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Research & Insights

Reading Between the Lines

A Forensic Accountant's Guide to the Balance Sheet

Six numbers that quietly warned investors about PC Jeweller — years before the stock collapsed, and what they still say today

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Table of Contents

The Annual Report Said Everything Was Fine

Every year, thousands of Indian companies publish annual reports signed off by a licensed, qualified statutory auditor. The opinion almost always says the same thing: that the financial statements present a “true and fair view” of the company's affairs. Investors read that line and relax — if the numbers were wrong, surely the auditor would have said so.

But “true and fair” is a narrower promise than it sounds. An audit confirms that a company followed accounting standards correctly — that revenue was recognised using the right method, that assets were valued using an approved approach, that the numbers add up internally. It does not confirm that the underlying business is healthy, that growth is sustainable, or that the people running the company are being straightforward with shareholders about what is actually happening.

This gap — between “technically compliant” and “actually fine” — is where forensic accounting lives. And it's where a surprising number of India's best-known market collapses were hiding in plain sight, years before anyone outside the company noticed.

Consider one example. In the years leading up to early 2018, a company's annual reports showed consistent profit growth, an expanding store network, and management that spoke confidently on investor calls about an ambitious export business. Nothing in the audited numbers was false. And yet, read differently — not for what the profit figure said, but for what the cash flow statement, the receivables note, and the shareholding pattern were quietly doing in the background — the same filings told a very different story. A story about profit that wasn't turning into cash. About a business that needed more and more capital just to keep reporting growth. About promoters who, even while the company spoke optimistically in public, were steadily handing over more of their personal stake to lenders, not buying any more of it for themselves.

Within months, the company's stock fell more than 80% from its peak. Within five years, its largest lender had taken it to India's bankruptcy tribunal.

None of this required inside information. Every figure that mattered was published, audited, and publicly available — in the same annual reports investors had been reading all along.

THE CORE QUESTION

What if you read the fine print before the headline number — not after the stock has already fallen 80%?

This report is built around a simple premise: most people read financial statements the way they read a restaurant menu — they look at the headline number (the price, the profit) and skip the fine print. Forensic accounting is just the discipline of reading the fine print first.

What follows is a practical toolkit: six checks anyone can run on a company's public filings in well under an hour, explained in plain language. Then, a full case study — PC Jeweller, the company referenced above — applying every one of those checks against its real, filed numbers, year by year, to show exactly when and how the warning signs appeared. Finally, a condensed checklist for your own portfolio, and an honest section on where this kind of analysis can mislead you if you're not careful.

The goal isn't to teach you to spot fraud. Outright fraud is rare, and proving it is a job for regulators and forensic auditors with subpoena power. The goal is more modest and more useful: to teach you to spot discomfort — the kind of numbers that, even if perfectly legal and perfectly audited, should make you ask one more question before you invest.

What Forensic Accounting Actually Is

Before the toolkit, it's worth being precise about what forensic accounting is — and isn't — because the term gets used loosely.

A statutory audit, the kind every listed Indian company undergoes annually, has a specific and limited job. The auditor checks whether the financial statements have been prepared in accordance with applicable accounting standards (Ind AS, in India), whether internal controls are reasonably adequate, and whether the numbers are free of “material misstatement” — errors large enough to mislead a reasonable investor. Auditors form their opinion based on samples, representations from management, and confirmations from third parties such as banks and large customers. They are not investigators, and they are not required to verify every transaction.

Forensic accounting starts from a different posture. It assumes nothing and asks: if I only trust the numbers themselves — not what management says about them — what story do the numbers tell? It cross-checks figures against each other, looking for internal contradictions, and treats unusual patterns (a sudden spike in receivables, an unexplained jump in cash, a related party with no obvious business purpose) as questions to be answered rather than facts to be accepted.

Importantly, this kind of analysis doesn't require special access. Everything used in the case study later in this report is publicly available: annual reports, exchange filings, credit rating agency notes, and investor presentations. The “forensic” part isn't the data — it's the lens.

This distinction matters because it changes how you should read an auditor's sign-off. A clean audit opinion tells you the company didn't break accounting rules. It tells you nothing about whether the business model is sound, whether growth is real, or whether the company can actually collect the money it says it's owed. Those are forensic questions — and answering them is the investor's job, not the auditor's.

The Toolkit: Six Things to Check Before You Trust a Balance Sheet

Each of these checks uses numbers that are already sitting in every annual report. None require special software — a calculator and the patience to read past page three is enough.

1. Cash Flow vs. Reported Profit

What it is: a company's profit and loss statement records sales the moment they're made, even if the customer hasn't paid yet. Its cash flow statement records money that has actually moved into the bank. Over any reasonable stretch — three to five years — these two numbers should roughly track each other.

How to check it: add up net profit (PAT) for the last five years from the profit and loss statement. Separately, add up cash flow from operations (CFO) for the same five years from the cash flow statement, and compare the totals.

Red flag: a persistent, cumulative gap that never closes — profit recorded every year but never converted into cash. When that happens, look at where the cash is going: usually it's piling up in receivables or inventory, both of which sit on the balance sheet looking like assets while contributing nothing to the company's actual liquidity.

2. Receivable Days (Days Sales Outstanding)

What it is: how many days, on average, a company takes to collect cash after a sale — calculated as (trade receivables ÷ revenue) × 365.

What matters is the trend, not the absolute number. Rising receivable days over several years means a growing share of “sales” are sales the company hasn't been paid for yet, even as the top line keeps climbing.

Red flag: receivable days rising steadily for three-plus years with no clear seasonal or sectoral explanation — especially when management's own public statements about the business contradict what the receivables imply (claiming a predominantly cash business, for instance, while receivables balloon).

3. Inventory Days and the Working-Capital Cycle

What it is: how long stock sits before being sold — (inventory ÷ cost of goods sold) × 365 — and whether it's growing in proportion to sales and payables the way a healthy working-capital cycle should.

Red flag: inventory growing much faster than revenue, with days-outstanding climbing year after year. Cash is stuck on shelves rather than turning into sales — particularly dangerous in

working-capital-intensive sectors such as jewellery, real estate, and textiles, where “high inventory” can be excused as normal for the industry right up until it isn't.

4. Related-Party Transactions as a Share of Revenue

What it is: transactions between the company and entities connected to its promoters or management — group companies, family-run firms, and similar related entities.

Why it matters: related-party transactions aren't inherently wrong, but they're the easiest place to move money, inflate revenue, or disguise loans, because pricing isn't set by an arm's-length market.

Red flag: related-party value rising as a share of revenue over time, especially through opaque entities with no clear business rationale. Below roughly 5% with a clear, disclosed purpose is generally unremarkable; what deserves scrutiny is the trend and the nature of each transaction, not just the headline total.

5. Promoter Shareholding and Pledge Levels

What it is: how much of the company its promoters own, and how much of that holding is pledged — used as collateral for loans.

Why it matters: promoters have the best information about their own company. A steadily declining promoter stake, particularly through open-market sales rather than gifting or estate planning, is a vote of declining confidence. Pledged shares add a separate danger — if the stock price falls, lenders can force a sale of the pledged shares, which pushes the price down further, which can trigger more forced selling, in a self-reinforcing spiral.

Red flag: promoter pledge above roughly 20% of holding is worth watching closely; above 50% is a serious concern. Combine this with the shareholding trend — a declining promoter stake into a rising stock price deserves a direct explanation.

6. Auditor Commentary — the Fine Print Most People Skip

What it is: the actual text of the auditor's report, beyond the boilerplate “true and fair” opinion — specifically, any qualifications (issues the auditor flags but doesn't consider severe enough to refuse an opinion), “emphasis of matter” paragraphs, or a sudden auditor resignation mid-term.

Why it matters: qualifications are an auditor's way of saying, in careful and hedged language, “we have a concern here that we want on record.” They're easy to miss because they're usually placed several pages past the headline numbers. A sudden auditor resignation without a clearly stated, mundane reason is one of the strongest red flags in Indian markets, because auditors rarely walk away from a paying client without serious cause.

Red flag: read the full auditor's report, not just the opinion paragraph, and note whether the same qualification has appeared in multiple consecutive years. A qualification that persists, unresolved, year after year, is a bigger warning than the first time it appears — a point the case study below illustrates directly.

Case Study: PC Jeweller

4.1 — The Company

PC Jeweller began in 2005 as a single store in Karol Bagh, Delhi, founded by brothers Padam Chand Gupta and Balram Garg. Over the following decade it grew into one of north India's most visible organised jewellery retail chains, eventually building a network of more than 80 stores nationwide alongside a substantial export business in gold and diamond jewellery.

The stock rewarded that growth story generously. From roughly ₹40 a share in 2013, PC Jeweller's price climbed steadily to an all-time high of just over ₹600 on 16 January 2018 — a return of well over 1,000% in under five years. Brokerage notes from the period were enthusiastic, and large institutional investors, including funds managed by Fidelity International, held meaningful positions in the stock.

By every headline number an ordinary investor might check — revenue growth, profit growth, store count — PC Jeweller looked like a textbook success story. The trouble, as is often the case, was sitting in the parts of the annual report fewer people read.

4.2 — Applying the Toolkit

Cash flow vs. reported profit: between FY12 and FY17, PC Jeweller's cumulative reported net profit added up to roughly ₹2,075 crore. Over the same six years, cumulative cash flow from operations came to only around ₹540 crore — a shortfall of close to ₹1,500 crore between the profit the company reported and the cash it actually generated from its core business, with operating cash flow negative outright in some individual years. This is exactly the pattern the first toolkit check is designed to catch.

> **₹1,500 CRORE**
> *The gap between PC Jeweller's cumulative reported profit and the cash it actually generated from operations, FY12–FY17.*

Inventory days: PC Jeweller's inventory holding period stretched from around 170 days in FY12 to roughly 198–222 days by FY17–FY18, meaning the company was sitting on six to seven months of unsold stock at any given time. In absolute terms, inventory on the balance sheet grew from about ₹1,172 crore in March 2012 to roughly ₹4,187 crore by March 2017, eventually peaking near ₹5,012 crore in March 2019. Both CARE Ratings and CRISIL flagged the company's heavy, structurally rising inventory requirement in separate notes published in 2017 and 2018 — meaning the warning wasn't buried in obscure data; professional credit analysts had already said it out loud.

Receivables and the export business: management was consistent, on quarterly investor calls, in attributing most receivables to the export business rather than domestic retail, correctly noting that very few customers buy jewellery on credit at the counter. That explanation only raises a second question: why run a large, credit-driven export business at all, when its gross margins were roughly half those of domestic retail? The receivables-to-export-sales ratio rose from about 41% in March 2015 to nearly 49% by March 2017 — an increasing share of recorded “sales” the company hadn't actually been paid for yet.

Promoter shareholding: promoter holding declined from about 70.6% in March 2016 to roughly 60.5% by December 2017 — a drop of around 10 percentage points in under two years, even as the stock price climbed toward its peak. Separately, the company had entered financing arrangements with DVI Fund (Mauritius) that came with board representation rights for the lender and a non-disposal undertaking encumbering a substantial portion of promoter shares.

Unexplained cash movements: PC Jeweller's FY17 annual report showed bank balances in current accounts jumping from about ₹88 crore to roughly ₹326 crore year-on-year, before settling near ₹198 crore in the FY18 report — a pattern of large, unexplained swings in idle cash that investor calls never directly addressed.

4.3 — The Trigger and the Crash

On 16 January 2018, PC Jeweller's stock touched its all-time high of just over ₹600. Nine days later, on 25 January, Vakrangee Limited — an IT-enabled retail company itself under SEBI's scrutiny over alleged stock manipulation — disclosed a small, roughly 0.51% stake purchase in PC Jeweller worth about ₹112 crore. The size of the stake was trivial; the association was not. Speculation spread that the two companies shared an undisclosed business relationship, and PC Jeweller's stock began a sustained slide.

By late April 2018, the stock had fallen roughly 65% from its January peak. On 3 May 2018, it touched a 52-week low near ₹95 — down close to 84% from the high reached barely four months earlier. PC Jeweller's own clarification to the exchanges at the time stated it was unaware of any reason for the price fall and maintained that the company's fundamentals remained strong.

A week later, on 10 May 2018, the board announced a ₹424 crore share buyback at ₹350 a share — a 67% premium to the previous close — and the stock jumped 18% on the news. The relief was short-lived. On 13 July 2018, PC Jeweller withdrew the buyback, citing the absence of a no-objection certificate from its bankers; the stock fell another 26% that day. It later emerged, in a SEBI order the company settled in 2019 for roughly ₹19.1 lakh, that PC Jeweller had failed to disclose State Bank of India's specific objections to the buyback at the time — information SEBI determined was material and should have been shared with the exchanges immediately.

4.4 — The Aftermath

The damage didn't stop at the share price. In the fourth quarter of FY19, PC Jeweller reported a loss of roughly ₹377 crore, driven by a one-time 25% discount the company extended on ₹513 crore of outstanding export receivables — money it had already recorded as revenue in earlier years and was now, in effect, writing down. Management attributed the move to a credit crunch and new import duties imposed by the UAE government on jewellery; whatever the precise cause, the effect was that a meaningful chunk of previously reported “sales” turned out not to be fully collectible. By FY20, inventory days had stretched past 900 — roughly two and a half years' worth of stock sitting unsold.

The structural strain continued for years. In June 2021, SBI classified PC Jeweller's loan account as a non-performing asset. By February 2023, the company had defaulted on roughly ₹3,400–3,466 crore in borrowings owed to a consortium of 14 lending banks, and that July, SBI — owed around ₹1,060 crore, its largest single exposure — filed an insolvency plea against PC Jeweller at the National Company Law Tribunal.

4.5 — The Recovery, and the Unfinished Business

PC Jeweller did not collapse outright. Through 2024, the company negotiated one-time settlements with its lenders one bank at a time — Karur Vysya Bank, Punjab National Bank, Kotak Mahindra Bank, and others — combining cash payments with equity issued directly to the lending consortium, and raised roughly ₹2,705 crore through warrants subscribed to in part by its own promoters. SBI withdrew its NCLT petition as the settlement process progressed. By the December 2024 quarter, the company reported a consolidated profit of nearly ₹148 crore against a loss in the same quarter a year earlier, and management stated it had cut outstanding bank debt from peak levels to around ₹1,800 crore, with a public target of becoming debt-free by March 2026.

It is, on the surface, a genuine turnaround story — and a useful reminder that red flags don't always end in liquidation. But the most instructive detail for this report sits in PC Jeweller's most recent statutory audit. Even in its FY26 results, the auditor qualified the report specifically on the matter of export receivables — the same issue that first surfaced in FY19. The qualification noted that of the ₹513.65 crore in discounts extended to export customers in FY19, supporting evidence could not be obtained for ₹183.16 crore of that amount, and that the company carries a cumulative expected credit loss provision of ₹281.40 crore against export receivables outstanding for more than nine months — a provision whose adequacy the auditor stated it was unable to independently assess.

> *Seven years on, the precise issue the receivables check would have flagged in 2017 is still sitting, unresolved, in the company's audited accounts. That persistence is the central lesson of this case study: forensic red flags don't necessarily predict collapse, and they don't necessarily resolve once a company stabilises. What they reliably do is tell you, years in advance, exactly where to keep looking.*

4.6 — Timeline

Date	Event
2005	PC Jeweller opens its first store, in Karol Bagh, Delhi
2013–18	Share price climbs from ₹40 to an all-time high above ₹600
16 Jan 2018	Stock touches its all-time high of ~₹601
25 Jan 2018	Vakrangee Ltd discloses a 0.51% stake purchase; speculation begins
3 May 2018	Stock hits a 52-week low of ~₹95, down ~84% from the January peak
10 May 2018	Board announces a ₹424 crore buyback at ₹350/share
13 Jul 2018	Buyback withdrawn after an undisclosed SBI objection; stock falls 26%
Q4 FY19	₹377 crore loss booked on a 25% discount against ₹513 crore of export receivables
Jun 2021	SBI classifies PC Jeweller's loan account as a non-performing asset
Feb 2023	Company defaults on ~₹3,400 crore owed to a 14-bank consortium
Jul 2023	SBI files an insolvency plea against PC Jeweller at the NCLT
2024	One-time settlements reached with lenders; SBI withdraws its NCLT petition
FY26	Auditor still qualifies the report over the unresolved FY19 export receivables matter

Build Your Own Checklist

None of these six checks takes more than a few minutes once you know where to look. Run all six together on any company before investing — a single flag is rarely conclusive on its own, but two or three appearing at once, in the same direction, across multiple years, is a strong reason to dig deeper before committing capital.

Check	Red-Flag Threshold	Where to Find It
Cash flow vs. profit	Cumulative CFO persistently below cumulative PAT over 5 years	Cash flow statement + P&L (or a 5/10-year aggregator view)
Receivable days	Rising steadily for 3+ years, especially contradicting management's stated business model	Trade receivables note (balance sheet) + revenue
Inventory days	Inventory growing faster than sales for multiple consecutive years	Inventory note (balance sheet) + cost of goods sold
Related-party transactions	RPTs rising as a share of revenue, or unclear business rationale	“Related Party Disclosures” note in the annual report
Promoter pledge & stake	Pledge above ~20% of holding; declining stake into a rising price	Quarterly shareholding pattern on BSE/NSE
Auditor commentary	Any qualification persisting across multiple years; sudden resignation	Full auditor's report, not just the opinion paragraph

Tip: aggregator platforms such as screener.in compile most of these ratios into ready-made five- and ten-year tables, which makes the cash flow, receivables, and inventory checks especially quick to run before you ever open a full annual report.

Where Forensic Analysis Falls Short

It's worth being honest about the limits of this kind of analysis, because treating it as infallible is its own kind of mistake.

First, every one of these checks can have a legitimate explanation. Rising receivables might simply reflect a company entering a market where longer credit terms are standard. Inventory growth can be the natural consequence of store expansion or a deliberate decision to buy ahead of a price increase. Promoters sell shares for entirely mundane reasons — funding another venture, estate planning, personal tax obligations — that have nothing to do with the health of the company they're selling out of. Treating every red flag as proof of wrongdoing will lead you to avoid plenty of perfectly healthy companies.

Second, these checks are a screening tool, not a verdict. They tell you where to look harder, not what you'll find when you do. The right response to a red flag isn't to short the stock or write an exposé — it's to ask the company a specific, pointed question, ideally on a recorded earnings call, and see how directly it's answered. Evasive or rehearsed answers to plain financial questions are often more informative than the original numbers.

Third, forensic ratios work best in combination, not isolation. A single red flag among otherwise clean numbers is far less concerning than three or four reinforcing each other across multiple years. PC Jeweller's case is instructive specifically because nearly every check in this toolkit was flashing at once, for several years running, before the stock fell — that convergence is what made it a high-confidence signal rather than statistical noise.

Finally, no public-filings analysis can substitute for genuine primary diligence — talking to people who've worked with a company, checking with its suppliers or competitors, or, for professional analysts, conducting site visits. Numbers tell you what happened. They rarely tell you why, and “why” is usually where the real risk — or the real opportunity — is hiding.

Closing Thoughts

The skill this report describes isn't exotic. None of the six checks require a finance degree, a market terminal, or access nobody else has. They require patience — the willingness to read the parts of an annual report that aren't designed to be read quickly — and a working assumption that numbers are more honest than the narrative built around them.

That discipline matters more, not less, as India's capital markets keep expanding. With dozens of new companies going public every year and retail participation at record levels, the gap between a polished investor presentation and the underlying numbers is exactly where the next PC Jeweller — or the next genuinely strong business that simply looks risky on paper — is sitting right now. The only reliable way to tell the difference is to read the filing, not the summary.

At Altivus Consulting, this is close to the core of what we do: research-backed analysis that looks past the headline numbers a company wants you to see, toward the ones that tell you what's actually happening underneath. Whether it's a forensic read on a public company's filings or a financial model built for a client, the underlying discipline is the same — trust the primary numbers more than the narrative built around them.

If you found this useful, we'd genuinely like to hear from you — whether it's a company you'd like to see us put through this same framework, or a project where this kind of analysis might help.

Sources & Methodology

This report draws on PC Jeweller's audited annual reports and quarterly results filed with the BSE and NSE, ratings notes published by CARE Ratings and CRISIL Ratings on the company (2017–2018), a 2019 SEBI settlement order relating to non-disclosure around a withdrawn buyback offer, and contemporaneous reporting from Business Standard and other Indian financial publications, supplemented by independent ratio analysis sourced from screener.in's compiled financial data.

All figures are presented in good faith based on publicly available information as of June 2026. PC Jeweller's filings span a long and complex history, including subsequent restatements and one-time settlements; readers intending to cite specific figures in a professional or published context should verify them directly against the company's original exchange filings and annual reports before doing so.

Prepared by Altivus Consulting — research-backed insight for students, investors, and organisations who'd rather read the filing than the headline.