Financial Accounting
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Lecture – 35
Interpretation and Analysis of Financial Statements: Shipping Corp. of India case 4

Namaste. In last few sessions, we are studying the Analysis of Statements. So, we have in details studying the Shipping Corporation case; calculating the comparative, common size as well as trend and then we went for calculation of ratios. So, for Havells Limited we have calculated first the balance sheet ratios. Three important ratios one was current ratio, quick ratio and the third one was debt equity ratio.

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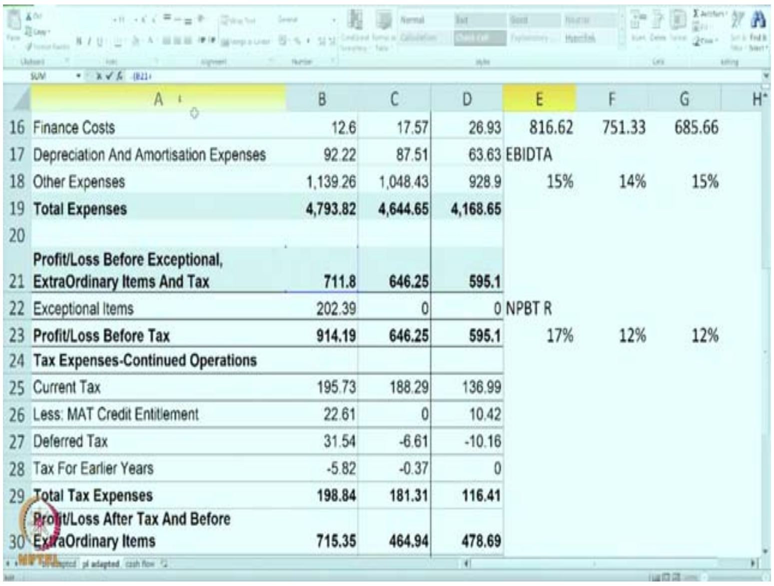

	A	B	C	D	E	F	G
16	Finance Costs	12.6	17.57	26.93	816.62	751.33	685.66
17	Depreciation And Amortisation Expenses	92.22	87.51	63.63	EBIDTA		
18	Other Expenses	1,139.26	1,048.43	928.9	15%	14%	15%
19	**Total Expenses**	**4,793.82**	**4,644.65**	**4,168.65**			
20							
21	**Profit/Loss Before Exceptional, ExtraOrdinary Items And Tax**	**711.8**	**646.25**	**595.1**			
22	Exceptional Items	202.39	0	0	NPBT R		
23	**Profit/Loss Before Tax**	**914.19**	**646.25**	**595.1**	17%	12%	12%
24	**Tax Expenses-Continued Operations**						
25	Current Tax	195.73	188.29	136.99			
26	Less: MAT Credit Entitlement	22.61	0	10.42			
27	Deferred Tax	31.54	-6.61	-10.16			
28	Tax For Earlier Years	-5.82	-0.37	0			
29	**Total Tax Expenses**	**198.84**	**181.31**	**116.41**			
30	**Profit/Loss After Tax And Before ExtraOrdinary Items**	**715.35**	**464.94**	**478.69**			

Then for P and [laughter], we have calculated profitability as net profit after tax popularly known as NP ratio, net profit before tax ratio and also EBIDTA or cash operating profit ratio. Is it clear to you? Now, we will continue the case and try to calculate return and activity related ratios which pick up one figure from P and L and one figure from balance sheet. So, you have to keep both the sheets ready now.

Now, first of all this profitability which is calculated as a percentage to sales naturally we would be interested in knowing profitability on their investment which is called as return ratios.

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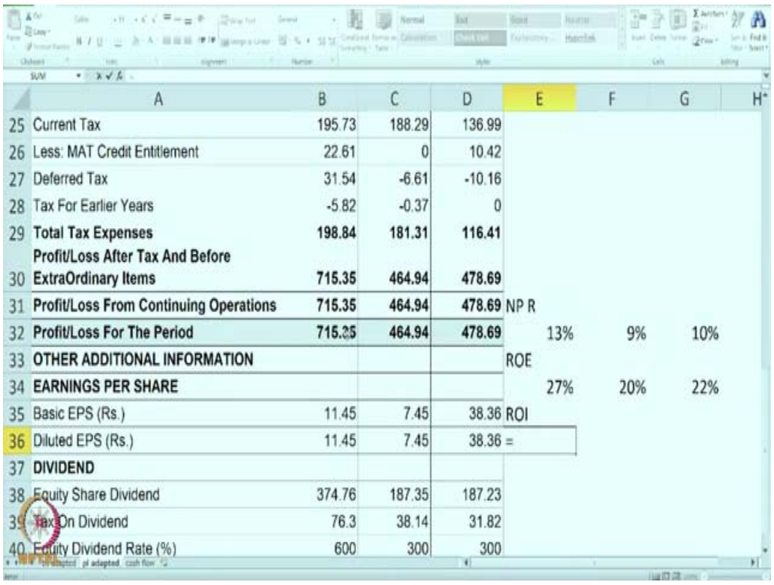

	A	B	C	D	E	F	G
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31	**Profit/Loss From Continuing Operations**	**715.35**	**464.94**	**478.69**	NP R		
32	**Profit/Loss For The Period**	**715.35**	**464.94**	**478.69**	13%	9%	10%
33	**OTHER ADDITIONAL INFORMATION**				ROE		
34	**EARNINGS PER SHARE**				27%	20%	22%
35	Basic EPS (Rs.)	11.45	7.45	38.36	ROI		
36	Diluted EPS (Rs.)	11.45	7.45	38.36	=		
37	**DIVIDEND**						
38	Equity Share Dividend	374.76	187.35	187.23			
39	Tax On Dividend	76.3	38.14	31.82			
40	Equity Dividend Rate (%)	600	300	300			

So, we would try to calculate return on equity popularly known as ROE. Do you remember the formula? Just check from the sheet. So, this is the return meant for the equity shareholders which is profit after tax. So, we will take the final profit and divided by from the balance sheet, we take the total shareholders' funds. I will just do it again. So, profit after tax divided by shareholders funds.

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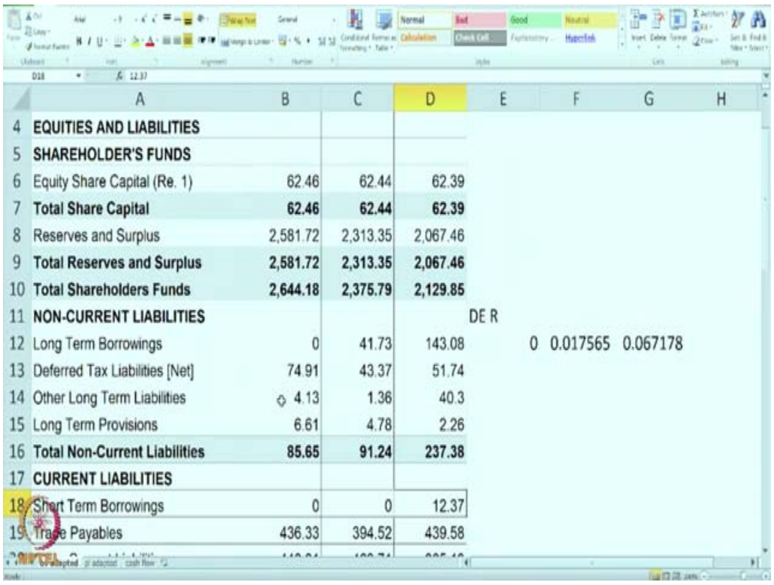

	A	B	C	D	E	F	G
4	**EQUITIES AND LIABILITIES**						
5	**SHAREHOLDER'S FUNDS**						
6	Equity Share Capital (Re. 1)	62.46	62.44	62.39			
7	**Total Share Capital**	**62.46**	**62.44**	**62.39**			
8	Reserves and Surplus	2,581.72	2,313.35	2,067.46			
9	**Total Reserves and Surplus**	**2,581.72**	**2,313.35**	**2,067.46**			
10	**Total Shareholders Funds**	**2,644.18**	**2,375.79**	**2,129.85**			
11	**NON-CURRENT LIABILITIES**				DE R		
12	Long Term Borrowings	0	41.73	143.08	0	0.017565	0.067178
13	Deferred Tax Liabilities [Net]	74.91	43.37	51.74			
14	Other Long Term Liabilities	4.13	1.36	40.3			
15	Long Term Provisions	6.61	4.78	2.26			
16	**Total Non-Current Liabilities**	**85.65**	**91.24**	**237.38**			
17	**CURRENT LIABILITIES**						
18	Short Term Borrowings	0	0	12.37			
19	Trade Payables	436.33	394.52	439.58			

So, you get 0.27 as a percentage it is better understood, it means 27 percent is the profitability with respect to owners or shareholders. There has been a good change from

22 it has improved to 27 you can easily compare with normal returns which you get from bank FD which is 8 or 9 percent. So, definitely it is a good return, but there can be scope for even higher return.

Now, the other measure is ROI also known as Return On Invested or investment or Return On Invested capital. So, what is a formula? Instead of taking profit after tax we will take profit before tax. And to this we are going to add the interest income if any sorry, interest expense if any. Now, here again should we take PBT or should we take profit before exceptional items? Actually it makes more sense to take profit before exceptional item because you are trying to calculate profitability of the business; exceptional items are not regularly going to recover, you can see it is a big amount 202.

So, we will go for 711 which is in the numerator, we will put it in bracket because this is the profit before tax and before exceptional items. To this add finance cost which is interest and such types of costs. This is the numerator and divide it from the balance sheet. We have to take shareholders funds plus borrowings ok.

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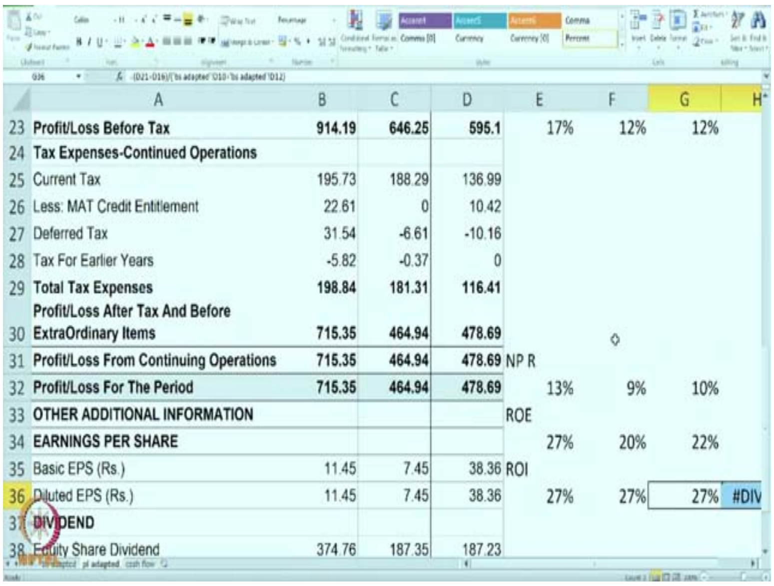

	A	B	C	D	E	F	G	H
23	Profit/Loss Before Tax	914.19	646.25	595.1	17%	12%	12%	
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32	Profit/Loss For The Period	715.35	464.94	478.69	13%	9%	10%	
33	OTHER ADDITIONAL INFORMATION				ROE			
34	EARNINGS PER SHARE				27%	20%	22%	
35	Basic EPS (Rs.)	11.45	7.45	38.36	ROI			
36	Diluted EPS (Rs.)	11.45	7.45	38.36	27%	27%	27%	#DIV
37	DIVIDEND							
38	Equity Share Dividend	374.76	187.35	187.23				

So, what we are doing is in the numerator we are going to take profit before exceptional items before taxes, add finance costs and in the denominator we have taken owners plant first debt. So, we got 27 percent and in all the three years it is more or less constant at 27 percent. You can see here mainly it is only because of effects of taxes that there was a slight change. So, this was ROE and ROI.

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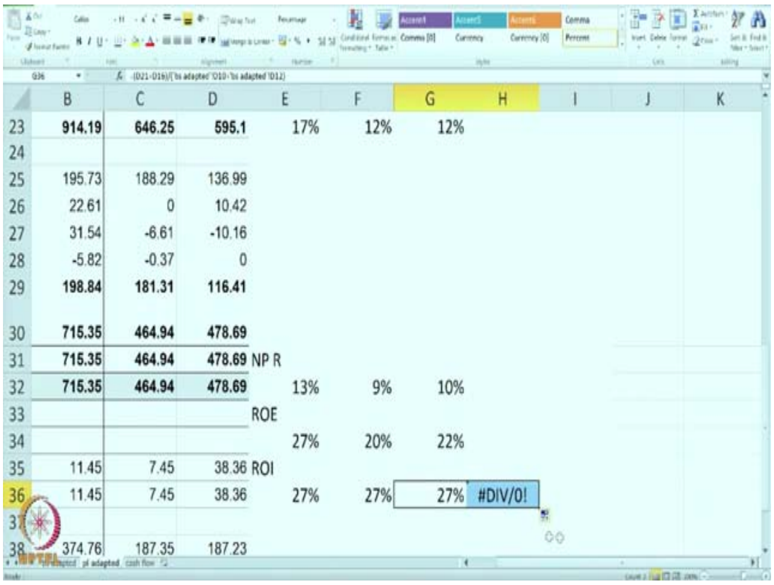

Now, let us try to calculate activity ratios. So, to know how efficiently the company is using its assets. So, we will go to balance sheet.

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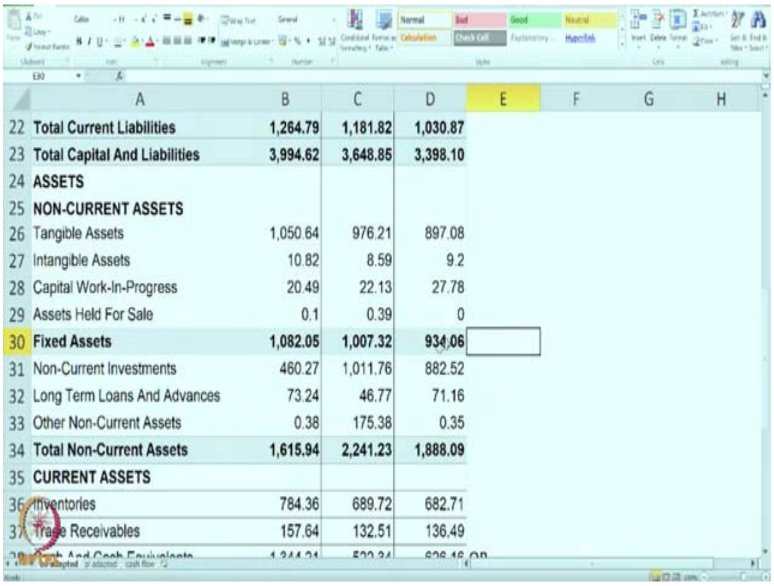

In balance sheet, you are having fixed assets. We will compare them with sales; maybe from P and L it is easier because we have got a sales figure here.

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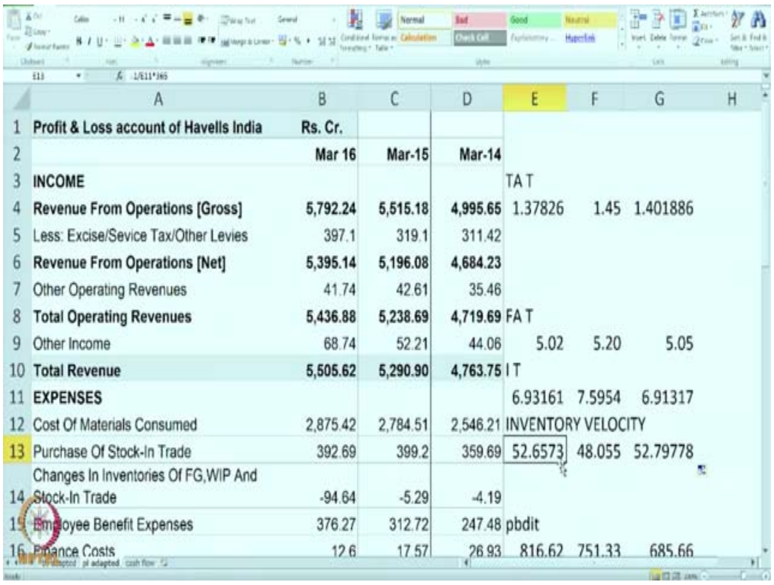

	A	B	C	D	E	F	G	H
1	**Profit & Loss account of Havells India**	**Rs. Cr.**						
2		**Mar 16**	**Mar-15**	**Mar-14**				
3	**INCOME**				TA T			
4	**Revenue From Operations [Gross]**	**5,792.24**	**5,515.18**	**4,995.65**	1.37826	1.45	1.401886	
5	Less: Excise/Sevice Tax/Other Levies	397.1	319.1	311.42				
6	**Revenue From Operations [Net]**	**5,395.14**	**5,196.08**	**4,684.23**				
7	Other Operating Revenues	41.74	42.61	35.46				
8	**Total Operating Revenues**	**5,436.88**	**5,238.69**	**4,719.69**	FA T			
9	Other Income	68.74	52.21	44.06	5.02	5.20	5.05	
10	**Total Revenue**	**5,505.62**	**5,290.90**	**4,763.75**	I T			
11	**EXPENSES**				6.93161	7.5954	6.91317	
12	Cost Of Materials Consumed	2,875.42	2,784.51	2,546.21	INVENTORY VELOCITY			
13	Purchase Of Stock-In Trade	392.69	399.2	359.69	52.6573	48.055	52.79778	
14	Changes In Inventories Of FG,WIP And Stock-In Trade	-94.64	-5.29	-4.19				
15	Employee Benefit Expenses	376.27	312.72	247.48	pbdit			
16	Finance Costs	12.6	17.57	26.93	816.62	751.33	685.66	

This is fixed asset turnover ratio as it is known as. So, normally we will go for operating revenue total operating revenue and divide it by total fixed assets. So, you are getting it 5.02. Shall we convert it into percent? Actually no, it does not make sense because this is number of times; that means, you are using your assets to generate revenue 5 times in the year. Over the period of time, you will find it is more or less constant. Although their profits the revenues are increasing slowly the fixed assets are also increasing slowly so, more or less steady fixed asset turnover ratio.

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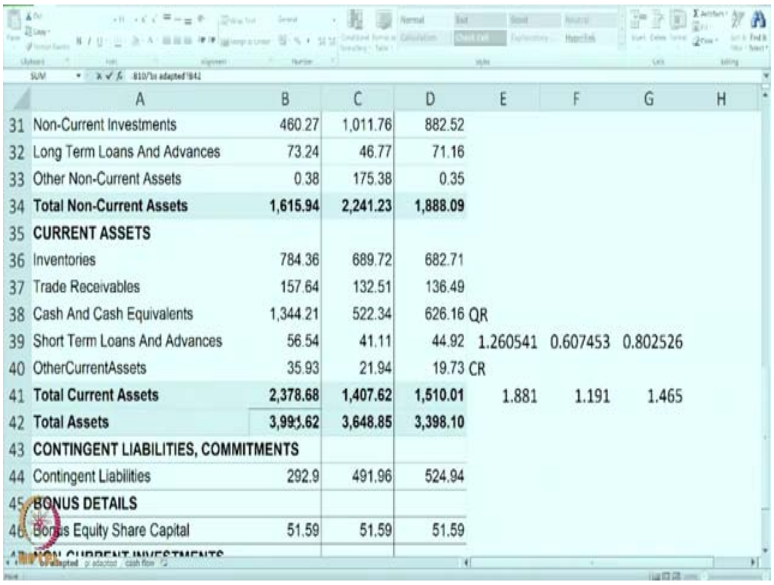

	A	B	C	D	E	F	G	H
31	Non-Current Investments	460.27	1,011.76	882.52				
32	Long Term Loans And Advances	73.24	46.77	71.16				
33	Other Non-Current Assets	0.38	175.38	0.35				
34	**Total Non-Current Assets**	**1,615.94**	**2,241.23**	**1,888.09**				
35	**CURRENT ASSETS**							
36	Inventories	784.36	689.72	682.71				
37	Trade Receivables	157.64	132.51	136.49				
38	Cash And Cash Equivalents	1,344.21	522.34	626.16	QR			
39	Short Term Loans And Advances	56.54	41.11	44.92	1.260541	0.607453	0.802526	
40	OtherCurrentAssets	35.93	21.94	19.73	CR			
41	**Total Current Assets**	**2,378.68**	**1,407.62**	**1,510.01**	1.881	1.191	1.465	
42	**Total Assets**	**3,994.62**	**3,648.85**	**3,398.10**				
43	**CONTINGENT LIABILITIES, COMMITMENTS**							
44	Contingent Liabilities	292.9	491.96	524.94				
45	**BONUS DETAILS**							
46	Bonus Equity Share Capital	51.59	51.59	51.59				

Now, we can also calculate other type of turnover ratios. I will just keep them here; one is TAT that is Total Asset Turnover ratio. So, let us compare the total revenue and divide it by total of all the assets. Now, naturally the ratio has gone down because in the first ratio that is FAT, we had taken in the denominator only fixed assets. Now, we have taken all the assets.

So, you can see there is a compare it to fat this is lesser ratio. It is slightly going down, but it is more or less constant. So, this is how now going for little bit of working type capital types of assets. We can calculate inventory turnover ratio. So, for inventory turnover total operating revenues divided by the value of inventory which is 6.93 or point 0.70 7.5 and 6.91. So, it is more or less constant. The efficiency of use of inventory had increased the bit now it has fallen.

Now, would you like to convert it into number of days? It is known as inventory velocity. Let us try to do that. What is the formula? We can just transpose this take 1 upon the given inventory turnover and then multiply it by 365. So, this is in terms of days. So, it was 52 days, then it came down to 42 days; now, again it is 52 days. So, that means, any inventory which comes in the remains with the company for 52 days. Same way it can also be done for debtors and for other assets.

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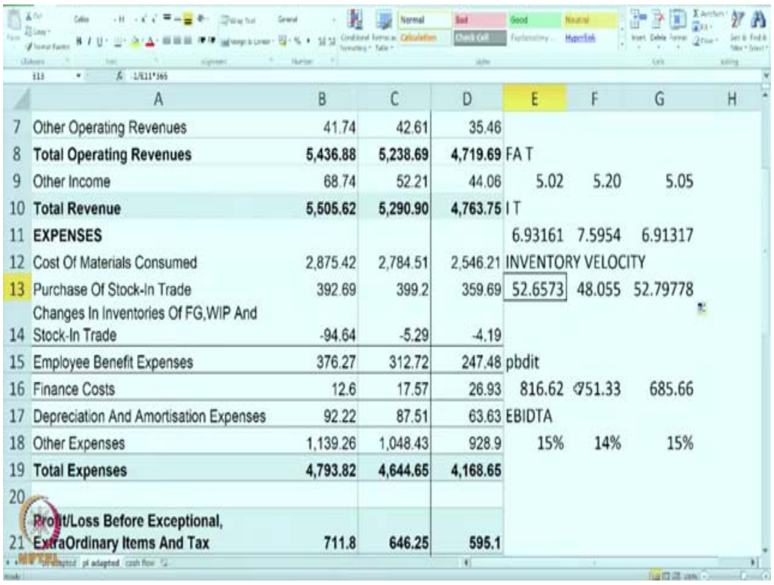

	A	B	C	D	E	F	G	H
7	Other Operating Revenues	41.74	42.61	35.46				
8	**Total Operating Revenues**	**5,436.88**	**5,238.69**	**4,719.69**	FA T			
9	Other Income	68.74	52.21	44.06	5.02	5.20	5.05	
10	**Total Revenue**	**5,505.62**	**5,290.90**	**4,763.75**	I T			
11	**EXPENSES**				6.93161	7.5954	6.91317	
12	Cost Of Materials Consumed	2,875.42	2,784.51	2,546.21	INVENTORY VELOCITY			
13	Purchase Of Stock-In Trade	392.69	399.2	359.69	52.6573	48.055	52.79778	
14	Changes In Inventories Of FG,WIP And Stock-In Trade	-94.64	-5.29	-4.19				
15	Employee Benefit Expenses	376.27	312.72	247.48	pbdit			
16	Finance Costs	12.6	17.57	26.93	816.62	751.33	685.66	
17	Depreciation And Amortisation Expenses	92.22	87.51	63.63	EBIDTA			
18	Other Expenses	1,139.26	1,048.43	928.9	15%	14%	15%	
19	**Total Expenses**	**4,793.82**	**4,644.65**	**4,168.65**				
20								
21	**Profit/Loss Before Exceptional, ExtraOrdinary Items And Tax**	**711.8**	**646.25**	**595.1**				

Now, we can calculate more ratios, but we will not go into the debt, we are going to consider two more cases of different companies where we will calculate much more variety of ratios.

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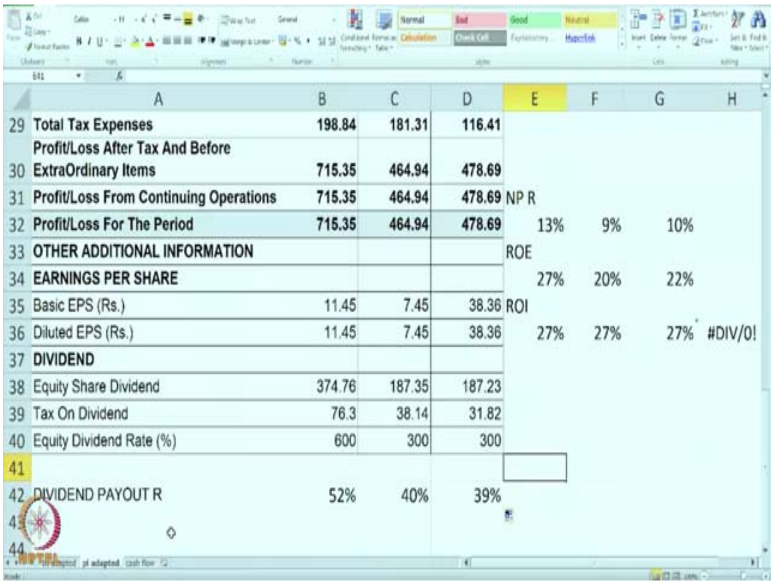

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35	Basic EPS (Rs.)	11.45	7.45	38.36	ROI			
36	Diluted EPS (Rs.)	11.45	7.45	38.36	27%	27%	27%	#DIV/0!
37	DIVIDEND							
38	Equity Share Dividend	374.76	187.35	187.23				
39	Tax On Dividend	76.3	38.14	31.82				
40	Equity Dividend Rate (%)	600	300	300				
41								
42	DIVIDEND PAYOUT R	52%	40%	39%				

Right now let us understand two other important ratios which are already calculated; one is EPS. What is the formula? We have discussed it earlier, do you remember? That is earning per share. So, we take profit or loss for the period and divide it by number of shares.

So, here you can see there was a fall in EPS from 38 to 7 and then it has increased now to 11.45. You can check the share capital which is more or less constant. So, you can see here that this is the EPS as calculated by the company. There are no pending warrants etcetera. So, diluted EPS and basic EPS is more or less same. Equity share dividend for first two years was constant. In the current year they have increased the dividend to 374 and this is the tax on dividend. So, they have also calculated equity dividend as a percentage; as a percentage to their nominal value of capital. So, earlier it was 300 percent now they have increased it to 600 percent.

We can also calculate their dividend their EPS which is already given and we can go for their payout ratio; dividend payout ratio. Now, there are two ways of doing it; either we can go for DPS by EPS, but right now we do not have the figure of DPS, but we know the total dividend. So, what we can do is take the total dividend and divide it by the available profits which is equity dividend of the company divided by the profit for the period.

So, you are getting 52 converted into percentage. So, you can see earlier company was distributing 40 percent of their profit. Now, since the profits have increased, but they have doubled the dividend, so, the percentage of distribution has gone to 52 percent. Is it good to have higher or lower ratio? There is nothing good or bad, but higher ratio signifies that company is able to company has decided to distribute more profits. A lower ratio we will mean that companies distributing less, but retaining the profit for own growth. So, it depends on the strategy of the company and on the opportunities which they have ok. So, we have just calculated few important ratios here.

Now, in the next problem we will go for more detailed ratio taking out a particular company and looking for variety of aspects of that company. In the mean tile I will request you to go through the ratio sheets which are given to you and also variety of problems which we have already discussed.

Having calculated variety of ratios of profitability, return, as well as the activity, let us have a look at expense ratios. So, this is our profit and loss account. We have got number of expenses particularly the larger expense is cost of material consumed. So, it will be of interest for us to know cost of material consumed is what percentage of the revenue. So, the formula for expense ratio is that particular expense ratio divided by sales. In this case since we know the revenue from operations and we have also been given other operating revenue we can also take total operating revenue in the denominator.

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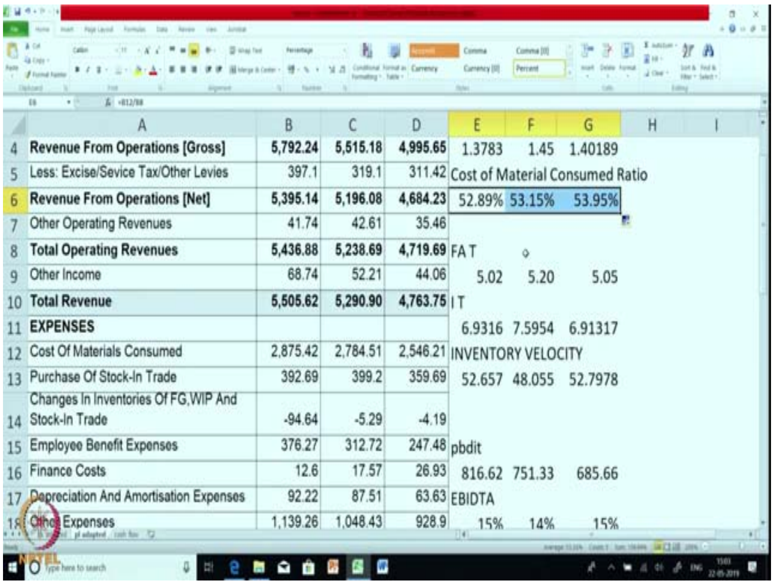

	A	B	C	D	E	F	G
4	Revenue From Operations [Gross]	5,792.24	5,515.18	4,995.65	1.3783	1.45	1.40189
5	Less: Excise/Sevice Tax/Other Levies	397.1	319.1	311.42	Cost of Material Consumed Ratio		
6	Revenue From Operations [Net]	5,395.14	5,196.08	4,684.23	52.89%	53.15%	53.95%
7	Other Operating Revenues	41.74	42.61	35.46			
8	Total Operating Revenues	5,436.88	5,238.69	4,719.69	FA T		
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So, let us find the cost of material consumed as a percentage of total operating revenue. We are calling it Cost of Material Consumed Ratio; like that you can give it any suitable name. So, it is 0.52. It is better understood if we convert it into percentage. So, you can see it is more or less stagnant 52.89, then 53.15 and 53.95.

There is no other major expense item in the P and L. The largest expense was material consumed. So, that is what is required that is the way we can also link other items, but still let us link one more item that is employee benefit expense ratio.

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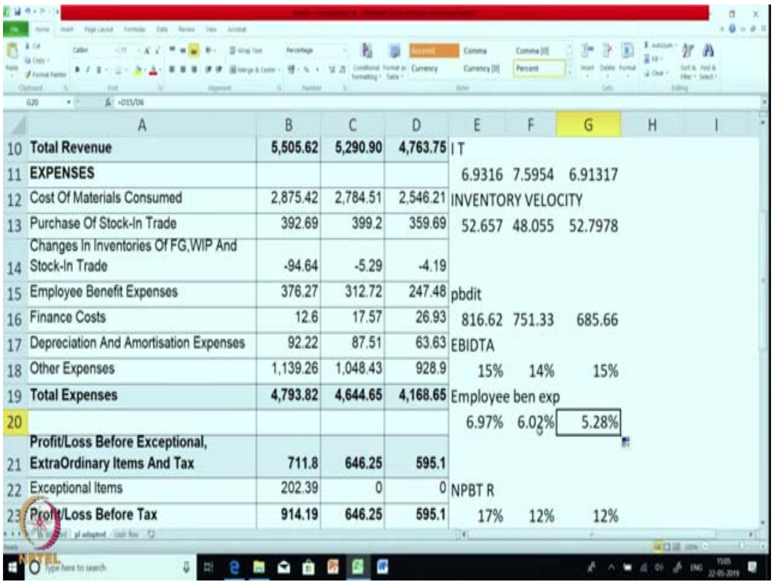

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22	Exceptional Items	202.39	0	0	NPBT R		
23	Profit/Loss Before Tax	914.19	646.25	595.1	17%	12%	12%

So, you can see over the period of three years it has increased. It is almost 7 percent; now earlier it was 5.28 percent. So, these were important expense ratios.

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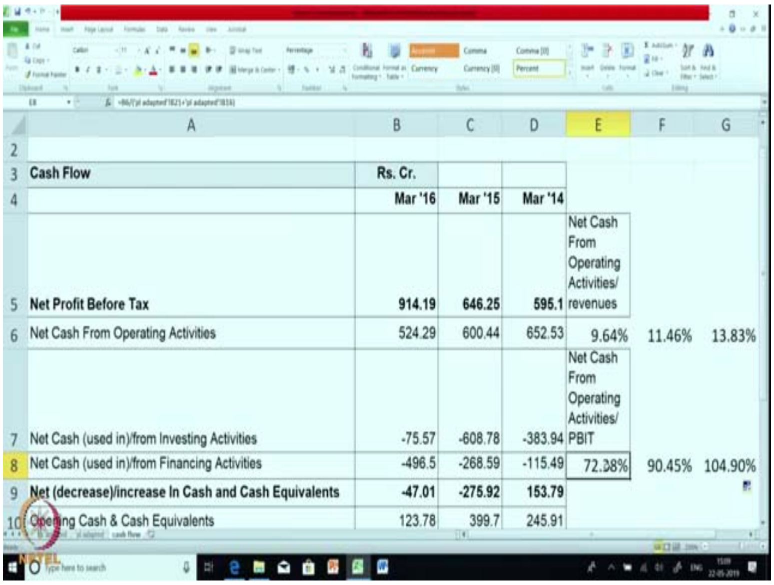

	A	B	C	D	E	F	G
2							
3	**Cash Flow**	**Rs. Cr.**					
4		**Mar '16**	**Mar '15**	**Mar '14**			
5	**Net Profit Before Tax**	**914.19**	**646.25**	**595.1**	Net Cash From Operating Activities/ revenues		
6	Net Cash From Operating Activities	524.29	600.44	652.53	9.64%	11.46%	13.83%
7	Net Cash (used in)/from Investing Activities	-75.57	-608.78	-383.94	Net Cash From Operating Activities/ PBIT		
8	Net Cash (used in)/from Financing Activities	-496.5	-268.59	-115.49	72.28%	90.45%	104.90%
9	**Net (decrease)/increase In Cash and Cash Equivalents**	**-47.01**	**-275.92**	**153.79**			
10	Opening Cash & Cash Equivalents	123.78	399.7	245.91			

Now, let us go to cash flow statement. In cash flow we have got cash flows categorized into three. So, the most important of that is cash from operating activities. Let us see what percentage of revenue it is.

So, cash from operating activities as a percentage of revenue. Now, it is logical for us to take revenue from operations or total operating revenue. So, let us take total operating revenue. We get 0.09. So, total operating revenue was 5436 and the cash from that revenue of course, we have incurred variety of expenses. The final cash which came into hand of business was 0.09 as a percentage it becomes 9.64.

So, you can see slightly very some figure here. What was 13 percent in March 14 become 11 percent and now it is about 9.6 percent. So, there is a fall in the ratio of cash from operations as a percentage of operating revenue. One can also link the net cash from operating revenues to the operating profits. So, if you go to P and L, we have got profit before exceptional and extraordinary items to that if we add finance costs we will get profit before interest and taxes. So, we get 72 percent.

So, out of the profits which we are reporting 72 percentage available as cash from operations for the business. There also you see a drop. Earlier it was more than 100 percent, then it became 90 and now it is 72, which means that lesser amount is now getting realized as a cash which is not a very positive of value for the business. Like that you can calculate a few cash flow ratios. Of course, most of the important ratios are on the side of P and L where a different type of ratios can be calculated on P and L.

So, we will stop here. Namaste. Thank you.