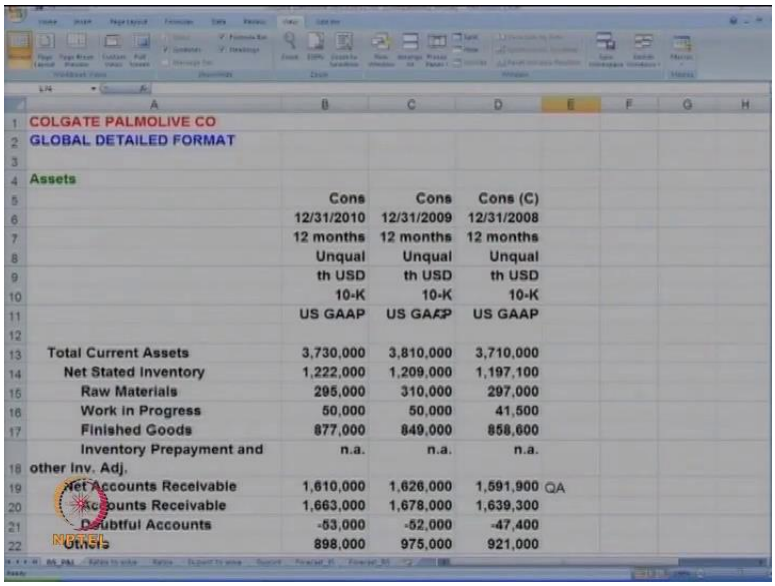
Managerial Accounting
Prof. Dr. VaradrajBapat
School of Management
Indian Institute of Technology, Bombay

Lecture - 17
Financial Statements Analysis –Colgate Palmolive Case

Dear students, in last 3 or 4 sessions we are looking at how to analysis financial statements; if you remember we have already discussed horizontal analysis, vertical analysis, followed by ratio analysis. In ratio analysis, we also we have done 2 or 3 cases of Indian companies and currently in the last session, we have started a discussion on a international company. So, we are looking at a consolidated detail financial statement of Colgate Palmolive.

So let us continue with that today we will do some more ratios then we will go into du point analysis were again this is 1 method of in detail analysis of financial statements, followed by forecasting of financial statements. So, based on the ratio which we have calculated, we will try to forecast the a financial statement both income statement and balance sheet for the coming years ok. So, let us once again have a look at Colgate Palmolive balance sheet which we were seeing from the last time.

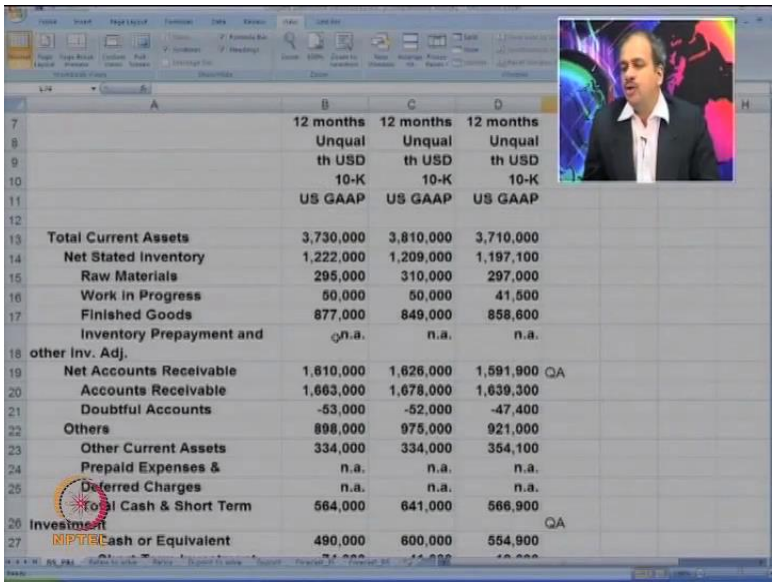
(Refer Slide Time: 01:27)



	A	B	C	D
1	COLGATE PALMOLIVE CO			
2	GLOBAL DETAILED FORMAT			
3				
4	Assets			
5		Cons	Cons	Cons (C)
6		12/31/2010	12/31/2009	12/31/2008
7		12 months	12 months	12 months
8		Unqual	Unqual	Unqual
9		th USD	th USD	th USD
10		10-K	10-K	10-K
11		US GAAP	US GAAP	US GAAP
12				
13	Total Current Assets	3,730,000	3,810,000	3,710,000
14	Net Stated Inventory	1,222,000	1,209,000	1,197,100
15	Raw Materials	295,000	310,000	297,000
16	Work in Progress	50,000	50,000	41,500
17	Finished Goods	877,000	849,000	858,600
18	Inventory Prepayment and other Inv. Adj.	n.a.	n.a.	n.a.
19	Net Accounts Receivable	1,610,000	1,626,000	1,591,900
20	Accounts Receivable	1,663,000	1,678,000	1,639,300
21	Doubtful Accounts	-53,000	-52,000	-47,400
22	Other	898,000	975,000	921,000

So, see this is a consolidated financial statement, were in we have used US gap this is has is available on Colgate Palmolive website we will go down.

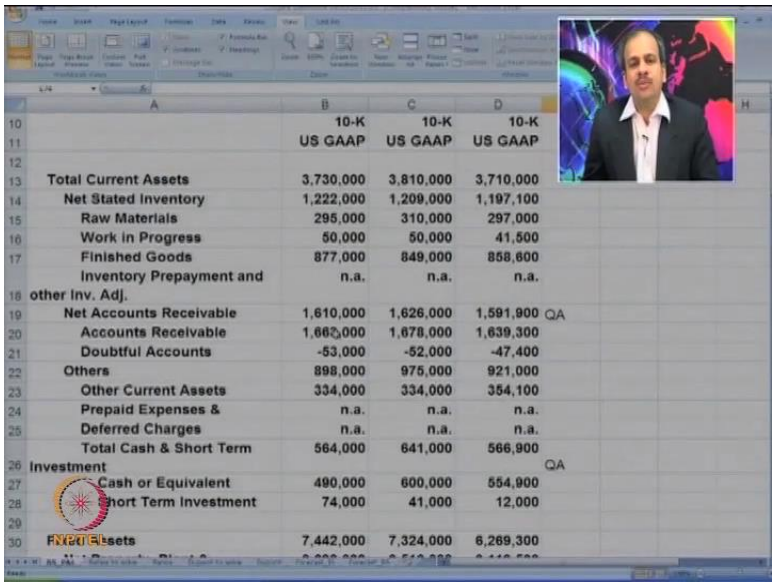
(Refer Slide Time: 01:38)



		B	C	D	
7		12 months	12 months	12 months	
8		Unqual	Unqual	Unqual	
9		th USD	th USD	th USD	
10		10-K	10-K	10-K	
11		US GAAP	US GAAP	US GAAP	
12					
13	Total Current Assets	3,730,000	3,810,000	3,710,000	
14	Net Stated Inventory	1,222,000	1,209,000	1,197,100	
15	Raw Materials	295,000	310,000	297,000	
16	Work in Progress	50,000	50,000	41,500	
17	Finished Goods	877,000	849,000	858,600	
18	Inventory Prepayment and other Inv. Adj.	n.a.	n.a.	n.a.	
19	Net Accounts Receivable	1,610,000	1,626,000	1,591,900	QA
20	Accounts Receivable	1,663,000	1,678,000	1,639,300	
21	Doubtful Accounts	-53,000	-52,000	-47,400	
22	Others	898,000	975,000	921,000	
23	Other Current Assets	334,000	334,000	354,100	
24	Prepaid Expenses &	n.a.	n.a.	n.a.	
25	Deferred Charges	n.a.	n.a.	n.a.	
26	Total Cash & Short Term Investment	564,000	641,000	566,900	QA
27	Cash or Equivalent	490,000	600,000	554,900	

So, you can see here how many details are shown.

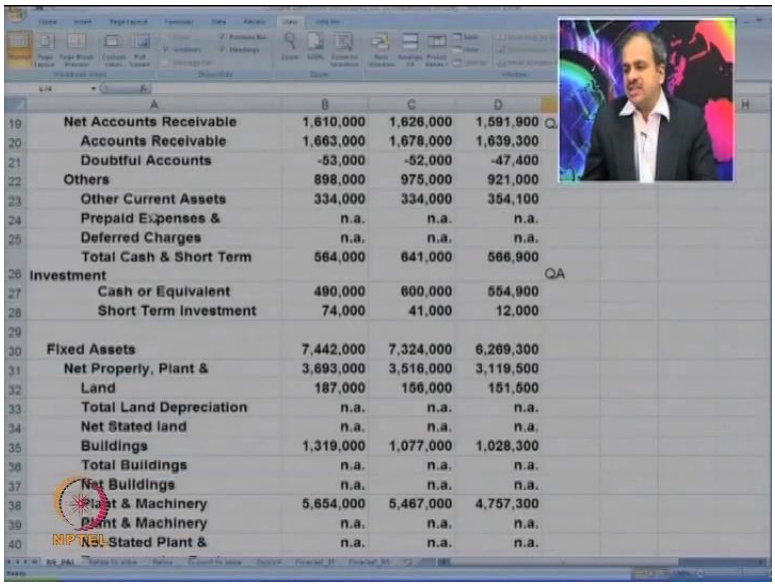
(Refer Slide Time: 01:39)



		B	C	D	
10		10-K	10-K	10-K	
11		US GAAP	US GAAP	US GAAP	
12					
13	Total Current Assets	3,730,000	3,810,000	3,710,000	
14	Net Stated Inventory	1,222,000	1,209,000	1,197,100	
15	Raw Materials	295,000	310,000	297,000	
16	Work in Progress	50,000	50,000	41,500	
17	Finished Goods	877,000	849,000	858,600	
18	Inventory Prepayment and other Inv. Adj.	n.a.	n.a.	n.a.	
19	Net Accounts Receivable	1,610,000	1,626,000	1,591,900	QA
20	Accounts Receivable	1,663,000	1,678,000	1,639,300	
21	Doubtful Accounts	-53,000	-52,000	-47,400	
22	Others	898,000	975,000	921,000	
23	Other Current Assets	334,000	334,000	354,100	
24	Prepaid Expenses &	n.a.	n.a.	n.a.	
25	Deferred Charges	n.a.	n.a.	n.a.	
26	Total Cash & Short Term Investment	564,000	641,000	566,900	QA
27	Cash or Equivalent	490,000	600,000	554,900	
28	Short Term Investment	74,000	41,000	12,000	
29					
30	Assets	7,442,000	7,324,000	6,269,300	

So, we have total current assets, then inventory again broken down into various categories.

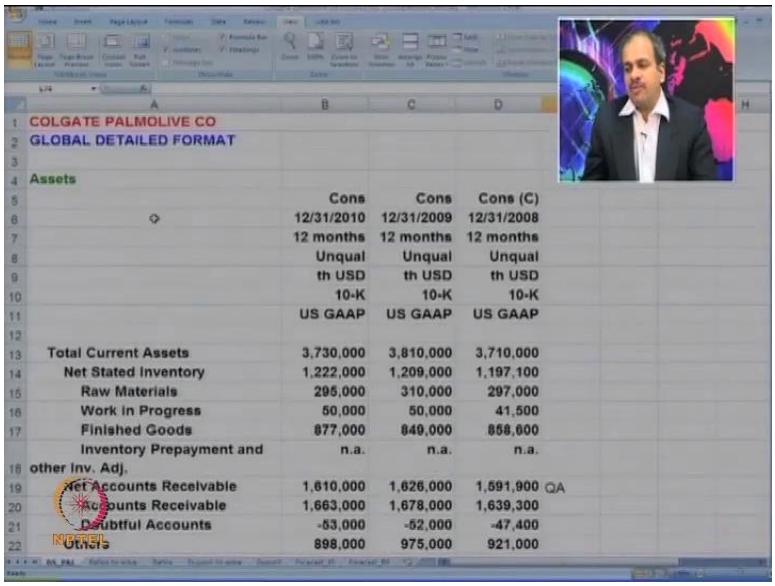
(Refer Slide Time: 01:48)



	A	B	C	D
19	Net Accounts Receivable	1,610,000	1,626,000	1,591,900
20	Accounts Receivable	1,663,000	1,678,000	1,639,300
21	Doubtful Accounts	-53,000	-52,000	-47,400
22	Others	898,000	975,000	921,000
23	Other Current Assets	334,000	334,000	354,100
24	Prepaid Expenses &	n.a.	n.a.	n.a.
25	Deferred Charges	n.a.	n.a.	n.a.
26	Total Cash & Short Term Investment	564,000	641,000	566,900
27	Cash or Equivalent	490,000	600,000	554,900
28	Short Term Investment	74,000	41,000	12,000
29				
30	Fixed Assets	7,442,000	7,324,000	6,269,300
31	Net Property, Plant &	3,693,000	3,516,000	3,119,500
32	Land	187,000	156,000	151,500
33	Total Land Depreciation	n.a.	n.a.	n.a.
34	Net Stated land	n.a.	n.a.	n.a.
35	Buildings	1,319,000	1,077,000	1,028,300
36	Total Buildings	n.a.	n.a.	n.a.
37	Net Buildings	n.a.	n.a.	n.a.
38	Plant & Machinery	5,654,000	5,467,000	4,757,300
39	Plant & Machinery	n.a.	n.a.	n.a.
40	Net Stated Plant &	n.a.	n.a.	n.a.

Net account receivables and so on.

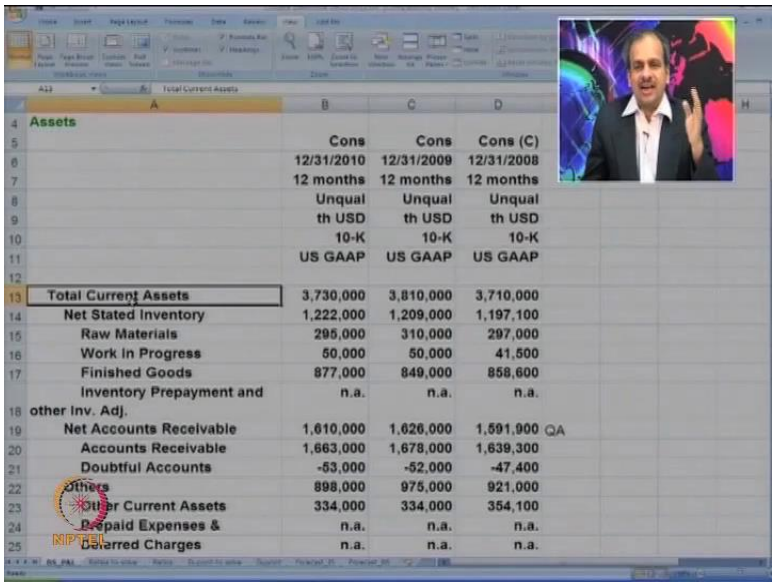
(Refer Slide Time: 01:51)



	A	B	C	D
1	COLGATE PALMOLIVE CO			
2	GLOBAL DETAILED FORMAT			
3				
4	Assets			
5		Cons	Cons	Cons (C)
6		12/31/2010	12/31/2009	12/31/2008
7		12 months	12 months	12 months
8		Unqual	Unqual	Unqual
9		th USD	th USD	th USD
10		10-K	10-K	10-K
11		US GAAP	US GAAP	US GAAP
12				
13	Total Current Assets	3,730,000	3,810,000	3,710,000
14	Net Stated Inventory	1,222,000	1,209,000	1,197,100
15	Raw Materials	295,000	310,000	297,000
16	Work in Progress	50,000	50,000	41,500
17	Finished Goods	877,000	849,000	858,600
18	Inventory Prepayment and other Inv. Adj.	n.a.	n.a.	n.a.
19	Net Accounts Receivable	1,610,000	1,626,000	1,591,900
20	Accounts Receivable	1,663,000	1,678,000	1,639,300
21	Doubtful Accounts	-53,000	-52,000	-47,400
22	Others	898,000	975,000	921,000

You cans see the format is slightly.

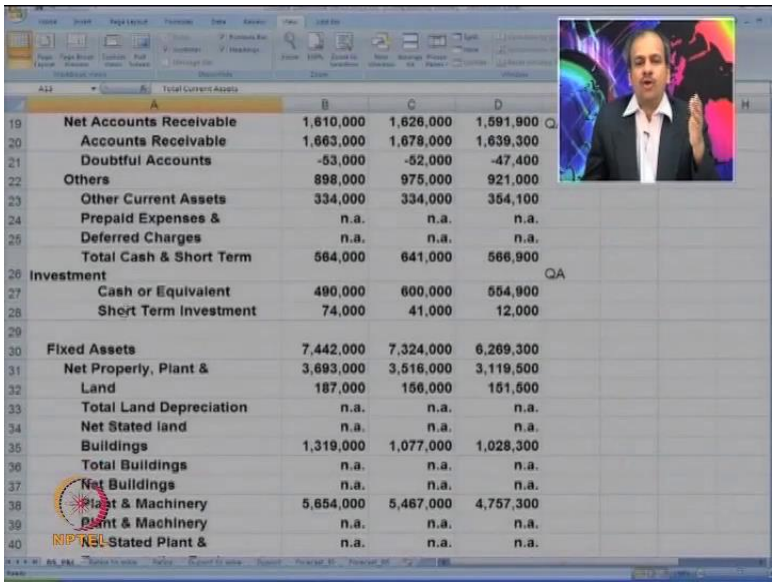
(Refer Slide Time: 01:51)



	A	B	C	D
4	Assets			
5		Cons	Cons	Cons (C)
6		12/31/2010	12/31/2009	12/31/2008
7		12 months	12 months	12 months
8		Unqual	Unqual	Unqual
9		th USD	th USD	th USD
10		10-K	10-K	10-K
11		US GAAP	US GAAP	US GAAP
12				
13	Total Current Assets	3,730,000	3,810,000	3,710,000
14	Net Stated Inventory	1,222,000	1,209,000	1,197,100
15	Raw Materials	295,000	310,000	297,000
16	Work In Progress	50,000	50,000	41,500
17	Finished Goods	877,000	849,000	858,600
18	Inventory Prepayment and other Inv. Adj.	n.a.	n.a.	n.a.
19	Net Accounts Receivable	1,610,000	1,626,000	1,591,900
20	Accounts Receivable	1,663,000	1,678,000	1,639,300
21	Doubtful Accounts	-53,000	-52,000	-47,400
22	Others	898,000	975,000	921,000
23	Other Current Assets	334,000	334,000	354,100
24	Prepaid Expenses &	n.a.	n.a.	n.a.
25	Deferred Charges	n.a.	n.a.	n.a.

Different then Indian format, because in Indian format we start with fix assets were as far US gap there starting with current assets.

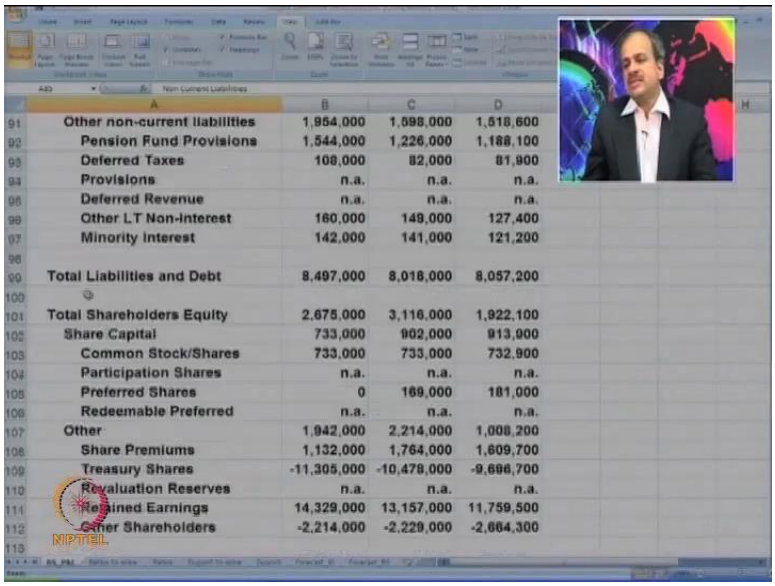
(Refer Slide Time: 02:02)



	A	B	C	D
19	Net Accounts Receivable	1,610,000	1,626,000	1,591,900
20	Accounts Receivable	1,663,000	1,678,000	1,639,300
21	Doubtful Accounts	-53,000	-52,000	-47,400
22	Others	898,000	975,000	921,000
23	Other Current Assets	334,000	334,000	354,100
24	Prepaid Expenses &	n.a.	n.a.	n.a.
25	Deferred Charges	n.a.	n.a.	n.a.
26	Total Cash & Short Term Investment	564,000	641,000	566,900
27	Cash or Equivalent	490,000	600,000	554,900
28	Short Term Investment	74,000	41,000	12,000
29				
30	Fixed Assets	7,442,000	7,324,000	6,269,300
31	Net Properly, Plant &	3,693,000	3,516,000	3,119,500
32	Land	187,000	156,000	151,500
33	Total Land Depreciation	n.a.	n.a.	n.a.
34	Net Stated land	n.a.	n.a.	n.a.
35	Buildings	1,319,000	1,077,000	1,028,300
36	Total Buildings	n.a.	n.a.	n.a.
37	Net Buildings	n.a.	n.a.	n.a.
38	Plant & Machinery	5,654,000	5,467,000	4,757,300
39	Plant & Machinery	n.a.	n.a.	n.a.
40	Net Stated Plant &	n.a.	n.a.	n.a.

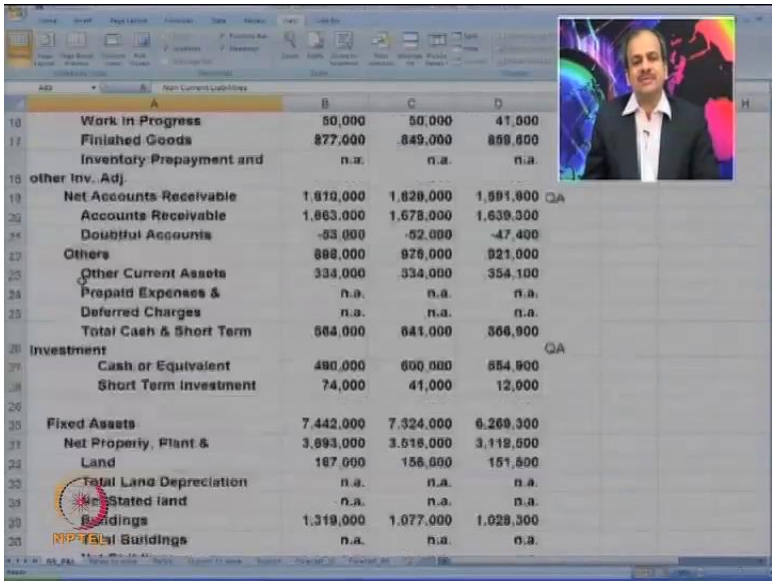
Followed by fix investments followed by fix assets and so on. After assets liabilities are listed which again starts with current assets. There is a division of current assets followed by noncurrent assets. The last part of the balance sheet is Share holders equity or the owners equity.

(Refer Slide Time: 02:24)



So, I think last time you have seen it, but once again have look at the whole of the financial statements

(Refer Slide Time: 02:30)

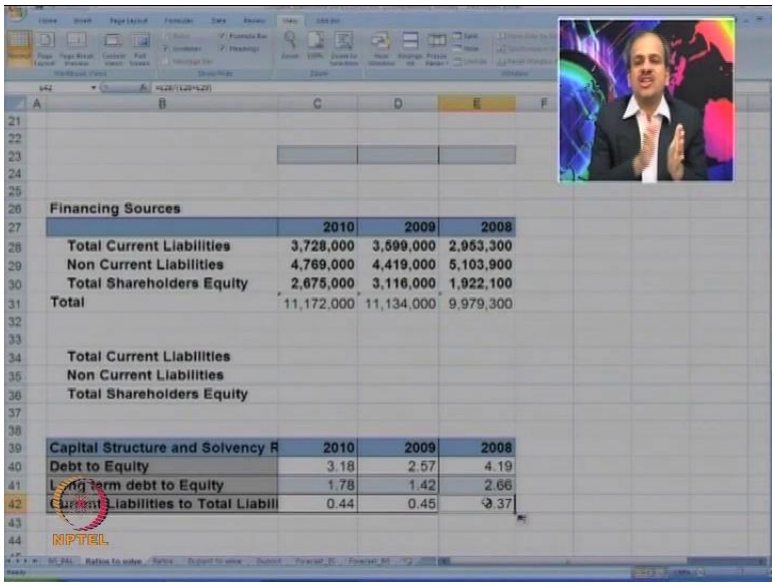


Today we are going to do some more ratios. So, after balance sheet you can see income statement were in again, it starts with gross revenue as usual various types of profits are given.

In the last session, we have done a few ratios the first type of ratio which, we have started with were short term liquidity. So, you know this ratio now current ratio, quick ratio account receivable turnover, inventory turnover, then followed by days sales receivables were in we try to convert the receivables into number of days. We also try to convert inventory into number of days and then we have done short term ratios like: cash to current assets and cash to current liabilities. This was followed by capital structure ratios.

So, we have done 2 ratios there 1 is solvency ratio second 1 is gearing ratio in capital structure ratio, we try to find the relationship between the equity verses debt. So, how is the company finance what is a percentage of debt what is the percentage of equity that we were trying to find now, going on the similar lines.

(Refer Slide Time: 03:56)



We will try to do some more ratios here you can see this is a financing pattern of the company. Let us try to find the capital structure and solvency ratios the first is debt to equity ratio, so what is the formula of debt to equity ratio do you remember now, because in 2 3 cases we have done it before, it is very simple as the name suggest it is debt upon equity. So, we will look at the total debt of the company verses the total equity of the company. It is very simple to do you can see here we have current and noncurrent liabilities given the total of them could be considered as total debt and the share holders fund is the total equity.

So, let us try to now do the a debt to equity ratio. So, total debt we have to take the total of these 2 items, I hope you are getting, so I have try to add the current plus noncurrent liabilities which is the total debt on the company divided by the share holders equity. So, we get 3.18 if we drag down further, we can see that the ratio has 1st gone down from 2008 form 4.19 to 2.57 again it has slightly gone up. So, what does it mean to you can very clearly understand that company is heavily indebted for every 1 rupee of equity they had 4 rupees of debt in 2004, we are talking of total debt current plus noncurrent. And then it come down they are able to control that debt and again in 2010, it was somewhat gone up.

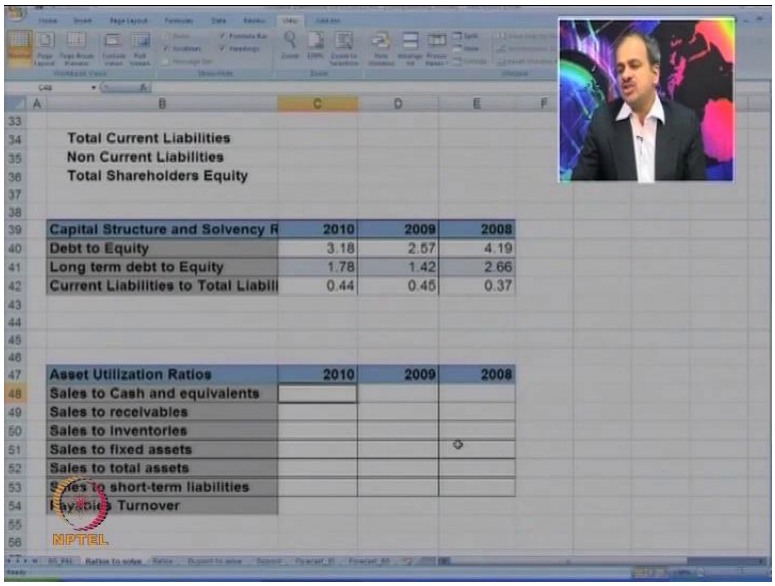
So, what will you infer from this if there is a higher debt burden it puts some pressure on the solvency of the company. So, it is not advisable of course we cannot generalize, we cannot tell exactly how much ratio is good but generally, we can say that higher the debt equity ratio means; there is more burden of the on the company and it becomes slightly difficult for the company to manage that debt the second ratio is long term debt to equity as the name suggest. Now, we will not look at the current liabilities, we will only look at long term liabilities or as they are known in US as noncurrent liabilities.

So, will take noncurrent liabilities divided by the share holders equity. So, ratio is 1.78; if a drag down to earlier years you can see that in 2008 the ratio was much higher it was 2.66, then it was brought down and now it is somewhat in control. So, 1.78 is the current ratio in 2010 1 more ratio can be found were, we will try to see how what is the composition of liabilities how are the liabilities composed. So, we have current liabilities 2 total liabilities. So, a current liability is this figure divided by we have to take the total of again current plus noncurrent, which is the total external liabilities.

So, you can see it is 0.44 the ratio is more or less constant it was 0.37 in 2008, it has slightly increased what does it mean; is it good to have the higher ratio or lower ratio, in this case. Now, what happens is if current liabilities to total liability ratio is high it means; that large proportion of debt is due immediately; which is not a so good sign. So, if this ratio is going on a higher side it is not good in this case you can see it is slightly, increased because company has taken some steps to reduce its long term debt, but current has not gone down in fact it has increased. So, the ratio has increased which is not a very good sign.

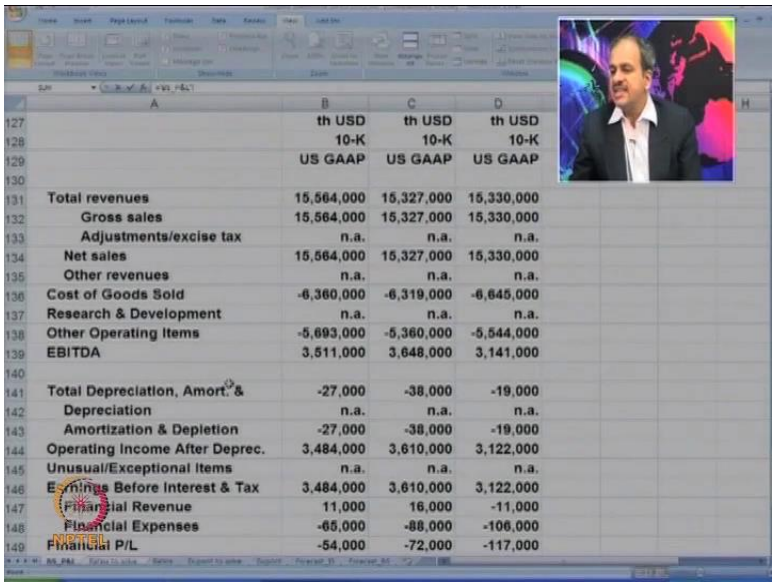
Now, what happens if long term debt to equity ratio is high should it be high or low what will you infer, in this case you can see it has gone down from 2.66 to 1.78, is it a good sign the answer is mixed we cannot definitely tell, because if the ratio is high that means; the proportion of debt to equity is high which puts some pressure on solvency of the company, but higher ratio helps the company increasing in profitability that is why we cannot say that somewhat high ratio is bad. So, it is need to balance to higher ratio will mean too much pressure on the solvency very low ratio will affect the profitability that is why, in case of long term debt to equity ratio companies are required to keep some balance ok are you getting it.

(Refer Slide Time: 09:38)



Let us go ahead, let us try to see the utilization ratios, which are also popularly known as turnover ratios here certain ratios are enlisted you can see its sale to cash equivalent sale to receivables sale to inventory sale to fix assets and so on. So, these ratios are intending they are trying to find how effectively how a how many times we are able to use the assets in converting them into revenue in converting them into sales the first 1 is sales to equity.

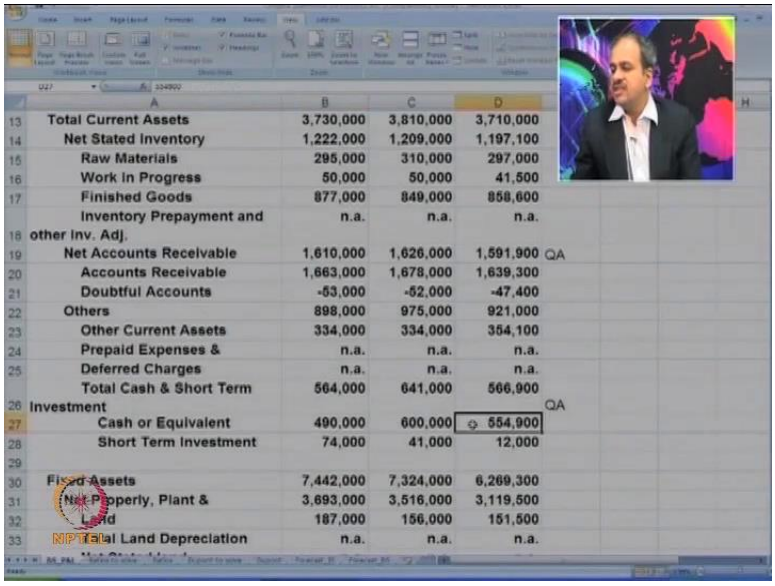
(Refer Slide Time: 10:13)



	A	B	C	D
127		th USD	th USD	th USD
128		10-K	10-K	10-K
129		US GAAP	US GAAP	US GAAP
130				
131	Total revenues	15,564,000	15,327,000	15,330,000
132	Gross sales	15,564,000	15,327,000	15,330,000
133	Adjustments/excise tax	n.a.	n.a.	n.a.
134	Net sales	15,564,000	15,327,000	15,330,000
135	Other revenues	n.a.	n.a.	n.a.
136	Cost of Goods Sold	-6,360,000	-6,319,000	-6,645,000
137	Research & Development	n.a.	n.a.	n.a.
138	Other Operating Items	-5,693,000	-5,360,000	-5,544,000
139	EBITDA	3,511,000	3,648,000	3,141,000
140				
141	Total Depreciation, Amort.&	-27,000	-38,000	-19,000
142	Depreciation	n.a.	n.a.	n.a.
143	Amortization & Depletion	-27,000	-38,000	-19,000
144	Operating Income After Deprec.	3,484,000	3,610,000	3,122,000
145	Unusual/Exceptional Items	n.a.	n.a.	n.a.
146	Earnings Before Interest & Tax	3,484,000	3,610,000	3,122,000
147	Financial Revenue	11,000	16,000	-11,000
148	Financial Expenses	-65,000	-88,000	-106,000
149	Financial P/L	-54,000	-72,000	-117,000

Let us go to the basic data sales is we can take gross sales but generally, we net sales divided by the first turn we are trying to find how effectively, the cash is used. So, sales divided by cash and cash equivalents.

(Refer Slide Time: 10:55)

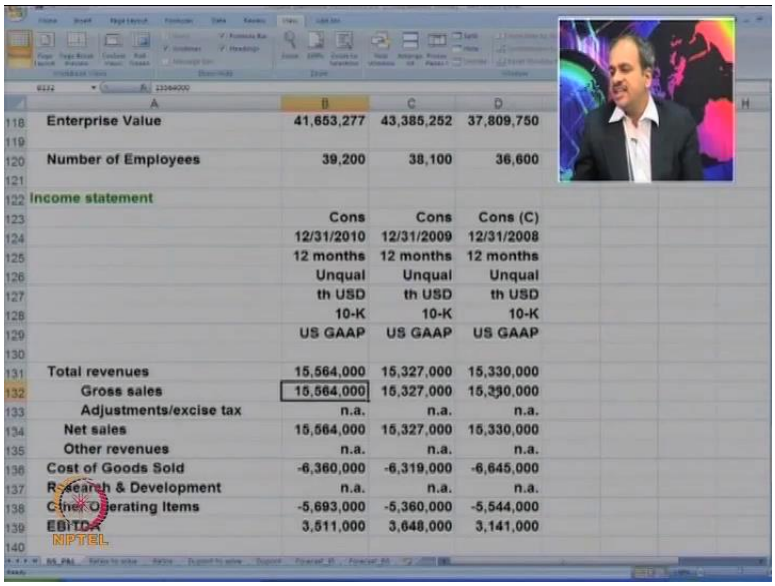


	A	B	C	D	
13	Total Current Assets	3,730,000	3,810,000	3,710,000	
14	Net Stated Inventory	1,222,000	1,209,000	1,197,100	
15	Raw Materials	295,000	310,000	297,000	
16	Work In Progress	50,000	50,000	41,500	
17	Finished Goods	877,000	849,000	858,600	
18	Inventory Prepayment and other Inv. Adj.	n.a.	n.a.	n.a.	
19	Net Accounts Receivable	1,610,000	1,626,000	1,591,900	QA
20	Accounts Receivable	1,663,000	1,678,000	1,639,300	
21	Doubtful Accounts	-53,000	-52,000	-47,400	
22	Others	898,000	975,000	921,000	
23	Other Current Assets	334,000	334,000	354,100	
24	Prepaid Expenses &	n.a.	n.a.	n.a.	
25	Deferred Charges	n.a.	n.a.	n.a.	
26	Total Cash & Short Term Investment	564,000	641,000	566,900	QA
27	Cash or Equivalent	490,000	600,000	554,900	
28	Short Term Investment	74,000	41,000	12,000	
29					
30	Fixed Assets	7,442,000	7,324,000	6,269,300	
31	Net Property, Plant &	3,693,000	3,516,000	3,119,500	
32	Land	187,000	156,000	151,500	
33	Accumulated Land Depreciation	n.a.	n.a.	n.a.	

So, 31 times the ratio. You can see the ratio has slowly increased which is a good sign. So, that company is able to manage with less cash while their revenues are increasing you can see the

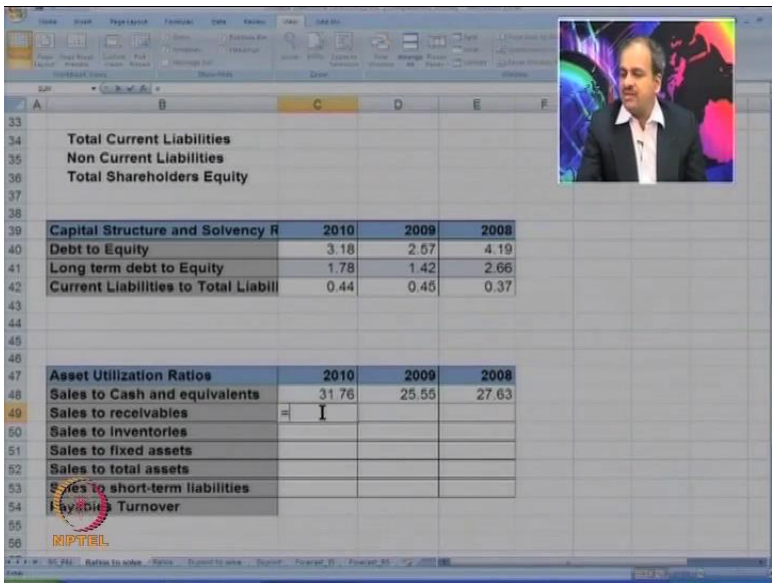
data you can see that the cash and cash equivalents of the company, which were 554 increase to 600 and they have been somewhat reduced to 490 while the sale turnover the company is good.

(Refer Slide Time: 11:07)



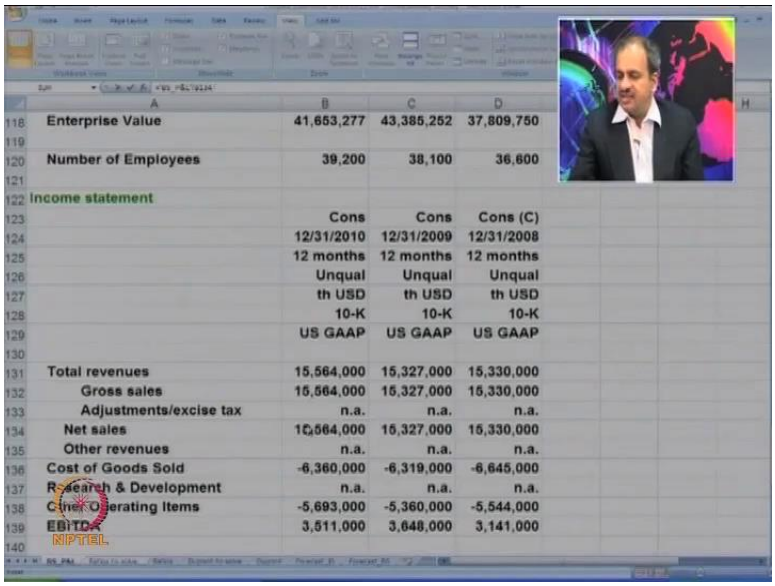
It is it has not gone down though, it has not increased substantially, but it does show some increase is you able to get ok. So, a company is able to manage a good amount of sales with lesser cash that is why this ratio has increased.

(Refer Slide Time: 11:25)



Now, let us look at sales to receivable ratio.

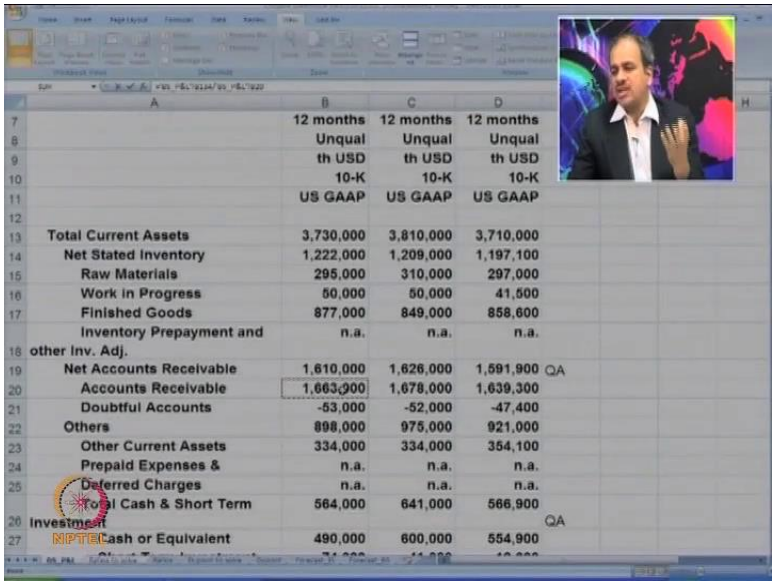
(Refer Slide Time: 11:34)



	A	B	C	D
118	Enterprise Value	41,653,277	43,385,252	37,809,750
119				
120	Number of Employees	39,200	38,100	36,600
121				
122	Income statement			
123		Cons	Cons	Cons (C)
124		12/31/2010	12/31/2009	12/31/2008
125		12 months	12 months	12 months
126		Unqual	Unqual	Unqual
127		th USD	th USD	th USD
128		10-K	10-K	10-K
129		US GAAP	US GAAP	US GAAP
130				
131	Total revenues	15,564,000	15,327,000	15,330,000
132	Gross sales	15,564,000	15,327,000	15,330,000
133	Adjustments/excise tax	n.a.	n.a.	n.a.
134	Net sales	15,564,000	15,327,000	15,330,000
135	Other revenues	n.a.	n.a.	n.a.
136	Cost of Goods Sold	-6,360,000	-6,319,000	-6,645,000
137	Research & Development	n.a.	n.a.	n.a.
138	Other Operating Items	-5,693,000	-5,360,000	-5,544,000
139	EBITDA	3,511,000	3,648,000	3,141,000
140				

Again it is net sales divided by receivables, which we have to see in the current assets.

(Refer Slide Time: 11:43)

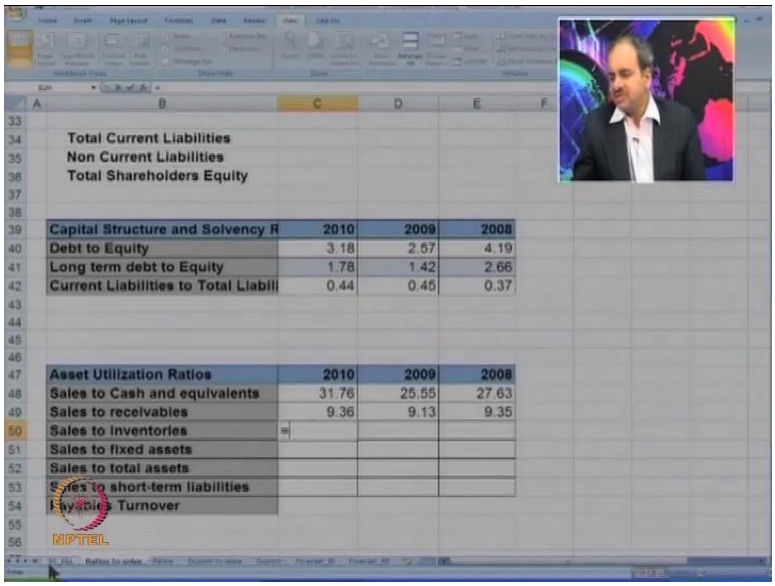


	A	B	C	D	
7		12 months	12 months	12 months	
8		Unqual	Unqual	Unqual	
9		th USD	th USD	th USD	
10		10-K	10-K	10-K	
11		US GAAP	US GAAP	US GAAP	
12					
13	Total Current Assets	3,730,000	3,810,000	3,710,000	
14	Net Stated Inventory	1,222,000	1,209,000	1,197,100	
15	Raw Materials	295,000	310,000	297,000	
16	Work in Progress	50,000	50,000	41,500	
17	Finished Goods	877,000	849,000	858,600	
18	Inventory Prepayment and other Inv. Adj.	n.a.	n.a.	n.a.	
19	Net Accounts Receivable	1,610,000	1,626,000	1,591,900	QA
20	Accounts Receivable	1,663,000	1,678,000	1,639,300	
21	Doubtful Accounts	-53,000	-52,000	-47,400	
22	Others	898,000	975,000	921,000	
23	Other Current Assets	334,000	334,000	354,100	
24	Prepaid Expenses &	n.a.	n.a.	n.a.	
25	Deferred Charges	n.a.	n.a.	n.a.	
26	Total Cash & Short Term Investment	564,000	641,000	566,900	QA
27	Cash or Equivalent	490,000	600,000	554,900	

We have used a gross receivables some people can also use net receivables gross are the total receivables were as net are the gross receivables minus doubtful accounts. But, it is more

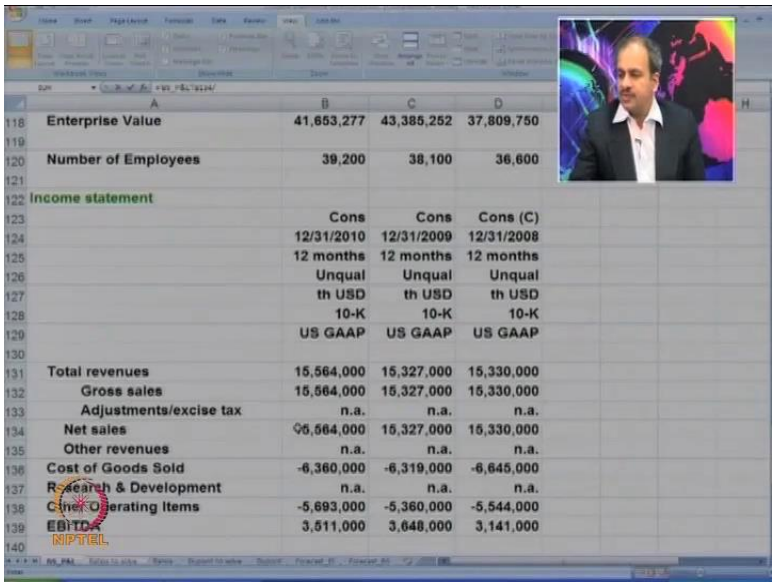
relevant to look at the gross receivables here; because that shows that they are the real receivables which the company is using to convert them into sales.

(Refer Slide Time: 12:07)



So, you can see it is 9 times and the ratio is somewhat stable, because 9.35 it went down to 9.13 and again it has increased to 9.36, which shows that the company's efficiency of managing of debtors is somewhat good and it is more or less stable. Now, sales to inventories again will pick up the new revenue.

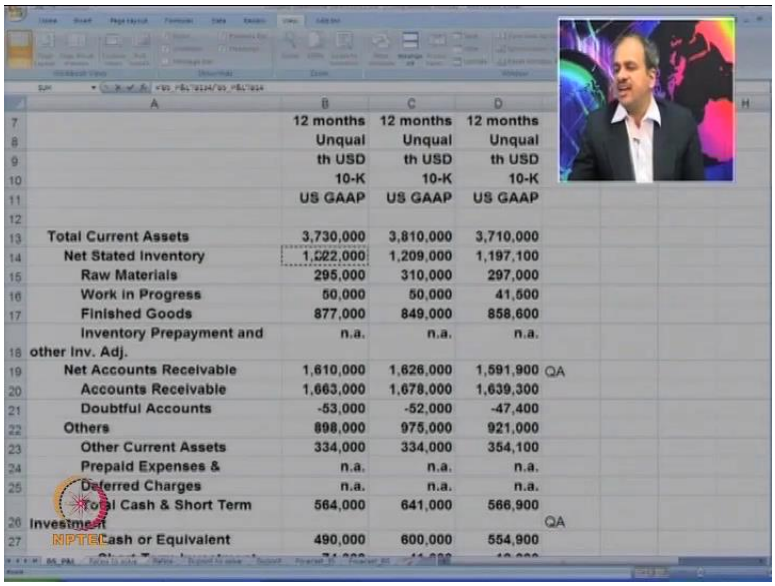
(Refer Slide Time: 12:36)



	A	B	C	D
118	Enterprise Value	41,653,277	43,385,252	37,809,750
119				
120	Number of Employees	39,200	38,100	36,600
121				
122	Income statement			
123		Cons	Cons	Cons (C)
124		12/31/2010	12/31/2009	12/31/2008
125		12 months	12 months	12 months
126		Unqual	Unqual	Unqual
127		th USD	th USD	th USD
128		10-K	10-K	10-K
129		US GAAP	US GAAP	US GAAP
130				
131	Total revenues	15,564,000	15,327,000	15,330,000
132	Gross sales	15,564,000	15,327,000	15,330,000
133	Adjustments/excise tax	n.a.	n.a.	n.a.
134	Net sales	15,564,000	15,327,000	15,330,000
135	Other revenues	n.a.	n.a.	n.a.
136	Cost of Goods Sold	-6,360,000	-6,319,000	-6,645,000
137	Research & Development	n.a.	n.a.	n.a.
138	Other Operating Items	-5,693,000	-5,360,000	-5,544,000
139	EBITDA	3,511,000	3,648,000	3,141,000
140				

And divided by the inventories.

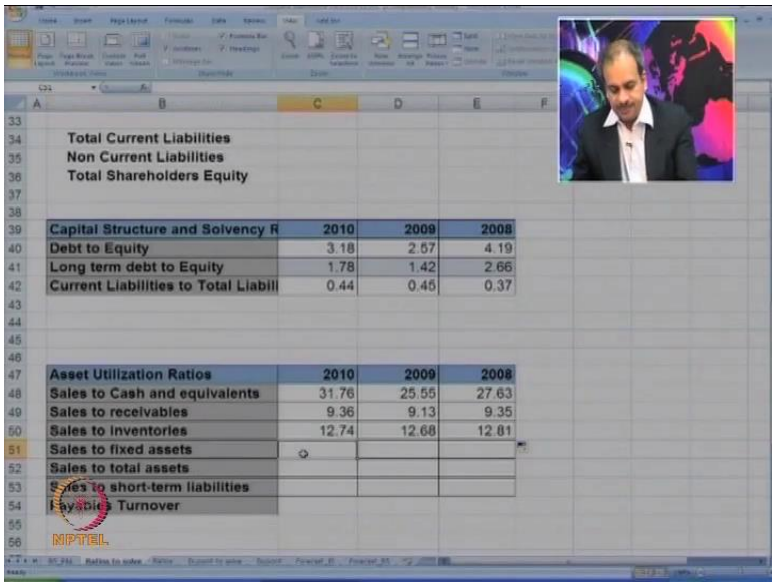
(Refer Slide Time: 12:46)



	A	B	C	D	
7		12 months	12 months	12 months	
8		Unqual	Unqual	Unqual	
9		th USD	th USD	th USD	
10		10-K	10-K	10-K	
11		US GAAP	US GAAP	US GAAP	
12					
13	Total Current Assets	3,730,000	3,810,000	3,710,000	
14	Net Stated Inventory	1,022,000	1,209,000	1,197,100	
15	Raw Materials	295,000	310,000	297,000	
16	Work in Progress	50,000	50,000	41,500	
17	Finished Goods	877,000	849,000	858,600	
18	Inventory Prepayment and other Inv. Adj.	n.a.	n.a.	n.a.	
19	Net Accounts Receivable	1,610,000	1,626,000	1,591,900	QA
20	Accounts Receivable	1,663,000	1,678,000	1,639,300	
21	Doubtful Accounts	-53,000	-52,000	-47,400	
22	Others	898,000	975,000	921,000	
23	Other Current Assets	334,000	334,000	354,100	
24	Prepaid Expenses &	n.a.	n.a.	n.a.	
25	Deferred Charges	n.a.	n.a.	n.a.	
26	Total Cash & Short Term Investment	564,000	641,000	566,900	QA
27	Cash or Equivalent	490,000	600,000	554,900	

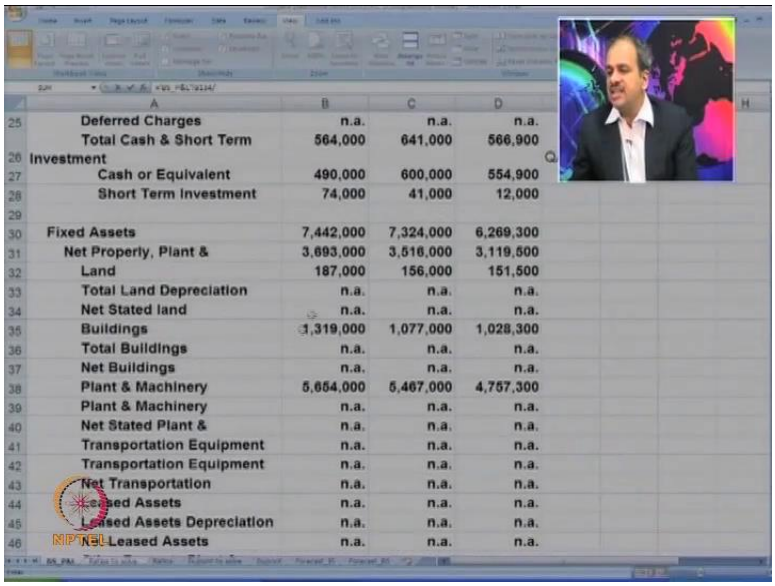
Now, detail breakup of a inventory is given, in this case we will take the net stated inventory or the total inventory.

(Refer Slide Time: 12:49)



So, the ratio is 12 and if you drag to earlier years you can see it has almost remained constant. So, it was 12.87, 68, 74 which shows that companies a efficiency in managing inventory is more or less same higher ratio would be advisable, because a ratio of 12 indicates that they keep about 1 month inventory if they can a reduce inventory while increasing the sales that will be better for them. Now, let us look at sales to fix assets, so again we are picking up the net sales. Now, if you look at the breakup of their assets they have given the fix assets total of intangibles then other fix assets, and so on.

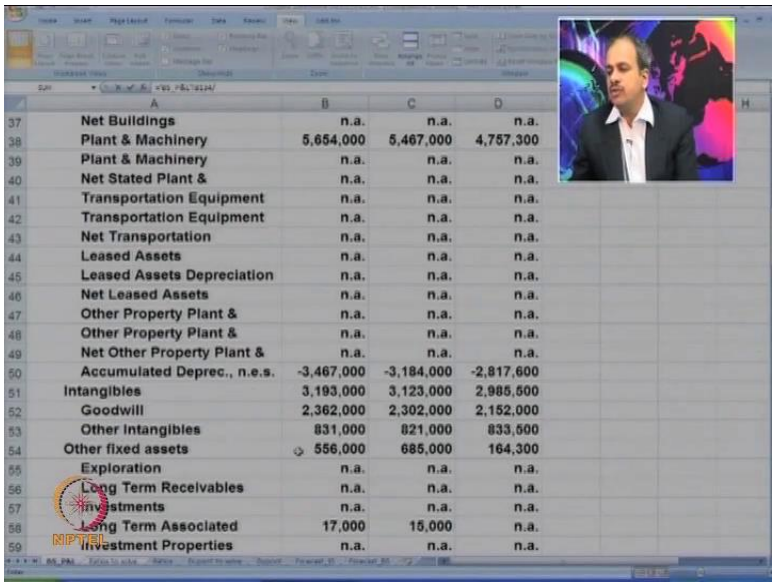
(Refer Slide Time: 13:37)



	A	B	C	D
25	Deferred Charges	n.a.	n.a.	n.a.
	Total Cash & Short Term Investment	564,000	641,000	566,900
27	Cash or Equivalent	490,000	600,000	554,900
28	Short Term Investment	74,000	41,000	12,000
29				
30	Fixed Assets	7,442,000	7,324,000	6,269,300
31	Net Property, Plant &	3,693,000	3,516,000	3,119,500
32	Land	187,000	156,000	151,500
33	Total Land Depreciation	n.a.	n.a.	n.a.
34	Net Stated land	n.a.	n.a.	n.a.
35	Buildings	1,319,000	1,077,000	1,028,300
36	Total Buildings	n.a.	n.a.	n.a.
37	Net Buildings	n.a.	n.a.	n.a.
38	Plant & Machinery	5,654,000	5,467,000	4,757,300
39	Plant & Machinery	n.a.	n.a.	n.a.
40	Net Stated Plant &	n.a.	n.a.	n.a.
41	Transportation Equipment	n.a.	n.a.	n.a.
42	Transportation Equipment	n.a.	n.a.	n.a.
43	Net Transportation	n.a.	n.a.	n.a.
44	Leased Assets	n.a.	n.a.	n.a.
45	Leased Assets Depreciation	n.a.	n.a.	n.a.
46	Net Leased Assets	n.a.	n.a.	n.a.

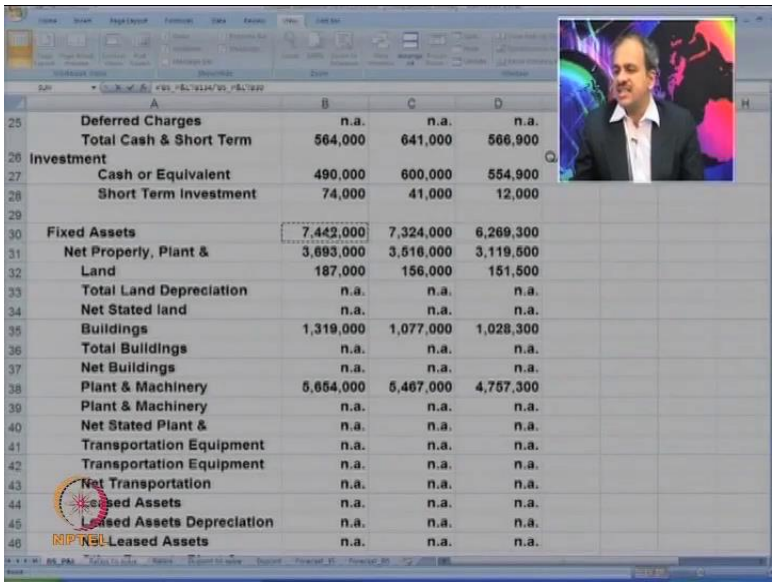
So, we will look at the all the fix assets.

(Refer Slide Time: 13:40)



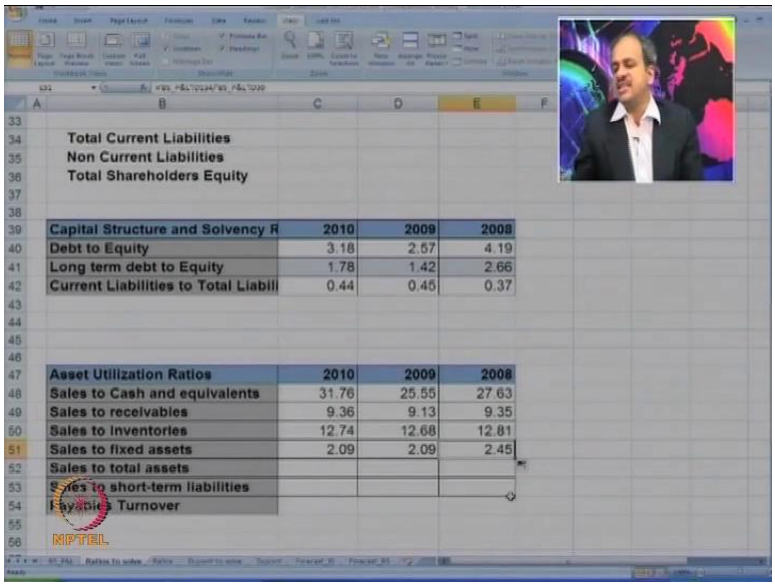
	A	B	C	D
37	Net Buildings	n.a.	n.a.	n.a.
38	Plant & Machinery	5,654,000	5,467,000	4,757,300
39	Plant & Machinery	n.a.	n.a.	n.a.
40	Net Stated Plant &	n.a.	n.a.	n.a.
41	Transportation Equipment	n.a.	n.a.	n.a.
42	Transportation Equipment	n.a.	n.a.	n.a.
43	Net Transportation	n.a.	n.a.	n.a.
44	Leased Assets	n.a.	n.a.	n.a.
45	Leased Assets Depreciation	n.a.	n.a.	n.a.
46	Net Leased Assets	n.a.	n.a.	n.a.
47	Other Property Plant &	n.a.	n.a.	n.a.
48	Other Property Plant &	n.a.	n.a.	n.a.
49	Net Other Property Plant &	n.a.	n.a.	n.a.
50	Accumulated Deprec., n.e.s.	-3,467,000	-3,184,000	-2,817,600
51	Intangibles	3,193,000	3,123,000	2,985,500
52	Goodwill	2,362,000	2,302,000	2,152,000
53	Other Intangibles	831,000	821,000	833,500
54	Other fixed assets	556,000	685,000	164,300
55	Exploration	n.a.	n.a.	n.a.
56	Long Term Receivables	n.a.	n.a.	n.a.
57	Investments	n.a.	n.a.	n.a.
58	Long Term Associated	17,000	15,000	n.a.
59	Investment Properties	n.a.	n.a.	n.a.

(Refer Slide Time: 13:48)



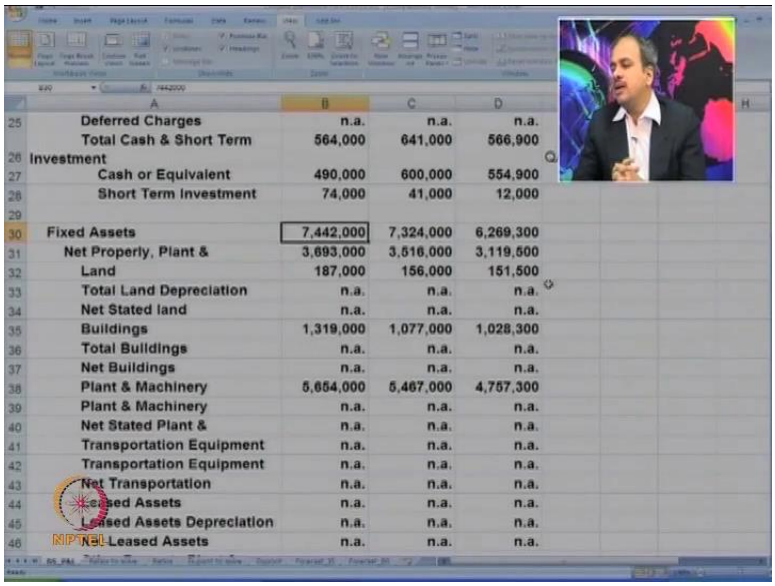
So, will just take the total fix assets; which include both tangible and intangible.

(Refer Slide Time: 14:01)



Now, here you can see some not so good picture, because companies efficiency was 2.47 only, it has further gone down to 2.09. So, what does it show it shows that relatively company has very high assets company is not able to convert them into sales to the extend it would like to, so the sales has is hardly 2 times it is fix assets, will go back you can look at the figures again.

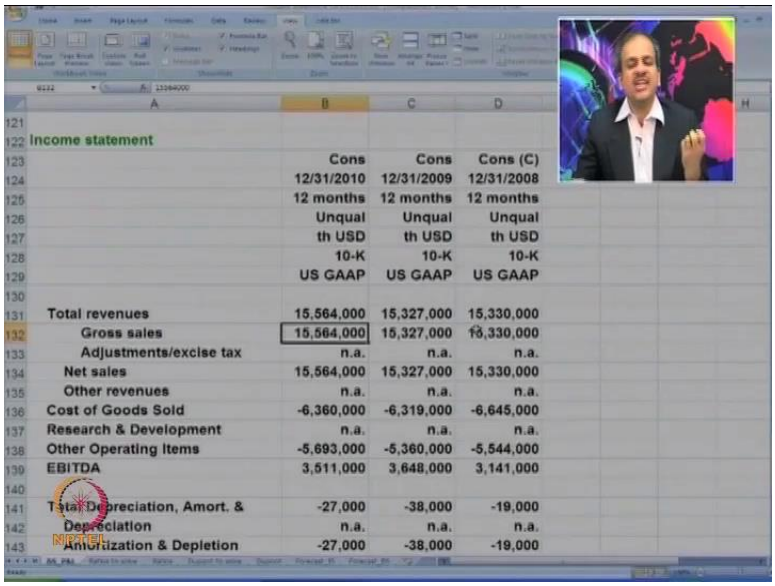
(Refer Slide Time: 14:30)



25	Deferred Charges	n.a.	n.a.	n.a.
	Total Cash & Short Term	564,000	641,000	566,900
26	Investment			
27	Cash or Equivalent	490,000	600,000	554,900
28	Short Term Investment	74,000	41,000	12,000
29				
30	Fixed Assets	7,442,000	7,324,000	6,269,300
31	Net Property, Plant &	3,693,000	3,516,000	3,119,500
32	Land	187,000	156,000	151,500
33	Total Land Depreciation	n.a.	n.a.	n.a.
34	Net Stated land	n.a.	n.a.	n.a.
35	Buildings	1,319,000	1,077,000	1,028,300
36	Total Buildings	n.a.	n.a.	n.a.
37	Net Buildings	n.a.	n.a.	n.a.
38	Plant & Machinery	5,654,000	5,467,000	4,757,300
39	Plant & Machinery	n.a.	n.a.	n.a.
40	Net Stated Plant &	n.a.	n.a.	n.a.
41	Transportation Equipment	n.a.	n.a.	n.a.
42	Transportation Equipment	n.a.	n.a.	n.a.
43	Net Transportation	n.a.	n.a.	n.a.
44	Leased Assets	n.a.	n.a.	n.a.
45	Leased Assets Depreciation	n.a.	n.a.	n.a.
46	Net Leased Assets	n.a.	n.a.	n.a.

These are the values of fix assets 6269 was the total, and now it has increased to 7442, but if you look at the sales the position is not that good it is around hovering around 15.

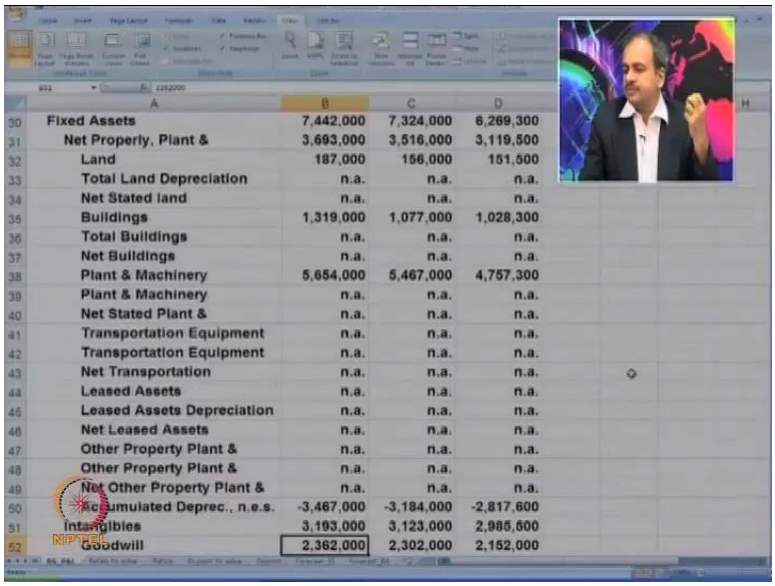
(Refer Slide Time: 14:45)



121				
122	Income statement			
123		Cons	Cons	Cons (C)
124		12/31/2010	12/31/2009	12/31/2008
125		12 months	12 months	12 months
126		Unqual	Unqual	Unqual
127		th USD	th USD	th USD
128		10-K	10-K	10-K
129		US GAAP	US GAAP	US GAAP
130				
131	Total revenues	15,564,000	15,327,000	15,330,000
132	Gross sales	15,564,000	15,327,000	15,330,000
133	Adjustments/excise tax	n.a.	n.a.	n.a.
134	Net sales	15,564,000	15,327,000	15,330,000
135	Other revenues	n.a.	n.a.	n.a.
136	Cost of Goods Sold	-6,360,000	-6,319,000	-6,645,000
137	Research & Development	n.a.	n.a.	n.a.
138	Other Operating Items	-5,693,000	-5,360,000	-5,544,000
139	EBITDA	3,511,000	3,648,000	3,141,000
140				
141	Total Depreciation, Amort. &	-27,000	-38,000	-19,000
142	Depreciation	n.a.	n.a.	n.a.
143	Amortization & Depletion	-27,000	-38,000	-19,000

So, company is able to just convert 2 times its fix assets to sales, if you look at fix assets little more in detail you will realize.

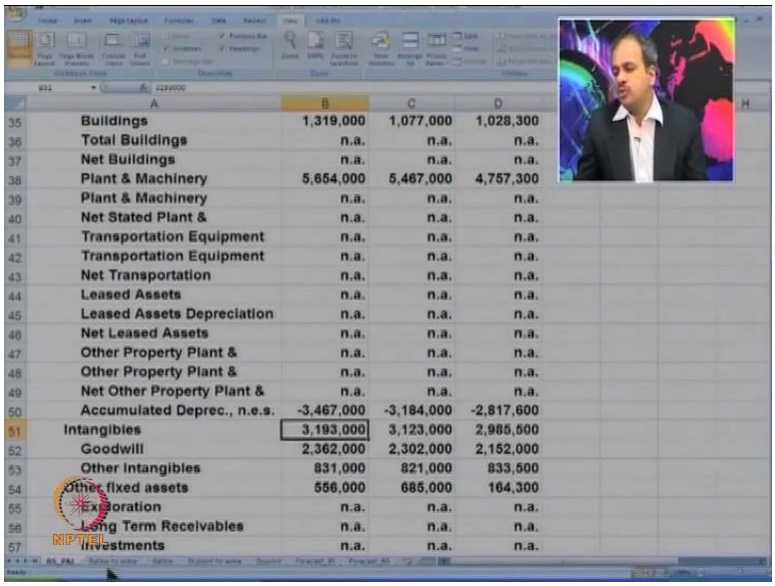
(Refer Slide Time: 14:58)



	A	B	C	D
30	Fixed Assets	7,442,000	7,324,000	6,269,300
31	Net Properly, Plant &	3,693,000	3,516,000	3,119,500
32	Land	187,000	156,000	151,500
33	Total Land Depreciation	n.a.	n.a.	n.a.
34	Net Stated land	n.a.	n.a.	n.a.
35	Buildings	1,319,000	1,077,000	1,028,300
36	Total Buildings	n.a.	n.a.	n.a.
37	Net Buildings	n.a.	n.a.	n.a.
38	Plant & Machinery	5,654,000	5,467,000	4,757,300
39	Plant & Machinery	n.a.	n.a.	n.a.
40	Net Stated Plant &	n.a.	n.a.	n.a.
41	Transportation Equipment	n.a.	n.a.	n.a.
42	Transportation Equipment	n.a.	n.a.	n.a.
43	Net Transportation	n.a.	n.a.	n.a.
44	Leased Assets	n.a.	n.a.	n.a.
45	Leased Assets Depreciation	n.a.	n.a.	n.a.
46	Net Leased Assets	n.a.	n.a.	n.a.
47	Other Property Plant &	n.a.	n.a.	n.a.
48	Other Property Plant &	n.a.	n.a.	n.a.
49	Net Other Property Plant &	n.a.	n.a.	n.a.
50	Accumulated Deprec., n.e.s.	-3,467,000	-3,184,000	-2,817,600
51	Intangibles	3,193,000	3,123,000	2,985,500
52	Goodwill	2,362,000	2,302,000	2,152,000

That company has lot of property land excreta it also has huge amount of plantain machinery.

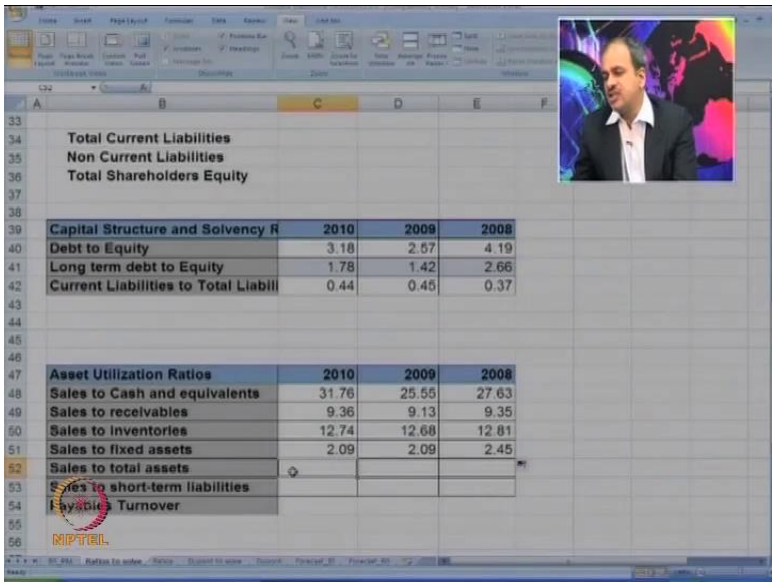
(Refer Slide Time: 15:04)



	A	B	C	D
35	Buildings	1,319,000	1,077,000	1,028,300
36	Total Buildings	n.a.	n.a.	n.a.
37	Net Buildings	n.a.	n.a.	n.a.
38	Plant & Machinery	5,654,000	5,467,000	4,757,300
39	Plant & Machinery	n.a.	n.a.	n.a.
40	Net Stated Plant &	n.a.	n.a.	n.a.
41	Transportation Equipment	n.a.	n.a.	n.a.
42	Transportation Equipment	n.a.	n.a.	n.a.
43	Net Transportation	n.a.	n.a.	n.a.
44	Leased Assets	n.a.	n.a.	n.a.
45	Leased Assets Depreciation	n.a.	n.a.	n.a.
46	Net Leased Assets	n.a.	n.a.	n.a.
47	Other Property Plant &	n.a.	n.a.	n.a.
48	Other Property Plant &	n.a.	n.a.	n.a.
49	Net Other Property Plant &	n.a.	n.a.	n.a.
50	Accumulated Deprec., n.e.s.	-3,467,000	-3,184,000	-2,817,600
51	Intangibles	3,193,000	3,123,000	2,985,500
52	Goodwill	2,362,000	2,302,000	2,152,000
53	Other Intangibles	831,000	821,000	833,500
54	Other fixed assets	556,000	685,000	164,300
55	Exploration	n.a.	n.a.	n.a.
56	Long Term Receivables	n.a.	n.a.	n.a.
57	Investments	n.a.	n.a.	n.a.

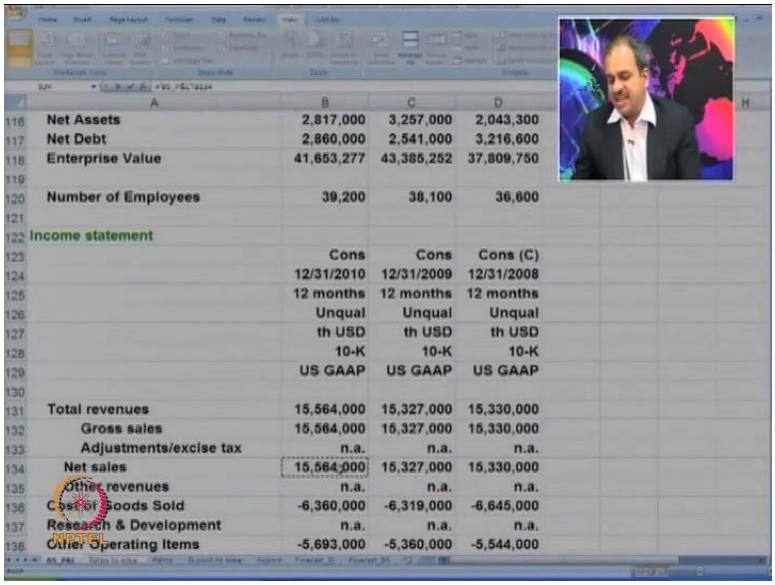
And it as around 3193 of intangibles, but efficiency of using of all these assets is really very low.

(Refer Slide Time: 15:15)

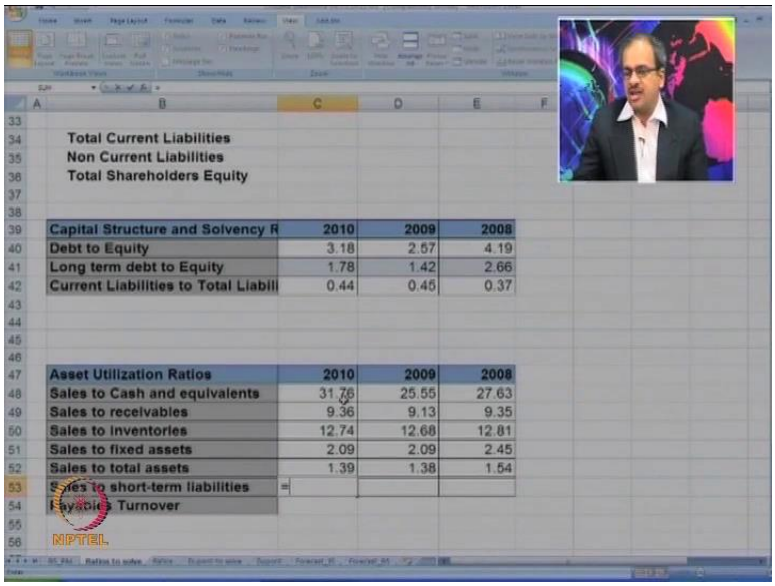


It is just 2 times of that of fix assets and further, it has gone down over the years, because sales is more or less stagnant while the fix assets value are fix assets are rising. Now, let us look at the sales to total assets ratio once again, I will pick up the net sales divided by the total assets of the company.

(Refer Slide Time: 15:42)

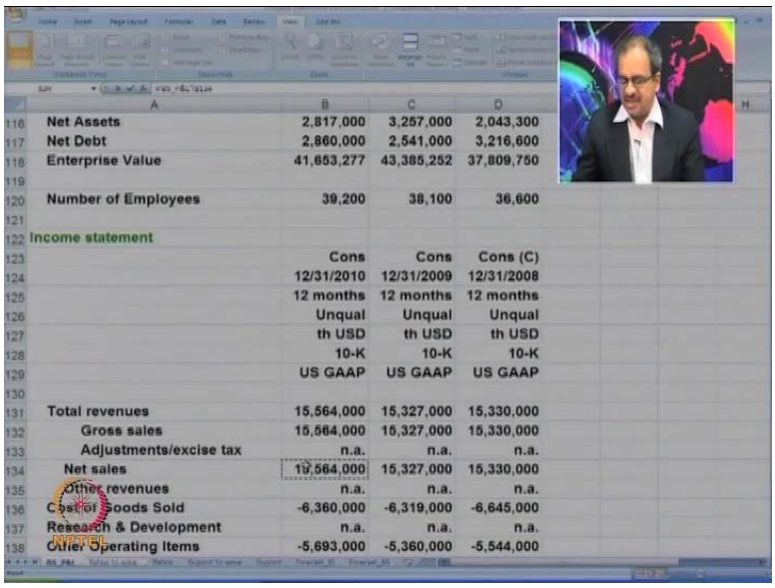


(Refer Slide Time: 15:54)



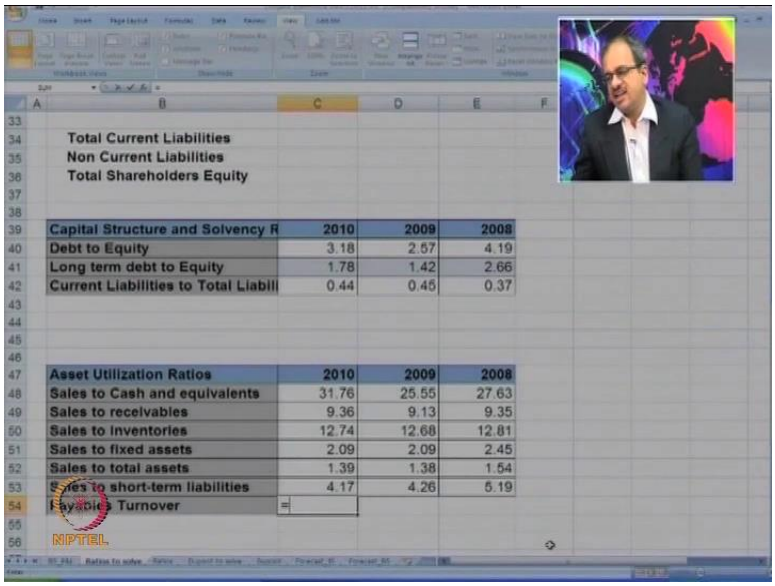
The ratio is very low it is only 1.54 and over last 2 years, it has further gone down to 1.39. So, if you take a look at all these ratios, you will realize that the total assets ratio is very low which is mainly contributed by low utilization of fix assets. Because fix assets utilization is just 12 were as utilization of it current assets is slightly better on the whole, it is just 1.39 times, which is not a very good thing. Now, let us look at how effectively the how is the relationship between sales and its liabilities.

(Refer Slide Time: 16:45)



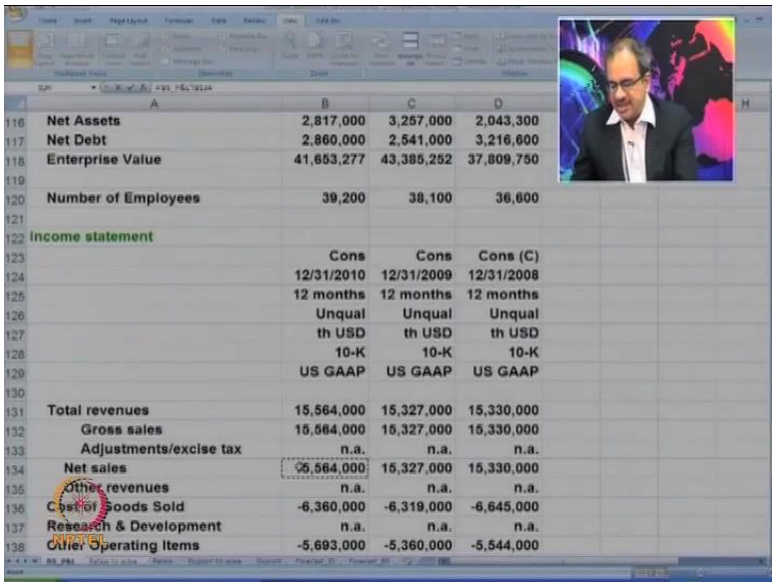
So, will look at sales to short term liabilities once again will take the net sales you can see here the breakup current and noncurrent liabilities is given.

(Refer Slide Time: 16:56)



So, will take the short term liabilities, so the ratio is again gone down from 5 to 5.19 to 4.17 is a good or a bad sign again it is not a good sign, because it shows that company sales are not very high but, third level of liabilities are pretty high they are about 25 percent. Because, sales to short term liabilities is just 4.17 and company will have to look in to it to improve its performance. Now, look at the payables turnover in payables turnover will try to relate sales to its payables or creditors.

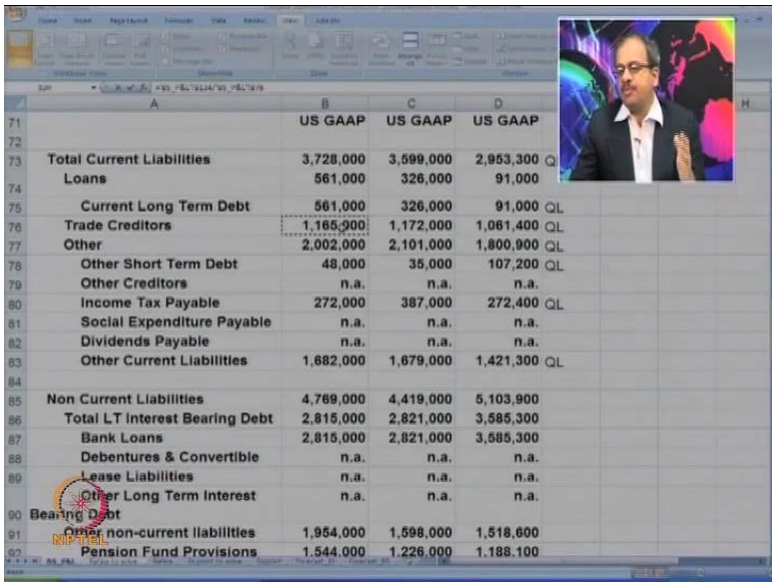
(Refer Slide Time: 17:44)



	A	B	C	D
116	Net Assets	2,817,000	3,257,000	2,043,300
117	Net Debt	2,860,000	2,541,000	3,216,600
118	Enterprise Value	41,653,277	43,385,252	37,809,750
119				
120	Number of Employees	39,200	38,100	36,600
121				
122	Income statement			
123		Cons	Cons	Cons (C)
124		12/31/2010	12/31/2009	12/31/2008
125		12 months	12 months	12 months
126		Unqual	Unqual	Unqual
127		th USD	th USD	th USD
128		10-K	10-K	10-K
129		US GAAP	US GAAP	US GAAP
130				
131	Total revenues	15,564,000	15,327,000	15,330,000
132	Gross sales	15,564,000	15,327,000	15,330,000
133	Adjustments/excise tax	n.a.	n.a.	n.a.
134	Net sales	15,564,000	15,327,000	15,330,000
135	Other revenues	n.a.	n.a.	n.a.
136	Cost of Goods Sold	-6,360,000	-6,319,000	-6,645,000
137	Research & Development	n.a.	n.a.	n.a.
138	Other Operating Items	-5,693,000	-5,360,000	-5,544,000

So, net sales divided by look at the current liabilities.

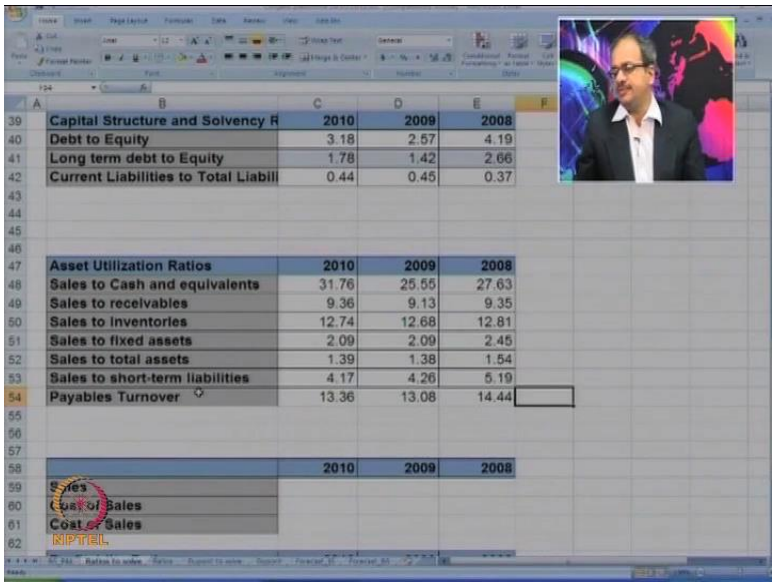
(Refer Slide Time: 17:50)



	A	B	C	D	
71		US GAAP	US GAAP	US GAAP	
72					
73	Total Current Liabilities	3,728,000	3,599,000	2,953,300	Q
74	Loans	561,000	326,000	91,000	
75	Current Long Term Debt	561,000	326,000	91,000	QL
76	Trade Creditors	1,165,900	1,172,000	1,061,400	QL
77	Other	2,002,000	2,101,000	1,800,900	QL
78	Other Short Term Debt	48,000	35,000	107,200	QL
79	Other Creditors	n.a.	n.a.	n.a.	
80	Income Tax Payable	272,000	387,000	272,400	QL
81	Social Expenditure Payable	n.a.	n.a.	n.a.	
82	Dividends Payable	n.a.	n.a.	n.a.	
83	Other Current Liabilities	1,682,000	1,679,000	1,421,300	QL
84					
85	Non Current Liabilities	4,769,000	4,419,000	5,103,900	
86	Total LT Interest Bearing Debt	2,815,000	2,821,000	3,585,300	
87	Bank Loans	2,815,000	2,821,000	3,585,300	
88	Debentures & Convertible	n.a.	n.a.	n.a.	
89	Lease Liabilities	n.a.	n.a.	n.a.	
90	Other Long Term Interest Bearing Debt	n.a.	n.a.	n.a.	
91	Other non-current liabilities	1,954,000	1,598,000	1,518,600	
92	Pension Fund Provisions	1,544,000	1,226,000	1,188,100	

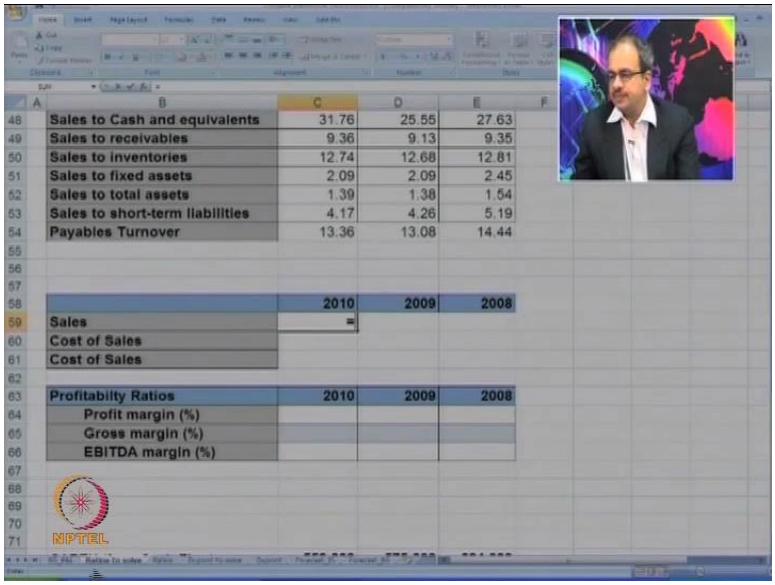
You will observe there is s item called a trade creditor. So, these are the payables in the short term. Will just try to reduce the decimal points to make more readable.

(Refer Slide Time: 18:08)



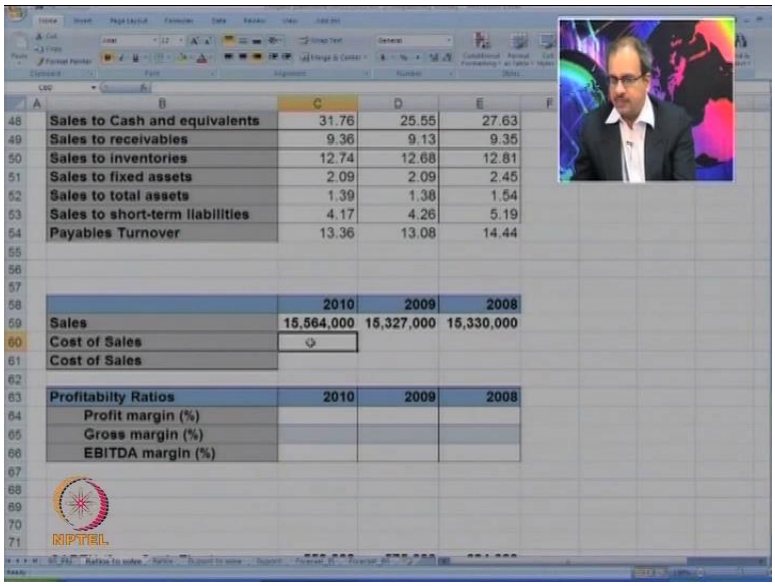
So, it is clear to all it is a it has also gone down form 14 to 130.36, but the position is not very bad it means; about 1 months is a time to pay its creditors. So, all these were assets utilization ratios. So, last 2 were trying to link the liabilities essentially, we are looking at how effectively the company use it is using its assets to convert them into sales.

(Refer Slide Time: 18:49)



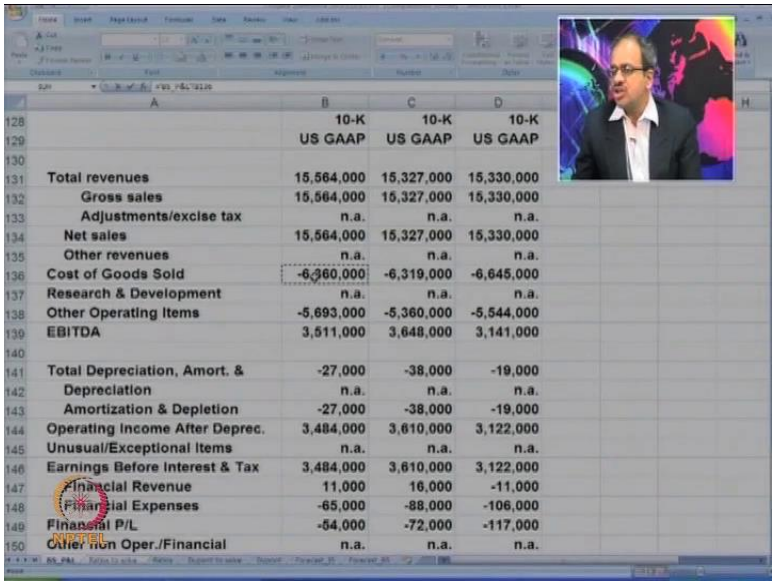
Now, will look at the profit margins for that we need to have figures like sales and cost of sales, so let us try to bring those figures here.

(Refer Slide Time: 19:05)



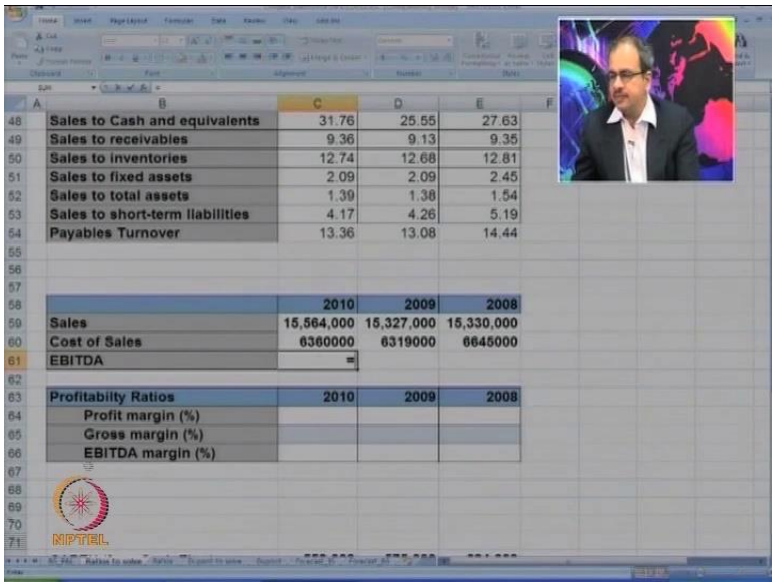
So, this is the sales we are essentially looking at the net sales. So, if you go to income and expenditure statement.

(Refer Slide Time: 19:18)



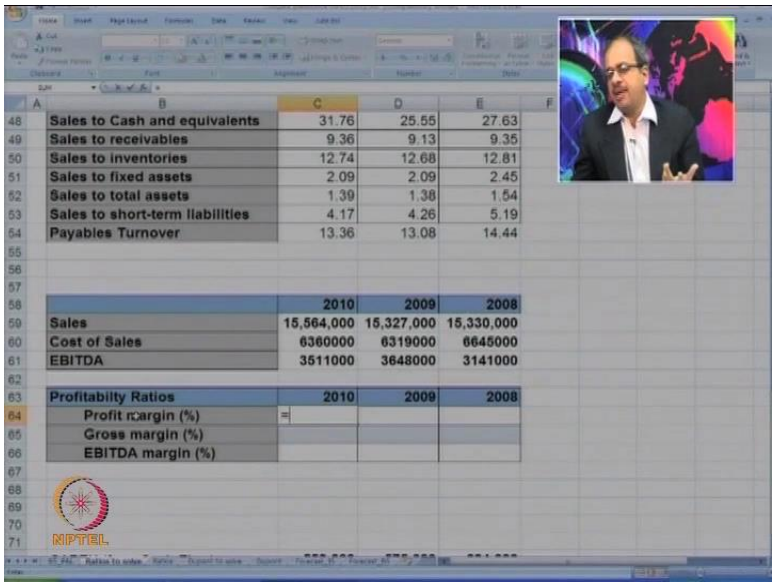
You can see the cost of goods sold figure it is in the minus.

(Refer Slide Time: 19:25)



So, we have to minus sign this is the cost of goods sold, now and we have so we need to find 3 things we are going to find profit ratio gross margin and EBITDA.

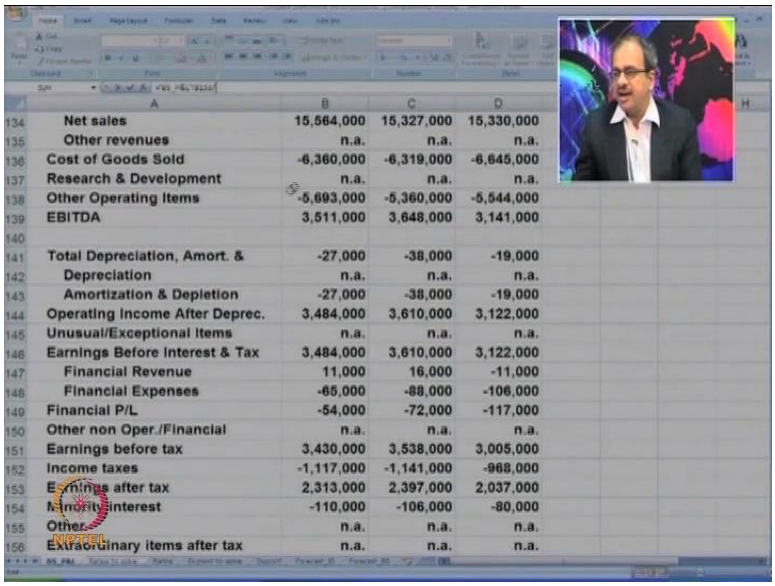
(Refer Slide Time: 20:04)



So, here we will try to bring in EBITDA a popularly known as EBITDA ok. Now, in profit margin the ratio we try to link the net profit or the final profit from to sales usually, we multiply

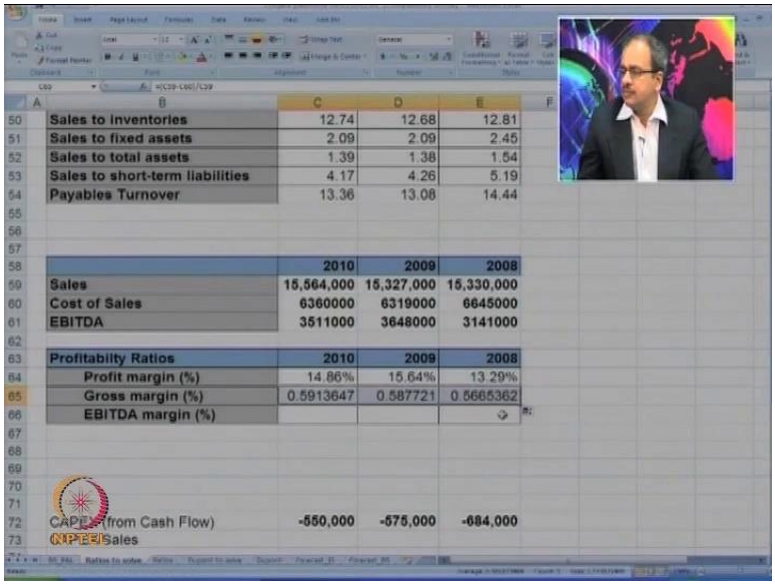
by 100 because it is in percentage terms. So, you can see here the earnings after tax figure is given.

(Refer Slide Time: 20:26)



That is nothing but the net profit we will divide it by net sales.

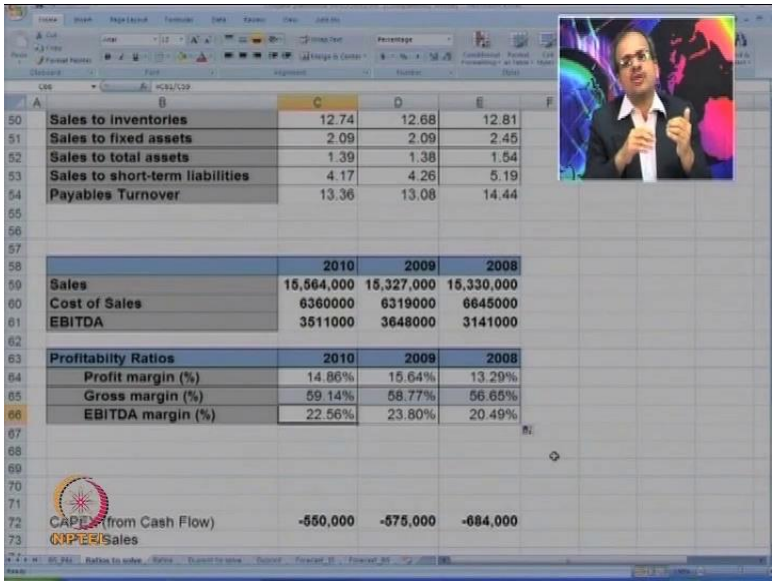
(Refer Slide Time: 20:38)



So, are you able to see we have just converted it as a percentage. So, we got 14.86, in last year it was 15 and in current year it is, I mean last to last year it is 13. So, the margin is more or less

same we can say it is a slight improvement in 2009, but again it has somewhat gone down but overall 14.86 could be considered as a good margin, because this is a net profit margin which is usually low, but company is able to generate a god profit margin from its sales. Now, the gross margin how do you calculate gross margin gross margin we try to relate the gross profit to sales and how to calculate gross profit it is essentially sales minus cost of sales. So, we have the sales figure here minus cost of sales will put it in bracket divided by sales.

(Refer Slide Time: 22:00)

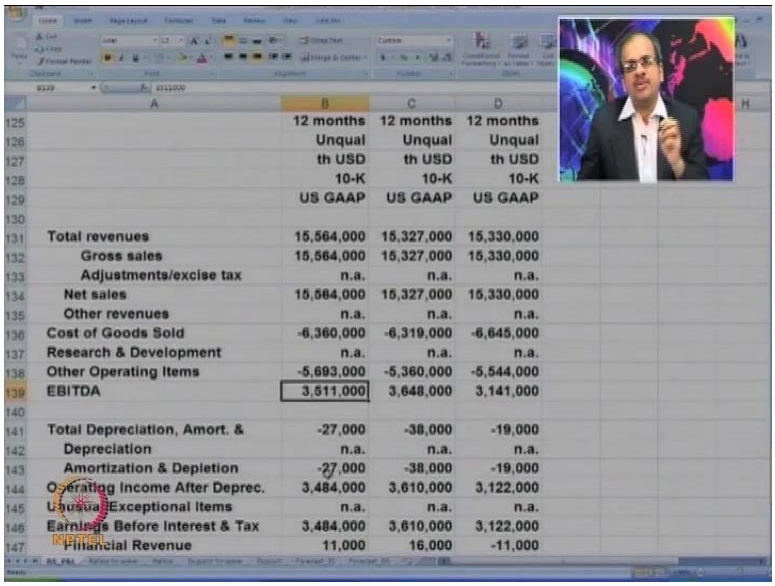


So, you can see here the success of Clogate Palmolive will what it is really able to maintain a very high gross margin gross margin is 56 percent current data has increased to 60 percent. So, company is able to sell it is good at a premium prices that is why it is margins are high and from that margin it is able to maintain a good amount of net margin as well. Now, look at EBITDA margin, so will divide EBITDA upon sales. So, this also shows almost similar trend EBITDA, which was about 20 percent it has slightly increased to 23.8 and now, it has remained high at 22.56.

So, company is able to somewhat increase it is EBITDA margin. Now, what does it convey what is EBITDA do you remember what do you mean by EBITDA what does it really mean; full form is earning before interest tax depreciation and amortization. So, this could be viewed as a operating cash profit are you getting me. So, this is a earning that is a profit before paying

interest taxes depreciation and amortization. So, this a profit at a operations level, so what we have reduced from sales really it may be you can go to p n l account.

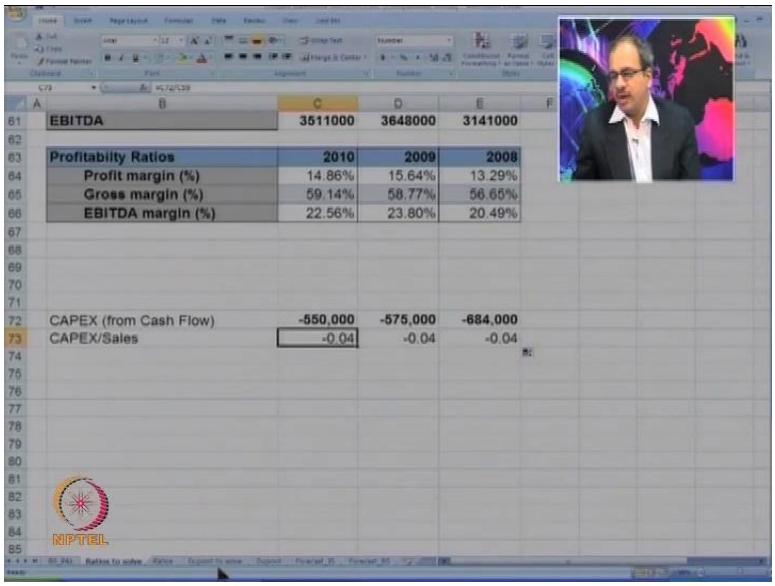
(Refer Slide Time: 23:59)



		B	C	D
125		12 months	12 months	12 months
126		Unqual	Unqual	Unqual
127		th USD	th USD	th USD
128		10-K	10-K	10-K
129		US GAAP	US GAAP	US GAAP
130				
131	Total revenues	15,564,000	15,327,000	15,330,000
132	Gross sales	15,564,000	15,327,000	15,330,000
133	Adjustments/excise tax	n.a.	n.a.	n.a.
134	Net sales	15,564,000	15,327,000	15,330,000
135	Other revenues	n.a.	n.a.	n.a.
136	Cost of Goods Sold	-6,360,000	-6,319,000	-6,645,000
137	Research & Development	n.a.	n.a.	n.a.
138	Other Operating Items	-5,693,000	-5,360,000	-5,544,000
139	EBITDA	3,511,000	3,648,000	3,141,000
140				
141	Total Depreciation, Amort. &	-27,000	-38,000	-19,000
142	Depreciation	n.a.	n.a.	n.a.
143	Amortization & Depletion	-27,000	-38,000	-19,000
144	Operating Income After Deprec.	3,484,000	3,610,000	3,122,000
145	Unusual Exceptional Items	n.a.	n.a.	n.a.
146	Earnings Before Interest & Tax	3,484,000	3,610,000	3,122,000
147	Financial Revenue	11,000	16,000	-11,000

So, you have got gross sales we remove the cost of goods sold, we also remove other operating items that is regular expenses to get EBITDA, but the depreciation and amortization is still not reduced. So, this is the total amount of profit generated in cash terms by the company from its operations. So, it is very important especially if you want to study the profitability of the business of the company it gives a better inside because net profit gives the final profit ultimate profit. But, there we have to consider interest taxes and a certain extra ordinary items which might effect that year there must be some prior adjustments, which are all which all effect the net profit were EBITDA really tells how is the business or how is their operations performance. So, you can see here the company's profitability it is really good it is able to maintain about 22 percent profit.

(Refer Slide Time: 25:08)

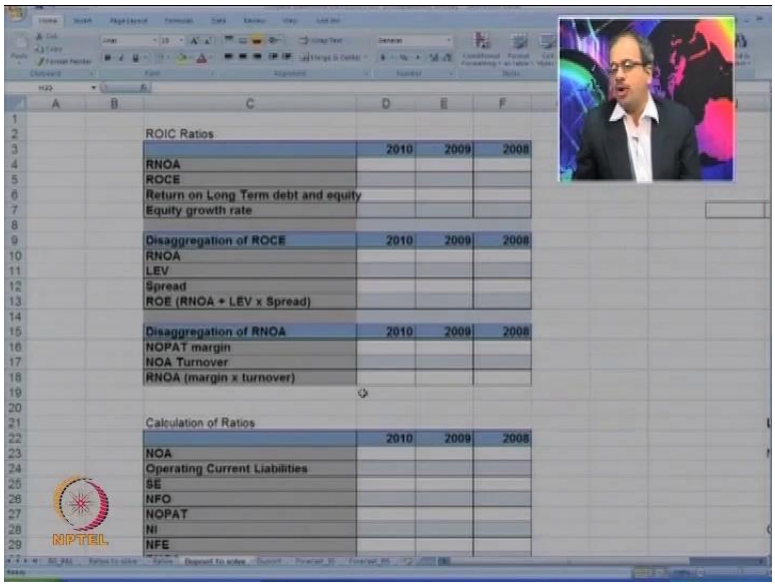


Now, let us try to do 1 more ratio that is known as capex to sales ratio for that you need to know capex that is capital expenditure which is available from a cash flow statement we already brought it her and a I think cash flow statement is not available here, but we try to bring the capex and it is in the negative for the company, we will try to divide it by sales. So, in all the years it is very low it is minus 0.04. Now, what does it convey to you what you will understand from this is if the ratio is high, it will means that company is spending lot of money into capital expenditure which is good for the future of the company.

Because, it is lightly to give higher capacity it means; there are expansions taking over of new companies which is all counted in capex, so high positive figure of capex shows the growth of the company. And it is a ratio attempts to link the capex to sales, so what percentage is the money company is spending for future growth, in this case you see not a very picture, because first of all capex is negative it means; that there is not much growth in fact company is selling some of its existing assets and you relate to sales you know that it is just 0.04 that means; company is more or less stagnant in terms of its growth there is not much of new addition to assets in fact the existing assets are slightly shrinking are you getting ok.

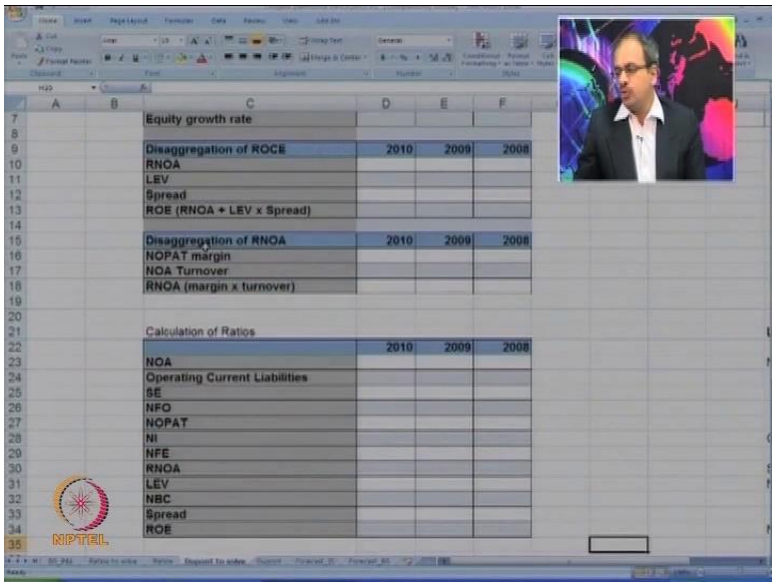
Now this series of ratios are over we have done short term liquidity and then we have done some a capital structure asset utilization and profitability ratios.

(Refer Slide Time: 27:23)



Now, let us go to 1 more analysis that is known as due point analysis this a very interesting analysis were in we try to find the returns, if you see here we have look it from the operations view point how is the day to day liquidity how is the financing pattern and how is the asset utilization and how is the final profit, but we have not try to calculate the returns in due point analysis will try to calculate various types of returns, so how effectively the company is able to use it is the money which is invested to generate the profit that is the return ok. So, will calculate these ratios that is RNOA, etcetera. And a we will also try to disaggregate ROCE, I hope you know this figures even if you do not know they are shown over here.

(Refer Slide Time: 28:21)



So, you can have a look at it before we go a ahead this terms you should know this NOA which means; net operating assets for the company, I hope it is clearly visible. Now, perhaps will go through this terms, so that it is clear to you what is done in due point analysis NOA refers to net operating assets were we are trying to find the total assets minus operating current liabilities minus half of the differ tax liabilities considering them as operating. So, idea is what is the assets which are really used for operations.

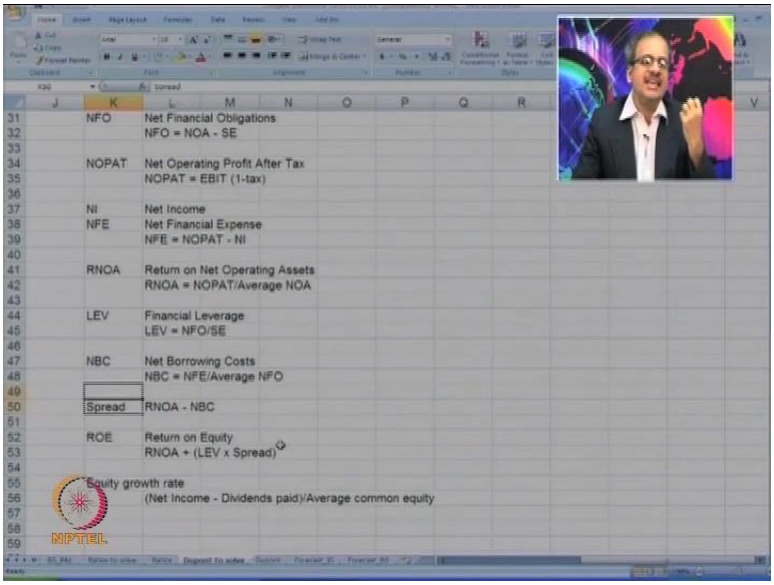
So, from the total assets we remove the operating the current liabilities and also remove half of the differ tax liabilities to get the NOA operating current liabilities are total current liabilities minus other short term liabilities, then we need to find share holders equity which we are already aware, then we also find net financial obligations which is NOA minus SE. So, out of the net operating assets whatever, is financed by share holders equity will be reduced what remains is the net financial obligations.

That is the money company has to pay to outsiders then 1 important figure is NOPAT, which is net operating profit after tax I hope you all know operating profit this is a profit which is generated from the operations from that a we will, so for calculating NOPAT, will take EBIT which is earning before interest and tax into 1 minus tax. So, whatever is the tax which would

have been charged on this profits will try to reduce next is NI net income, I think you all know net financial expenses in other terms expenses like interest paid etcetera.

So, which we calculate as NFE that is net financial expenses as NOPAT minus NI. So, NOPAT is a total profit or net operating profit after tax, we reduce the final profit or the net income. So, the difference is considered as net financial expenses, then we have RNOA which is a return on net.

(Refer Slide Time: 31:05)



Operating assets were in we try to calculate NOPAT divided by average NOA then 1 more important term is LEV, which indicates the leverage which is NFO upon SE, we have just now seen what is NFO; NFO is net financial obligation that means; this are the outsiders liabilities verses SE. So, this is something like our debt equity ratio were we will try to calculate debt verses equity, but this is slightly different because it is not the total debt here we are looking at net financial obligation verses the share holders equity then NBC this is net borrowing cost were we look at NFE; NFE you know now net financial expenses divided by average of NAFO. Next is spread by way of spread will try to find RNOA minus NBC.

So, in NBC you can see here try to link net financial expenses, which are like out go on account of interest as a average of NFO, NFO is a financial obligation or money which company is using from outsiders. So, we are trying to find what percentage of cost we have to pay like as a interest

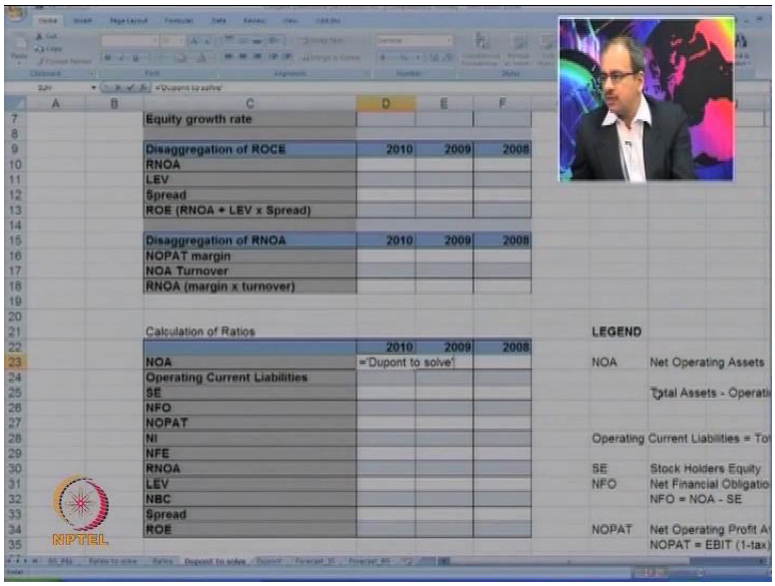
cost. So, NFE upon average NFO gives us NBS spread tries to link how much is total earning o the assets. So, RNOA minus NBC now, let us assume that company is able to earn 20 percent as return on it is assets and it has to pay 15 percent at interest that means; 5 percent will be the spread.

So, 5 percent is a additional earning which owners get that is called as spread 1 more is ROE, which you now return on equity it is calculated as RNOA plus leverage into spread, if remember earlier we have try to calculate ROE as PAT that is profit after tax upon the owners fund, but in due point analysis we tried to slightly calculate different manner, because we have already calculated figure of RNOA, which is total return available on assets to which we add leverage into spread, because spread is a extra money which is been generated by using the debt funds or borrowed funds we multiply by leverage.

So, if company has say 70 percent of outsider's fund that spread into leverage will give it that much extra money to the owners that is why it is RNOA plus LEV into spread next is equity growth rate were, we try to find what is the growth rate available to the equity. So, we take net income minus dividend paid upon average common equity. So, here what is been found is out of your profit if you distribute entire profit of dividend the numerator will be 0. If you say distribute the half the profit as dividend then net profit minus half you are net profit the remaining net profit is being re invested for growth that is why we find net income minus dividend paid and divide it by the common equity ok, I hope there are lot of new terms.

But, they are getting clear to you now, so this is a very special type of analysis which is known as due point analysis were we in detail look at the returns of the company and segregate them, now here we try to calculate. Now, whatever we have discussed I hope you are clear you are comfortable with it. So, this is already done but I will try to re do it for you so that it is more clear to you, so the first thing we want is NOA. If you remember will go there, so that you can see it this is net operating assets were will try to find the total assets minus operating current liabilities minus half of the differed tax liabilities ok. So, how will you calculate NOA.

(Refer Slide Time: 35:51)



Now go back to the balance sheet you know the formula now, this is net operating assets. So, I am sorry. Let us look at it once again to give it more clarity, so we are going to look at total assets minus operating current liabilities ok. So, if you go to balance sheet you can readily see the total assets form this total assets we will only reduce the operating current liabilities. Now, these are the total current liabilities look at them and tell me which the operating current liabilities are. So, you have got a current long term debt which is not a operating liability.

So, loans will not be counted and then you got trade creditors which is a operating current liability then other short term debt which could be treated as operating current liability income tax payable perhaps, will not be counted as operating current liability then you have got other current liabilities which are counted ok. So, total assets minus operating current liabilities and we will also try to get the differed tax liability which is shown here ok. So, minus as you know what we are going to minus is half of the differed tax liability. So, here you can see the differed taxes half of this figured will be considered so into 0.5.

So, this is the figure of NOA, I hope it is clear to you will try to drag it down are you getting there are different views some people even take the taxation figures into a count, which we have not taken I think it may be better to add even the taxes liability. So, here you can see in our liabilities we have taken the trade creditors we have also taken short term debt, we have not

taken income tax paid. Let us add it ok, so this is the net operating assets second, we want to know the operating current liabilities which we already captured.

So, I suppose we can just copy it down k, so these are the operating current liabilities then second is SE you know is share holders equity the figure will be radially available from the balance sheet. So, this is the total share holders equity next is NFO, which f you remember is net financial obligations this is this special calculation which is done for new point analysis. So, we try to calculate a NFO as NOA minus SE ok. We have just calculated or picked up the share holders equity that is SE and we also know NOA. So, it very easy for us to calculate now NFO.

So, net financial obligations signify something like a total money payable to outsiders that is it is called as financial obligation next is NOPAT, which you are aware it is net operating profit after tax so 1 minus tax. So, I think we have to go first to p n l account and look at the tax rate if you go to p n l account, you will see that income taxes and earnings before tax will try to relate it to calculate the tax rate. So, you get around 0.32 for all the years. So, you can take 0.32 as applicable rate for this company. Now for calculating NOPAT we need to know EBIT and we will multiply by 1 minus tax rate.

So, EBIT is earning before interest and tax into it is 1 minus. Now, here you can see in all these years the tax rate is around 0.325. So, I have taken it as 1 minus 0.33 you can make a judgment some people can take it has 30 percent 35 percent, but since 33 percent is a closest rate. So, we have taken 1 minus 0.33. So, this becomes you are NOPAT no look at NI net income this figure will be readily available from profit and loss account. So, this is nothing but earning after tax now NFE next calculation this is net financial expenses in simple terms it is something like asset interest paid but, here we calculate it slightly differently we calculate as NOPAT minus NI.

So, NOPAT is a total profit after from operations, but after tax from that we reduced the net income, so remaining becomes the amount which is paid for interest. Now what happens is a whenever you pay interest you also get some tax benefit. So, here instead of calculating the total interest we have tried to look at the total operating profit minus applicable taxes, so if there would have been no borrowed funds this would have been the net profit from that we reduce the net profit to know the interest obligation. So, which you can see is a pretty low figure I think net profit figure is this figure we have taken some other value that as caused some problem.

So, net income I will just replace if you go to this is the correct net income ok I got a doubt because we are seeing relatively a very low amount of NFE. Now, it is somewhat correct are you getting me, so net income should be the net profit as it's calculated here we have done that now go to calculation of RNOA that is return on the assets which you are using RNOA formula again you can see this is return on net operating assets. So, in due point analysis it is define as NOPAT upon average NOA. Now you already know NOPAT will divide it by average NOA. So, for average we have to take 2 years figures.

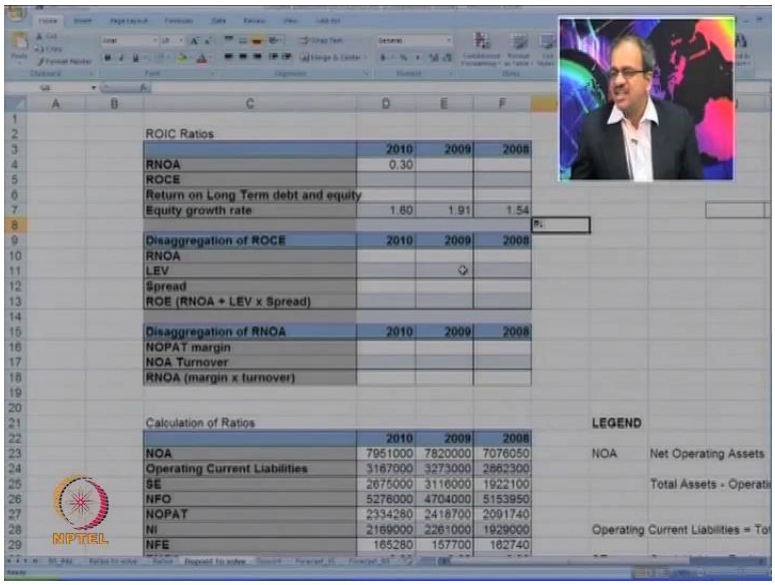
So, here we have taken this 2 years figures the last 1 is somewhat wrong I hope now it is clear so we are trying to what we are trying to do is we are taking for RNOA the NOPAT, which we have already calculated net profit after taxes but, at operations level and we divide it by the average of NOA for 2 years. So, we have taken 2 years figure and divided it by 2 the last figure there is a problem, because we do not have earlier year figure so we are not taking average as far as 2.8 is concerned but, now you can see it is almost a stable figure it is around 0.30, which is a good return on the assets which are used.

Now, let us try to look at leverage we try to relate NFO upon SE NFO is like a outsiders liability which we divide by the share holders funds. So, NFO divided by SE, so you can see that company has a high leverage relatively and earlier it was even more high if you remember earlier we have discussed debt equity ratio this matches with that so 2.68. Now, it has somewhat gone down to 1.97 next calculation we have to do is NBC in NBC we are looking at the net borrowing cost. So, we take it has NFE upon average of NFO. So, NFE is nothing but the interest burden which we divide by NFO because NFO is the out go. So, it will come to 0.03 but if we do averaging it will be somewhat a better 1.

So, I hope you understand here that it is around it shows that around 3 percent is the interest rate since, this is the international company the interest rates are fairly low and this is after tax cost that is why it is a amount will be something like 3 percent will do a little correction, because instead of taking only year ends figures we will try to take average of 2 years figures it has not made any great difference it continues to be about 0.03 ok. Now, let us look at the spread, so by spread we are trying to see how much extra profit the equity holders are getting. So, it is RNOA minus NBC which is now ready with us. So, you can see that the company has a substantial advantage it is return is 30 percent it has to pay just 3 percent to the outsiders.

So, 26 percent is a spread and the final figure. Now, ROE in ROE we try to get RNOA plus leverage into spread. So, RNOA will be anyway available to share holders plus that is why ROE is really very high it is 0.81 percent and in 2008 it was as high as 100 percent this is the return available to the owners. Now, almost all the figures are already calculated, so this RNOA is what we have done will just try to replicate. Now ROCE you are aware it is return on capital employed, then we also try to link it return on long term debt and equity and equity growth rate I think other things we have done.

(Refer Slide Time: 50:10)



So, will not repeat equity growth rate is available here that is net income minus dividend paid upon average common equity. So, let us try to calculate it, so net profit is what is the total money available to the company minus the dividend paid I am adding it because anyway dividend figure is given in minus. So, net income divided by sorry net income minus dividend paid this is the numerator and we are going to divide it by you can see here what we are trying to do the average of common equity ok.

So, which figure again available from the balance sheet, so you can see here the common stock or shares that represents the common equity. So, 1.60 comes the rate because net income minus a the dividend is fairly the large figure divided by the common equity right. Now, I have not taken average, because in the last year we do not have figures for 2 years. So, this will be the figure, so

I think will not go ahead into the disaggregation that you can do on your own but, this calculations which were very important and that was a new learning to all of you which, I think you have got a ok. We have will stop it here we have done today a complete analysis of 1 global company, which the figures are as per US gap and I think that, would have given you some more insides into how the ratios, can be analysis and analyze and particularly how due point analysis is done ok.

Thank you so much, so will stop here.