



# OMKAR SPECIALITY CHEMICALS LIMITED

CIN No.: L24110MH2005PLC151589

**Regd. Office:** Mahalasa Narayani, Ganesh Chowk, Manjarli, Badlapur (E), Thane- 421503.

**Corporate Office:** B-34, M.I.D.C., Badlapur (East), Thane 421503, Maharashtra.

Ref. No.: OSCL/SE/2021-22/58

February 23, 2022

To,

Corporate Services Department <b>BSE LIMITED</b> P.J. Towers, 1 <sup>st</sup> Floor, Dalal Street, Mumbai – 400001. BSE Code: 533317	Corporate Services Department <b>NATIONAL STOCK EXCHANGE OF INDIA LIMITED</b> Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai – 400051. NSE Symbol: OMKARCHEM
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Dear Sir/Madam,

**Sub: Reply on Administrative warning with respect to Impairment of Tangible Assets i.e., Research and Development Cost carried out by Omkar Speciality Chemicals Limited during FY 2017 – 18.**

**Ref: SEBI/HO/CFID/CFID\_1/P/OW/2022/2744**

This refers to your mail dated January 24, 2022, in connection with your observation on Impairment of Tangible Assets i.e., Research and Development Transactions during FY 2017-18. We would like to submit following comments of Audit Committee members and Board of Directors in the meeting held on Monday February 14, 2022 of the Company as under:

**A. RESEARCH AND DEVELOPMENT EXPENDITURE:**

1. In connection with R&D expenditure of the company, the financial statement will be prepared in accordance with Ind AS 38, Intangible Assets and Ind As 36, Impairment of Assets.
2. The company will charge all expenditure incurred on research phase to profit and loss account and expenditure incurred on development phase will to be capitalized.
3. All Fixed assets including research tools acquired for R&D activities having alternative future uses and R&D expenditure on development phase are to be carried forwarded as capital work in progress. These assets will to be capitalized as tangible and intangible asset on commercial production or use of the asset. Tangible and intangible R&D assets are to be depreciated and amortized over useful life of the assets.
4. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets. Examples of directly attributable costs are:
  - a) Costs of materials and services used or consumed in generating the intangible asset;
  - b) Costs of employee benefits (as defined in Ind AS 19) arising from the generation of the intangible asset;



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- c) Fees to register a legal right; and
  - d) Amortization of patents and licences that are used to generate the intangible asset.
  - e) The criteria for recognition of interest as an element of the cost of an internally generated intangible asset are as specified in Ind AS 23
5. The following are not components of the cost of an internally generated intangible asset:
- a) selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
  - b) identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and
  - c) expenditure on training staff to operate the asset.
6. Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date. The reinstatement of expenditure previously recognised as an expense is prohibited.
7. To determine whether an intangible asset is impaired, the company applies Ind AS 36
8. The company shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company shall estimate the recoverable amount of the asset. The company determined the impairment loss of intangible assets when no future economic benefits are expected from its use.
9. An intangible asset shall be derecognized:
- a) on disposal; or
  - b) when no future economic benefits are expected from its use or disposal.
10. The gain or loss arising from the recognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognized
11. An intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.
12. The depreciable amount of an asset with a finite useful life is determined after deducting its residual value.



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13. Depreciation and amortization of R&D tangible and intangible assets is based on its useful life. An intangible asset with a finite useful life is amortised.

14. Useful life to tangible assets will be 15 years

15. A company will maintain records available from different phases of a project's life, including:

- a) before experiments occur to explain why there is an unknown outcome and new knowledge to be generated from an experiment; and
- b) During the experiments to show the relevant observations and conclusions arising from the experiment.

16. Records may come from following sources such as:

- a) Meeting notes;
- b) Records of research and literature reviews
- c) ERP systems;
- d) Business plans and technical reports;
- e) Testing reports and notes;

17. Records to be maintained

- a) Project planning documents
- b) Design of experiments
- c) Project records and laboratory notebooks
- d) Design documents
- e) Records of trial runs
- f) Progress reports and minutes of project meetings
- g) Test protocols, test results, analysis of test results and conclusions;
- h) Photographs and videos
- i) Samples, prototypes, or scrap
- j) Contracts
- k) Records of resources allocated to the project, eg. asset usage logs;
- l) Staff time sheets; and
- m) Tax invoices.

## B. INVENTORY SYSTEM

a) The company has inventory at its all plant locations, having different categories of inventory like raw materials, Work-in progress, finished goods and stores and components etc. The company is



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having Tally ERP management system at all the locations for management of inventory. The inventory management process followed is similar at all the plant locations.

- b) The company has a documented standard operating procedure procedures for i.e. SOP for inventory & stores control process, and follows the inventory guidelines on verification of purchased product, management identification and traceability, customer property, improvement of process, corrective action & preventive action.
- c) The company carries out physical verification of its complete inventory, twice a year, in the months of August and February with effective from the year 2020-21. The inventory is classified into A, B & C categories and physical verification is carried out for each category of inventory.
- d) The company classifies its inventory into A, B & C class for carrying out the perpetual inventory verification At Plant every month the inventory register is extracted and the classification of items are carried out and basis the above the PI is carried out. All A class items are verified twice a year, B class items are covered once a year. The coverage is in addition to the physical verification of complete inventory which is done twice a year. C class items might also be covered as part of perpetual inventory on need basis. Variance if any are generally posted by the team leader stores at each plant location, and in few cases the plant head approvals are also obtained. At Plant the inventory register is taken and PIV is carried out till completion of all items in the inventory register. Variance if any during a month are posted to books by the team leader stores.
- e) The company is valuing Raw material, packing material and stores stock by taking costs of purchase consist of the purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks, finance cost and other similar items are deducted in determining value of the stock of Raw materials. In determining the cost the First In First Out (FIFO) method is used.
- f) The company is valuing Finished Goods and Work in process at cost or net realizable value, whichever is lower. The cost includes production and conversion cost and an appropriate share of overheads based on normal operating capacity.
- g) Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## **C. INTERNAL FINANCIAL CONTROLS OVER REPORTING (IFCR)**



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As per Section 134 of the Companies Act 2013, the term 'Internal Financial Controls' means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, safeguarding of its assets, prevention and detection of frauds and errors, accuracy and completeness of the accounting records, and timely preparation of reliable financial information.

An accurate and fair reflection of transactions and disposition of the assets of the company; Provides reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and Provides reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Internal Control over Financial Reporting (IFCR) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

## MAJOR AREAS OF IFCR

Order to Cash (business processes for receiving and fulfilling customer requests for goods or services)

- Logistics & Distributions
- Procurement to Payment
- Inventory Management
- Human Resources & Payroll
- Finance & Accounts
- Capital Expenditure
- Information Technology
- Entity Level Controls
- Process Flows
- Risk Control Matrix
- Testing Results/Report

The Company has in place an adequate system of internal controls to ensure compliance with various policies, practices and statutes in keeping with the organization's pace of growth and increasing complexity of operations. It has procedures covering all financial and operating functions and processes. These have been designed to provide a reasonable assurance with regards to maintaining of proper accounting controls for ensuring reliability of financial



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reporting, monitoring of operations, protecting assets from unauthorized use or losses and compliance with regulations. Key controls have been tested during the year and corrective and preventive actions are taken for any weakness.

## THE COMPANY HAS FOLLOWING DRAFT POLICIES AND PROCEDURES

01. Board Meeting Policy
02. Audit Committee Policy
03. Committees Policy
04. Whistle Blower Policy
05. OSCL Anti -Sexual Harassment Policy
06. Organization Rules
07. Organization Standing Orders
08. Fixed Assets Policy
09. CARO Requirement for Fixed Assets
10. Asset disposal policy
11. Physical verification of Assets
12. Conveyance Policy
13. Petty Cash policy
14. Reimbursement Policy
15. OSCL Vehicle Policy on Four & Two wheeler
16. OSCL internal policy on IT usage
17. OSCL Employee Tour policy
18. Human Resources & Payroll Policy
19. HR and Payroll-RCM
20. Payroll Process Flow
21. HR Recruitment – FLC
22. Forex policy
23. Education Rule
24. Planning, Requisition, Purchase, & Receipt
25. Purchase - Process Flow
26. Material Planning Cycle
27. Statutory Compliance
28. Accounts closing
29. Sales Process
30. Procure to Pay process
31. Inventory Management
32. Quality Policy
33. Inventory Valuation Policy
34. Material Movement Flow Chart.



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35. Inventory Management RCM
36. Accounts Receivable and Credit Management
37. Debtors Balance Confirmation Policy
38. Treasury Cash & Bank and Investment operation
39. Intangible Assets
40. Cost accounting policy

## D. DISCLOSURE OF AUDIT QUALIFICATION

As per your observation of the SEBI, we will make the necessary disclosure in respect of impact of audit qualification on the financial statement for the year 2020-21 in the annual report for the year 2021-22 at appropriate places.

Please take the above on your record and acknowledge the receipt of the same.

Thanking you,

Yours Faithfully,

For **OMKAR SPECIALITY CHEMICALS LIMITED**

**SUNNY PAGARE**

**COMPANY SECRETARY & COMPLIANCE OFFICER**

M. No.: F8896

