



SHARPE  
**PATEL**CPA

## **Atul USA, Inc.**

Financial Statements and Supplementary  
Information

For the Years Ended March 31, 2021 and 2020

**ATUL USA, INC.**  
**Table of Contents**

	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
 <b>Financial Statements:</b>	
Balance Sheets .....	3
Statements of Income .....	4
Statements of Shareholder's Equity .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7
 <b>Supplementary Information:</b>	
Selling, General, and Administrative Expenses .....	13



## Independent Auditors' Report

To the Board of Directors  
Atul USA, Inc.  
Charlotte, North Carolina

We have audited the accompanying financial statements of Atul USA, Inc. (a North Carolina corporation), which comprise the balance sheet as of March 31, 2021, and the related statements of income, shareholder's equity, and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with audit standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atul USA, Inc. as of March 31, 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Supplementary Information*

Our audit was conducted for the purposes of forming an opinion on the financial statements as a whole. The supplementary information on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Prior Period Financial Statements*

The financial statements of Atul USA, Inc. as of March 31, 2020 were audited by other auditors whose report dated April 9, 2020, expressed an unmodified opinion on those statements.

*Sharpe Patel PLLC*

Charlotte, North Carolina  
April 9, 2021

**ATUL USA, INC.**  
**Balance Sheets**  
**March 31, 2021 and 2020**

	2021	2020
<b>ASSETS</b>		
Current assets:		
Cash	\$ 278,218	\$ 245,442
Accounts receivable	6,628,212	7,245,601
Accounts receivable - related parties	184,465	122,517
Inventories	1,056,309	1,812,643
Prepaid expenses	17,806	728,257
Other current assets	1,211	-
Total current assets	8,166,221	\$ 10,154,460
Fixed assets:		
Property and equipment - at cost, less accumulated depreciation of \$162,938 and \$133,273	250,852	269,619
Other assets:		
Loan costs, less accumulated amortization of \$898 and \$574	598	922
Deposit	468	467
Other asset	-	182
Total other assets	1,066	1,571
Total assets	\$ 8,418,139	\$ 10,425,650
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 281,942	\$ 279,124
Accounts payable - related parties	3,608,932	6,208,034
Current maturities of long-term debt	13,865	13,061
Income taxes payable	4,440	19,964
Deferred tax liability	6,277	9,241
Total current liabilities	3,915,456	6,529,424
Long-term debt:		
Note payable, less current portion	104,782	118,646
Total liabilities	4,020,238	6,648,070
Shareholder's equity		
Common stock	2,000,000	2,000,000
Retained earnings	2,397,901	1,777,580
Total shareholder's equity	4,397,901	3,777,580
Total liabilities and shareholder's equity	\$ 8,418,139	\$ 10,425,650

The accompanying notes to the financial statements are an integral part of these statements.

**ATUL USA, INC.**  
**Statements of Income**  
**For the Years Ended March 31, 2021 and 2020**

	2021		2020	
	Amount	% To Net Sales	Amount	% To Net Sales
Net sales	\$ 34,934,389	100.00%	\$ 44,295,359	100.00%
Cost of goods sold	<u>33,743,548</u>	<u>96.59%</u>	<u>43,094,441</u>	<u>97.29%</u>
Gross profit	1,190,841	3.41%	1,200,918	2.71%
Operating expenses:				
Selling, general, and administrative	<u>420,152</u>	<u>1.20%</u>	<u>436,942</u>	<u>0.99%</u>
Operating income	<u>770,689</u>	<u>2.21%</u>	<u>763,976</u>	<u>1.72%</u>
Other income and (expenses):				
Other income	51,071	0.15%	170,022	0.38%
Financial expense, interest expense	(6,666)	-0.02%	(7,357)	-0.02%
Other expense	<u>(34)</u>	<u>0.00%</u>	<u>-</u>	<u>0.00%</u>
Total other income and (expenses)	<u>44,371</u>	<u>0.13%</u>	<u>162,665</u>	<u>0.37%</u>
Income before taxes	<u>815,060</u>	<u>2.33%</u>	<u>926,641</u>	<u>2.09%</u>
Provision for income taxes				
Current tax expense	197,703		226,117	
Deferred tax expense (benefit)	<u>(2,964)</u>		<u>(3,473)</u>	
	<u>194,739</u>		<u>222,644</u>	
Net income	<u>\$ 620,321</u>		<u>\$ 703,997</u>	

The accompanying notes to the financial statements are an integral part of these statements.

**ATUL USA, INC.**  
**Statements of Shareholder's Equity**  
**For the Years Ended March 31, 2021 and 2020**

	Common Stock	Retained Earnings	Total
Balance at April 1, 2019	<u>\$ 2,000,000</u>	<u>\$ 1,073,583</u>	<u>\$ 3,073,583</u>
Net income	<u>-</u>	<u>703,997</u>	<u>703,997</u>
Balance at March 31, 2020	2,000,000	1,777,580	3,777,580
Net income	<u>-</u>	<u>620,321</u>	<u>620,321</u>
Balance at March 31, 2021	<u><u>\$ 2,000,000</u></u>	<u><u>\$ 2,397,901</u></u>	<u><u>\$ 4,397,901</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

**ATUL USA, INC.**  
**Statements of Cash Flows**  
**For the Years Ended March 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Net income	\$ 620,321	\$ 703,997
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Amortization	323	547
Depreciation	30,471	39,132
Deferred income taxes	(2,964)	(3,473)
Changes in noncash operating assets and liabilities:		
(Increase) Decrease in accounts receivable	617,389	(2,386,985)
(Increase) Decrease in accounts receivable - related parties	(61,948)	532,158
(Increase) Decrease in income tax refund	-	47,107
(Increase) Decrease in inventories	756,334	(1,094,484)
(Increase) Decrease in prepaid expenses	710,451	(669,664)
(Increase) Decrease in other current assets	(1,211)	-
Increase (Decrease) in accounts payable	2,818	(346,267)
Increase (Decrease) in accounts payable - related parties	(2,599,102)	3,345,028
Increase (Decrease) in income taxes payable	(15,524)	19,964
Total adjustments	<u>(562,963)</u>	<u>(516,937)</u>
Net cash provided (used) by operating activities	<u>57,358</u>	<u>187,060</u>
Cash flows from capital activities:		
Acquisition of fixed assets	<u>(11,522)</u>	<u>(17,033)</u>
Net cash used in capital activities	<u>(11,522)</u>	<u>(17,033)</u>
Cash flows from financing activities:		
Payments on debt	<u>(13,060)</u>	<u>(12,367)</u>
Net cash used in financing activities	<u>(13,060)</u>	<u>(12,367)</u>
Net increase in cash	32,776	157,660
Cash at beginning of the year	<u>245,442</u>	<u>87,782</u>
Cash at end of the year	<u>\$ 278,218</u>	<u>\$ 245,442</u>
Supplementary disclosure of cash flow information:		
Cash paid for interest	<u>\$ 6,666</u>	<u>\$ 7,358</u>
Cash paid for income taxes	<u>\$ 195,748</u>	<u>\$ 94,039</u>

The accompanying notes to the financial statements are an integral part of these statements.



**ATUL USA, Inc.**  
**Notes to Financial Statements**  
**March 31, 2021 and 2020**

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business

Atul USA, Inc. (the Company), which is a wholly-owned U.S. subsidiary of Atul Ltd. (a corporation of the country of India), is engaged primarily in the distribution of chemical dyes used mainly in the textile industry. Sales are made primarily in the Southeastern United States of America.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue is recognized when the merchandise is shipped in accordance with the terms of shipment, which represents the point when the risks and rewards of ownership are transferred to the customer. Sales are shown net of estimated returns and discounts.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recognized at the sales price less any purchase discounts extended at the time of sale. Accounts receivable are past due or delinquent when payment is not received within the credit term extended to the customer, ranging from 30 days to 270 days. The Company does not charge customers late fees or interest on delinquent accounts receivable. The Company's domestic accounts receivable are insured through a provider at a rate of 100%, provided certain conditions are met.

The Company uses the allowance method to account for uncollectible trade receivable balances. Under the allowance method, if needed, an estimate of uncollectible balances is made upon specific account balances that are considered uncollectible. As of March 31, 2021 and 2020, the Company considered all accounts fully collectable and, therefore, did not provide an allowance for doubtful accounts.

Inventory

Inventories are stated at the lower of cost (average cost) or market.

**ATUL USA, Inc.**  
**Notes to Financial Statements**  
**March 31, 2021 and 2020**

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on a straight-line method over the estimated useful lives of the assets. Repairs and maintenance are charged to expense as incurred and major improvements are capitalized. Upon disposal, the accounts are relieved of the related costs and accumulated depreciation and the resulting gains and losses, if any, are reflected in operations. The estimated useful lives used for computing depreciation are as follows:

Building	40 years
Furniture and fixtures	7 years
Automobile	5 years
Software	3-5 years

Impairment of Long-lived Assets

The Company reviews the appropriateness of the carrying value of its long-lived assets whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidences, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company were to determine that it would be able to realize its deferred income tax assets in the future in excess of its net recorded amount, the Company would make an adjustment to the valuation allowance which would reduce the provision for income taxes.

Management has determined that the Company does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Company's tax returns will not be challenged by the taxing authorities and that the Company or its stockholders will not be subject to additional tax, penalties, and interest as a result of such challenge. The income tax returns are subject to examination by taxing authorities for a period of three years from the date they are filed.

**ATUL USA, Inc.**  
**Notes to Financial Statements**  
**March 31, 2021 and 2020**

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation.

New Accounting Pronouncements

In May 2014, the FASB issued updated guidance on accounting for revenue recognition (FASB 2014-09, deferred implementation with FASB 2015-14), which supersedes most existing revenue recognition guidance. The guidance requires an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to, in exchange for those goods or services. The guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments, changes in judgments and assets recognized from cost incurred to obtain or fulfill a contract. The new guidance became effective for annual periods beginning after December 15, 2018 and could be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. The Company implemented this guidance on its financial statements for the year ending March 31, 2020.

**NOTE 2 – PROVISION FOR INCOME TAXES**

The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before income taxes. The primary differences result from providing for state income taxes and from deducting certain expenses for financial statement purposes but not for federal income tax purposes.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. No valuation allowance was established as of March 31, 2021 and 2020, as full realization of the future deductions is anticipated.

The components of the provision for income taxes expense (benefit) for the years ended March 31, 2021 and 2020 are as follows:

	2021	2020
Current tax	\$ (197,703)	\$ (226,117)
Deferred tax	2,964	3,473
	<u>\$ (194,739)</u>	<u>\$ (222,644)</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities consist of the following:

	2021	2020
Depreciation	<u>\$ (9,294)</u>	<u>\$ (9,241)</u>

**ATUL USA, Inc.**  
**Notes to Financial Statements**  
**March 31, 2021 and 2020**

**NOTE 3 – COMMITMENTS**

Contracted Services

The Company has an agreement for warehouse and distribution services from a bonded warehouse for storage, receiving and shipment for the Company's inventory. These services are provided on a month to month basis and can be terminated at any time by providing thirty days' notice.

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment are summarized as follow:

	March 31, 2021		
	Cost	Accumulated Depreciation	Book Value
Machinery and equipment	\$ 124,635	\$ 100,404	\$ 24,231
Furniture and fixtures	5,269	4,154	1,115
Building	283,886	58,380	225,506
	\$ 413,790	\$ 162,938	\$ 250,852
	March 31, 2020		
	Cost	Accumulated Depreciation	Book Value
Machinery and equipment	\$ 113,737	\$ 78,342	\$ 35,395
Furniture and fixtures	5,269	3,649	1,620
Building	283,886	51,282	232,604
	\$ 402,892	\$ 133,273	\$ 269,619

Depreciation amounted to \$30,471 and \$39,132 for the years ended March 31, 2021 and 2020, respectively.

**ATUL USA, Inc.**  
**Notes to Financial Statements**  
**March 31, 2021 and 2020**

**NOTE 5 – LONG-TERM DEBT**

Effective April 19, 2018, the Company refinanced the note payable, a term loan, payable in monthly installments of \$1,644, commencing on June 3, 2018. Interest accrues on the outstanding principal balance at a fixed rate of 5.25%. The note matures on May 3, 2023 at which time all unpaid principal and accrued interest is due.

	2021	2020
Note Payable - Wells Fargo Bank, N.A., payable in monthly installments of \$1,644 plus interest through April 3, 2023, final balloon payment due May 3, 2023 Interest at 5.25%, secured by a deed of trust on the building.	\$ 118,647	\$ 131,707
Less: Current portion	13,865	13,061
Long-term portion	\$ 104,782	\$ 118,646

Maturities of long-term debt obligations are as follows:

<u>Year Ended March 31,</u>		
2022	\$	13,685
2023		14,611
2024		90,171
	\$	118,467

**NOTE 6 – RELATED PARTIES**

The Company purchases a significant portion of its inventory from its Parent Company (Atul Ltd.) and from its affiliates Atul China Ltd. and Atul Europe, Ltd. Purchases from its Parent and affiliates for the years ended March 31, 2021 and 2020 was as follows:

	2021	2020
Atul Ltd.	\$ 27,314,575	\$ 36,568,156

The Company sells inventory to its Parent company, for items purchased from vendors in the United States. Sales to the Parent and affiliates for the years ended March 31, 2021 and 2020 was as follows:

	2021	2020
Atul Ltd.	\$ 20,950	\$ 3,025
Atul Europe Ltd.	34,475	35,030
Atul Ltd. BI	1,089,753	-
Total	\$ 1,145,178	\$ 38,055

**ATUL USA, Inc.**  
**Notes to Financial Statements**  
**March 31, 2021 and 2020**

**NOTE 6 – RELATED PARTIES (Continued)**

Accounts receivable from related parties consists of the following:

	2021	2020
Atul Ltd.	\$ 183,665	\$ 121,717
Atul China Ltd.	800	800
Total	\$ 184,465	\$ 122,517

Accounts payable to related parties consist of the following:

	2021	2020
Atul Ltd.	\$ 3,608,932	\$ 6,208,034

**NOTE 7 – CREDIT AND CONCENTRATION RISKS**

Cash Balances

The Company’s policy is to maintain its cash balances in reputable financial institutions insured by the Federal Deposit Insurance Corporation (FDIC), which provides \$250,000 of insurance coverage per depositor, per insured bank, for each account ownership category. At March 31, 2021 and 2020, the Company had uninsured deposits of \$46,658 and \$0, respectively. The Company has not experienced any losses in and believes it is not exposed to significant credit risk to cash.

Revenue

During the year ended March 31, 2021, sales to two customers (each over 10% of total sales) amounted to approximately \$13,387,877 (38%). Sales to four customers (each over 10% of total sales) for the year ended March 31, 2020 amounted to approximately \$23,921,000 (53%). The loss of any of these customers could have a significant impact on the Company’s financial position.

**NOTE 8 – DATE OF MANAGEMENT REVIEW**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 9, 2021, the date the financial statements were available to be issued and believed the following is subject to disclosure:

As of the date of issuance of the Company’s review, there is a pandemic situation regarding the COVID-19 virus. The Company is monitoring the effect of this pandemic on its financial operations. At this time, management has evaluated the situation and has concluded no additional disclosures are warranted.

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**SUPPLEMENTARY INFORMATION**

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**ATUL USA, INC.**  
**Selling, General, and Administrative Expenses**  
**For the Years Ended March 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Salaries and wages	\$ 194,634	\$ 176,125
Payroll taxes and employee benefits	74,472	85,675
Travel and entertainment	-	18,957
Professional fees	25,887	17,202
Auditor's fees	30,928	30,425
Repairs and maintenance	-	506
Office supplies and postage	7,646	7,915
Insurance	16,033	13,270
Telephone	6,268	6,305
Amortization	323	547
Depreciation	30,471	39,132
Auto	556	3,734
Licenses and fees	5,797	7,061
Dues and subscriptions	1,285	1,250
Condo association fees	3,099	3,099
Utilities	2,597	2,349
Bank charges	11,118	11,764
Software costs	9,038	11,575
Miscellaneous	-	45
	<u>\$ 420,152</u>	<u>\$ 436,936</u>