Outlook

Queries in relation to your company's IPO

From Suraj Jhawar <jhawar.suraj@gmail.com>
Date Sun 13-Jul-25 12:38 PM
To Company Secretary <companysecretary@sworks.co.in>
Cc aris.ipo@jmfl.com <aris.ipo@jmfl.com>; grievance.ibd@jmfl.com <grievance.ibd@jmfl.com>; Prachee Dhuri <Prachee.Dhuri@jmfl.com>

The Board of Directors

Smartworks Coworking Spaces Limited

Dear Sir/ Madam,

1. In relation to Restated Financial Information forming part of RHP filed by the company, kindly explain the following issues:-

a. Fundamental question of "going concern" is not addressed in view of losses incurred by the Issuer on a sustained basis since F.Y. 2021-22, F.Y. 2022-23, F.Y. 2023-24 and F.Y. 2024-25. Statement made in Note 36.2.1.5 is not backed by any reasoning but only assumptions considering achievements but performance of turning into black is not achieved.
b. Deployment of borrowed funds bearing 7.20% to 12% into Mutual Funds yielding returns of 6% to 8% does not seem to be proper liquidity management in view of sustained business losses. Issuer Company has to regularly depend on Bank overdraft facilities bearing interest @ 7.40% to 8.75%.
c. Security provided against Bank overdrafts- dropline overdraft bearing interest @8.75% not disclosed (detailed in Page 373).
d. Guarantor details not disclosed against 3 Bank overdrafts- dropline overdraft facilities availed (detailed in Page 373).
e. Lease Liabilities should be placed after Borrowings on the face of the Statement of Assets and Liabilities.
f. Other Current Liabilities should be placed before provisions under Current Liabilities on the face of the Statement of Assets and Liabilities.
g. Material accounting policy for valuing investments in unlisted equity shares is not disclosed in Note 2.17.2.
h. In the Material Accounting Policy, it is nowhere disclosed that switching between investments valued at FVTOCI and FVTPL after the initial recognition choice is not possible.
i. Additions and sale/ deductions are wrongly netted as "Disposal/ adjustment" in Note 4 for gross carrying value and accumulated depreciation.
j. Disclosure of changes due to business combinations has not been disclosed in Note 4, 5 in violation of Paragraph 6 A I (iii) of Division II: General Instructions for Preparation of Balance Sheet of Schedule III to the Companies Act.
k. Disclosure of changes due to business combinations has not been disclosed in Note 7 in violation of Paragraph and 6 A IV (ii) of Division II: General Instructions for Preparation of Balance Sheet of Schedule III to the Companies Act.

l. Expenses relating to short term leases for the F.Y. 2024-25 disclosed in Note 5.4 and Rent disclosed in Note 26 does not match.
m. Expenses relating to leases of low value of low-value assets, excluding short-term leases of low-value assets for the F.Y. 2022-23, F.Y. 2023-24 and F.Y. 2024-25 disclosed in Note 5.4 are not disclosed in Note 26 and 30.
n. Aggregate amount of unquoted investments is not disclosed in Note 9.
o. Break up of names and quantity of investment made in Mutual funds not disclosed in Note 9.
p. Reconciliation between the amount computed by applying the statutory income rates to the profit before tax and income tax expense in Note 11 for the F.Y. 2022-23 does not match with Total Tax Credit disclosed on the face of the Statement of Profit and Loss.
q. Year end Deferred Tax Asset against Provision for contingencies and allowance for capital advances and advances to suppliers in Note 11 for the F.Y. 2022-23, F.Y. 2023-24 and F.Y. 2024-25 should be 1.67 (on 6.43), 3.05 (on 11.72) and 8.13 (on 32.34) respectively.
r. Year end Deferred Tax Asset against Provision for employee benefits in Note 11 for the F.Y. 2022-23, F.Y. 2023-24 and F.Y. 2024-25 should be 8.00 (on 30.74), 9.69 (on 37.28) and 11.90 (on 47.28) respectively.
s. Tax related to remeasurement of defined benefit plan on Face of the Statement of Profit and Loss for the F.Y. 2023-24 should be (0.45).
t. Shares allotted without payment being received in cash, bonus shares allotted and shares bought back during the last 5 years not disclosed.
u. Rebates, deductions allowed against Contracted price is not disclosed in Note 24 in terms of IND AS 115.
v. Advances from customers being one of the Contract liabilities is not disclosed in Note 24.
w. Provision for contingencies and allowance for capital advances and advances to suppliers forming part of Note 13 does not form part of Allowance for doubtful debts and advances in Note 30.
x. Corresponding liability has not been created against Provision for Customer Claims in Note 30.
y. Corresponding Deferred Tax assets are not created / disclosed in Note 11 against Provision for Customer Claims in Note 30.
z. Interest on Asset retirement obligation in Note 28 and Note 20.1 differs for F.Y. 2024-25.
aa. Expenses related to Deferred Contribution Plan (PF and ESI expenses) incurred on behalf of KMP are not disclosed in Note 35.d.
bb. Outstanding balance of Borrowings given to Smartworks Tech Solutions Private Limited should be 182.92 on Page 386 considering Opening balance of borrowings 69.18 + Borrowings given 119.74 – Refund of Borrowings given 6.00.
cc. Trade Payable and Other Financial Liabilities for the F.Y. 2022-23 disclosed in Note 36.1 should be 942.48 and 3688.48 respectively.
dd. Carrying amount of Other Financial Liabilities for the F.Y. 2022-23, F.Y. 2023-24 and F.Y. 2024-25 in Note 36.2.1.5 should be 3688.48, 4558.52 and 5910.82 respectively.
ee. Carrying amount of Trade Payable for the F.Y. 2022-23 in Note 36.2.1.5 should be 942.48.
ff. Movement of Other equity is not disclosed in Note 18 in violation of Paragraph 6 D II (d) of Division II: General Instructions for Preparation of Balance Sheet of Schedule III to the Companies Act.
gg. Strangely CWIP/ PPE written off in Note 30 does not has a corresponding disclosure in Note 4 and 6.

2. Statement of Cash Flow is not prepared in accordance with Ind AS-7 on the following counts:-

a. Word “Others” used just before “Operating cash flows before working capital changes” does not provide any indication of what the same seems to convey.
b. Finance Costs for the F.Y. 2022-23 should be 2366.56 million for maintaining comparability.
c. Interest income for the F.Y. 2024-25 should be 309.50 million for maintaining comparability.
d. Allowance for doubtful debts and advances, Provision for Customer Claims and Provision for Contingencies should be adjusted for arriving at Operating profit before working capital changes.

3. Additional Regulatory Information to the Balance Sheet (Statement of Assets and Liabilities) under Schedule III to the Companies Act, 2013 not disclosed:-

(i) Title deeds of Immovable Property not held in name of the Company

(ii) The Company shall disclose as to whether the fair value of investment property (as measured for disclosure purposes in the financial statements) is based on the valuation by registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) ….

(iii) Where the Company has revalued its Property, Plant and Equipment, the company shall disclose as to whether the revaluation is based on the valuation by a registered valuer as defined under rule 2 of the Companies (Registered Valuers and Valuation) ………

(iv) Where the company has revalued its intangible assets, the company shall disclose as to whether the revaluation is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) ….

(x) Wilful Defaulter

(xii) Registration of charges or satisfaction with Registrar of Companies

(xiii) Compliance with number of layers of companies

(xv) Compliance with approved Scheme(s) of Arrangements

4. Notice, Directors Report, AOC-1, AOC-2 for the F.Y. 2022-23, F.Y. 2023-24 and F.Y. 2024-25 not disclosed on the website.

5. Audited Consolidated financial statements for the F.Y. 2022-23, F.Y. 2023-24 and F.Y. 2024-25 not disclosed on the website.

6. Latest Shareholding not disclosed on the website.

Corrigendum should be given wherever incorrect disclosure/ incomplete information is disclosed without looking into Materiality.

Issuer Company bears an unequivocal responsibility to provide exhaustive disclosures in its Red Herring Prospectus (RHP). The practice of not disclosing things which may be “Not Applicable” in direct affirmative/negative manner is equivalent to an inadequate disclosure; similarly dispersing related information across different sections of the RHP instead of providing complete disclosure in the Restated Financial Statements, represents a serious deviation from mandated Corporate Governance standards. Claims of immateriality or insignificance or having no financial impact cannot serve as justification for incorrect disclosures or omissions, given that Schedule III of the Companies Act and relevant AS or IND AS requires comprehensive disclosure regardless of quantum. Issuer Company must recognize that:

1. Every piece of information, regardless of perceived significance, warrants proper disclosure

2. The onus of transparent disclosure lies entirely with the issuer, not with investors' ability to interpret or deduce

3. Documentation must be self-contained within relevant sections, particularly the Restated Financial Statements

4. Fragmented or incomplete disclosures may indicate potential risk of misappropriation of IPO proceeds

Given the gravity of public fund mobilization through an IPO, comprehensive disclosure is not merely a regulatory requirement but a fundamental obligation to protect investor interests. The company must err on the side of over-disclosure rather than risk leaving any information subject to interpretation or discovery through cross-referencing.

Independent Directors must also rethink their presence considering Corporate Governance standards maintained by the Issuer Company and there is an immediate need to discuss role of CFO, CS, the Audit Committee, Peer Review Auditor, Merchant Banker, etc in all the above noted shortcomings overserved considering applicable AS/ Ind-AS, various Guidance Note issued by the ICAI, Companies Act, SEBI ICDR Regulations.

Unexpectedly, the peer review auditors seem to be cooperating in withholding significant information from public disclosure, rather than promoting full transparency.

Kindly also refer to the following responsibilities of a merchant banker in relation to restated financial information for a public issue in India:

1. Conduct thorough due diligence on the company's financial statements and accounting practices.

2. Verify the accuracy and completeness of the restated financial information.

3. Verify compliance to the provisions of Companies Act, 2013 in the true spirit.

4. Ensure that the restated financial information complies with the Securities and Exchange Board of India (SEBI) regulations, particularly the SEBI (Issue of Capital and Disclosure Requirements) Regulations.

5. Confirm adherence to applicable accounting standards, such as Indian Accounting Standards (Ind AS) or Indian GAAP in the true spirit.

6. Ensure proper disclosure of all material information in the offer document, including any qualifications or emphasis of matter in audit reports.

7. Highlight any significant changes in accounting policies or practices during the periods under review.

8. Provide a due diligence certificate to SEBI, confirming that the restated financial information has been prepared in accordance with the relevant regulations.

These responsibilities are crucial in maintaining the integrity of the financial markets and protecting investor interests. The merchant banker plays a pivotal role in ensuring that the restated financial information is accurate, complete and compliant with all relevant regulations.

Thanking you,
Yours faithfully,
Suraj J Jhannwar (An informed investor)
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