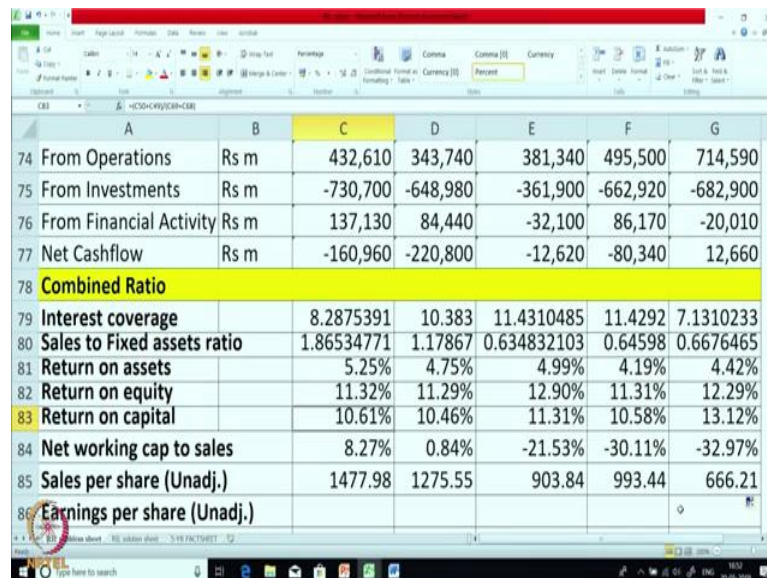


Financial Accounting
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Lecture – 39
Financial Statement Analysis : RIL Case 2

Namaste. In the last session we were discussing the financials of Reliance industries, we have considered their P and L, balance sheet, cash flow and have also calculated few of the ratios. So, what we are doing is the company analysis for the company taking 5 year data, let us continue with the same.

(Refer Slide Time: 00:45)



	A	B	C	D	E	F	G
74	From Operations	Rs m	432,610	343,740	381,340	495,500	714,590
75	From Investments	Rs m	-730,700	-648,980	-361,900	-662,920	-682,900
76	From Financial Activity	Rs m	137,130	84,440	-32,100	86,170	-20,010
77	Net Cashflow	Rs m	-160,960	-220,800	-12,620	-80,340	12,660
78	Combined Ratio						
79	Interest coverage		8.2875391	10.383	11.4310485	11.4292	7.1310233
80	Sales to Fixed assets ratio		1.86534771	1.17867	0.634832103	0.64598	0.6676465
81	Return on assets		5.25%	4.75%	4.99%	4.19%	4.42%
82	Return on equity		11.32%	11.29%	12.90%	11.31%	12.29%
83	Return on capital		10.61%	10.46%	11.31%	10.58%	13.12%
84	Net working cap to sales		8.27%	0.84%	-21.53%	-30.11%	-32.97%
85	Sales per share (Unadj.)		1477.98	1275.55	903.84	993.44	666.21
86	Earnings per share (Unadj.)						

So, we had come up to this net working capital to sales ratio and we had seen that the movement is really very interesting from plus 8 percent to minus 32 percent. So, much is a negative working capital now as a percentage of sales. Next one is sales per share, so, take the sales and divide it by number of shares.

(Refer Slide Time: 01:14)

	A	B	C	D	E	F	G
34	EQUITY SHARE DATA						
35	High	Rs	939	1,143	1,090	1,336	1,665
36	Low	Rs	765	797	813	926	780
37	Average	RS	810	980	990	1231	1432
38	Shares outstanding (eom		2,939.55	2,943.33	2,948.02	2,958.92	5,921.83
39	Bonus/Rights/Conversion		ESOS	ESOS	-	ESOS	ESOS
40	Avg Mkt Cap	Rs m	2,504,938	2,854,000	2,804,451	3,346,095	7,239,437
41	No. of employees	'000	23.9	24.9	24.1	24.2	27.7
42	Total wages/salary	Rs m	55,720	62,620	74,070	83,880	95,230
43	INCOME DATA						
44	Net Sales	Rs m	4,344,600	3,754,350	2,664,530	2,939,510	3,945,170
45	Other income	Rs m	81,930	86,130	75,460	114,310	196,260

So, 14477.98 and if you drag it over a period of time you can see there is a slow fall in the sale per share because the sale performance has dropped while the number of shares have gone up.

(Refer Slide Time: 01:54)

	A	B	C	D	E	F	G
76	From Financial Activity	Rs m	137,130	84,440	-32,100	86,170	-20,010
77	Net Cashflow	Rs m	-160,960	-220,800	-12,620	-80,340	12,660
78	Combined Ratio						
79	Interest coverage		8.2875391	10.383	11.4310485	11.4292	7.1310233
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84	Net working cap to sales		8.27%	0.84%	-21.53%	-30.11%	-32.97%
85	Sales per share (Unadj.)		1477.98	1275.55	903.84	993.44	666.21
86	Earnings per share (Unadj.)		76.52	80.07	101.29	100.82	60.93
87	Dividends per share (Unadj.)		34.02	33.98	33.92	33.80	33.77
88	Dividend yield (avg)						

So, there is a fall in sale per share the next is very important figure from financial stock market angle that is EPS or Earning Per Share.

(Refer Slide Time: 02:16)

	A	B	C	D	E	F	G
50 Profit before tax	Rs m	279,550	311,140	385,010	401,420	493,670	
51 Minority Interest	Rs m	-550	-740	2,360	-1,080	590	
52 Prior Period Items	Rs m	0	0	0	0	0	
53 Extraordinary Inc (Exp)	Rs m	8,080	0	0	0	0	
54 Tax	Rs m	62,150	74,740	88,760	102,010	133,460	
55 Profit after tax	Rs m	2,24,930	235,660	298,610	298,330	360,800	
56 Dividend	Rs m	1,00,000	1,00,000	1,00,000	1,00,000	2,00,000	
57 Gross profit margin		8.01%	9.95%	17.34%	15.04%	13.81%	
58 EBDITA		9.90%	12.25%	20.18%	18.93%	18.79%	
59 Net profit margin		5.08%	6.14%	10.90%	9.77%	8.71%	
60 BALANCE SHEET DATA							
61 Current assets	Rs m	1,510,690	1,375,490	1,277,850	1,468,130	1,837,860	

So, numerator I think you all know we take PAT this is the total profit of the company divided by number of shares to know the profit available per share. So, 76 the earning per share has increased in March 17 because, the profit have gone the up, but now it has significantly decreased because number of shares have also increased now. Dividend per share here we have just taken one hypothetical amount for dividend and we divide it by number of shares to get dividend per share.

(Refer Slide Time: 03:20)

	A	B	C	D	E	F	G
51	Minority Interest	Rs m	-550	-740	2,360	-1,080	590
52	Prior Period Items	Rs m	0	0	0	0	0
53	Extraordinary Inc (Exp)	Rs m	8,080	0	0	0	0
54	Tax	Rs m	62,150	74,740	88,760	102,010	133,460
55	Profit after tax	Rs m	2,24,930	235,660	298,610	298,330	360,800
56	Dividend	Rs m	1,00,000	1,00,000	1,00,000	1,00,000	2,00,000
57	Gross profit margin		8.01%	9.95%	17.34%	15.04%	13.81%
58	EBDITA		9.90%	12.25%	20.18%	18.93%	18.79%
59	Net profit margin		5.08%	6.14%	10.90%	9.77%	8.71%
60	BALANCE SHEET DATA						
61	Current assets	Rs m	1,510,690	1,375,490	1,277,850	1,468,130	1,837,860
62	Current liabilities	Rs m	1,151,560	1,343,810	1,851,540	2,353,170	3,138,520

(Refer Slide Time: 03:24)

The screenshot shows an Excel spreadsheet with the following data:

	A	B	C	D	E	F	G
39 Bonus/Rights/Conversion			ESOS	ESOS	-	ESOS	ESOS
40 Avg Mkt Cap	Rs m		2,504,938	2,854,000	2,804,451	3,346,095	7,239,437
41 No. of employees	'000		23.9	24.9	24.1	24.2	27.7
42 Total wages/salary	Rs m		55,720	62,620	74,070	83,880	95,230
43 INCOME DATA							
44 Net Sales	Rs m		4,344,600	3,754,350	2,664,530	2,939,510	3,945,170
45 Other income	Rs m		81,930	86,130	75,460	114,310	196,260
46 Total revenues	Rs m		4,426,530	3,840,480	2,739,990	3,053,820	4,141,430
47 Gross profit	Rs m		347,990	373,640	462,110	442,060	544,990
48 Depreciation	Rs m		112,010	115,470	115,650	116,460	167,060
49 Interest	Rs m		38,360	33,160	36,910	38,490	80,520
50 Profit before tax	Rs m		279,550	311,140	385,010	401,420	493,670

So, dividend divided by number of shares, I think there is some confusion we will do it again.

(Refer Slide Time: 03:42)

The screenshot shows an Excel spreadsheet with the following data:

	A	B	C	D	E	F	G
46 Total revenues	Rs m		4,426,530	3,840,480	2,739,990	3,053,820	4,141,430
47 Gross profit	Rs m		347,990	373,640	462,110	442,060	544,990
48 Depreciation	Rs m		112,010	115,470	115,650	116,460	167,060
49 Interest	Rs m		38,360	33,160	36,910	38,490	80,520
50 Profit before tax	Rs m		279,550	311,140	385,010	401,420	493,670
51 Minority Interest	Rs m		-550	-740	2,360	-1,080	590
52 Prior Period Items	Rs m		0	0	0	0	0
53 Extraordinary Inc (Exp)	Rs m		8,080	0	0	0	0
54 Tax	Rs m		62,150	74,740	88,760	102,010	133,460
55 Profit after tax	Rs m		2,24,930	235,660	298,610	298,330	360,800
56 Dividend	Rs m		1,00,000	1,00,000	1,00,000	1,00,000	2,00,000
57 Gross profit margin			8.01%	9.95%	17.34%	15.04%	13.81%

(Refer Slide Time: 03:52)

	No. of Months	12	12	12	12	12
	Year	Mar-14*	Mar-15*	Mar-16*	Mar-17*	Mar-18*
EQUITY SHARE DATA						
High	Rs	939	1,143	1,090	1,336	1,665
Low	Rs	765	797	813	926	780
Average	RS	810	980	990	1231	1432
Shares outstanding (eom)		2,939.55	2,943.33	2,948.02	2,958.92	5,921.83
Bonus/Rights/Conversion	ESOS	ESOS	ESOS	-	ESOS	ESOS
Avg Mkt Cap	Rs m	2,504,938	2,854,000	2,804,451	3,346,095	7,239,437

So, 34.02 it has more or less remain constant over the period.

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Combined Ratio						
Interest coverage		8.2875391	10.383	11.4310485	11.4292	7.1310233
Sales to Fixed assets ratio		1.86534771	1.17867	0.634832103	0.64598	0.6676465
Return on assets		5.25%	4.75%	4.99%	4.19%	4.42%
Return on equity		11.32%	11.29%	12.90%	11.31%	12.29%
Return on capital		10.61%	10.46%	11.31%	10.58%	13.12%
Net working cap to sales		8.27%	0.84%	-21.53%	-30.11%	-32.97%
Sales per share (Unadj.)		1477.98	1275.55	903.84	993.44	666.21
Earnings per share (Unadj.)		76.52	80.07	101.29	100.82	60.93
Dividends per share (Unadj.)		34.02	33.98	33.92	33.80	33.77
Dividend yield (avg)		4.20%	3.47%	3.43%	2.75%	2.36%
Book value per share (Unadj.)		83133	83823	96081	108971	105959
P/E ratio						

The next one is dividend yield, now this is important ratio and slightly a different ratio because it is trying to link dividend to market prices, we will try to calculate it on average basis because we know the average market price. So, dividend is a return to the shareholder which we have calculated on per share basis divide it by average market price during the year; 0.04 let us do it as a percentage. So, 4.20 percent over the years it has fallen because market prices have increased dividend has not increased much fine.

Now, book value per share this we know from balance sheet that what is the net worth and calculate it on per share basis. This is going to be a pretty high amount it represents the total value of the company if the whole of the company is sold off today on per share basis. So, it is 83133 in terms of millions of rupees and it has now gone up to 105959.

(Refer Slide Time: 06:07)

	A	B	C	D	E	F	G
82 Return on equity			11.32%	11.29%	12.90%	11.31%	12.29%
83 Return on capital			10.61%	10.46%	11.31%	10.58%	13.12%
84 Net working cap to sales			8.27%	0.84%	-21.53%	-30.11%	-32.97%
85 Sales per share (Unadj.)			1477.98	1275.55	903.84	993.44	666.21
86 Earnings per share (Unadj.)			76.52	80.07	101.29	100.82	60.93
87 Dividends per share (Unadj.)			34.02	33.98	33.92	33.80	33.77
88 Dividend yield (avg)			4.20%	3.47%	3.43%	2.75%	2.36%
89 Book value per share (Unadj.)			83133	83823	96081	108971	105959
90 P/E ratio			10.59	12.24	9.77	12.21	23.50
91 Price / Book Value ratio							
92 Dividend payout			44.46%	42.43%	33.49%	33.52%	55.43%
93 Avg. sales/employee							
94 Avg. wages/employee							

The next ratios are price related ratios PE ratio. So, price per earning it can be done at a particular point of time, but right now we will do on average. So, average price during the year divided by earning per share. So, its 10.59 for 1 for the shares sorry it is not for 1 share it is 10.59 times and you can see it has gone up now it is substantially high it is 23 what does it show higher is good or lower is good?

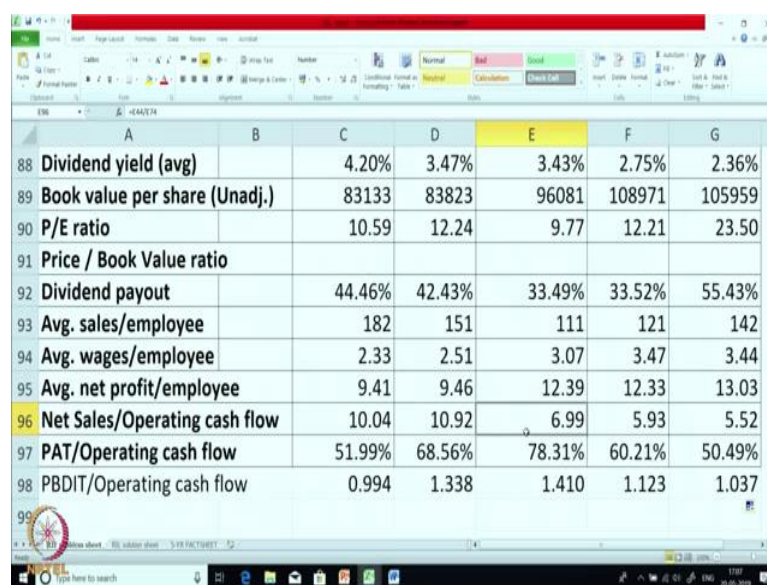
Normally, from the company's reputation view point higher is good; that means, market is giving more importance to this particular company's earnings, but from investors viewpoint many times lower may be good because that could be a good time to buy the shares. Of course, there are other market related factors also which go into the PE because the price of the share also depends on vast market and economic related factors.

The next is price to book value ratio we have just calculated book value per share. Now we will try to link it to the prices. Now let us go to dividend payout ratio. So, we have already calculated dividend per share we will divide it by the, we will take the market price. So, dividend per share upon market price this is the percentage of earning the shareholders are getting usually calculated as a percentage.

So, I am sorry there is some confusion, earlier we have already calculated dividend yield which is market dividend per share upon market price currently we have been asked to find dividend payout, what dividend payout means is from 100 rupees of earning how much money is being paid out as a dividend. So, it is DPS upon EPS. So, DPS divided by EPS. So, 44.46 percent is a dividend payout, you can see it has slightly gone up which shows that more percentage is being now paid as a dividend out of the available profits to the equity owners.

Now, the three next three ratios are related to performance of employees. So, this is a semi financial ratio you can say because the denominator will be now number of employees and we will try to link the sales average wages and average net profit to the number of employees.

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	A	B	C	D	E	F	G
88 Dividend yield (avg)			4.20%	3.47%	3.43%	2.75%	2.36%
89 Book value per share (Unadj.)			83133	83823	96081	108971	105959
90 P/E ratio			10.59	12.24	9.77	12.21	23.50
91 Price / Book Value ratio							
92 Dividend payout			44.46%	42.43%	33.49%	33.52%	55.43%
93 Avg. sales/employee			182	151	111	121	142
94 Avg. wages/employee			2.33	2.51	3.07	3.47	3.44
95 Avg. net profit/employee			9.41	9.46	12.39	12.33	13.03
96 Net Sales/Operating cash flow			10.04	10.92	6.99	5.93	5.52
97 PAT/Operating cash flow			51.99%	68.56%	78.31%	60.21%	50.49%
98 PBDIT/Operating cash flow			0.994	1.338	1.410	1.123	1.037

So, first one is sales upon number of employees. So, it is 181782 millions per employee and you can see there is a fall because there has not been much increase in the sales. In fact, there was a decrease in the sales and only in the last year there is a slight rise.

Average wages per employee. So, total wage data is available divided by number of employees. So, 2331 millions there is some confusion in this data because number of employees are in per 1000 that is why we are getting very high figure. So, do not worry they are not getting that much of amount we will have to what we are doing is we are taking the total amount in million and take dividing by number of employees in terms of

1000. So, further we need to divide by 1000 to get the correct figure, so then we will get just 2.

Same way even for average sales per employees then it was necessary to divide it by 1000, remember this is in millions of rupees the next is average net profit per employee. So, we are taking profit after tax and dividing it by number of employees and further dividing by 1000 because number of employees are in 1000's. So, 9.41 it has gone up now because recent years the profitability is bit improved.

Now the last two ratios are net sales to operating cash flow ratios, we have not done many ratios on cash flow. So, we know the cash generated from operations is a operating cash flow and we have got net sales figures. So, we are trying to link our sales to operating cash flow. You can see that there is a slow fall in the ratio. So, the higher figure we will mean that the in relation to sales the operating cash flows have been low, right now it is a bitter sign that slowly the ratio is going down.

And the last one we will try to know the profits as a percentage of operating cash flow. So, since they have asked for net profit we are calculating profit after tax and dividing it by cash flow from operations it will be better understood as a percentage. So, profits are about 52 percent and now they have they have more or less remain constant they are now 50 percent. It will actually make better sense if we link PBDIT because that is a profit cash profit from operations. So, let us link that as well. So, we are linking our cash profit to cash from operating activities.

So, let us take profit before tax add interest, add depreciation which is our PBDIT and divide it first by cash from operations. So, you are getting 0.99 1.31 the amount is close to 1 is it correct it is correct because both are showing the cash generated one is a profit generated on cash basis the other is cash generated from operations, that is why the amounts are fairly close its 0.99 1.33 etcetera. So, we have tried to calculate variety of ratios there here. As I told you one can calculate 100s of ratios, but each ratio from each stakeholder's angle is very important.

So, here we have tried to calculate number of important ratios and try to understand the significance of the major ratios and try to work them out for different companies because, that will give you insight about the performance or financial position or cash flow of that particular company.

So, let us stop here, Namaste.