.

ii. Manufacturing a critical raw material like ammonia builds resilience within the supply chain management system of DFPL.

iii. Allows DFPL to follow cost leadership strategy since manufacturing ammonia inhouse results in substantial forex savings in addition to operational costs like storage, transportation and logistics costs.

iv. Manufacturing a critical raw material like ammonia allows DFPL to pursue a horizontal integration strategy within its supply chain management system.

Options

(a) i, ii and iv

(b) ii and iii

(c) i, iii and iv

(d) ii, iii and iv

1.4 While implementing the reporting mechanism to gather information above the various non-financial considerations that Mr. Panchal wants to track in order to develop the KPI report, which of the following are potential hurdles that he faces while carrying out this exercise:

i. The time and cost involved in gathering this information should be viable and feasible.

ii. Non-financial considerations can at times have subjective attributes which make them difficult to measure.

iii. Improper choice of measures can lead the management to focus attention on the wrong objectives.

iv. Decisions based on Non-financial measures can only help in short term as in the long term it is financial considerations like profitability that matter the most.

Options

(a) i, ii and iii

(b) i and iii

(c) ii, iii and iv

(d) ii and iv

1.5 With reference to the activities submitted by Mr. Panchal regarding the crop nutrition unit, Identify the classification of each activity with their respective categories in the Triple Bottom Line report.

Sr. No.	Activity	Sr. No.	Category in Triple Bottom Line report
i.	Due diligence of vendors within the supply chain to ensure compliance of ethical business labour practices	a.	Planet
ii.	Development of state of art technology to reduce emissions of ammonia negligible levels much below the regulatory requirements	b.	Not relevant
iii.	Increasing contribution of Environmentally Friendly Fertilizers (EFFs) to the total turnover of the crop nutrition unit	c.	People
iv.	Improving internal reporting mechanism to include non-financial parameters to include external market considerations like new innovations, brand equity and competitors' movements	d.	Profit

Options

(a) i – c, ii – a, iii – d, iv – b

(b) i – b, ii – c, iii – a, iv – d

(c) i – c, ii – b, iii – a, iv – d

(d) i – a, ii – d, iii – b, iv – c

1.6 With respect to the allegations made against CA. Fiona, you are required to select the correct option which indicates whether this is a case of insider trading or not and if it is a case of insider trading then the quantum of penalty that can be levied.

(a) It is not a case of insider trading since CA. Fiona is the statutory auditor of DFPL and is therefore cannot be considered as an insider to the company.

(b) It is not a case of insider trading since CA. Fiona did not disclose any price-sensitive information.

(c) It is a case of insider trading and therefore the penalty leviable would be not less than ₹10 lakh, but which may extend to ₹25 crore or three times the profit made out of insider trading, whichever is higher.

(d) It is a case of insider trading and therefore the penalty leviable would be not less than ₹25 crore or three times the profit made out of insider trading, whichever is lower.

1.7 Can Mr. Ajay be reappointed as an independent director for another term of 3 years?

(a) Under the Companies Act, 2013, an independent director can be appointed for a maximum period of 3 years. Mr. Ajay can be reappointed as an independent director for the remaining period of the first term, i.e., 2 years and serving this balance term construed as part of the earlier incomplete term only.

(b) Under the Companies Act, 2013, an independent director can be appointed for 2 consecutive terms – each term being 5 years (i.e. 10 years). Mr. Ajay can be reappointed as an independent director for another term of 3 years since his first two terms were of lesser period instead of 5 years as provided under the Companies Act, 2013.

(c) Under the Companies Act, 2013, an independent director can be appointed for maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Mr. Ajay cannot be reappointed as an independent director since he will be 67 years of age on completion of the proposed term of 3 years. Any person reaching 65 years of age cannot be appointed as an independent director.

(d) Under the Companies Act, 2013, an independent director can be appointed for a maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Mr. Ajay cannot be reappointed as an independent director since he has completed 2 consecutive terms. Appointment for a term less than 5 years is treated as one term.

1.8 With reference to professional fees paid to Mr. K. Mistry, which statements are correct?

i. The services rendered are of a professional nature.

ii. The Director possesses the requisite qualification for the practice of the profession.

iii. Since the transaction does not involve an amount exceeding one crores rupees, the prior approval of audit committee is not necessary.

iv. Approval of the audit committee is necessary.

v. Only those members of the audit committee who are independent directors shall approve related party transactions.

Options

(a) i, ii

(b) i, ii, iii

(c) ii, iii, iv

(d) i, ii, iv, v

1.9 Mr. A. Damodaran, a shareholder of the company, issued a formal letter to the Nomination and Remuneration Committee, raising objections to the appointment of Ms. Aditi Singh as an Independent Director. He contended that Ms. Aditi's association with Y & E Law Firm, which is engaged by the company, potentially disqualifies her from being appointed as an independent director under the Companies Act, 2013. The Committee must now evaluate whether Ms. Aditi's appointment meets the statutory criteria for independence.

Can Ms. Aditi's appointment as an Independent Director be considered valid?

(a) Yes, her appointment as an independent director is valid as she is a partner of the Y & E providing services to the company in the normal course of business.

(b) No, her appointment is invalid as an independent director because the receipts of the Y & E exceed 10% of its gross turnover.

(c) No, her appointment is invalid as she cannot be appointed as an independent director due to her position as a partner in the Y & E.

(d) Yes, her appointment is valid as an independent director because the receipts of the Y & E are less than 10% of its gross turnover.



Descriptive Questions

1.10 (i) Using original cost allocation methodology, CALCULATE product profitability per kg for each grade as also profitability % of selling price per kg.

(ii) Using activity-based costing methodology, CALCULATE product profitability per kg for each grade as also profitability % of selling price per kg.

(iii) ANALYSE the impact on product profitability using original cost allocation methodology versus activity-based costing methodology.

(iv) JUSTIFY if Mr. Panchal's opinion that it would be appropriate to revise the incinerator cost allocation since each product has a different impact on the environment is correct or incorrect as the case may be.

1.11 ADVISE the Board of Directors regarding the procedure to be followed under the Company's Act, 2013 in respect of borrowing of ₹1,500 crores from the company's bankers.

1.12 ANALYSE the market's valuation of DFPL's business based on an expected dividend per share of ₹55, an annual growth rate of 5%, and a required rate of return of 10%. What conclusions can be drawn regarding the market's assessment of DFPL's value?

1.13 ADVISE Mr. Venkata Ravi regarding conditions subject to which the specified capital expenditures mentioned in the email, can be claimed as deductions under "investment linked tax incentives" by the proposed joint venture company to be set up at Gopalpur, Odisha.

QUESTIONS CASE STUDY 2

Multiple Choice Questions

2.1 Which of the following statements is true regarding accounting for CYPL's contract with NGSL?

i In FY 2026-27, it is essential to check whether the contract with NGSL is onerous or not. If found onerous, provision has to be accordingly made in case the unavoidable cost of meeting the obligations of the contract is more than the economic benefits it can derive from it. This has to be done after recognizing any impairment loss of relevant assets used in fulfilling the contract.

ii In FY 2026-27, it is essential to check whether the contract with NGSL is onerous or not. If found onerous, provision has to be made irrespective of whether relevant assets are impaired or not.

iii In FY 2027-28, CYPL should make a provision for termination cost of agreement with NGSL for ₹15 crores irrespective of whether the contract is onerous or not since the decision to terminate the contract was finalised on April 1, 2028 i.e. before approving the financial statements of FY 2027-28.

iv In FY 2028-29, as the contract with NGSL not been found to be onerous in FY 2027-28, the payment of termination cost of agreement with NGSL for ₹15 crores needs to be recognized when it is incurred on April 1, 2028.

Options

(a) i and iii
(b) i and iv
(c) ii and iv
(d) ii and iii

2.2 With respect to CYPL's "Going Concern" issue, which of the following statements is true?

(a) CA. Bharat Chowdhary needs only to disclose the material uncertainty in the audit report under the heading "Emphasis of Matter" paragraph for the year ended on 31/03/2026, since it is already being disclosed by the management of CYPL in the notes to accounts.

(b) CA. Bharat Chowdhary on becoming aware of the uncertainty relating to "Going Concern" of CYPL needs to express an adverse opinion in the audit report for the year ended on 31/03/2026.

(c) CA. Bharat Chowdhary on becoming aware of the uncertainty relating to "Going Concern" of CYPL needs to express a disclaimer opinion in the audit report and it shall include a separate section under the heading "Material Uncertainty Related to Going Concern" for the year ended on 31/03/2026.

(d) CA. Bharat Chowdhary on becoming aware of the uncertainty relating to "Going Concern" of CYPL needs to express an unmodified opinion in the audit report and it shall include a separate section under the heading "Material Uncertainty Related to Going Concern" for the year ended on 31/03/2026.

2.3 With reference to the appropriate model, calculate the Altman Z score for CYPL. Using this model, what can be your conclusion about CYPL's financial health?

(a) The Altman Z score falls in the grey area of discrimination. This indicates that the financial health of CYPL, while not in distress but caution is needed, it does need further investigation.

(b) The Altman Z score falls in the distress area of discrimination. This indicates that the financial health of CYPL is in danger and possibly heading towards bankruptcy.

(c) The Altman Z score falls in the safe area of discrimination. This indicates that the financial health of CYPL is financially sound.

(d) The Altman Z score falls in the safe area of discrimination, but with a score close to the grey area. This indicates CYPL needs to closely monitor its financial performance and proactively address any potential risks.

2.4 Which of the following will not be helpful in improving the long-term sustainability of sales and EBIT of CYPL?

(a) Undertaking Customer Profitability Analysis to weed out unprofitable customers, since this would mean that there are a smaller number of customers.

(b) Concentrating on product differentiation that will build a better reputation and market share for the company's products.

(c) Once GIL's supply resumes there can be reliance on supply of natural gas from single source since GIL is a major supplier of natural gas within the country. Alternate suppliers for natural gas procurement would not be needed.

(d) Tackle the problem of spurious fertilizers and engage with farmers to educate them about the use of quality fertilizers for long term sustenance of the soil in their fields.

2.5 Which of the following is the Remuneration Committee most likely not to consider as part of Mr. Ramakant Bhushan's performance assessment for the years 2026-27 and 2027-28?

i An increase in subsidy support under various government schemes effective September 2026 that contributed to improving the company's financial health.

ii Implementation of RFID tags on products and initiating direct sales to farmers, which resulted in higher sales volumes and reduced distributor commission costs.

iii Leading negotiations to terminate the contract with NGSL, ensuring that from April 2028, GIL becomes the sole supplier of natural gas for CYPL to enhance supply chain resilience.

iv Spearheading negotiations to renew the contract with GIL, ensuring the resumption of natural gas supplies in April 2028, enabling CYPL to scale up production to its planned levels.

Options

(a) ii and iv
(b) i and ii
(c) i and iii
(d) iii only

2.6 In September 2025, in the immediate aftermath of the pipeline accident, which of the following could have possibly occurred?

(a) Bargaining power of natural gas suppliers increased since there was a critical business need for the raw material.

(b) Bargaining power of CYPL increased since it had large scale of operations requiring huge volume of natural gas as raw material.

(c) Threat of substitutes for natural gas increased since it was in short supply in the market.

(d) Threat of new entrants increased since business of existing companies were severely impacted.

2.7 Which of the following is the primary reason DFPL and Greenspan GmbH decided to enter into a joint venture for the Gopalpur facility instead of pursuing a strategic alliance?

(a) A joint venture allows both DFPL and Greenspan GmbH to share ownership and control of the new entity (CYPL), and ensuring efficient management of operations at the Gopalpur facility.

(b) A joint venture provides DFPL with exclusive access to Greenspan GmbH's fertilizer patents and formulas, while a strategic alliance would limit DFPL's ability to fully integrate Greenspan GmbH's technology and intellectual property.

(c) DFPL and Greenspan GmbH opted for a joint venture because it would give them more flexibility in managing and scaling the Gopalpur facility's operations independently, without the need for shared decision-making or governance structures.

(d) A joint venture allows DFPL to maintain shared control over operations at the Gopalpur facility, but Greenspan GmbH's role is restricted to supplying machinery and technology, with no involvement in management or decision-making.



Descriptive Questions

2.8 In his office, Mr. Jeevan asks you to categorize the stakeholders based on their power and interest in the issues affecting the Gopalpur and Brahmapur facilities. Your tasks are as follows:

(a) ANALYZE the stakeholders' levels of interest and influence using Mendelow's Matrix for both the Gopalpur and Brahmapur facilities.

(b) ADVISE CYPL on an action plan to effectively manage these stakeholders based on your analysis.

2.9 How should CA Shrihari ADVISE Mr. Lalit Shah on the various indirect tax matters concerning CYPL?

ANSWERS CASE STUDY 1

1.1 The correct answer is (c) 15th June 2024.

Reason

As per para 17 of Ind AS 23, Borrowing costs, the capitalization of borrowing cost on qualifying asset starts when all the three conditions are met i.e. expenditures are incurred for acquiring or constructing the qualifying asset, borrowing costs are incurred on those qualifying asset, and the activities necessary to prepare the qualifying asset for its intended use or sale are undertaken.

On 15th June 2024, all three conditions necessary for capitalisation of cost are satisfied:

(i) Incurring of borrowing cost commenced from 1st May 2024

(ii) Activities necessary to prepare qualifying asset for its intended use began from 1st June 2024

(iii) Expenditure began to be incurred on the qualifying asset from 15th June 2024.

Hence, on 15th June, 2024, all the three conditions prescribed in Ind AS 23 for commencement of capitalization of borrowing cost are met. Hence, the commencement date would be 15th June, 2024.

1.2 The correct answer is (d) Yes, CA. Fiona can accept the assignment. The Chartered Accountants Act, 1949 does not preclude a Chartered Accountant from being associated with prospective financial information as long as he does not vouch for the accuracy of the forecasts. Moreover, she should clearly indicate in her report, the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts.

Reason

Clause 3 of the Second Schedule to the Chartered Accountants Act, 1949 states that that a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast.

The above clause does not preclude a Chartered accountant from associating his name with prospective financial statements. A chartered accountant can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts and so long as he does not vouch for the accuracy of the forecasts.

1.3 The correct answer is (b) ii and iii.

Reason

In house manufacture of ammonia mitigates risks and external uncertainties within the supply chain. This makes the supply chain system robust and resilient to any external supply shock. Manufacturing ammonia also allows DFPL to realize substantial cost savings by reducing forex outgo as well as making operations more efficient resulting in savings in operational costs like storage, transportation and logistics costs.

Statement i is incorrect as in-house manufacturing ammonia assists DFPL in pursuing a cost leadership strategy since

it results in substantial cost savings. It does not help in differentiating DFPL's products with that of its rivals.

Statement iv is incorrect since in house manufacturing of a critical raw material like ammonia would be an example of backward vertical integration rather than a horizontal integration within the supply chain.

1.4 The correct answer is (a) i, ii and iii.

Reason

Statements i, ii and iii are the potential hurdles that Mr. Panchal can face while carrying out this exercise. Statement iv is incorrect. Typically, decisions based on non-financial measures have a long-term focus. Rather this ensures the long-term profitability and business sustainability of an organization.

1.5 The correct answer is (a) i – c, ii – a, iii – d, iv – b.

Reason

I) Due diligence of vendors within the supply chain to ensure compliance of ethical business labour practices – People

II) Development of state of art technology to reduce emissions of ammonia to negligible levels much below the regulatory requirements – Planet

III) Increasing contribution of Environmentally Friendly Fertilizers (EFFs) to the total turnover of the crop nutrition unit - Profit

IV) Improving internal reporting mechanism to include non-financial parameters to include external market considerations like new innovations, brand equity and competitors' movements – Not relevant

1.6 The correct answer is (c) It is a case of insider trading and therefore the penalty leviable would be not less than ₹10 lacs, but which may extend to ₹25 crore or three times the profit made out of insider trading, whichever is higher.

Reason

Section 15G of the SEBI Act, 1992. Information passed on by CA. Fiona to Mr. A. Sahu regarding the expansion of DFPL to build its own ammonia manufacturing plant, a critical raw material for its operations, will be considered as unpublished price sensitive information and CA. Fiona will be considered as insider as per Regulation 2(1)(g) of SEBI (PIT) Regulations, 2015.

1.7 The correct answer is (d) Under the Companies Act, 2013, an independent director can be appointed for a maximum of 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Mr. Ajay cannot be reappointed as an independent director since he has completed 2 consecutive terms. **Appointment for a term less than 5 years is treated as one term.**

Reason

MCA has clarified that an independent director can be appointed for a term of less than 5 years. However, any appointment whether of 5 or less than 5 years will be regarded as 'one term'. Section 149 (11) of the Companies Act, 2013 clearly stipulates that no person can hold office as an independent director for more than 'two consecutive terms'. Thus, irrespective of the duration of each of the two terms (whether the same aggregates to 10 years or less) a person holding office for two consecutive terms shall be eligible for re-appointment only after the expiry of three years of ceasing to become an independent director.

1.8 The correct answer is (d): i, ii, iv, v.

Reason

Under **Section 197** of the **Companies Act, 2013**, a company is allowed to pay remuneration to its **Non-Executive Directors (NEDs)** for services rendered if:

a) The services provided are of a **professional nature** and

b) The **Nomination and Remuneration Committee** determines that the Director possesses the **necessary qualifications** to practice the profession.

Thus, statements i and ii appear to be correct, as the professional nature of the services and the qualification of the Director are prerequisites for such payments which is also justified by his profile.

Additionally, **all Related Party Transactions** (RPTs) and any material modifications require **prior approval of the Audit Committee of the listed entity**, as specified under **Regulation 23(2)** of the **SEBI (LODR) Regulations, 2015**. Only those members of the Audit Committee who are **independent directors** are permitted to approve such transactions.

Thus, statements iv and v are also correct, as **Audit Committee approval** is required, and the approval must come from independent directors. However, statement iii is incorrect. Even if the transaction does not exceed one crore rupees, it still qualifies as a Related Party Transaction and, therefore, requires **Audit Committee approval**, regardless of the amount involved.

In summary, the company's transaction is conducted in the **ordinary course of business** and on an **arm's length basis**, which eliminates the need for **Board approval under Section 188**. However, all related party transactions must be approved by the **Audit Committee** as per the regulations, making Option (d) the correct choice.

1.9 The correct answer is (b) No, her appointment is invalid as an independent director because the receipts of the Y & E exceed 10% of its gross turnover.

Reason

According to Section 149(6) of the Companies Act, 2013, in relation to a company, an independent director means a director (other than a managing director or a whole-time director or a nominee director), and who neither himself nor any of his relatives is or has been an employee or proprietor or a partner, in any of the 3 financial years immediately preceding the financial year in which he is proposed to be appointed, of—

- a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or
- any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to 10% or more of the gross turnover of such firm.

Ms. Aditi is a partner in Y & E Law Firm, which has an annual turnover of less than ₹1 crore. However, the fee of ₹10,00,000 received from the company represents more than 10% of the firm's gross turnover. As a result, her appointment as an independent director is invalid because the law prohibits such appointments if the transaction exceeds the specified threshold of 10%.

1.10 (i) **Calculation of profitability as per Original cost allocation methodology**

(Figures in ₹ per kilogram of fertilizer produced)

Particulars	Grade A	Grade B	Total
Selling Price	560	800	1,360
Direct Material	228	372	600
Direct Labour	152	248	400
Overheads (allocated equally)	150	150	300
Total Expenses	530	770	1,300
Profit	30	30	60
Profitability	5.36%	3.75%	

Allocation of Direct Materials and Labour as per cost center and product using original cost allocation methodology

Particulars	CC1			CC2			CC3		
	Grade A	Grade B	CC Total	Grade A	Grade B	CC Total	Grade A	Grade B	CC Total
Material	54	126	180	120	120	240	54	126	180
Labour	36	84	120	80	80	160	36	84	120

Total for the company

Particulars	Grade A	Grade B	Grand Total
Material	228	372	600
Labour	152	248	400

Using the original cost allocation methodology, profit earned per kg of Grade A and Grade B fertilizer is ₹30 per kg each. However, the profitability as a % of selling price per kg works out Grade A: 5.36% and Grade B: 3.75%.

(ii) **Calculation of product profitability using activity-based costing methodology**

(Figures in ₹ per kilogram of fertilizer produced)

Particulars	Grade A	Grade B	Total
Selling Price	560	800	1,360
Direct Material	228	372	600
Direct Labour	152	248	400
Overheads	132	168	300
Total Expenses	512	788	1,300
Profit	48	12	60
Profitability	8.57%	1.50%	

Allocation of Overhead Expenses to each cost centre and product

Waste produced (in tonnes per annum)

Particulars	CC1	CC2	CC3	Total
Grade A	2	3	1	6
Grade B	2	2	5	9
Total Waste (in tonnes)	4	5	6	15
Incinerator Cost allocated to cost centres (based on waste generated)	48	60	72	180
Other Overhead Expenses	40	40	40	120
Total Cost Centre wise Overhead Cost	88	100	112	300

Part A: Allocation of Incinerator Cost (based on waste produced at each cost centre)

Particulars	CC1	CC2	CC3	Total
Grade A	24	36	12	72
Grade B	24	24	60	108
Total Incinerator Cost	48	60	72	180

Part B: Allocation of Other Overhead Cost (allocated equally to each product)

Particulars	CC1	CC2	CC3	Total
Grade A	20	20	20	60
Grade B	20	20	20	60
Total Other Overhead Cost	40	40	40	120

Part C: Total Overhead Cost

Particulars	CC1	CC2	CC3	Total
Grade A	44	56	32	132
Grade B	44	44	80	168
Total Overhead Cost	88	100	112	300

Using the activity-based cost allocation methodology, profit earned per kg of Grade A and Grade B fertilizer is ₹48 per kg and ₹12 per kg respectively. The profitability as a % of selling price per kg works out Grade A: 8.57% and Grade B: 1.50%.

(iii) Activity based cost allocation methodology allocates the incinerator cost on a more logical basis rather than an ad-hoc distribution as per the original cost allocation method. It can be seen from Table, that out of the 15 tons of annual total waste generated, Grade A generates 6 tons annually, whereas Grade B generates 9 tons annually. Hence, it would be appropriate to allocate the incinerator cost more to Grade B since it generates more waste. This is done under the activity-based cost allocation method.

Accordingly, the profitability of Grade A increases from ₹30 per kg as per original cost allocation method to ₹48 per kg as per the activity-based cost allocation methodology. This is an increase of ₹18 per kg. At the same time, the profitability of Grade B fertilizer drops by ₹18 per kg when the allocation method is changed from original cost allocation method (₹ 30 per kg) to activity-based-cost allocation method (₹ 12 per kg). The summary of impact on product profitability on account of *change* in method can be summarized as:

Product	Profit in ₹ per kg of fertilizer produced		Profit %	
	Original method	ABC as per EMA method	Original method	ABC as per EMA method
Grade A	30	48	5.36%	8.57%
Grade B	30	12	3.75%	1.50%

By allocating the incinerator cost on a more appropriate basis, DFPL could arrive at a more accurate profitability for each product.

(iv) In the given case, Mr. Panchal's opinion that it would be appropriate to revise the incinerator cost allocation since each product has a different impact on the environment is correct. The benefits of using such an activity-based-costing methodology over the traditional cost allocation method is that:

a. The company was able to conclude that Grade B product generated more waste than Grade A product resulting in more accurate product costing.

b. Based on the activity cost allocation methodology, subject to prevailing market conditions, company can increase the market price of Grade B fertilizer by ₹ 18 per kg fertilizer, to recoup the extra overhead cost allocation. If found unviable the company can even, consider phasing out production of Grade B.

c. The company can explore the possibility of adopting more sustainable manufacturing processes that reduces waste generated, this would increase its overall profitability.

d. In addition to the above benefits, adopting activity-based costing methodology makes the company environmentally friendly by highlighting the need to reduce its carbon footprint.

1.11 As per Section 180(1)(c) of the Company's Act, 2013, the Board of Directors without obtaining the approval of the shareholders in a general meeting through special resolution, can borrow funds including funds already borrowed upto an amount which does not exceed the aggregate of the paid-up share capital, free reserves and securities premium. Such borrowing shall not include temporary loans obtained from the company's bankers in the ordinary course of business. Free reserves do not include reserves set apart for specific purposes.

According to the above provisions, the Board of Directors of DFPL can borrow, without obtaining the approval of the shareholders in a general meeting, upto the amount calculated as below:

Particulars	(In crores)
Paid up share capital	₹2,000
General Reserves (being free reserve)	₹500
Debenture Redemption Reserve (not considered as this is a specific reserve kept apart for specific purpose of debenture redemption)	-
Provision for Taxation (not considered as this is a specific reserve kept apart for taxation)	-
Securities Premium	₹500
Aggregate of paid-up share capital, free reserves and securities premium	₹3,000
Total borrowing power of the Board of Directors (100% of aggregate paid-up share capital, free reserves and securities premium) – from step above	₹3,000
Less: Amount already borrowed	
Long Term Loan	₹2,000
Short term creditors (not considered as it is a temporary financing arrangement in the ordinary course of business)	-
Amount that the Board of Directors can borrow without the approval of shareholders in a general meeting	**₹1,000**

In the present case, the directors of DFPL by a resolution passed at its meeting have decided to borrow an additional sum of ₹1,500 crores. Apparently, the proposed borrowing will be beyond the powers of the Board of Directors.

The management of DFPL therefore should take steps to convene the general meeting and pass a special resolution by the members in the meeting as stated in Section 180 (1) (c) of the Companies Act, 2013. Then only, the proposed borrowing of ₹1,500 crores will be valid and binding on the company and its members.

1.12 DFPL has an expected dividend per share of ₹55, growing at an annual rate of 5%, with a required rate of return of 10%.

Using the Gordon Growth Model ($P = D_1 / (r - g)$), the estimated intrinsic value of DFPL's stock is calculated as follows:

$P = D_1 / (r - g)$

= 55/ 10% -5% = ₹1,100

This intrinsic value of ₹1,100 aligns with DFPL's actual market price in March 2024, as shown in the chart extracted from the annual report. DFPL's share price trends around ₹ 1,100 in March 2024, which is consistent with its calculated intrinsic value.

This suggests that the market perceives DFPL's growth prospects being fairly represented in its current valuation. The required rate of return (10%) and expected dividend growth rate (5%) are viewed as appropriate reflections of

DFPL's value. This implies that investors see DFPL's future earnings and growth potential as stable, supporting the current market price.

1.13 Section 35AD of the Income-tax Act, 1961 provides for investment linked tax incentives. It allows for 100% deduction of the capital expenditure incurred during the previous year, wholly and exclusively for setting up specified business, of which fertilizer producers is one of them. However, expenditure incurred on acquisition of any land, goodwill or financial instrument would not be eligible for deduction.

The new company that is a joint venture at Gopalpur port, Odisha will exclusively produce fertilizers. Hence, capital expenditures subject to certain conditions can be claimed as deduction under section 35AD. However, expenditure of ₹100 crore towards acquisition of land at Gopalpur cannot be claimed as deduction under section 35AD.

One of the conditions subject to which deduction can be allowed under this section is regarding transfer of previously used plant or machinery.

The new joint venture should not be set up by the transfer of machinery or plant previously used for any purpose. In order to satisfy this condition, the total value of plant or machinery so transferred should not exceed 20% of the total plant or machinery used in the specified business.

For the purpose of this condition, machinery or plant will not be considered as previously used if it had been used outside India by any other person other than the assessee provided the following conditions are satisfied:

(a) such plant or machinery was not used in India at any time prior to the date of its installation by the assessee

(b) the plant or machinery was imported to India from a foreign country

(c) no deduction in respect of depreciation of such plant or machinery has been allowed to any person at any time prior to the date of installation by the assessee

Working back, the estimated total investment in plant and machinery works out to be ₹300 crores (₹120 crores/40%).

Given that machinery currently being used by the Brahmapur unit of DFPL will be transferred to this new company proposed in Gopalpur. Valued at ₹45 crores, it will comprise of 15% of the total plant and machinery required at the new facility. In addition, certain machinery will be imported from the subsidiary of Greenspan Gmbh, Weisbaden, Germany. Valued at ₹120 crores, it will comprise 40% of the total plant and machinery required at the new facility. Hence, the total machinery that the proposed unit will have, which have been previously used for other purpose will be 55% of its total plant and machinery. However, the imported machinery from the German subsidiary of Greenspan Gmbh has not been used in India at any time prior to the date of its installation by the assessee. Also being thus far solely owned by the subsidiary in Germany, it can be concluded that no deduction in respect of depreciation of such plant or machinery has been allowed to any person at any time prior to the date of installation by the assessee. Hence, if these conditions hold until the date of actual installation of these imported machinery at the Gopalpur facility, they will not be treated as being previously used for any other purpose. Consequently, it is only the transfer of machinery valued at ₹45 crores, from Brahmapur unit of DFPL to the new company that comprises of 15% of the total plant or machinery that will be considered as previously used for other purpose. This is within the overall limit of 20% of such machinery as restricted by section 35AD.

Please note that details of other capital expenditures, for the rest of the plant and machinery worth ₹135 crores, will be required to be considered eligible for "investment linked tax incentives" under Section 35AD

Hence, based on the information provided, the new company can currently claim these capital expenditures of ₹165 crores for machinery as "investment linked tax incentives" and can claim deduction under Section 35AD.

ANSWERS CASE STUDY 2

2.1 The correct answer is (b) i and iv.

Reason

Ind AS 37 outlines the requirements to identify onerous contracts and also provides for when the same is required to be made. The standard also provides for treatment to account for contract termination costs where the contract is onerous. If the contract is not onerous, contract termination cost has to be accounted for when incurred.

Statement ii is incorrect since provisions for loss has to be made only if the executory contract is found to be onerous as per Ind AS 37. Similarly iii is incorrect since as per Ind AS 37, provision for contract termination cost needs to be made only when the contract is onerous. Further, the decision to terminate the contract was made on 1st April, 2028 i.e. after the reporting date. Since no condition to terminate the contract existed on or before the reporting date, it will not be considered as an adjusting event to be provided for.

2.2 The correct answer is (d) CA. Bharat Chowdhary on becoming aware of the uncertainty relating to "Going Concern" of CYPL needs to express an unmodified opinion in the audit report and it shall include a separate section under the heading "Material Uncertainty Related to Going Concern" for the year ended on 31/03/2026.

Reason

As per SA 570 "Going Concern", If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Relating to Going Concern" to draw attention to the note in the financial statements that discloses the relevant matters and to state that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

2.3 The correct answer is (a) the Altman Z score falls in the grey area of discrimination. This indicates the financial health of CYPL, while not in distress caution, it does need further investigation.

Reason

We need to use the model used for private firms.

Particulars		Ratio	Weight	Component score
X_1	Working Capital / Total Assets	0.1	0.717	0.072
X_2	Retained Earnings / Total Assets	0.0125	0.847	0.011
X_3	EBIT / Total Assets	-0.2	3.107	-0.621
X_4	Book Value of Equity / Total Liabilities	4	0.42	1.680
X_5	Sales / Total assets	0.1875	0.998	0.187
Altman Z score				**1.328**

A score between 1.23 to 2.99 indicates that CYPL has to be on alert. Any score below 1.23 indicates that the company is in grave danger of becoming bankrupt.

2.4 The correct answer is (c) Once GIL's supply resumes there can be reliance on supply of natural gas from single source since GIL is a major supplier of natural gas within the country. Alternate suppliers for natural gas procurement would not be needed.

Reason

It is important to build resilience within the supply chain in order to tackle disruptions. This includes having alternate sources of suppliers available for raw material procurement, even in the event of GIL resuming its supply to CYPL. For example, having a renewed contract with NGSL will help CYPL tackle any future disruption seamlessly. Trying to find alternate suppliers after an exigency / emergency occurs will almost always cause supply chain disruptions and generally prove to be more expensive.

2.5 The correct answer is (c) i and iii

Reason

Statement i: An increase in subsidy support under government schemes is a policy decision outside Mr. Ramakant Bhushan's control. Thus, it cannot be attributed to his performance.

Statement iii: Terminating the NGSL contract and relying solely on GIL for natural gas does not enhance supply chain resilience. This approach mirrors the earlier situation that necessitated an unfavourable agreement with NGSL in October 2025 following a pipeline accident. Retaining NGSL as an alternative supplier could have ensured a minimum supply and strengthened supply chain resilience, a better strategic decision for CYPL.

2.6 The correct answer is (a) Bargaining power of natural gas suppliers increased since there was a critical business need for the raw material.

Reason

Due to the accident at GIL's facility, there was a severe shortage of natural gas in the market. This gave more bargaining power to natural gas suppliers to negotiate for terms and conditions favorable to them.

Large scale operations of CYPL that required more quantity of natural gas may not have necessarily increased their bargaining power in the immediate aftermath of the pipeline accident at GIL. This is because CYPL, like many other companies may have been in greater need for natural gas, which was in short supply in the market.

Threat of substitutes for natural gas due to unavailability of natural gas may be limited since it is a key, well established raw material required for production. Threat of new entrants may also not have been immediate outcome of pipeline disaster. Rather the fertilizer industry is a capital-intensive industry, into which it might not been easy to enter, especially when there is a short supply of a critical raw material like natural gas.

2.7 The correct answer is (a) A joint venture allows both DFPL and Greenspan GmbH to share ownership and control of the new entity (CYPL), and ensuring efficient management of operations at the Gopalpur facility.

Reason

A joint venture permits both companies to collaboratively make decisions and oversee the facility, promoting smoother integration into the local market. Although obtaining access to intellectual property (IP) from Greenspan GmbH might be a factor, it is not the main reason. The primary benefit of the joint venture is the shared operational control, which guarantees that both partners are engaged in the venture's success. In comparison, a strategic alliance, which would entail less formal control and cooperation, would not offer the same degree of shared governance needed to address regulatory issues. Moreover, a joint venture does not grant additional operational flexibility for DFPL alone, as it necessitates both DFPL and Greenspan GmbH to work together in decision-making. Consequently, the joint venture structure was selected to furnish the essential legal framework and shared control for both companies to thrive in the Indian market.

2.8 **Stakeholder Mapping**

Level of interest low: level of power low

Suppliers of consumables for the plant and machinery procured by CYPL: These suppliers are small enterprises located at Gopalpur. Hence, their power is low. Since operations have not yet begun, CYPL has entered into only short-term contracts, for less than a year, with these suppliers. At present, CYPL is one of the many customers for these suppliers. Hence, their interest in these developments will also be low.

Level of interest low: level of power high

Government authorities in Germany: Government authorities in Germany may not directly be interested in proposed establishment of CYPL at Gopalpur, Odisha, India. At the same time, as Gerhard Braun states, they would not hesitate to take legal action if Greenspan GmbH is found to carry on with practices that can endanger public and environmental safety in any of their facilities in any part of the globe.

Level of interest high: level of power low

Employees working at Brahmapur facility: The setting up of Gopalpur facility will provide better job opportunities and career growth prospects for the workers at Brahmapur facility. Along with this, they are being given a hike as part of the compensation package that the management of DFPL is offering for their relocation. Therefore, their interest in these developments will be high. At the same time, their strength is only 112 as compared to the 5,000 members of registered unions across DFPL's various locations. At present there is no collaboration between the worker unions at different locations

/ facilities. Hence, their power at present is low. However, if in future there is involvement of unions from other locations, the collective power worker unions can increase.

Gaspro India Limited (GIL): At present, DFPL Brahmapur procures natural gas from GIL. DFPL being a small unit, it is one of their many customers for GIL. However, with the establishment of CYPL at Gopalpur, this business relation can be further strengthened since the scale of operations is going to be ramped up manifolds, which can potentially make CYPL become a high value customer. Hence, GIL may be interested in these developments. However, it cannot directly wield any influence and therefore its power may be considered to be low.

Shareholders of DFPL: Shareholding pattern of DFPL is largely fragmented and with most of them individually holding less than 2% of total share value. Therefore, their power may be low at present. They do not actively participate in every decision made by DFPL. Yet, in DFPL's latest earnings calls they have shown a keen interest in the setting up of the new facility at Gopalpur. They expect this to be a wealth generating opportunity due to the significant profit generation value of the Gopalpur facility. Their inquiries about media reports also show their interest in these developments.

Registered unions across DFPL's various locations: Mr. Venkata Ravi states that he is aware that the worker union heads at other facilities of DFPL are also closely watching these developments. Hence, interest is high. Currently, there is no collaboration between the worker unions at these different locations. Therefore, power is low. However, if DFPL does not handle the demands properly, it could sow discontent among all the unions across the company. That would be a disaster and could impact DFPL's operations and reputation domestically. This shows that worker unions collectively have the power to potentially influence decisions within the company.

Level of interest high: level of power high

Board of Directors of DFPL: The Board is interested in this decision as the facility at Gopalpur can help it deepen its presence in Eastern India, which is one of its strategic objectives. Since the license to establish and operate CYPL is obtained after all necessary compliance and formalities, it has the power to decide whether to locate the plant within 1 kilometer of the densely populated part of the town. Economic viability due to cost considerations needs to be balanced with the possibility of potential legal ramifications in the event of any untoward incident. As Mr. Venkata Ravi has pointed out the possibility of a leak cannot be completely ruled out despite the best efforts and due diligence by the company. The outcome of this decision will also influence its decision to shut down the Brahmapur facility.

Board of Directors of Greenspan Gmbh: The company wants to venture into the Indian market through this Joint Venture. The company has confidence in its partner DFPL to achieve this objective. Hence, the Board of Greenspan GmbH would be interested in the proposed facility at Gopalpur. Just like DFPL, Greenspan GmbH also has the power to influence the event, since despite getting the license, the Board can decide not to go ahead with the project if it's not economically viable. Since, CYPL plans to import almost 40% of its total plant and machinery from a subsidiary of Greenspan Gmbh, the Board has a lot of power to influence the outcome of these events. Like DFPL, the economic viability would be balanced with the possibility of potential legal ramifications, not just in India but also Germany, in the event of any untoward incident.

Government authorities in India: It has been mentioned that the Government in India has been promoting capacity expansion for fertilizer production in line with the "Make In India" policy. Foreign Direct Investment (FDI) is also being encouraged in the broader chemical sector. Since CYPL could get the license to establish and operate at Gopalpur, it indicates that the Indian government authorities are interested in setting up the facility. Significant employment generation, economic growth, access to farmers to high yielding fertilizers are major benefits that can be derived from this project. At the same time, the government is equally stringent with laws relating to social justice, public health and the environment. Hence, it has high power and high interest over the outcome of the event.

Shareholders of Greenspan Gmbh: Shareholders primarily consist of large financial institutions, who have shown a keen interest in Greenspan's entry into the Indian market in joint venture with DFPL. Due to the significant business opportunity it represents, they have high interest. However, as Mr. Gerhard Braun states, if the project is found to be unviable, they have the power to overturn the Board's decision to enter the Indian market. Hence, they wield high power.

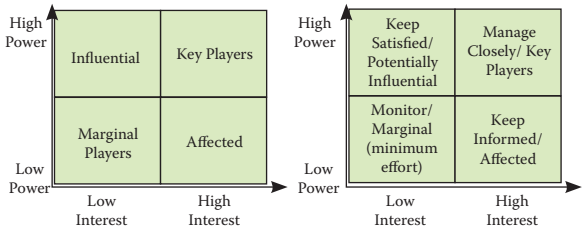


Figure – Mendelow's Matrix and Response to each class of stakeholders

Action Plan for CYPL to manage the various stakeholders

Level of interest low: level of power low

The suppliers of consumables to CYPL fall under this category. They do not have immediate interest in the strategic direction through this proposed project at Gopalpur, nor are they significantly interested in the worker's concerns at Brahmapur. They are likely to accept any position the company takes without much resistance. CYPL only needs to **monitor** these stakeholders and to keep a check on whether there is any change in the level of interest or power of these stakeholders.

Level of interest low: level of power high

The government authorities in Germany fall under this category. While they are not interested in the developments at Gopalpur, they can take stringent action against Greenspan GmbH in the event of untoward incidents that can harm public health and environmental safety. Greenspan GmbH needs to **keep them satisfied** with the compliance of social justice, public health and

environmental safety. By keeping them satisfied they are less likely to gain interest and exercise their power of influence.

Level of interest high: level of power low

Employees working at Brahmapur facility, Gaspro India Limited (GIL), shareholders of DFPL and worker unions of DFPL fall under this category. Adequate interactions with these parties can help CYPL identify any area where improvements can be made or issues that may have been overlooked. However, since they have low power to influence the outcome of these developments, the group should only be **kept informed** to assure them that no major issues are arising. At the same time, while they have low power by themselves, they may join forces with a group that wields power.

For example, the employees at Brahmapur facility in collaboration with worker unions at other locations can collectively wield higher power over DFPL's management and force them to accept their terms if required. Due to non-collaboration the worker unions across locations individually have low power at present, However, if the management of DFPL does not handle the issue well, the seeds of discontent among the worker unions across locations have the potential to disrupt operations as also damage the company's reputation domestically.

Similarly, while the shareholders of DFPL are fragmented, with most of them individually holding less than 2% of the total share value, together they can form a significant dissenting voice to the project. Likewise, relations with GIL need to be maintained to ensure sustained interest since any negative perception of the unviability of the project can be detrimental to the ongoing negotiations for long term supply of natural gas.

CYPL must watch out for such developments. Adequate interactions are needed to keep them satisfied so that collectively, their level of power does not move from low quadrant to higher quadrant.

Level of interest high: level of power high

The Board of Directors of DFPL, the Board of Director of Greenspan GmbH, Indian Government Authorities and Shareholders of Greenspan GmbH. They are the key stakeholders of the developments at Gopalpur and Brahmapur facilities. It is important to **manage closely** to engage with them and keep them satisfied about the issue.

2.9 (a) The Government of India provides subsidies under the Nutrient Based Subsidy (NBS) Scheme and the Urea Subsidy Scheme to keep fertilizer prices affordable for farmers. According to section 15(2)(e) of the CGST Act, 2017, subsidies are included in the value of supply for the supplier receiving them, provided they are directly linked to the price of goods or services and are given by non-Governmental organisation. However, blanket subsidies that are not tied to the price are excluded from the value.

Similarly, subsidies provided by the Central or State Government are specifically excluded from the value of supply. Therefore, when calculating the value of supply for GST purposes, the amount of Government subsidy will not be added, ensuring the taxable value excludes this subsidy.

(b) As per section 31(4) of the CGST Act, 2017, in case of continuous supply of goods, where successive statements of accounts or successive payments are involved, the invoice is issued before or at the time of issue of each such statement or as the case may be, each such payment is received. Therefore, EPL should issue invoices for ₹5 crores each on or before May 5 and June 5, when monthly payments of ₹5 crores are received. Further, invoice should be issued for the differential of ₹5.9 crores on or before July 4, when the statement of account is issued.

(c) No, the procurement of natural gas is not entirely tax-free. As per section 9(1) of the CGST Act, 2017, currently, GST is not leviable on natural gas. GST will be levied on natural gas from the date to be notified based on the recommendations of the GST Council. Until that date, central excise duty continues to be imposed on the production or manufacture of natural gas. Additionally, the inter-State sale of natural gas is subject to Central Sales Tax (CST), while intra-state sales are subject to Value Added Tax (VAT).

(d) The facts of the case are similar to the case of *Board of Trustees vs. UOI (2009) 241 ELT 513 (Bom HC DB)*, wherein the High Court held that the language of section 45(3) of the Customs Act, 1962, the liability to pay the duty is on the person, in whose custody the goods remain as an approved person under section 45 of the Customs Act, 1962. Therefore, section 45(3) of the Customs Act, 1962 applies only to private custodians who are required to be approved by Principal Commissioner/ Commissioner of Customs under Section 45(1) of the Customs Act, 1962. Accordingly, the major ports and airports covered under the Major Port Trusts Act, 1963 who do not require any approval under section 45(1) are not covered under Section 45(3) of the Customs Act, 1962. Thus, the department cannot demand duty from the Port Trust on the pilferage under Section 45(3) of the Customs Act, 1962. Therefore, CYPL too cannot demand the Port Trust to pay duty on the pilfered goods. However, CYPL can hold the Port Trust as a bailee of the goods liable the value of potash that was pilfered from its custody.

At the same time, as per section 13 of the Customs Act, 1962, CYPL also cannot be held liable to pay duty on such goods except where the goods are restored to CYPL after pilferage.

(e) This situation is known as the "inverted duty structure," where the GST paid on inputs exceeds the GST collected on outputs. CYPL can apply for refund of the accumulated unutilized Input Tax Credit (ITC) due to inverted duty structure in accordance with the provisions of section 54(3) of the CGST Act, 2017 read with rule 89(5) of the CGST Rules, 2017.

Questions involving the application of GST law have been answered on the basis of position of law as amended by the Finance (No.2) Act, 2024 as well as the notification and circulars and other legislative amendments, which have become effective till 31.10.2024.