Managerial Accounting
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Lecture - 38
Financial Statements Analysis Advanced

Dear students, in our earlier sessions, we have discussed about Financial Analysis of a Company. So, we have taken a few balance sheets P and L accounts and tried to use various techniques to do the analysis of financial statements. Let us do some revision today. Do you remember, what are the major techniques to analyze financial statements of a company? I think some of you would be remembering ratio analysis, because that is one of the most important techniques.

There are few techniques little simpler than that, do you remember them? One of them is vertical analysis, horizontal analysis. We can also have trained analysis. So, there are a few techniques, which are used to go in depth, about a financial statement. So, financial statement just gives a raw data. I hope now, you know looking at a financial statement. Trying to understand the health of the company, the profitability of the company or what is a liquidity?

But, if we go more into depth, try to calculate a few ratios or try to do comparison, then we get more information. Now, let us try to do a few cases. So, that the concepts are strengthen more clearly in your mind. As you know, the DLF is quite in news these days. There are many allegations, about the way DLS has provided loans to some of the political, big ways and so on. So, I felt, it will be interesting to know and analyze the company’s balance sheets. You know that DLF is one of the companies into builders and developers business. They are infrastructure creators. So, let us look at their financial statement.

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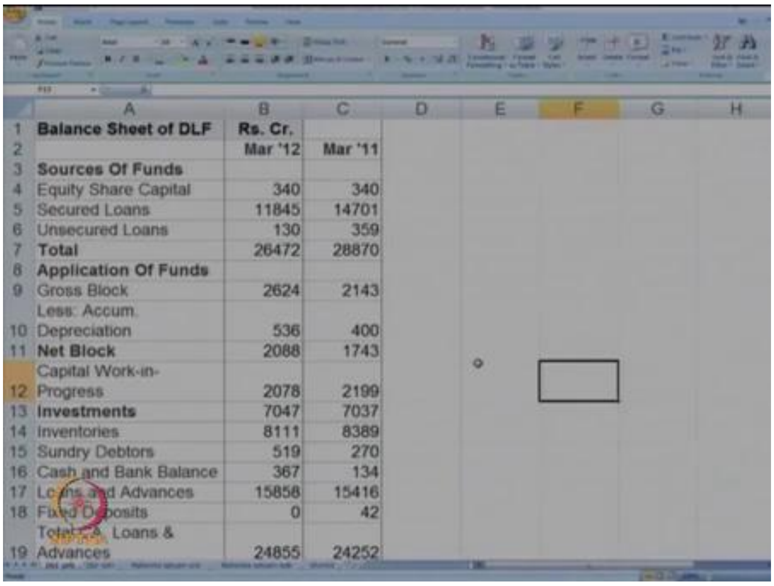

	A	B	C
1	**Balance Sheet of DLF**	**Rs. Cr.**	
2		**Mar '12**	**Mar '11**
3	**Sources Of Funds**		
4	Equity Share Capital	340	340
5	Secured Loans	11845	14701
6	Unsecured Loans	130	359
7	**Total**	26472	28870
8	**Application Of Funds**		
9	Gross Block	2624	2143
10	Less: Accum. Depreciation	536	400
11	**Net Block**	2088	1743
12	Capital Work-in-Progress	2078	2199
13	**Investments**	7047	7037
14	Inventories	8111	8389
15	Sundry Debtors	519	270
16	Cash and Bank Balance	367	134
17	Loans and Advances	15858	15416
18	Fixed Deposits	0	42
19	Total CA, Loans & Advances	24855	24252

Now, here is a balance sheet of DLF for March 11 and March 12, please have a keen look at the balance sheet. And then we will try to use one by one various methods of analysis. So, what do you see from the balance sheet? One by one, if you observe the items, you will realize that, for example, secured loans have come down. The total of the balance sheet has also come down, which is rather unusual.

Generally, the business expands, here you can see, there is a slight contraction. You can see that, equity share capital is relatively very less and company is substantially dependent on loans. You will have observed that, total does not match here, if you are a keen observer. So, some item is missing, that also, you will have to find out. Then, applications of funds, various assets and liabilities are given.

You will see that, net block is a very small amount, because they are into building construction. A bigger amount is that of net assets, net current assets. The total of current assets has around 24,000 crores. Below, the balance sheet, some information about P and L is also available. So, let us try to analyze the company. So, what are the various ways of analyzing; please solve along with me.

You can get the printout of this sheet; I request you take the printout. So, that, you will actually enjoy solving the problem. So, what are the various ways, can you remember? how and in what form, we can analyze the company? The simplest way is, just making comparisons. So, you look at March 11 and March 12 figures and compare. That is one of the easiest ways. In comparison or with the past year, what technique it is called, do you remember, what type of analysis; that it is known as? Some of you must be, rightly telling, it is horizontal analysis.

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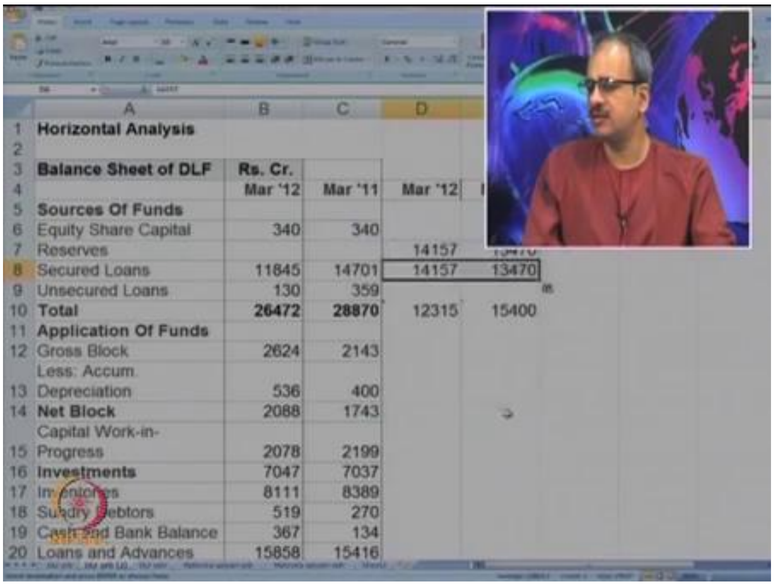

So, let us start with horizontal analysis. In horizontal analysis, we make statements, which is known as comparative statement. So, we will try to make comparative balance sheet and whatever the data available, we will try to compare. Before that, as I was mentioning to you, you will observe that, these totals, may not be this total. So, let us first calculate the total and check out, whether the total matches actually. So, you will see that, the total is only 12315. Whereas, given total of funds is 26472.

So, something is missing, what could be that missing item? Can you guess, I will also do it for March 11, again, you will realize that, there is a gap? So, what could be that missing item? I think most of you would have guessed reserves are not available. So, it will be appropriate for us to calculate the reserves. So, we assume that, only missing item is reserves and try to calculate the reserves. So, reserve will be 26 minus 12. So, there will be a problem of circular formula. So, let us first do it outside. So, you get 14 and this just for as a working note. So, reserve figure is 14 and 14152 and 13470. Let us try to put these figures here. It would not readily accept. So, I will first paste it outside as values.

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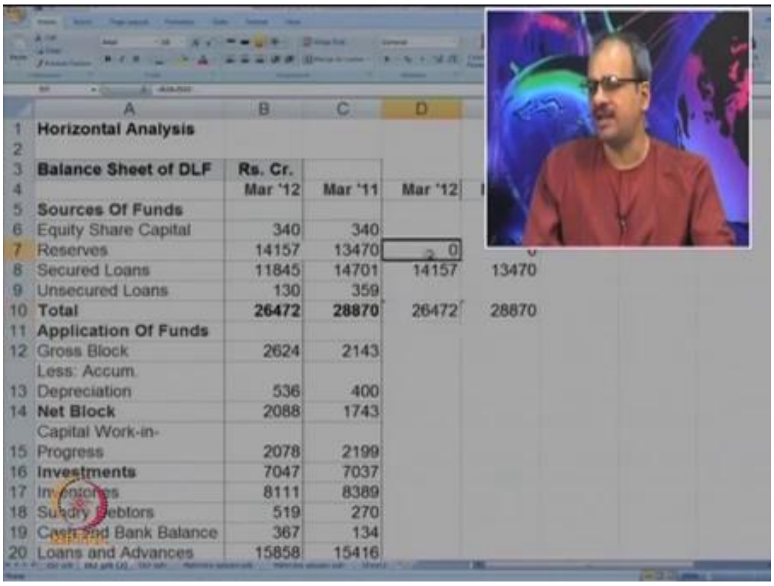

And then those values will be put in here. So, you can see now, the difference has become 0 and we have started and the totals are now matching. So, this is the first working for us, calculation of reserves. I will put it as a working note, just to keep in your mind that, we have to first calculate the reserves.

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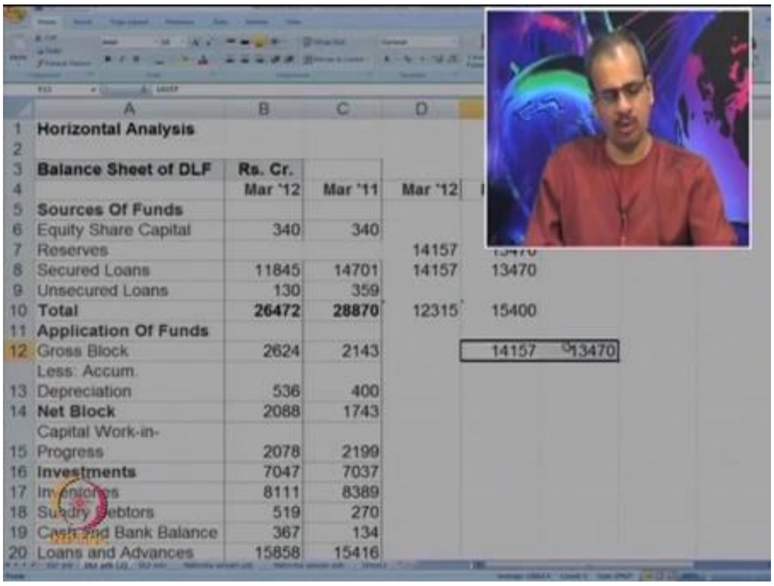

So, if you remove this reserve figure and put it outside, the total was like this. Total prior to calculation of reserve. And based on the difference, we have calculated the amount of reserve. So, this was the first thing, we have tried to do.

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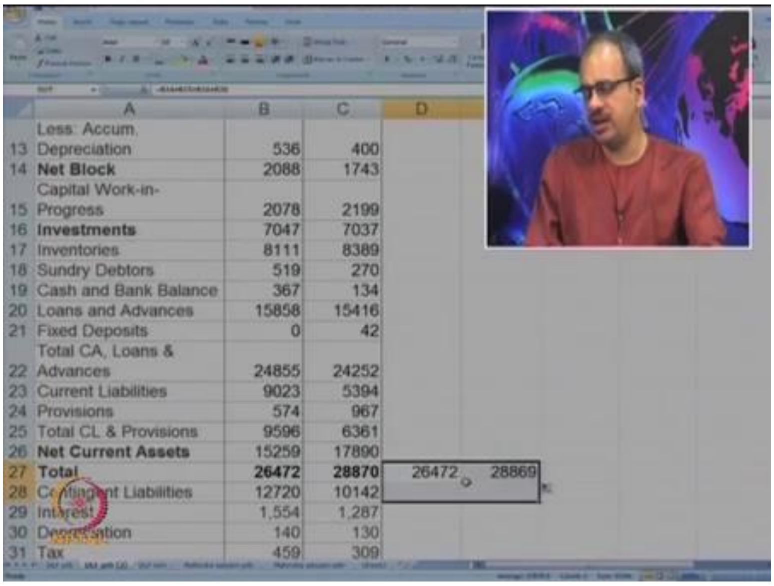

Now, on asset side also or the application side also, let us try to check, whether the total is correct. So amongst the available items, we add net block plus capital WIP plus investment plus net current assets. You can see for both the years, the figure is matching. So, there is no difference.

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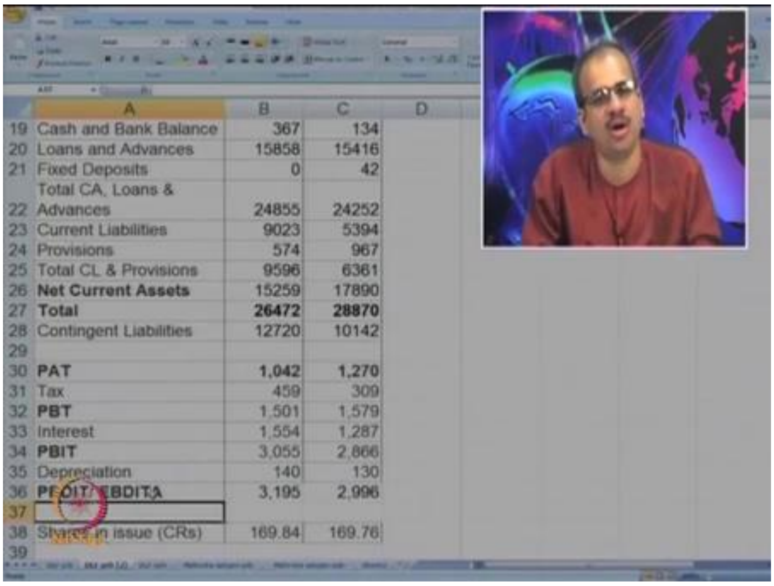

And a few P and L items are given. So, we will try to separate those items up to contingent liability, we have balance sheet items. In P and L items, the pack is available and tax depreciation and interest are given. So with that we will try to work back some of the items. So, which profits we can calculate from given data. So, PAT is available. From PAT, if we add back the tax, what profit will you get? We will get, what is known as PBT. So, we were given profit after tax, we have calculated profit before tax.

Then, we can also add back interest to get, what is known as, popularly known as PBIT? And we can also calculate PBDIT, if we add back depreciation. So, a few more levels of profit, we have calculated. What does the PAT convey to you? Profit after tax is a final profit, which is available to the owners. Profit before tax is obviously, the profit available to the owners, but before tax.

PBIT is useful from the lenders prospective. Because, it tells you, how much profit was generated from running of the business minus the, I mean without considering the tax aspects, without considering the interest aspects. And PBDIT tells us about cash availability. So, it is the cash operating profit. You would have heard, some of you would have heard the term EBDITA, EBDITA and PBIT is same. I will also mention it. Because, nowadays, this term EBDITA has become quite common. This is an American terminology. It full form is earning before depreciation, interest, tax and amortization, which is same as PBDIT.

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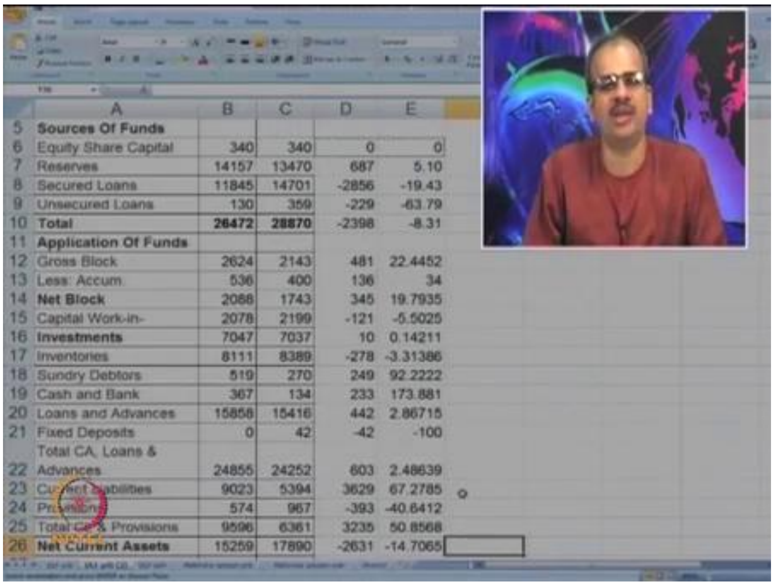

	A	B	C	D	E
5	**Sources Of Funds**				
6	Equity Share Capital	340	340	0	0
7	Reserves	14157	13470	687	5.10
8	Secured Loans	11845	14701	-2856	-19.43
9	Unsecured Loans	130	359	-229	-63.79
10	**Total**	**26472**	**28870**	-2398	-8.31
11	**Application Of Funds**				
12	Gross Block	2624	2143	481	22.4452
13	Less: Accum	536	400	136	34
14	**Net Block**	2088	1743	345	19.7935
15	Capital Work-in-	2078	2199	-121	-5.5025
16	**Investments**	7047	7037	10	0.14211
17	Inventories	8111	8389	-278	-3.31386
18	Sundry Debtors	519	270	249	92.2222
19	Cash and Bank	367	134	233	173.881
20	Loans and Advances	15858	15416	442	2.86715
21	Fixed Deposits	0	42	-42	-100
22	Total CA, Loans & Advances	24855	24252	603	2.48639
23	Cu[illegible]abilities	9023	5394	3629	67.2785
24	Pr[illegible]	574	967	-393	-40.6412
25	Total [illegible] & Provisions	9596	6361	3235	50.8568
26	**Net Current Assets**	15259	17890	-2631	-14.7065

Now, we were doing horizontal analysis. So, in horizontal analysis, I hope you remember. First we just find the difference. And then we will try to find the difference in percentage terms. So, how does it look like in percentage terms, that we will like to find out? Let me slightly minimize the columns. So, that, you can clearly see the difference. So, we will find the difference and the percentage difference.

So in percentage difference, we try to link the difference and divide it by the base year. That is March 11. So in equity capital, you can see there is no difference. So answer is 0. Percentage difference would be difference upon the base year into 100. So again, we get 0 there. This we try to drag. So, you will realize that, reserves have increased by 687, which is an increased of about 5 percent. I will reduce the decimals up to 2, so that, figures are more clear and more readable, visible to all.

So, you can see that, 5 percent increase in the reserves. Loans went down by 2856, secured loans particularly. That is a 19 percent reduction in the loans. And total balance sheet size; that is the totals of sources have also reduced by 2300 crores, which is about 8 percent reduction.

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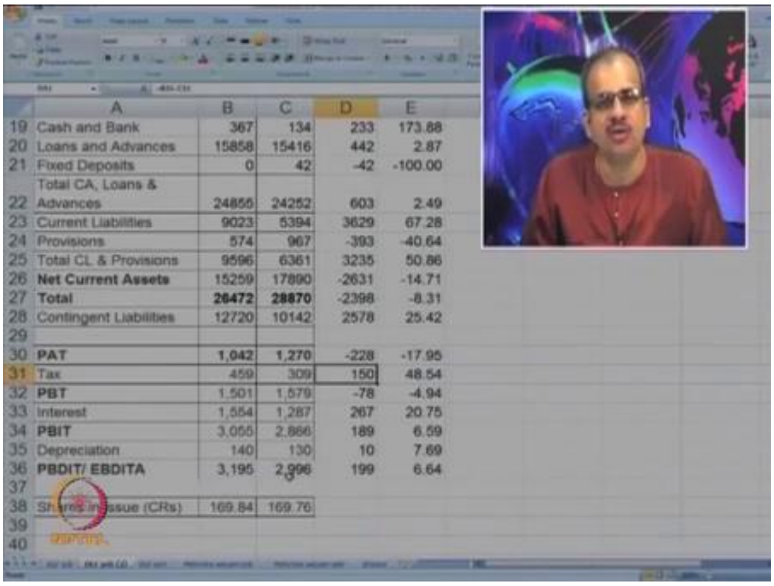

	A	B	C	D	E
19	Cash and Bank	367	134	233	173.88
20	Loans and Advances	15858	15416	442	2.87
21	Fixed Deposits	0	42	-42	-100.00
22	Total CA, Loans & Advances	24856	24252	603	2.49
23	Current Liabilities	9023	5394	3629	67.28
24	Provisions	574	967	-393	-40.64
25	Total CL & Provisions	9596	6361	3235	50.86
26	**Net Current Assets**	15259	17890	-2631	-14.71
27	**Total**	**26472**	**28870**	-2398	-8.31
28	Contingent Liabilities	12720	10142	2578	25.42
29					
30	**PAT**	1,042	1,270	-228	-17.95
31	Tax	459	309	150	48.54
32	**PBT**	1,501	1,579	-78	-4.94
33	Interest	1,554	1,287	267	20.75
34	**PBIT**	3,055	2,866	189	6.59
35	Depreciation	140	130	10	7.69
36	**PBDIT/ EBDITA**	3,195	2,996	199	6.64
37					
38	Shares in issue (CRs)	169.84	169.76		
39					
40					

Now same thing, we will apply for various items on applications. So, I do not think much of the discussion is required. It is very apparent to you. We can also extend it to various P and L items, please observe the items carefully, so that you can yourself analyze. You will realize that the gross block has increased by 22 percent. Capital work in progress has slightly gone down.

Sundry debtors have increased substantially by 92 percent. And cash and bank balances have also increased. Fixed deposit of 42, which were there earlier have now been taken out fully. And perhaps, they are added to cash and bank. Current liabilities have also increased substantially. It is an increase of 3600 crores, it is a huge rise. So, we will observe that, the total of current assets; have not increased much, but current liabilities have increased.

So, the net current assets, there is a fall of 2631. It is about 14 percent fall. Contingent liabilities have also increased by 25 percent. If you look at profits, you will realize that, net profit has gone down by 14 percent. PBT has also gone down by 4 percent. There was a major increase in the tax burden. But, PBDIT has slightly shown improvement. So, at operations level, there was no fall in profit. The fall in profit is mainly because of increase in the interest burden and increase in the tax.

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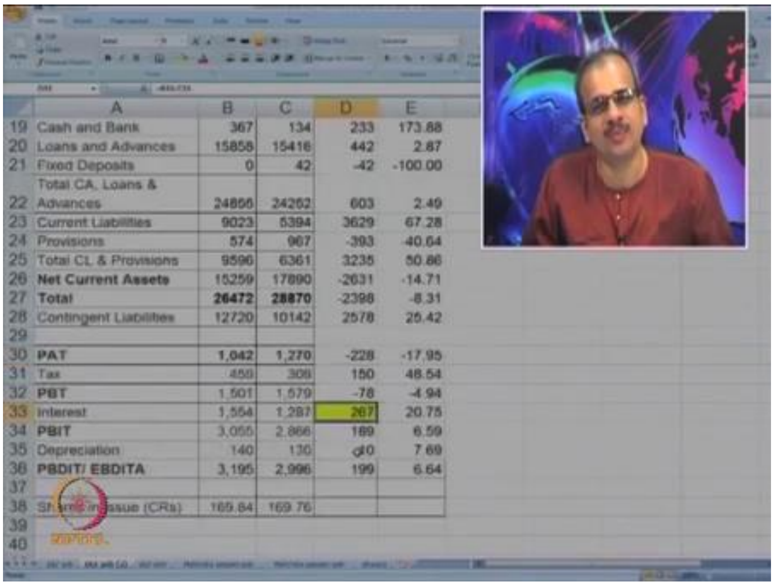

You will be surprised, that if the loan amount is falling, why is the interest rising? Perhaps, the loan has reduced towards the end of the year only. So, the interest burden has not gone down. We do not know the reasons. But, you can observe that, there is something abnormal here is increase in the interest by 20 percent, whereas, the loans are falling by. Secured loans, you can see have fallen by 20 percent. Unsecured loans are fallen by 63 percent. So, this needs to be looked into.

Right now, we cannot tell the reason, as to why it has happened, but we can say that, this needs to be analyzed further. That is why; I have made it in a different color. So, it is clear to you, whatever we have done now is a very simple analysis. That is known as horizontal analysis.

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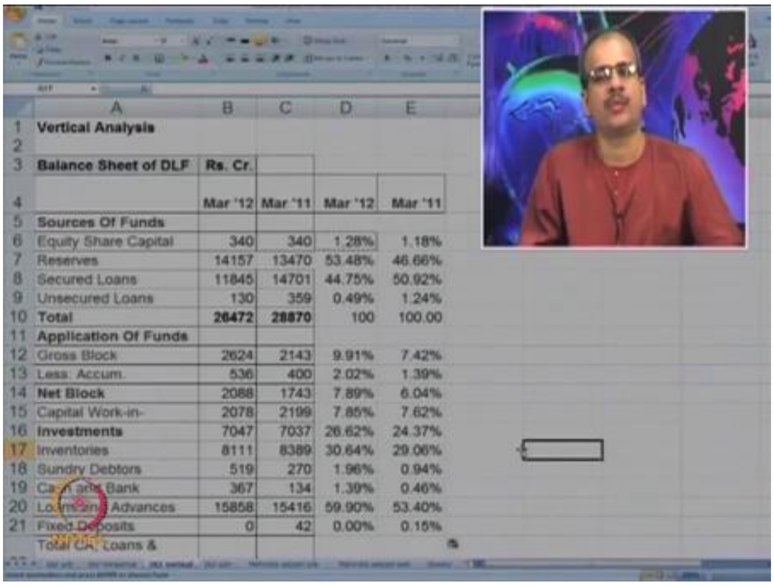

Now, let us try to go ahead and try to do vertical analysis. I am just renaming it, if you are doing it on computer, please rename at your end or you can mention specifically, if you are doing it by pen and paper. Now let us do it, what is known as vertical analysis. So, how is vertical analysis done? Are you able to remember? Yes, I think some of you are remembering it right.

So, we take the total as the base here and every figure is attempted to be calculated as a percentage of that base. So, here, instead of difference, percentage difference, we will just take the same years. And the total will be considered as 100. And what we do is, each figure. So if we have share capital, we divide it by the total. And multiply it by 100. So, that, we know that in percentage terms, how much it is. I will make this b dollar 10.

And we can change format the sales and make it percentage. So, you get 1.28 percent. Now, it is copied all across. So, it is clear to you. So, you can observe that, share capital is anyways very negligible. The major funding comes from reserves and it has increased from 46 percent to 63 percent. Secured loans have gone down from 50 percent to 44 percent and so on.

Let us try to do it; on assets as well, on assets, also you can see some of the changes. You will observe that, investment was one of the major applications. And it has remained more or less same and it has slightly gone up to 26 percent. Inventory is pretty high from 29 percent; it has gone up to 30 percent. What will be there inventory? There are into activity of builders. So, their land bank is there major inventory. So, you will observe that, there is a slight increase there.

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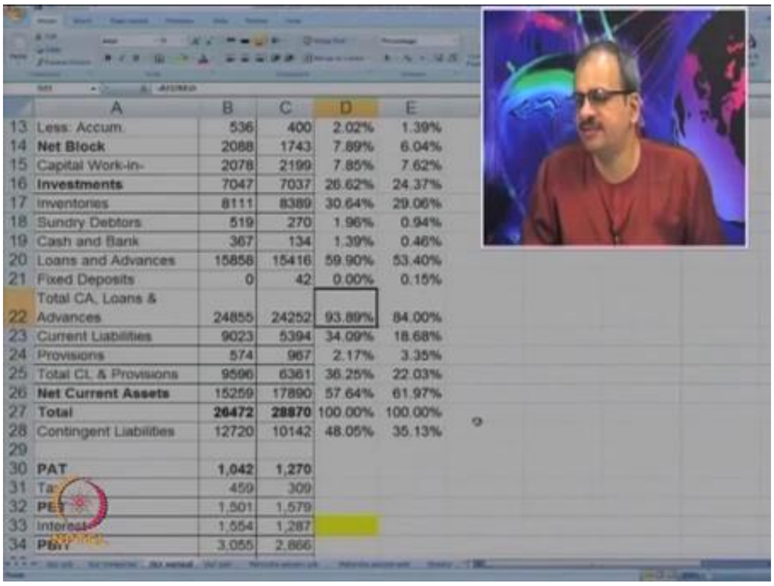

So, any other major deviations, you can see total current liabilities, which were 22 percent, have increased to 36 percent. Particularly, the current liabilities, has increased from 18 to 34 percent.

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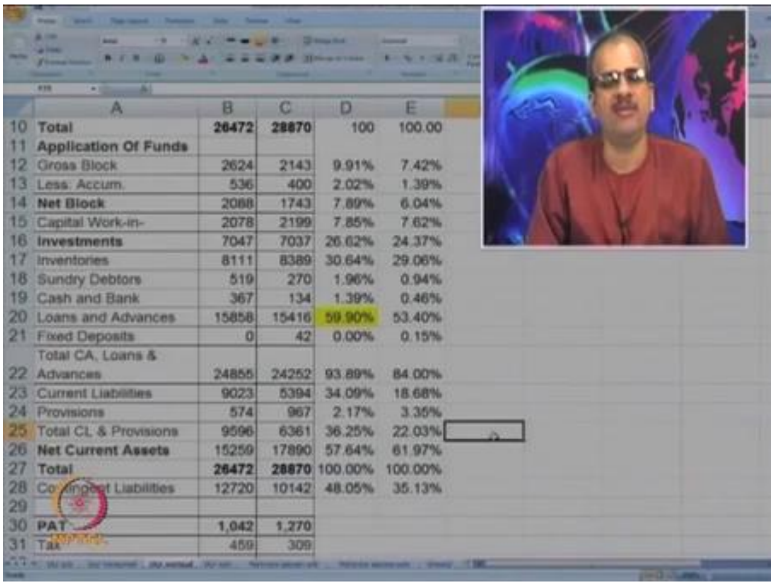

	A	B	C	D	E
10	**Total**	**26472**	**28870**	100	100.00
11	**Application Of Funds**				
12	Gross Block	2624	2143	9.91%	7.42%
13	Less: Accum.	536	400	2.02%	1.39%
14	**Net Block**	2088	1743	7.89%	6.04%
15	Capital Work-in-	2078	2199	7.85%	7.62%
16	**Investments**	7047	7037	26.62%	24.37%
17	Inventories	8111	8389	30.64%	29.06%
18	Sundry Debtors	519	270	1.96%	0.94%
19	Cash and Bank	367	134	1.39%	0.46%
20	Loans and Advances	15858	15416	59.90%	53.40%
21	Fixed Deposits	0	42	0.00%	0.15%
22	Total CA, Loans & Advances	24855	24252	93.89%	84.00%
23	Current Liabilities	9023	5394	34.09%	18.68%
24	Provisions	574	967	2.17%	3.35%
25	Total CL & Provisions	9596	6361	36.25%	22.03%
26	**Net Current Assets**	15259	17890	57.64%	61.97%
27	**Total**	**26472**	**28870**	100.00%	100.00%
28	Contingent Liabilities	12720	10142	48.05%	35.13%
29					
30	**PAT**	1,042	1,270		
31	Tax	459	309		

Even, the current assets, particularly, the loans and advances, you can see, there is an increase. In fact, that is where the allegations about DLF advancing loans to certain political big wigs. So you can see here, there is an increase in the loans and advances. Though, in absolute terms, that increase is not much, in percent terms, you can see the increase.

So, here is a vertical analysis, we cannot do it for P and L items, because we are not provided with the total sales. So, is it clear to you? Now, which is the 3rd analysis and the most important analysis. You are right, that is ratio analysis.

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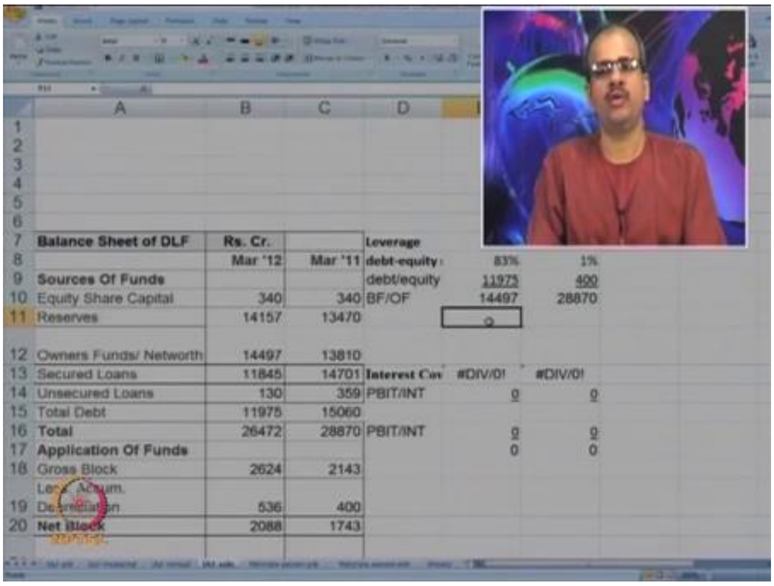

Let us try to do the ratio analysis as well. So, the reserves figure, which we have found out, I am just putting into that sheet. Now, before going for the analysis, what are the important types of ratios? On the balance sheet, particularly from the sources of fund side, we can calculate the leverage. So, we can calculate debt equity ratio, which is one of the most important ratios to calculate the leverage.

We can also see, how much is the interest burden; which is known as interest coverage ratio. So, we will start with those ratios. Now, in debt equity ratio, what is a formula? The first and one of the most important ratios is debt equity ratio. So, what is the formula for debt equity ratio? Debt upon equity as the name suggest or the total of borrowed funds upon total of owners funds.

So, here, we will have to first calculate, what is the total of owners fund? So, I will just try to calculate it, please do it along with me. So, that, equity capital plus reserves is nothing but the owners fund. What is the other name for owner’s fund? It is also known as net worth. So, net worth of the company is 14,497 earlier it was 13,810. We also calculate total debt which is 11,975 now, it had gone down.

So, now, the debt equity ratio is a relationship between debt and equity. So, the formula is debt upon equity. So, we have the debt, which is equal to, you can see, 11975 or it is equal to B 15; divided by equity, which is B 12. So, you will observe that, debt equity ratio is 11,975 upon 14,478. So, it is 87 percent.

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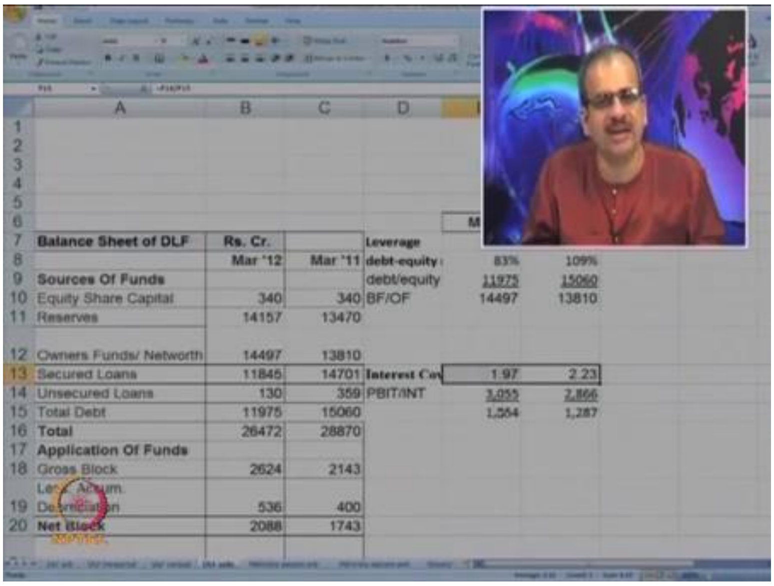

Generally, there is a high reliance on the debt. Same thing is extended to the next year. So, there is 109 percent of debt equity ratio. The next important ratio in leverage is, interest coverage ratio, as the name suggests. Here, we will try to find, how best is the interest covered. So, interest is paid from PBIT. So, PBIT upon interest, you can see the formula here. Now, we have calculated PBIT. So, let us first try to copy, whatever we have calculated.

So, interest coverage ratio is PBIT divided by interest. So, you can see, earlier it was 2.23. Now it is 1.97. But, still, it is reasonably well covered, because out of PBIT of 3055. There is a burden of 2000. So, now, the interest coverage has gone down from 2.23 to 1.97. It is not a very good sign. You can see from the lenders prospective, it is risky, very high. Part of PBIT is committed for the interest.

Suppose, there is default at any point of time, PBIT goes down; company will find it difficult to pay the interest. So, debt equity ratio has gone down from 109 to 83, which is a good sign, more stability for the company. But, interest coverage does not so good sign. We had already seen that, why interest has increased, there is a question mark. And because the interest has increase substantially, the interest coverage ratio is negatively affected.

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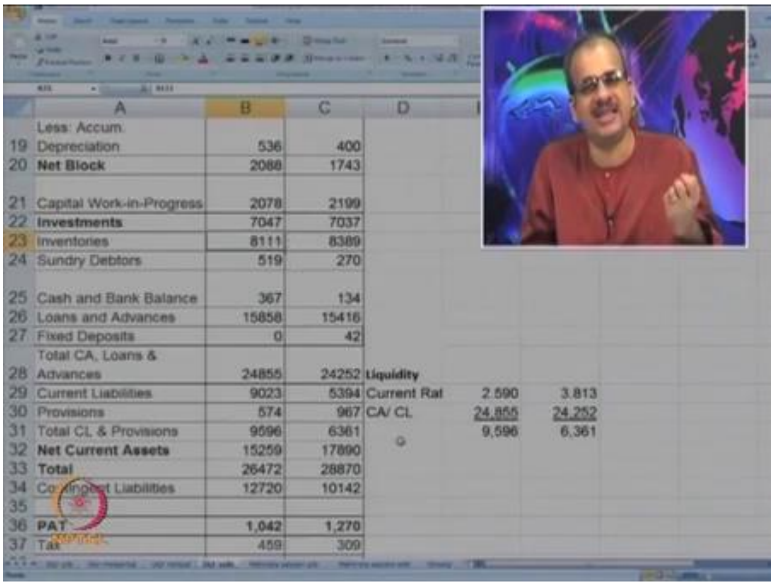

Now, let us try to look at the liquidity. For liquidity, I think the important ratio is current ratio. It is current assets, upon current liabilities. So, current assets is 24,855 divided by total current liabilities. So, you can see, there is a major fall. Earlier, it was 3.84. Now, it has gone down to 2.59. So, what will you say about their liquidity is it a good position? There is a lot of cause of concern.

One is, because there is a fall from 3.83 to 2.59, but there is one more reason, you can observe that, good part of their equity consists of inventory. So, good part of their current assets consists of inventory. Since, inventory for this company DLF is land. It is highly illiquid. So, always, there will be a question, whether this inventory can realistically be considered as a current asset. For other companies, the inventory is fast moving. But, for a developer company, like DLF, it is inventory is very slow moving. Inventory is not a very high quality current asset. So, we will go a little next step.

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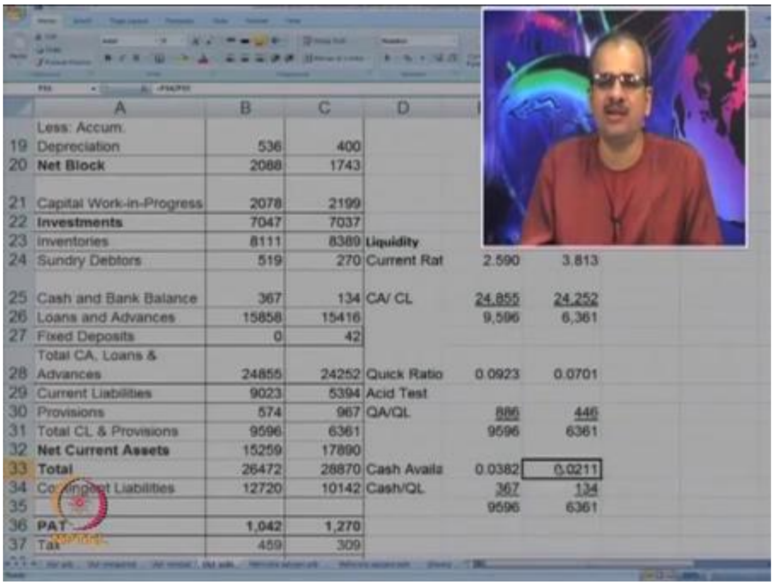

And apart from current assets, let us also try to calculate quick asset, quick ratio. What is the other name for quick ratio? It is also known as acid test. What is the formula for acid test? Q A upon Q L. Q A means quick assets upon quick liabilities. Now, have a look at their current assets, we have got inventory, sundry debtors, cash, loans, deposits. So, which of them, you can consider as quick.

Usually, you can consider sundry debtors, cash and fixed deposits as quick acid. I am saying, usually because, we do not know the composition of debtors. But, if we assume that, we can receive them in reasonably short time, say about, 1 to 3 months, we can consider debtor as the quick asset. Cash is always considered as a quick asset and fixed deposits can also be considered as quick asset.

So, it is Q A upon Q L. So, Q A is nothing but debtors plus cash plus FD. What is Q L? You can see that, Q L consists of quick liabilities. We have two figures here, current liabilities and provisions. I think, both are considered as quick liabilities. If we have some liability, which is not payable immediately, that can be removed. But, currently, we do not have any such liability. So, both should be considered.

So, the quick ratio is, you can see this, this is a very big cause of concern. Quick ratio is as low as 0.09. They have quick assets of only 886 versus quick liabilities of 9596. So, they are going to have big difficulty in able to pay these current liabilities. And those quick current liabilities, themselves have increased substantially. So, we will look at the earlier year, the earlier year also the position was bad. It was only 0.07.

Now, it has gone down to 0. It has slightly increased to 0.09. But, quick liabilities have increased substantially. There is also a slight rise in quick assets. Mainly, you can see that, the cash balance has increased. But, overall their immediate liquidity position as it is called is not very sound. We may also try to find the ratio of cash availability.

Now, since, there are some concerns about their liquidity position. Let us also try to see, how much cash, they have available for paying their quick liabilities. So, it is cash divided by Q L. That the cash balance is 367 divided by Q L. So, the cash ratio is very low. It was only 2 percent. Now, it has slightly increased to 3.8 percent. But, overall the cash availability has remained low.

So, we have now studied two aspects, liquidity and first we studied leverage. Leverage is also known as long term stability of the company. In that, we have looked at debt equity ratio and interest coverage ratio. Now, we have tried to find liquidity by calculating three ratios.

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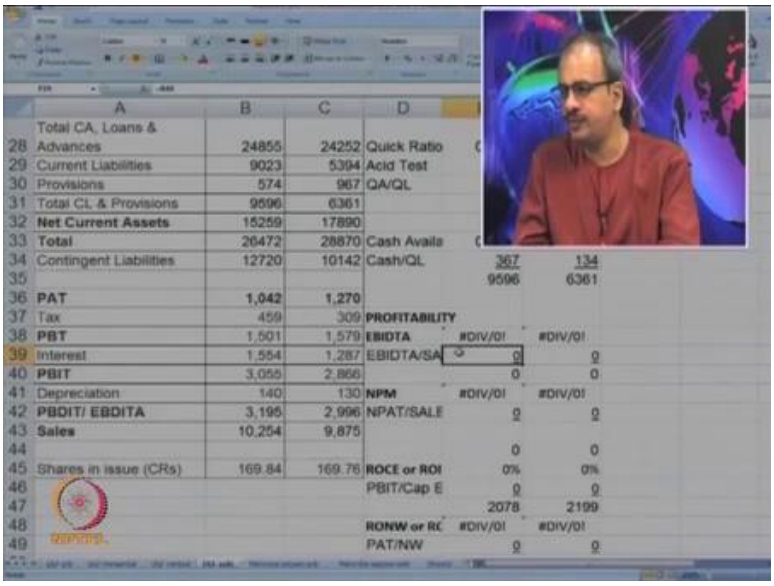

Now, the next important aspect is of course, profitability. In profitability, we have to link various items to sales. Now, let us look at the sales figure and take it here, which is right now not given. So, now EBDITA is earnings, before interest and tax, divided by sales.

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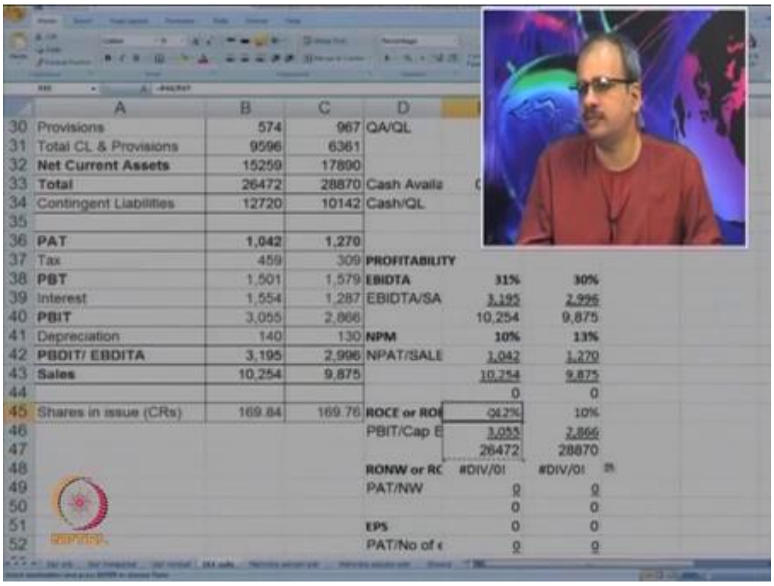

We have calculated these figures of EBDITA, etcetera. The formulas are already ready. So, you can immediately get the answer. You can see that, EBDITA margin is more or less stable. There is a slight increase in the sales. So, EBDITA has increased from 30 to 31 percent. We can find NPM, Net Profit Margin, which is PAT divided by sales. PAT is 1045; sales figure as given.

So, it has fallen slightly from 13 percent to 10 percent, why the sale has NPM has fallen. You can observe the P and L figures. You will realize that, there is a increase in taxation and increase in the interest. That has mainly cost increase in the fall in the NPM. So, you can see that, the net profit has fallen from 13 to 10. But, there is no much change at operations. So, EBDITA is more or less constant because of rising interest and tax, the NPM has fallen.

Next, we look at ROCE. That is Return on Capital Employed. What is the formula for ROCE? It is PBIT or the operating profits divide by capital employed. So, here, we see that, from the prospective of a long term investor, what is the business earning on the capital employed. That is why; it is PBIT divided by capital employed. PBIT figure is something which we have calculated 3055.

Capital employed means, the total of funds. That is total of net worth plus total debt. We have ready figure available here with us. So, you see ROCE is 12 percent for the current year. Let us see, how much, it was in the last year. It is more or less constant, last year, it was 10 percent. Now, it has increased to 12 percent.

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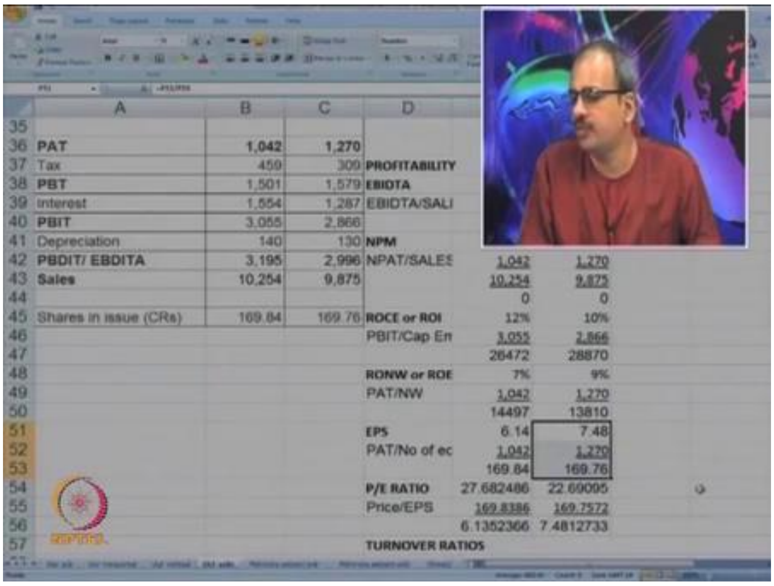

	A	B	C	D	E	F
35						
36	PAT	1,042	1,270			
37	Tax	459	309	PROFITABILITY		
38	PBT	1,501	1,579	EBIDTA		
39	Interest	1,554	1,287	EBIDTA/SALI		
40	PBIT	3,055	2,866			
41	Depreciation	140	130	NPM		
42	PBDIT/ EBDITA	3,195	2,996	NPAT/SALES	1,042	1,270
43	Sales	10,254	9,875		10,254	9,875
44					0	0
45	Shares in issue (CRs)	169.84	169.76	ROCE or ROI	12%	10%
46				PBIT/Cap En	3,055	2,866
47					26472	28870
48				RONW or ROE	7%	9%
49				PAT/NW	1,042	1,270
50					14497	13810
51				EPS	6.14	7.48
52				PAT/No of ec	1,042	1,270
53					169.84	169.76
54				P/E RATIO	27.682486	22.69095
55				Price/EPS	169.8386	169.7572
56					6.1352366	7.4812733
57				TURNOVER RATIOS		

Now, let us try to find out, return on net worth, which is also popularly known as ROE or the return on equity. Now, what is a formula for ROE? It is PAT upon NW, because here, we are looking from the owners prospective. So, the profit, which owners get is nothing but profit after tax. We divided by the net worth, which is the funds own of the owners.

So, PAT is 1041 divided by the net worth, which we have just now calculated. So, 7 percent is the return on net worth and 9 percent is the return on net worth in the earlier year. You can see, there is a slight fall, why is this fall caused? This fall is mainly caused, because of higher interest and tax, which lead to fall in PAT. And since, PAT has fallen RONW also have fallen.

Now, let us try to find out EPS, the Earnings Per Share, which is the very interesting and important ratio. For the small investor, who wants to know, how much profit, they have earned per share. So, it is PAT upon number of equity shares. PAT is 1045; the number of equity shares is 169. So, you can see, it is 6.13 is the EPS. EPS or earning per share is one of the highly reported figures.

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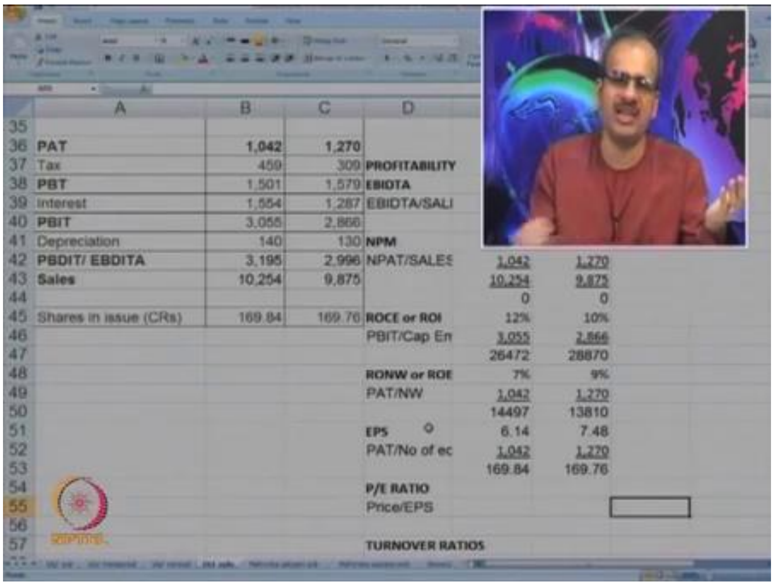

The next important ratio is the P E ratio, price earnings ratio. The formula is market price divided by EPS. In this case, since we do not know the market price, we will not be able to find the P E ratios. So, let us keep it. So, now, we have done various profitability ratios. What are the two types of profitability ratios? The first type is profitability in relation to sales.

So, when, we calculated EBDITA and NPM; we calculated the profitability divided by sales or in relation to sales. The second type is profitability in relation to investment for which we calculated ROCE and RONW. And EPS is the profitability mainly calculated on per share basis. So, we have done leverage ratios, liquidity ratios and now profitability ratios.

Now, what is the next type of ratios? Next types of ratios are known as activity ratios or the turnover ratios, where we try to relate the sales to the assets they have. So, we try to find out, how effectively the company is able to utilize the assets. That is why; they are known as activity or turnover ratios.

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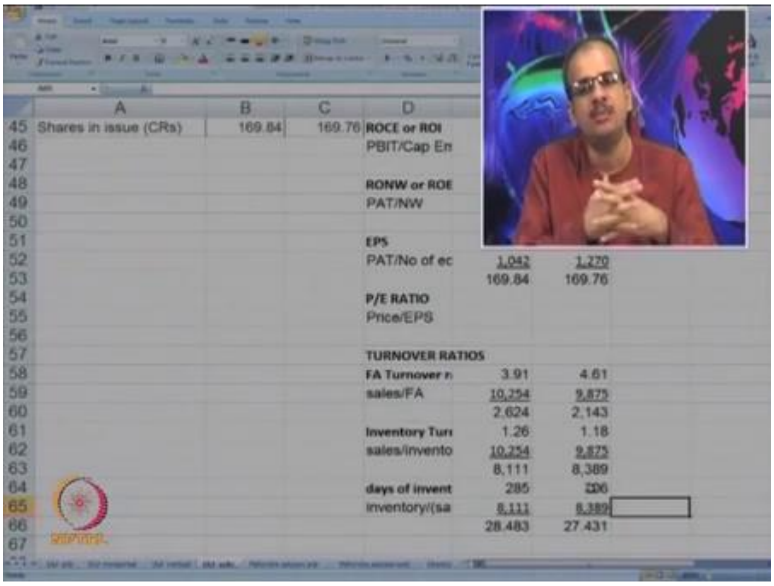

So, the first ratio is fixed asset turnover ratio. The formula is sales upon fixed assets. So, sale figure is given to us, divided by fixed assets. So, we can either take gross block or net block. Generally, we take gross block here. So, we have got 3.91, last year it was 4.61. This is not a very important ratio for a company, like DLF, because it is a real estate company. They hardly have any fixed assets, you can see, out of the total assets. The composition of fixed asset is that very small.

For a manufacturing company, FA turnover is a very important ratio, because we want to know there, how effectively, they are using their fixed assets. In this case, it is not so important, but we have calculated it. Next is inventory turnover, it is sales upon inventory. So, we get 1.26, earlier year, it was 1.18. You can see that, both the figures are not changed much sales have slightly increased inventory has slightly fallen leading to slight increase in the turnover.

Overall, it is not a healthy turnover, 1.26. But, being into infrastructure or builders and developers business, it is bound to be relatively low. It cannot be very high. Now, let us try to calculate the number of days of inventory. So, this is again sales. So, here, it is reverse of the earlier. It is inventory divided by sales by 360. So, we do 360, because we try to find the daily sales.

So, we take the inventory and divide it by daily sales. So, here, we have got 285. That means, they have 285 days of inventory in their hand. Earlier, it was 306. Again, this ratio is not so important. For a manufacturing company or a trading company, the days of inventory is very important. Whether, they have 30 days inventory, 40 days, 50 days, 60 days. But, for builders, it could be relatively high.

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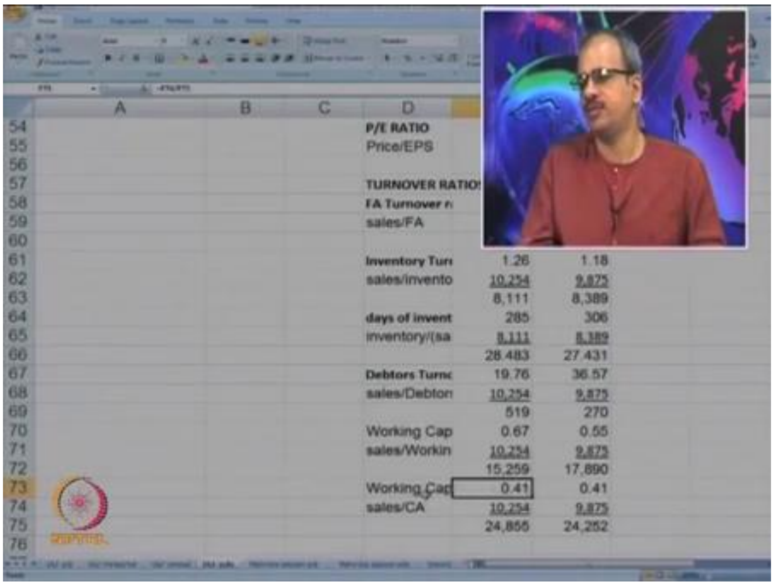

Let us also try to find debtors turnover. So, it is sales divided by debtors. So, it is 19.76. Earlier, it was 36.57. So, you can see that, the sales have not increased much. But, debtors have increased. So, the turnover has fallen, which is not a good sign. That means, they have more amount to be recovered. This is debtor’s turnover or receivables turnover as it is known as sometimes.

Now, what could be important turnover ratio for his company? Since, they have very high extent of current assets. Current asset turnover; overall could be very important. And we can also calculate working capital turnover. I think, let us calculate working capital turnover. So, this will take of all current assets and current liabilities. So, what will be the formula, just as we had sales upon debtors? Here, instead of debtors, we will take sales upon working capital.

So, what is working capital? Current assets minus current liabilities. So, numerator is unchanged, for denominator, we will take this figure of net current assets. So, you can see here, the working capital has gone down from 17 to 15. And working capital turnover ratio has slightly increased. But, overall, it is a low turnover ratio. We can also find the turnover for the current assets only.

So, the formula will be sales upon current assets. Total of current assets figures are available in the balance sheet, that figure you can take. So, you can see here, it has remained more or less constant. So, we have tried to find various operating ratios now or we see, how effectively, they utilize their assets. They are also known as activity of turnover ratios.

So, we have done a variety of ratios, now I think that would have given you some insight into the operation of the company. On the whole, you can see that, there is a rise in the current liabilities, which is of concern. The liquidity of the company is of concerned. The profitability, you can see has gone down in terms of NPM. That is not a big problem. That is mainly because of rise in taxes.

The EBDITA has remained more or less constant, there is not much, there is a decrease in the loans in the current year, which is a good sign. So, companies dependent on outsider funds has reduced. Overall, the size of the balance sheet itself has fallen, which is not a good sign; it does not show the growth of the company. Now, let us look at the I hope you have understood the various aspects of it. Let us try to go for the in depth analysis of a different type of a company.

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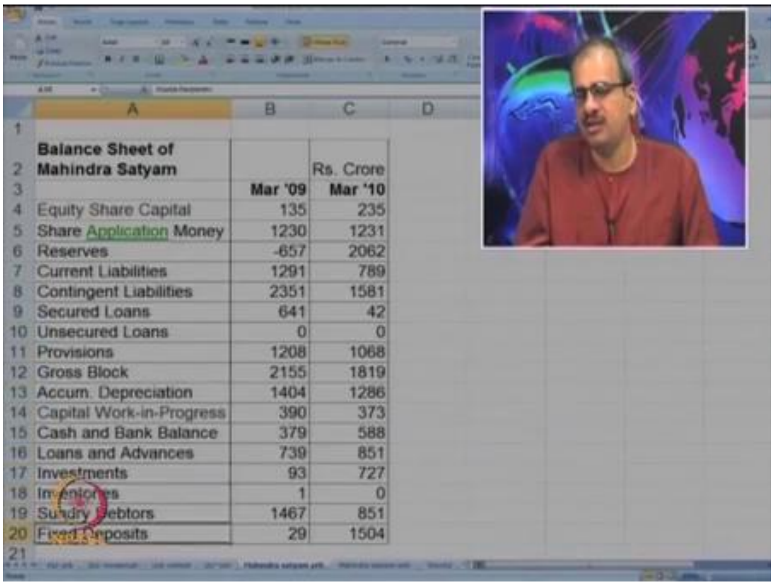

Balance Sheet of Mahindra Satyam		Rs. Crore
	Mar '09	Mar '10
Equity Share Capital	135	235
Share Application Money	1230	1231
Reserves	-657	2062
Current Liabilities	1291	789
Contingent Liabilities	2351	1581
Secured Loans	641	42
Unsecured Loans	0	0
Provisions	1208	1068
Gross Block	2155	1819
Accum. Depreciation	1404	1286
Capital Work-in-Progress	390	373
Cash and Bank Balance	379	588
Loans and Advances	739	851
Investments	93	727
Inventories	1	0
Sundry Debtors	1467	851
Fixed Deposits	29	1504

This time, I have chosen Mahindra Satyam, basically, it was company known as Satyam InfoTech. There was lot of malpractices for which, the enquires are on. The company went into losses. So, I have chosen the year, March 9 and 10, where there was a completely turbulent atmosphere in the company. Then, the company was taken over by Mahindra's and is now running effectively.

So, have a look at their balance sheet and P and L. So, equity share capital, you can see has slightly increased. There is a very large amount of money parked up in the share application money. The reserves had turned negative in March 09, the reserves, where minus 657. Now, the company is showing good sign, the reserves are 2062 current liabilities, contingent liabilities, secured loans.

So, here, the balance sheet has not been arranged properly. First thing, we have to do is to arrange the balance sheet. We have also been given some information from P and L account. Let us first try and start with the arrangement of balance sheet in the proper structure. So, that, we can use for other calculations. How do you arrange the balance sheet in a suitable format? Here, you can see all the items, which are there in the balance sheet.

But, we have to make it in the format suitable for analysis. So, if you remember, we have got this equity share capital, share application money and reserves. They all are in one category. That total could be called as, yes, what it is called as, it is called as net worth or also known as owners funds.

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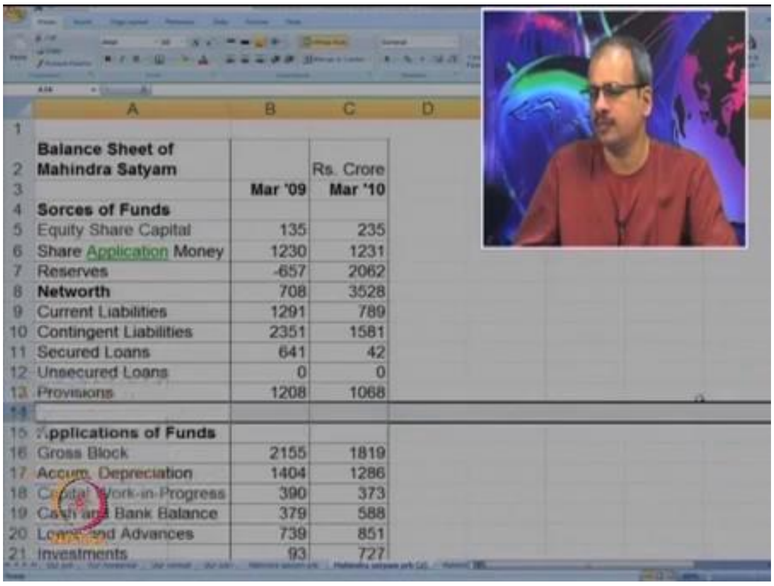

Then, you can see here, current liability, then contingent liability, then secured loans. Actually, current and contingent liabilities need not be there on the funds side. There are more items, which are reduced current liability, must be reduced from current assets. So, it need not be here. So, then you have secured, unsecured loans, then it has provision, gross block and so on.

So, the first heading for the company balance sheet is sources of funds. So, we are trying to analyze it in the form suitable for analysis. So, we will start with the sources of funds. Here, you can see gross block, accumulated depreciation and so on. So, that could be called as applications of funds.

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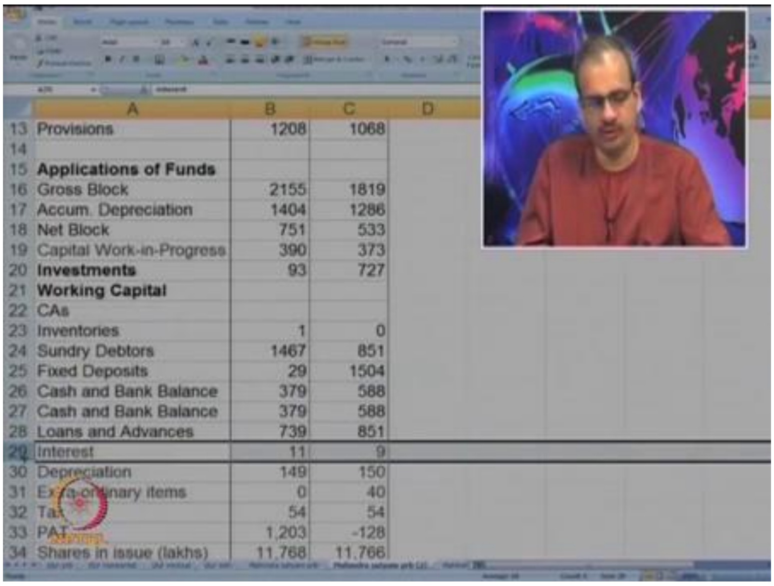
	A	B	C	D
13	Provisions	1208	1068	
14				
15	**Applications of Funds**			
16	Gross Block	2155	1819	
17	Accum. Depreciation	1404	1286	
18	Net Block	751	533	
19	Capital Work-in-Progress	390	373	
20	**Investments**	93	727	
21	**Working Capital**			
22	CAs			
23	Inventories	1	0	
24	Sundry Debtors	1467	851	
25	Fixed Deposits	29	1504	
26	Cash and Bank Balance	379	588	
27	Cash and Bank Balance	379	588	
28	Loans and Advances	739	851	
29	Interest	11	9	
30	Depreciation	149	150	
31	Extra-ordinary items	0	40	
32	Tax	54	54	
33	PAT	1,203	-128	
34	Shares in issue (lakhs)	11,768	11,766	

I hope these things, that gross block minus accumulated depreciation, we get net block. So, we will try to find the net block. Then, you have capital WIP, after capital WIP, what should be the next heading. In this case, instead of giving the next heading, they have started with cash. But, what will be the correct next heading, first heading is fixed assets. So, we have covered net block and capital WIP, then next heading is investments.

So, I have tried to copy the investment then after investments, we go for working capital items. And in working capital, we will take current assets and current liabilities. So, again, we have current assets. In current assets, you can have cash and bank debtors and so on. So, we got cash, loans, investments, we have already copied it upwards. Then, inventories, debtors, fixed deposits.

Then, the P and L item start, but we will try to arrange the current assets properly. I hope all of you are able to do it with me. So, here we have major headings, investments and working capital. Within that, now we have started with current assets and have put all current assets in one place. Now, from current assets, what should we reduce? We should reduce current liabilities and provisions.

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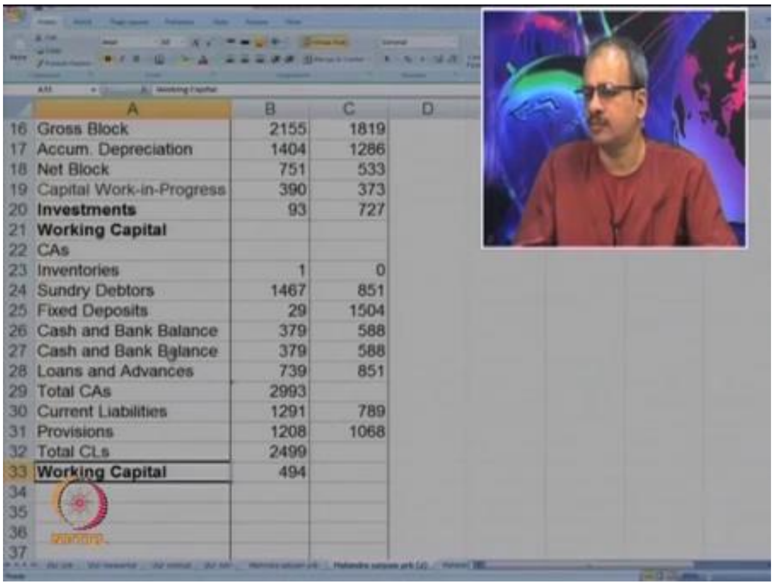

So, current liabilities are given here and provisions are given here. So, we will remove those figures and put them at proper place. I will just do it fast, I think for your benefit. So, total CA minus total CL'S is the working capital figure. Sometimes, it is called as net current assets. So, now, all the three headings are clear with us. Net block plus capital WIP, plus investments, plus working capital.

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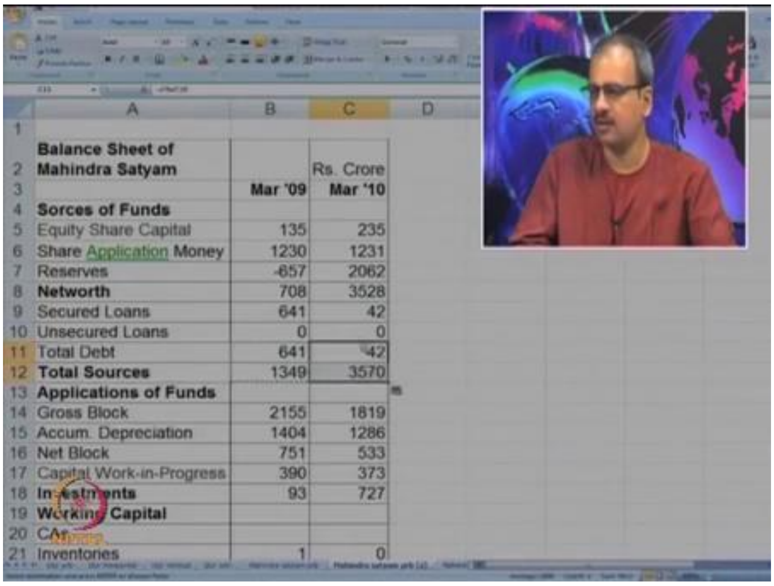

Now, on liability side, we have already removed these current liabilities. Contingent liabilities also we should not take, this is not an item in the balance sheet. It is just given as a foot note. So, I have removed it, keep it down. So, what we are left is with now secured and unsecured loans. We will take the total of it. That is the total debt and the total of net worth plus debt is the total of sources.

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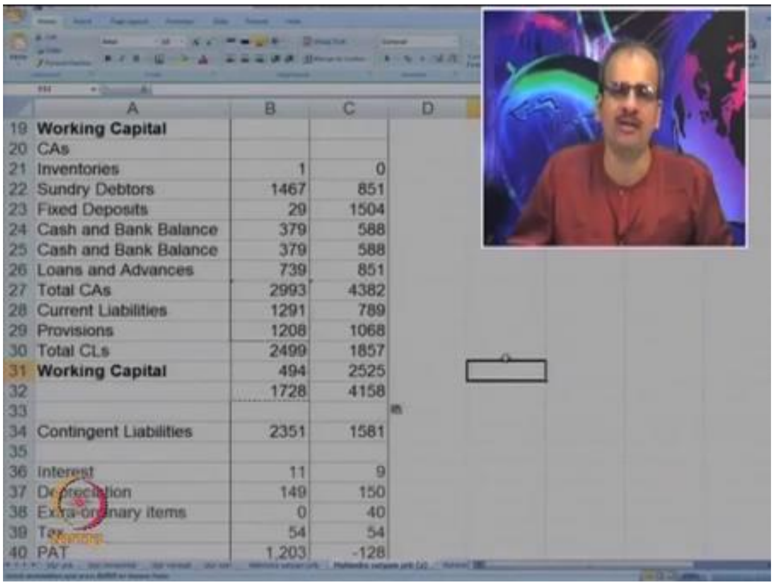

So, now, the whole balance sheet is analyzed in the format, which is suitable for analysis. In the next session, we will try to actually analyze it by various methods.

Thank you so much.