

Financial Accounting
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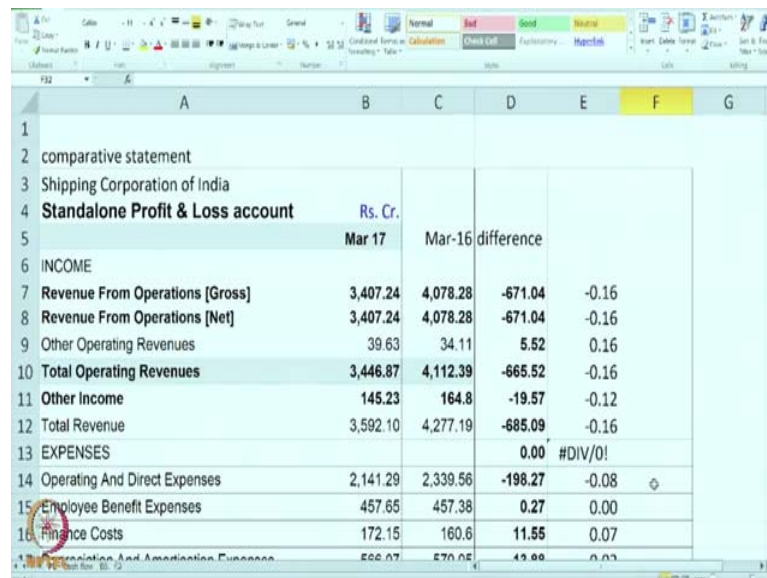
Lecture – 32

Interpretation and Analysis of Financial Statements: Shipping Corp. of India case 1

Namaste. In last three sessions, we have discussed a lot about Financial Statement Analysis and its Interpretations. We have seen variety of ratios and to which stakeholders which ratios are important. Now, let us start actual playing with numbers.

So, today we are going to actually work on certain company's data so that you get the feel to calculate those things. As I have told you earlier, these sheets are shared with you. So, please take a printout. If you have still not taken take it right now. You can hold the video take the printout.

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	Rs. Cr.	Mar 17	Mar-16	difference	
INCOME					
Revenue From Operations [Gross]	3,407.24	4,078.28	-671.04	-0.16	
Revenue From Operations [Net]	3,407.24	4,078.28	-671.04	-0.16	
Other Operating Revenues	39.63	34.11	5.52	0.16	
Total Operating Revenues	3,446.87	4,112.39	-665.52	-0.16	
Other Income	145.23	164.8	-19.57	-0.12	
Total Revenue	3,592.10	4,277.19	-685.09	-0.16	
EXPENSES			0.00	#DIV/0!	
Operating And Direct Expenses	2,141.29	2,339.56	-198.27	-0.08	
Employee Benefit Expenses	457.65	457.38	0.27	0.00	
Finance Costs	172.15	160.6	11.55	0.07	
Depreciation And Amortisation Expenses	522.07	570.05	-47.98	-0.03	

Now, we are going to discuss about Shipping Corporation of India and we will be calculating comparative as well as common size statement which is horizontal and vertical analysis as we discussed in the first session. So, let us do it on the actual data.

Now, this is a profit and loss account of Shipping Corporation of India. I hope you know about this company. This is a public sector undertaking Government Company which is a one of the leading shipping companies in India and in we have got date of March, 16

and 17. This is not a very good year for the company you can see here revenue from operations has dropped from 4000 to 3400. We will look at various expenses.

So, first we are going to start with what is known as horizontal analysis. So, in horizontal analysis what we do is we compare the 2 years. We want to study this year March 17. So, we collect the data of last year that is March 16 and each of the figures will compare with earlier year. So, what we prepare is known as a comparative statement. Now, it is very easy to make it is very much common sense. So, I request you to make it along with you.

So, we will give a title, this is a comparative statement. Now, what is done in comparative statement is we have got 2 year data. So, we will calculate the difference, the increase or decrease in the year. So, if you take the first figure, normally we expect an increase I have deliberately taken a company where there is a decrease. So, you can see that the revenue from operations gross has fallen from 4078 to 3407. So, minus 671 is a difference or increase in the current year; not increase, it is a decrease so, it is a minus increase.

Now, even this absolute figure does not tell you about what is relatively relative change, relative increase or decrease. So, what we will do is we will calculate this as a percentage to the base that is to the last year. So, we get minus 0.16; that means, 16 percent fall in the revenue. Are you getting? So, each of the figures now we are going to compare, first find the difference and then find the percentage change.

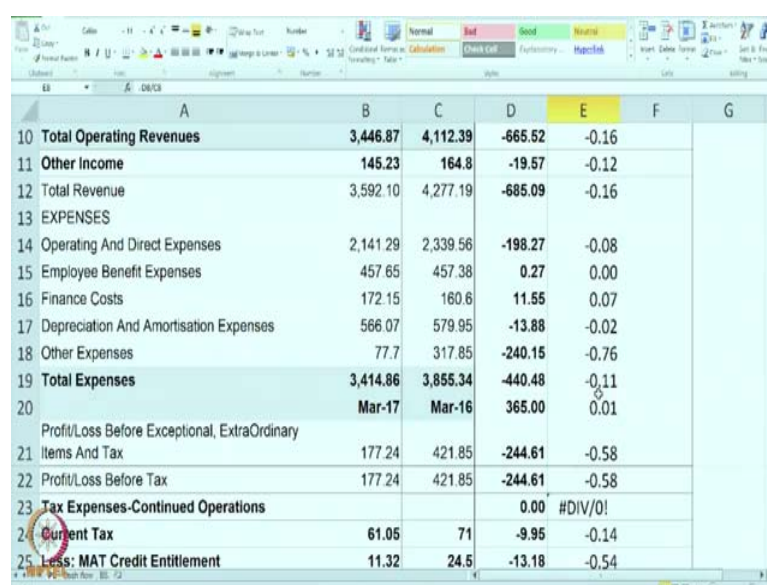
Now, calculating all these figures is very simple of course, when you calculate on calci you will have to calculate every figure, but overall we will be able to do the same thing for all the figures. So, we will see now one by one figures. So, revenue from operations gross and net both are same. They have fallen by 16 percent. Then other non operating revenue; I do not know why this showing the same thing ok. Again it is a 16 percent. So, I got a bit confuse it is correct, but it is a increase of 16 percent from 34 it became 39.

So, here the third figure that is other operating revenue has increased by 16 percent, coincidently both figures came 16. Then the total operating revenue shows a fall of 16 percent because the anyway other operating revenue was negligible. The major component was the revenue from operations. Other income you can see has also fallen

by 19 percent 19000 crores, but sorry 19 crores which comes to 12 percent fall. So, total revenue again as a 16 percent fall. This figure is not required; it is just a total.

Operating and direct expenses, there are more or less same from 2339; they have fallen to 2149 that is a fall of 0.08 percent, negligible change. Employee benefits are almost same, salaries have almost not changed more or less it is the same figure. Finance cost has again almost remained constant, marginal increase of 0.7 percent; depreciation is also more or less constant.

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	B	C	D	E
10 Total Operating Revenues	3,446.87	4,112.39	-665.52	-0.16
11 Other Income	145.23	164.8	-19.57	-0.12
12 Total Revenue	3,592.10	4,277.19	-685.09	-0.16
13 EXPENSES				
14 Operating And Direct Expenses	2,141.29	2,339.56	-198.27	-0.08
15 Employee Benefit Expenses	457.65	457.38	0.27	0.00
16 Finance Costs	172.15	160.6	11.55	0.07
17 Depreciation And Amortisation Expenses	566.07	579.95	-13.88	-0.02
18 Other Expenses	77.7	317.85	-240.15	-0.76
19 Total Expenses	3,414.86	3,855.34	-440.48	-0.11
20 Profit/Loss Before Exceptional, ExtraOrdinary Items And Tax	Mar-17	Mar-16	365.00	0.01
21 Profit/Loss Before Tax	177.24	421.85	-244.61	-0.58
22 Tax Expenses-Continued Operations			0.00	#DIV/0!
23 Current Tax	61.05	71	-9.95	-0.14
24 Less: MAT Credit Entitlement	11.32	24.5	-13.18	-0.54

Other expenses it is very slight fall. So, you can see that total expenses more or less are same. They have only decrease by minus 0.11 percent. Naturally you can now see the impact of profitability of all this while the revenue has come down by 16 percent revenues are expenses are more or less constant.

If you think of shipping industry, you will realise that they have same number of ships, same number of crew. So, depreciation cost is more or less same, maintenance cost is same, the salary cost is same, operating expenses are almost same. So, only the fall is in the revenue which led to significant fall in the profits. So, profits have come down by 244 which comes to 0.50 percent fall. So, you can see from 421 to 177; that means, less than half the profit ok. So, more than 50 percent fall in the profit.

If you look at the absolute amounts, you can understand 660 crore loss of revenue of which 440 was made up by reduction in expenses, but overall reduction in profit by 244 crore. That is why nearly 50 percent fall of profit because there other expenses came down by 240 at least they were saved otherwise they would have more or less gone into losses. Net profit before tax is same. Current tax again is more or less constant.

Now, if you think a bit you will be surprised as to why the current tax has not changed because normally profits fall, the income tax on that also should have come down. But, what happens is if shipping is a unique industry where income tax is charged on the freight carried by them that is why there is no major fall in income tax; they have got some mat credit entitlement. Do you remember, what is this? We had discussed in one of the cases earlier. This is known as Minimum Alternate Tax.

So, in the earlier year they have paid more tax as a MAT. They are now getting credit for it that last year they have got credit of 24, this year they have got credit of 11; no major change. Deferred taxes, anyway is a very small amount. So, there is no significant change in it, there is no tax of earlier years.

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	A	B	C	D	E	F	G
22	Profit/Loss Before Tax	177.24	421.85	-244.61	-0.58		
23	Tax Expenses-Continued Operations			0.00	#DIV/0!		
24	Current Tax	61.05	71	-9.95	-0.14		
25	Less: MAT Credit Entitlement	11.32	24.5	-13.18	-0.54		
26	Deferred Tax	-8.01	0	-8.01			
27	Tax For Earlier Years	0	0	0.00			
28	Total Tax Expenses	41.72	46.5	-4.78	-0.10		
29	Profit/Loss After Tax And Before ExtraOrdinary Items	135.52	375.35	-239.83	-0.64		
30	Prior Period Items	0	1.94	-1.94	-1.00		
31	Extraordinary Items	0	0	0.00	I		
32	Profit/Loss From Continuing Operations	135.52	377.29	-241.77	-0.64		
33	Profit/Loss For The Period	135.52	377.29	-241.77	-0.64		
34							
35							
36							
37							

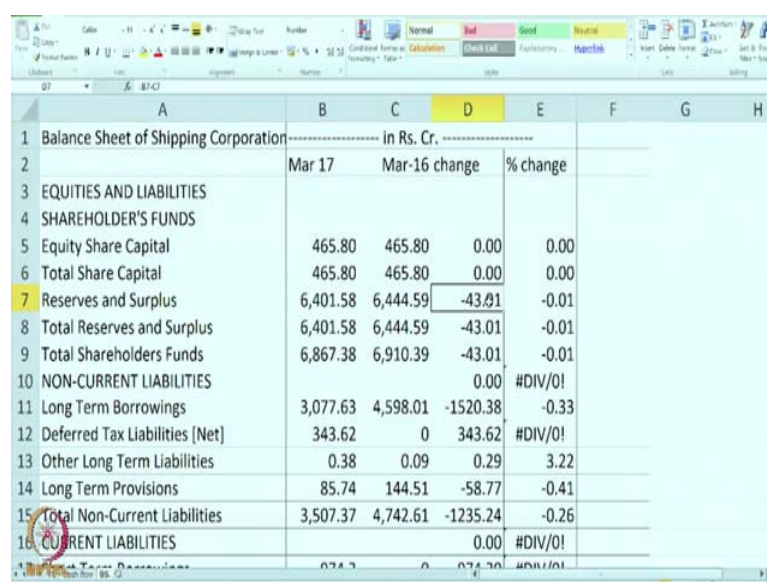
So, total tax expenses are more or less constant slight fall in the tax expenses. So, overall profit after tax, you can see is a major fall from 275 to 135. So, 65 percent more or less fall in the profit. Then there is a small prior period item. What is meant by prior period item? These are items of earlier year, but now you have got some extra information's.

So, you are doing the kind of rectification, then no extraordinary item. So, final profit from continuing operations has come down by 241. So, a fall of 64 percent and that is reported as a profit for the period. Are you getting everything?

This is a very simple starting point of analysis known as comparative statement where we take last year's figure and compare it with this year's figures and do comparison both in absolute value and also in percentage. This is a very useful simple statement for the performance analysis.

Now, we will go for the balance sheet.

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	Mar 17	Mar-16	change	% change
Balance Sheet of Shipping Corporation				
EQUITIES AND LIABILITIES				
SHAREHOLDER'S FUNDS				
Equity Share Capital	465.80	465.80	0.00	0.00
Total Share Capital	465.80	465.80	0.00	0.00
Reserves and Surplus	6,401.58	6,444.59	-43.01	-0.01
Total Reserves and Surplus	6,401.58	6,444.59	-43.01	-0.01
Total Shareholders Funds	6,867.38	6,910.39	-43.01	-0.01
NON-CURRENT LIABILITIES				
Long Term Borrowings	3,077.63	4,598.01	-1520.38	-0.33
Deferred Tax Liabilities (Net)	343.62	0	343.62	#DIV/0!
Other Long Term Liabilities	0.38	0.09	0.29	3.22
Long Term Provisions	85.74	144.51	-58.77	-0.41
Total Non-Current Liabilities	3,507.37	4,742.61	-1235.24	-0.26
CURRENT LIABILITIES				
Short Term Borrowings	0.74	0	0.74	#DIV/0!

Same way like earlier we will try to calculate comparative balance sheet and analyse it. So, either you can call it difference or you can call it change and we will also calculate percentage change. So, please calculate it along with me. So, current year figure minus last year figure and take it as a percentage to the base, percentage to last year's figure. Equity capital of course, has not changed. So, have a look at it, there is no change in equity capital so, zero change.

Reserves and surplus has slightly gone down. Why it would have gone down? There are some prior period item and a few changes companies profits have gone down, but company had paid dividend. That is why their reserves available with them have slightly gone down. You can see company as substantial reserves on a capital of 461, they have

reserves of 6444. In current year, it is now 6400. So, it is a negligible fall only one percent fall in the reserves. Total share holders funds are also more or less same; it is again a 1 percent fall.

Now, look at the long term borrowings. From 4598, there is a substantial reduction in long term borrowing; almost one third of their debt they have paid. So, minus 1520, it is a reduction of 33 percent of their debt. Why they would have done that? Maybe their loans there was a due date of loan and they have repaid the loan. There is another possibility that these loans were costly in nature, paying high interest. So, they decided to repay it, but they have done a major repayment. If you look at the deferred tax liability, it has increased from 0 to 343. So, you cannot calculate percentage, but it is a sizeable increase.

Other long term liabilities are anyway negligible. Long term provisions have gone down. So, if you take the total noncurrent liability there is a major fall, 26 percent fall; mainly this fall is because of repayment of long term borrowings.

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	B	C	D	E	F	G	H
10 NON-CURRENT LIABILITIES			0.00				
11 Long Term Borrowings	3,077.63	4,598.01	-1520.38	-0.33			
12 Deferred Tax Liabilities [Net]	343.62	0	343.62	#DIV/0!			
13 Other Long Term Liabilities	0.38	0.09	0.29	3.22			
14 Long Term Provisions	85.74	144.51	-58.77	-0.41			
15 Total Non-Current Liabilities	3,507.37	4,742.61	-1235.24	-0.26			
16 CURRENT LIABILITIES			0.00	#DIV/0!			
17 Short Term Borrowings	974.2	0	974.20	#DIV/0!			
18 Trade Payables	2,945.08	989.61	1955.47	1.98			
19 Other Current Liabilities	161.86	1,790.67	-1628.81	-0.91			
20 Short Term Provisions	9.68	67.63	-57.95	-0.86			
21 Total Current Liabilities	4,090.82	2,847.91	1242.91	0.44			
22 Total Capital And Liabilities	14,465.57	14,500.91	-35.34	0.00			
23 ASSETS			0.00	#DIV/0!			
24 NON-CURRENT ASSETS			0.00	#DIV/0!			
25 Tangible Assets	11,410.62	11,602.82	-192.20	-0.02			

Now, let us go to their current liabilities. They had no short term borrowing they have increased the short term borrowing from 0 to 974. Now, if you read this together you will understand that part of their long term borrowings which were there are now converted into short term borrowing. Why this would have happened? Maybe because this is their last year of repayment, ok. Suppose they have issued a 10 year debenture, 9 years are

over this is the last year. This is the year in which repayment would be due. That is why you can see here total reduction is 1520 of that 974 is now a short term borrowing.

In the always keep in mind that long term means one which is repayable for more than 1 year. So, if you take a loan say for 8 years; for 7 years it will be shown as a long term in the eighth year it will be shown as a short term or if you are repaying in instalment which is more common whatever are the instalments due in the current year that would be called as a short term borrowing ok. So, not that all the long term borrowings were completely paid, partly they were paid remaining are due in the current year. So, now they are reflected as short term borrowing.

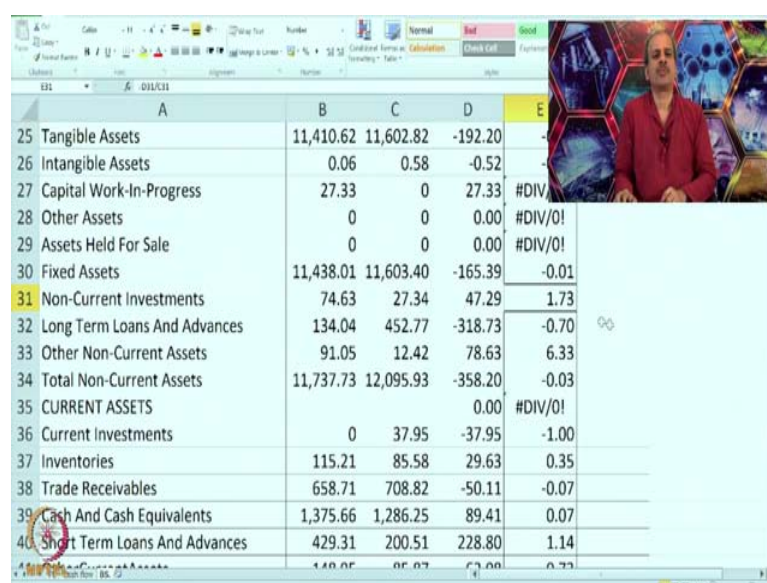
Trade payables, there is a significant increase from 989 to 2900. So, you can see it is more than 100 percent 190 almost 200 percent increase you can say. They are more or less doubled or they are rather they are tripled from 1000 to or nearly 3000. We do not know the reasons. There is one possibility that company has having some cash crunch. So, they are delaying their trade payables. So, one needs to investigate more. Now, we will look at cash flow statement that time we will get to know little more about it, but you can see here clearly that the trade payables have increased three times and the quantum is also very big it is 3000 crore. It is almost now more or less equal to their long term borrowings.

Now, the current payables have substantially reduced. Perhaps maybe some of their other current payables are now converted into trade payables. We will have to study their finances more to understand it, but as of now you can see that other current payables have substantially gone down. It is a 90 percent fall in that figure. Then, short term provisions; they have also gone down almost by 86 percent. Current liabilities, total you can see has increased now because of the major increase in the trade payables. Although other current liabilities and trade payables are more or less upsetting each other, but still overall you can see rise in 1242 as a current liability which is mainly contributed by rise in the short term borrowings.

Now, in the last session we have discussed the current ratio. If you now calculate current ratio you will realise that the ratio would have fallen. We will do later on, but as of now we will see that we can see that nearly 50 percent rise in the total current liabilities.

Now, let us go to assets.

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	A	B	C	D	E
25 Tangible Assets		11,410.62	11,602.82	-192.20	
26 Intangible Assets		0.06	0.58	-0.52	
27 Capital Work-In-Progress		27.33	0	27.33	#DIV/0!
28 Other Assets		0	0	0.00	#DIV/0!
29 Assets Held For Sale		0	0	0.00	#DIV/0!
30 Fixed Assets		11,438.01	11,603.40	-165.39	-0.01
31 Non-Current Investments		74.63	27.34	47.29	1.73
32 Long Term Loans And Advances		134.04	452.77	-318.73	-0.70
33 Other Non-Current Assets		91.05	12.42	78.63	6.33
34 Total Non-Current Assets		11,737.73	12,095.93	-358.20	-0.03
35 CURRENT ASSETS				0.00	#DIV/0!
36 Current Investments		0	37.95	-37.95	-1.00
37 Inventories		115.21	85.58	29.63	0.35
38 Trade Receivables		658.71	708.82	-50.11	-0.07
39 Cash And Cash Equivalents		1,375.66	1,286.25	89.41	0.07
40 Short Term Loans And Advances		429.31	200.51	228.80	1.14

Assets you can see are more or less same. So, no major ship they have acquired. It is almost same base of asset only 2 percent change that to fall mainly because of depreciation. Intangible assets are anyway almost nil, negligible. Work in progress, there is a small work in progress. Other assets – a sets is for sale or sold are not there for sale are not there.

Total fixed assets have marginally fallen by 1 percent. Noncurrent investments have slightly increased. It is not a very it is not a major amount though in terms of percentage it is a 173 percent increase. Long term loans and advances, you can see there is a fall, maybe they have recovered some of their long term advances. So, total noncurrent assets are not much change in it. It is a 3 percent change.

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	B	C	D	E	F	G
34 Total Non-Current Assets	11,737.73	12,095.93	-358.20	-0.03		
35 CURRENT ASSETS			0.00	#DIV/0!		
36 Current Investments	0	37.95	-37.95	-1.00		
37 Inventories	115.21	85.58	29.63	0.35		
38 Trade Receivables	658.71	708.82	-50.11	-0.07		
39 Cash And Cash Equivalents	1,375.66	1,286.25	89.41	0.07		
40 Short Term Loans And Advances	429.31	200.51	228.80	1.14		
41 Other Current Assets	148.95	85.87	63.08	0.73		
42 Total Current Assets	2,727.84	2,404.98	322.86	0.13	0.67	0.84
43 Total Assets	14,465.57	14,500.91	-35.34	0.00		

Now, let us go to current ones. They had a very small amount in current investments which we have disposed off now, 37 crores. Inventory – it is a shipping company, not very large inventory they need. There is a slight increase in inventory. There is a slight decrease in trade payables which is understandable because their revenue has fallen. Cash and cash equivalents are more or less constant from 1200 to 1300 crore. Short term loans and advances have slightly increased; as a percentage it is a major increased 100 and 14 percent but amount wise it is not a big increase and other current assets is anyway has small amount.

So, if you look at total current assets there is a increase of 323. So, around 13 percent increase in current assets. So, are you getting? This is known as comparative balance sheet. I hope it is very simple, so, you would have understood the calculation. I am just tempted to calculate current ratio though in detail we will solve the cases later on, but just for one calculation let us do it now. I hope you remember the formula. It is current asset divided by current liabilities.

So, in the last year in the current year it is 2727, total current assets divided by total current liability of 4000. So, current ratio is 0.67. In the last year it was 0.84. So, you can see here because of the rise in current liabilities rise of about 44 percent there is a fall in the ratio. Are you getting it? Now, traditionally speaking this is not a comfortable position because they have much more current liabilities than their current assets. But,

because it is the shipping company and it is a government company it may not come in trouble, but otherwise these are troublesome figures. Are you getting me?

Now, let us go to cash flow.

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	Mar 17	Mar-16		
Cash Flow of Shipping Corporation of India in Rs. Cr.				
Net Profit/Loss Before Extraordinary Items And Tax	177.24	421.85	-244.61	-0.57985
Net CashFlow From Operating Activities	682.00	1,327.23	-645.23	-0.48615
Net Cash Used In Investing Activities	-85.35	-202.03	116.68	-0.57754
Net Cash Used From Financing Activities	-522.42	-1,095.11	572.69	-0.52295
Adjustments on Amalgamation / Merger / Demerger / C	0.19	0	0.19	#DIV/0!
Net Inc/Dec In Cash And Cash Equivalents	74.42	30.09	44.33	1.473247
Cash And Cash Equivalents Begin Of Year	496.82	1,256.16	-759.34	-0.60449
Cash And Cash Equivalents End Of Year	571.24	1,286.25	-715.01	-0.55589

Source : Dion Global Solutions Limited

This is the summary of their cash flow statement in two years March 16 and 17. Let us do the calculation of comparative figures. Now, you know current year minus last year. So, major fall in net profit which we had already calculated and as a percentage it is a 60 percent fall in net profit before tax. Now, what do you see from cash from operating activities? It is a major fall nearly 50 percent fall from 1327 to 682. So, significant fall in cash generated from operating activities. Cash generated from investing where negative 202 they are now negative 85. So, it is 116 and cash from financing activity is also substantially negative from minus 1000 to minus 500.

So, it is a increase of 582 about 50 percent decrease, but since the figure was negative now here in the change it appears like an increase. Overall there are no much changes in the cash and cash equivalent. Though yes, if you look from the compare the opening and closing in the last year it was relatively higher now it has come down ok. So, particularly if you look at these three figures, you will realise that there has been a major fall in operating cash flows which are somehow made good by reducing to some extent reducing investment and to some extent reducing their repayment of loan. Are you getting me?

So, what we did now for all the three statements was calculation of comparative statement. This is known as horizontal analysis. Now, for the same company let us go for vertical analysis. Now, this is a P and L account. Now, in vertical analysis what we did in the horizontal analysis was comparing the two years, but it was comparison of absolute values and then we converted as a percentage. Now, in common size statement we will compare everything with the base and convert them into percentages. I think it is a simple job. So, you try to do it yourself. We will be actually calculating it in the next session. Till that time. Namaste. Thank you.