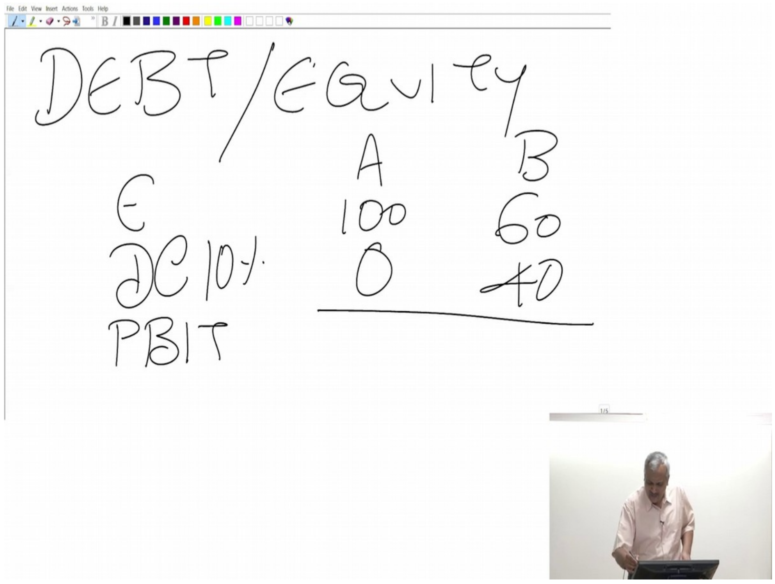
Decision making using financial accounting
Prof. Arun Kumar G
Department of Management Studies
Indian Institute of Technology, Madras

Lecture – 29
Financial Statement Analysis – 2

One of the aspect what I talk to you about I missed out when I talk about the debt holder yesterday I started talking about that debt holder.

(Refer Slide Time: 00:22)



We said that I also need to look at what is called as Debt by Equity Ratio because why do I need to look at the debt by equity, I need to know in a capital, capital there are two components. One component is a debt; another component is the equity. Now I need to know what is the percentage of debt in the company and what is the percentage of equity in the company. Debt holders are who they are loan provider the people who have provided loan to the company.

The people who have provided loan to the company are not the decision makers. Who are the decision makers? Basically the equity holder, they will appoint a manager or they decide to appoint a manager whatever it is the equity holders decide the fate of the company day to day. Now it is a you can argue.

So, I have a Reliance, share of Reliance or whatever. Now I am not making the decision for Reliance somebody else is making agreed, but as a share holder you have a representative who is basically on the board out there and there is a majority holder you hold 1 share or 2 shares or 100 shares or few hundred shares out there. There is a majority holder who is basically looking at making the decisions in the basic as far as a company is concerned that is what we call as equity.

Equity is you are the owner of the company. Equity is nothing, but share capital. I would have used the word share capital that is 10,000 shares at 10 rupees denominated as one lakh that is what we have used it n number of times. That is what we call it as that entire lot is what we call it as equity. Now as a debt provider, I need to know what is equity. Supposing I start a company. I say the capital, the total capital when I say capital, I mean debt plus equity. When I say capital I mean debt plus equity. Please understand when I say capital, it is not only equity.

When I talk about capital per se imagine the capital required from my company is 100 lakhs or say let us say 15 lakhs. One says 1 5, 15 lakhs. I say that I have about 10,000 shares of 10 rupees each that is 1 lakh are the other 14 lakhs I am borrowing from him or he is a banker, I am borrowing from him. Now what is happening I make a decision. I have contributed in the capital, total capital of 15 lakhs. What is my contribution? My contribution is less than a percent, less than 10 percent, less than 10 percent out there, but I am making the decision whereas, he has put in about what is called as almost about more than 90 percent of the money and he has no say in the firm out there. Am I with you on this?

So, basically what happens what will be my first objective? My first objective is to first recover my one lakh whatever I have put in and then [“bhaad mein gaye”] business that is the kind of attitude basically that so even that general. So, what we are looking at? We are looking at what is as a debt person who is providing the debt in the company. You will also be worried about what is the percentage of debt already existing. If the percentage of debt is only 10 percent in the company, 90 percent is equity.

You mean to say the person who has put in a lot of money has a lot of interest in the firm. So, I can contribute some more because you will settle in on it. If the debt component is already 50 percent by adding more debt into the firm what is happening, the debt equity ratio will get a little skewed. Debt component will increase, then what happens is your risk what happens that is what we talk about a risk out there. I bring the concept of risk out here.

The risk what the debt holder assumes will be higher in the process. So, you need to know what is the percentage of debt and equity also in the company out there. Am I with you on this? Yes Doctor.

Student: Is there an industry threshold beyond which (Refer Time: 04:00)?

There is no threshold per se it depends varies. For example, when I am looking at refinery kind of an situation the kind of debt will be very very huge, if I am looking at a service industry the kind of debt will be could be very very low in the process because or if look at that simple thing like an Airport project. The kind of debt component is going to be very very huge initially and over a period of time it gets weighted out. So, it is very difficult to have a single point of it. It sort of varies with the industry, varies with the scale of operation also what you are looking at out there, but in general debt and equity has what is called as an issue out there now which is cheaper. Debt is cheaper or equity is cheaper for a company?

Student: Debt.

Theoretically.

Student: Debt is cheaper.

Debt is cheaper.

Student: Equity is cheaper.

Equity is cheaper. Why equity is cheaper and why debt is cheaper. Let me finish with him first.

Student: Because equity does not carry a cost.

Equity does not carry a cost except it sir.

Student: Debt carries an interest cost.

Debt carries an interest cost. So, naturally debt is costing that is what you say. I agree. Now does not mean I am not going to agree with her, but let me hear from her also one second sir. Yes ma'am.

Student: (Refer Time: 05:09).

You know somewhere fine I still give it to you. Yes sir.

Student: Element of risk is very high.

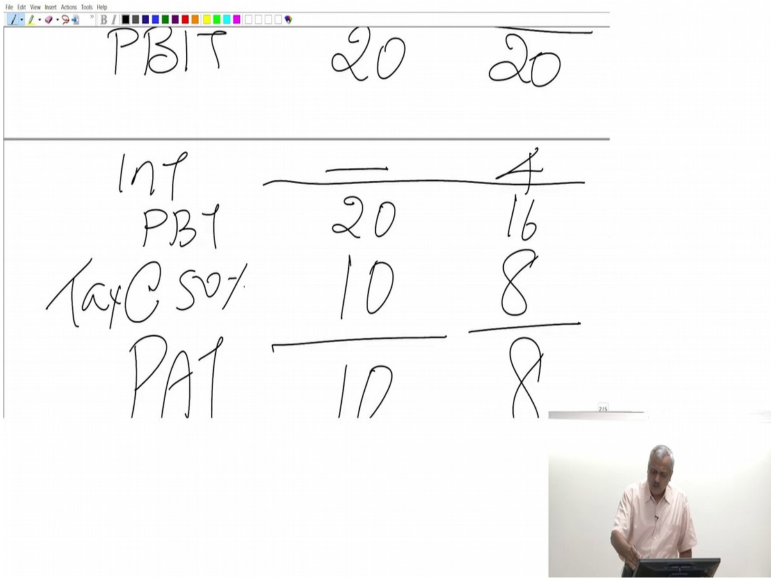
Element of risk is very high. Where?

Student: Equity is the share everyone takes it.

Equity is the share everyone takes it. Now let me sort of try and see if I can put some numbers to it and sort of try and explain. Now let us take case A and case B two companies. Company A has equity of about 100 dollars out there, company B has an equity of 60 dollars out there and then company A has a debt of blob out there, 0, company B has a debt of 40 dollars and the debt cost of debt is let us say 8 percent or even if I have to put it for a simpler, easier calculation let us just put it as 10 percent where as round figures easy to multiply for me.

Now, so 10 percent. Now what is happening? The capital for both the companies is exactly the same, the capital has not changed. Am I with you or not? Now let us sort of look at it. The next stage when I go into what we call it as now the kind of profit before interest and tax because both the companies are exactly in the same kind of an operation.

(Refer Slide Time: 06:39)



They are not very different. They are exactly in the same kind of business what they are doing. The profit before interest and tax of both the companies is 20 dollars. Now let me say interest component interest is only on the debt, not an equity. What you pay an equity is what is called as dividend out there. So, interest component for company A is blob 0, for company B it is 10 percent of 40 that is 4 dollars will basically by interest component out there.

Now, if I say PBT that is Profit Before Tax in this case it is 20 dollars, in this case it is 16 dollars out there. Now I have the tax component in the process. Again for ease of multiplication I will just keep the tax as 50 percent. I mean you can take whatever percentage you want. I will say out here tax goes off 20, 10 dollars out here, tax goes as 8 dollars out here, then what is called as a PAT that is Profit of Tax which belongs to the equity holders is 10 dollars out here and 8 dollars here.

Now what is the investment in company A? The investment in company A let us look at only the investment, let us not look at equity debt component difference between that all that. Let us look at the investment. What is the investment in company A? The company A if you look at the in kind of investment what you have made? You have made 100 dollars is the investment. What is the return you have got? You have got a return of 10 dollars.

Company B, what is the investment you have made? You have made the same 10 dollars. What is the return? Some say 100 dollars, you have got 60 plus 40, 100 dollars. What is the return you have got?

Return you have got is 8 dollars for equity, 4 dollars for debt that is 12 dollars you have got what is called as the return, total return that is 4 dollars I am giving it for the debt holders. 8 dollars I am giving it for the equity holders out there. Now what is happening the return on investment, when I say return on investment the investment is 100 dollars in both the return and investment in company A is only about what do you call it as 10 dollars whereas, in company B is about 12 dollars out there. Now why does it happen? Is it because company B is more efficient? Why?

Student: (Refer Time: 08:35).

You basically what happens is debt interest is always pre-tax. See what I have. What has happened out here, I have taken 4 dollars out there which is debt interest which is before I deduct what is called as the taxes out there. Equity in dividend is always post tax; debt interest is always pre-tax in the process. So, that extra 2 dollars you are getting out here in this particular case of what do you call it as in the case of B, I am getting that extra 2 dollars out here because 8 plus 4, 12 dollars I am getting.

Why I am getting that 12 dollars? Because all these 4 dollars what I am knocked off as interest, I have not paid tax. If I had paid tax how much I would have paid? I would have paid 2 dollars as tax out there. Because if I had paid 2 dollars as tax what would I have got added? Only 2 dollars you would have got added, it would be the same 10 dollars because I am paying what is called as debt interest before the taxes.

Then what happens I save on that and that is why it is basically 12 dollars is the total return out there. Any questions at this stage? I have still not answered the question what I asked. Yes doctor.

Student: Sir all of them does not belong to equity holder.

All of them belongs to equity holder.

Student: Now it is he has to return principle and so on.

No that is it belongs to the equity holder. Principle return we will look at it later. As of today it belongs to the equity holder. Principle for example, I am have to return the principal only after 10 years.

Student: In that case this will be slow portion at returns here. You have put only 60 and you get 10, then you have put 100 and you get 10.

Well that is returned to the equity holders, but we varying when what is the kind of return that is 100 dollars I have put and 10 dollars is the return. What is the percentage? 10 percent, here it is 60, it is 8, it can be slightly more perfectly all right, but my total I am not I said I am not differentiating between equity and debt holder out here. That is because you are getting a higher return here because the return taken by the debt holder is less compared to the equity holder out there. I will come to that aspect of it a little later.

We were looking at overall return. If you look at the overall return, one second sir. If I look at the overall return out here, debt interest is always what is called as pre tax. So, what happens? For a company per se theoretically let me rephrase the word theoretically debt will always be a cheaper source of capital for you. Number one, debt interest will always be lower to equity number one, number two your debt interest the return what you pay to the debt holder you save on taxes.

You do not pay taxes on the return that you paid to the debt holders theoretically. Now somebody can argue like what you said sir equity holder I am not obligated to give him the return whereas, what is called dividend. I am not obligated to give dividend whereas, for a debt holder I am obligated to give interest accepted, but equity holder will have to get a return in some form or the other. Either in the of this form or you retain it, then you give a bonus shares some form or the other you sort of give it. So, that is where I qualified my statement when I said theoretically. Your question sir.

Student: What about return on investment?

Return on investment now what is the investment in company? Yes sir.

Student: 100.

100 dollar. What is the investment in company B?

Student: 100 dollar.

100 dollar. What is the kind of return that is what is the kind of benefit or what is the kind of gain if I have to use the word what is the kind of gain I am getting for an investment of 100 dollars in the case A?

Student: 10 dollars.

I am getting only 10 dollars. In the case of case B, what is the kind of gain I am getting? Gain let me use the word gain out here 8 plus 4 because please note there are this 100 dollars is in the here focus here sir in the 100 dollars is in the form of equity and debt for the debt holder I am giving 4 dollars out here a prior that is what is called as interest on the debt out there because debt holder is charging a 10 percent interest. So, overall for the capital, total capital when I say what is the return, I am giving 4 dollars to these fellows and pushing them out and for these fellows I will give the remaining 8 dollars out there. Am I with you on this?

So, what that is what we call it when I say return is this plus what is called as the 8 dollars, that is what is the return out there.

Student: We are more concerned about the equity at debt.

We are not concerned about equity at debt; we are concerned about the return on investment as of now. We will come to the equity holder in a few minute sir. I when I started off, I started off with the concern for the debt holder. I did not even started off with a concern for equity. We look at the return on investment, then we will come to the next aspect of it. Am I with you? As of now I am looking at total. See imagine you want to buy the company out.

Imagine there is company, he is running a company with 60 debt and 40 sorry, 40 debt and 60 equity. I want to buy out the company today. Once I buy out the company, I can change what is called as a capital structure. This is what that debt and equity is what we call it as capital structure of the company. What is the capital structure of the company? 60 percent is equity; 40 percent is debt that is a capital structure.

In the first case what is the capital structure of the company? 100 percent equity that is the capital structure of the company. Now that is the capital structure. Now once I buy the company, I may pay off all the debt and make it 100 percent equity. Agreed? Possible or I might say I will take more debt into the firm I will say only 50 percent equity I will take more debt also I can borrow if somebody is prepared to give me. So, I can change the capital structure once I buy out, but I need to know what is the return the company is giving on the investment return on what is called as a total investment out there. Am I communicating not still yeah?

Student: They are more interested in the equity holders.

Whose why are you; why are you more interested?

Student: They paid on the company, right.

No we are not interested. I am not interested. I might be a debt provider. He is a banker sitting here. He is not interested in the equity provider, he is interested in he is getting his money back. Am I right? Because as a banker he gives a loan and what is he interested, he is not interested in how the equity holder is performing, moment he gives the loan equity holder is happy because he is getting more money to play around, but what is he interested, he is interested in getting his money back.

Why a State Bank of India fighting with Vijay Mallya. Not interested in equity, interested in the debt what they have given loan. So, we are looking at one second ma'am. We are looking at total capital; we are not I am not distinguishing between a debt holder and the equity holder as of now. Let us not distinguish that we will distinguish that in a few minutes from now. We are looking at total return on the capital with you sir. Yes Smitha.

Student: Sir interest paid right that 4 dollars.

Ah.

Student: So, how can it be treated as a gain? It is payment made to the.

Payment made to what?

Student: To the debt.

Now, imagine these are 60 guys out here, 40 guys out here, there are 100 people out here. These 100 people out here I have to pay the 10 dollars. Here for the 40 people I have paid the 4 dollars, I have pushed the 40 people out. Now I have to work only with 60 people right. So, basically it is through the capital it is a return. We are even that 8 dollars you can pay as dividends, we can pay as dividends to equity holder. So, even then the money has gone out, but how much are they getting for the investment right. You are investing in a State Bank of India Fixed Deposit. What is the return you are getting? 6 percent or 7 percent. That is what I am interested in. That is all right Smitha.

Any other question at this stage? So, theoretically if you look at again I repeat debt is always cheaper for the company. Why? Because you save on tax. You do not have to pay tax as such. Theoretically again I qualify theoretically everybody will say then if debt is cheaper, then why not every 100 companies is along operated with a 100 percent debt that is why it is theoretically. Now normally what happens the second stage what do you learn look at is if a doctor pointed out, there is a small difference that is now in this case for the equity of 100 dollars the return is 10 dollars, that is 10 percent. In the second case, equity is only 60 dollars. What is the return? 8 dollars. Why?

Student: Because of the tax.

Tax is agreed. That is one part of it. Now come to the risk aspect of it. Now I will address his question also interest in equity holder.

Student: (Refer Time: 17:18).

Ah.

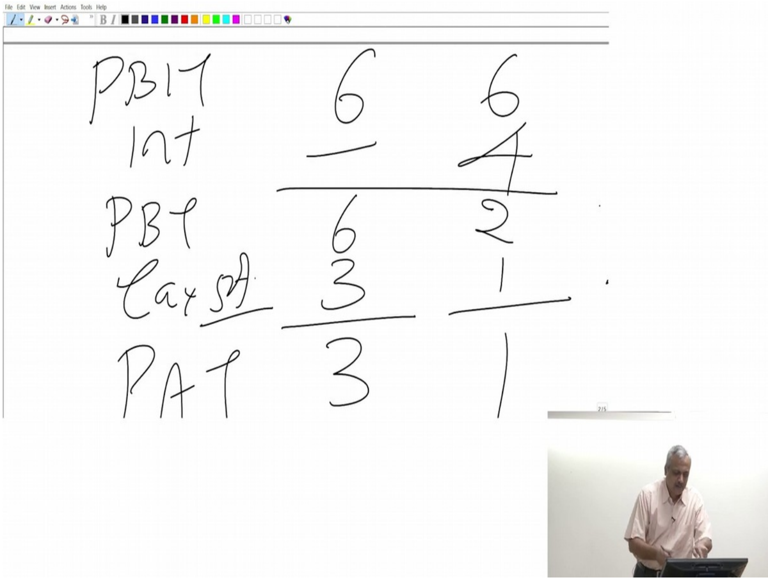
Student: We are adding 40 as a?

No adding wadding [choddo] risk.

Student: I think it is a loss it has to be owned by the equity holder.

Debt perfectly all right. Now moment debt component comes into the capital structure, the risk of the equity holder always increases. If the risk of the equity holder increases, they expect I will prove I will show it with an example. The expected return of the equity holders will also increase. Now I will say I will explain the same thing with the help of an example. Now imagine the case B out here. Whatever you have done out here case B.

(Refer Slide Time: 18:10)



Now there is in the next year, there is what is called as there is a recession in the economy. You know what is Recession? Because of recession in the economy, the profit before interest and tax drops out there for both, the companies out there for both the companies it drops. It drops from 20 dollars, what it was it drops to about 6 dollars out here. Now what happens? The interest component in this case is blob; interest component in this case is 4 dollars out here then, what happens the profit before tax will be 6 dollars out here will be 2 dollars out here.

Now I will say there is a tax of say 50 percent out here, 3 dollars goes as tax, 1 dollar goes as tax out here and then the profit after tax 3 dollars comes to equity holder only 1 dollar comes to equity holder. Now calculate the return side, return on investment. In the case of a down turn, the equity holder that is the velocity of change that is earlier case they were getting a interest rate of which is higher than 10 percent. In this case their inter the kind of drop what you see in the case B on the interest return, you actually is substantially larger. So, what I am looking at? If the risk assumed by the equity holder is higher because why in the case A whatever is the profit or loss equally distributed between the 100 fellows, who have provided capital. Imagine each one has provided 1 rupee.

If the second case what happened that 100 fellows are divided as 40 debt provider, 60 equity provider. The debt provider are happy laughing whether it is loss, whether it is profit their return is unaffected. Who bears the loss? Equity holders bears the loss in the process of the debt. So, what happened debt though it is cheaper. You actually what happens as you increase the debt component, the equity fellows are always boiling because their risk always keeps increasing. When their risk keeps increasing, their expected return will also increase. Now I use the word expected return. You learn more in finance one expected return will also keep increasing. Am I with you on this?

This risk return relationship that is where we will say higher the risk higher the?

Student: Expected return.

Higher the expected return. Because higher the risk, higher the expected return. So, because equity holders are assuming more risk, their expectation of return is going to be higher. So, what happens as you said in that case he said I mean doctor said initially it is a little unfair. Yes because why it is unfair because there is a debt component, then the risk of the equity holder always increases. Now have I addressed your question? Little more in detail. Yes no sir and where is the doubt you ask me. I can spend more time. I am able to keep it a little interesting today.

Student: Yes

Fine. Now these are practical issues yeah.

Student: Yes it is always sir.

Thank you sir

Student: Sir debt holders will not have.

One second I will just come to you yeah.

Student: There was a number 6 and 6.

Number 6. 6 is basically the profit what you have made in the company as of now because there is recession. Now in the earlier case what happened, you made about 20 dollars as the profit before interest in tax. Now what is happening because there is recession in the economy, I am making only 6 dollars. If the recession in the economy who bears the risk? Equity holder bears the risk debt holder does not even bear the risk out there. Am I with you on this?

Now what happens that is what then there because they bear the risk, their expected return also increases. That is where when the debt component is there in the firm, the return for the equity holder could basically change out there. Yes sir.

Student: Have control.

Ah.

Student: Debt holders will not have control on the company decisions.

Debt holders normally will not have control on the company. They will have no voting, right. They might have a representation on the board because if a banker provides a huge loan, then I am forcibly I have to keep a banker on the board that is all otherwise voting, right.

Student: Equity holder.

The equity holder, they will decide the future and fate of the company. Debt holder can keep raising objections.

Student: As per you as long as the interest component is always less than tax percentage, it is safer.

I never said that interest component is always less than tax percentage.

Student: In case

Yeah I mean obviously right. Your debt interest cannot be if your debt interest is 40 percent, then it is not liable for you to run the company because no company is going to give you a return of 40-50 percent consistently for time immemorial one year. Yes. So, obviously it will be in this case I just took roughly 50 percent, you can take 30 percent and try it is not going to be very very different out there and debt and debt moment debt becomes what is called as if you look at I am talking about the 80s, a manufacturing regime even then the debt interest was about 18 percent max 18-19 percent. Today you are talking about debt of about 8 percent and especially when you are looking at raising the debt in Japan or Thailand or one of these East Asian countries out there, you raised it at about 1 percent, one and half percent maximum to two touchwood and with the forward cover provided by bankers, landing cost will not be more than 6 percent out there.

Why forward cover and other things digressing? In a minute let me also explain.

Now when I borrow loan, debt is always for example imagine I am borrowing from Japan. I am borrowing about let us say 10 million dollars from Japan. When I borrow from Japan 10 million dollars on Japan again not part of your syllabus only digressing this is only part of knowledge. Now when I am sort of borrowing 10 million dollars in Japan I want the 10 million dollars whereas, when Japan dispenses the money, Japan is not going to dispense 10 million dollars. They are going to dispense so much million yen or billion yen or trillion yen whatever you call it because yen a thing which if converted will become 10 million dollars and that 10 million dollars will further get converted again to INR and land in my account out there.

Now, when I return the money please note I will have to return so many INR if converted to dollar and then further aback converted to so many yen should exactly be equal to the yen which was dispensed by what is called as Japan when they gave me the debt out there. So, what are you looking at? You are looking at two conversions. One is Yen to Dollar; second is Dollar to INR. So, currencies constructed in can be favorable, unfavorable and every time you service the loan also. For example, they are expecting a say 2 percent interest on that.

The amount of 2 percent interest, the amount of INR you will have to dispense if converted to Dollar and then again converted to what is called as your Yen should exactly be equal to 2 percent of their money we say dispense out that to take care of all that is what bankers give. What do you call it as a forward cover. They give what is called as forward cover. Charges for forward cover will be far costlier than the cost of loan itself. Loan will be only 1 or 2 percent, forward cover will always be about 5 to 6 percent, 6 percent around 6 percent is their forward cover that is where part of it. Anyway there is only part of knowledge; not part of the exam. Do not worry about it.

Student: Sir.

So, if you have understood fine, if you have not understood do not worry.

Student: Small question sir. In case of the conversion charges to the company.

No conversion it is all forward cover. That is all there. They are covering you for the risk.

Student: When you are paying interest?

Yeah.

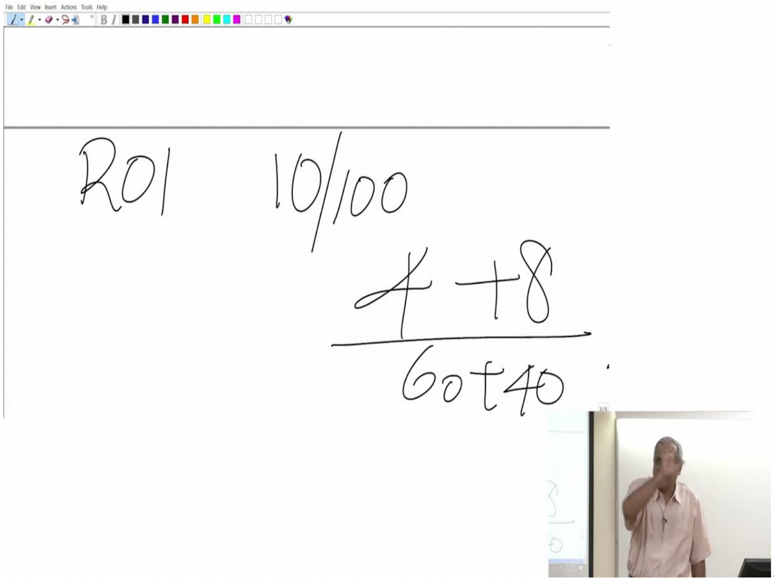
Student: When you are paying interest, you have to bother about the conversion?

No you do not bother. That is what I said. That is why he is giving you that forward cover. When he gives you that 6 percent out here, when he gives you that 6 percent interest or whatever it is 6 percent is a forward cover that they assume that what are you doing, you are transferring the risk to them. That is all. Let us leave it there.

Student: In case of when you incur loss bank bears not the.

Obviously if the benefit bank bears, loss also bank bears. I mean that is obvious basically that is the thing. Now anyway forget about the capital structure part. You will got to know basically debt equity part of it how does it work. We talked about return on the investment out there. Now return on the investment when I for example now I will say I am just going to erase this part of it because I need to continue from the yeah fine. Now I let us look at it. Now what happens in this let us take this case itself 20 dollars is fine and then if I have to look at the return on my investment out there return on my investment ROI.

(Refer Slide Time: 26:52)



When I say return on my investment for company A, company A return on investment is 10 dollars for an investment of 100 dollars. Whereas for company B if I look at if I if a company B, if I look at what happens is I will say for company B, I will say it is 4 dollars plus another 8 dollars and the investment is 60 plus 40 dollars, that is100 dollars out here.

Now you will what will you conclude? You will conclude that company B is better than company A. Am I with you or not?

Student: Yes sir.

Yes or no?

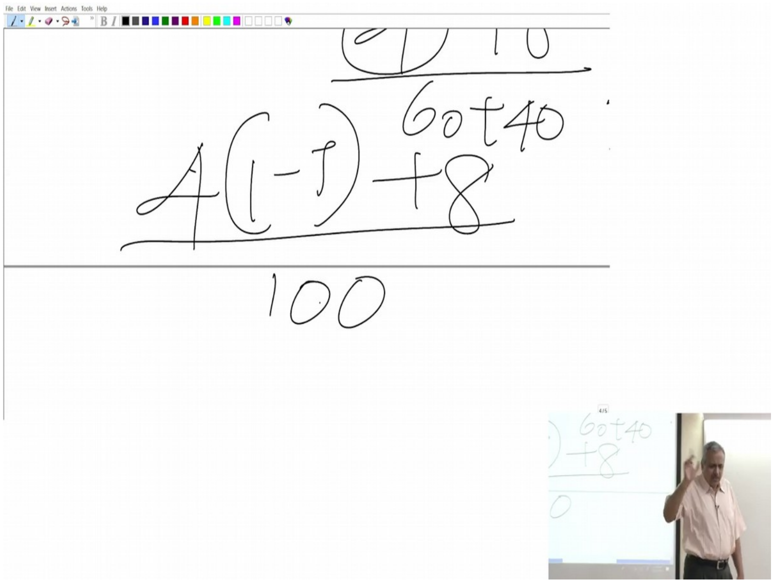
Student: Yes sir.

Why are you concluding? That why is it better? It is not better because of its operation, it is better because of its capital structure. Capital structure can keep changing, capital structure can keep changing. Today he has a 60-40 debt. Tomorrow I buy his company; I will make it 100 percent equity. Moment I make it 100 percent equity, the performance will go down. So, we are not looking at that. We are looking at what is called as a performance based purely on what is called as operations because when you are valuing the company, when you are comparing companies out there or when you want to buy out companies, you are buying out companies not because of their capital structure, you are buying out companies purely because of their?

Student: Core operations

Core operations out there. So, now what is it? Now in this particular case when I talk about return on investment out here this 4 dollars that is paid out here, this 4 dollars that is basically paid to the debt holder is before taxes that is where it is efficient. I want to take out that advantage of the taxes that is given to the debt holder out there when I am comparing or calculating the return, return on investment from the operations part of it. So, what do I do?

(Refer Slide Time: 28:37)



I say this 4 dollars which was paid for what is called as the debt holders, let me remove the tax advantage out there. Let me remove the tax advantage out there and then what is there for the equity holders out there and then I can basically look at what is called as; I can basically look at what is called as calculating my return.

Now, if I look at what have I done. That 4 dollars is before tax, I have knocked out the tax advantage 1 minus T is 1 minus tax rate whatever is a tax rate. In this case, 50 percent it is the same, if it is 30 percent out there. I knock out the tax advantage and then I look at the return out there. When I knock out the tax advantage and look at the return, then it becomes comparable. The two companies become comparable out there. Yes doctor.

Student: If from small scale if I want to start a company.

Sure sir.

Student: If I want to 100 rupees say.

Ah.

Student: And I want to start the company is 100 rupees or rather 50 rupee as an equity I would loan to my own company 50 rupee.

Possible.

Student: Because the returns will be more.

Possible because agreed not returns will be more in the sense in that case return is not going to be yeah in that case you can if your own company.

Student: yeah.

You want to start I will say only 10 rupees as equity 90 rupees I will give as debt right because it is obviously, right 90 rupees I will give as debt because entire thing, but the problem is in India once you retrieve the interest on the debt, you have to pay tax. The company need not pay tax you have to pay tax whereas, equity dividend in India is exempted from taxes.

That for example, I will say imagine in the same case, 4 dollars you are given what a 40 dollars you have given as debt, 60 dollars you have given as equity you are getting 8 dollars return that is the company is dispensing that dividend you are getting on this 8 dollars personally as doctor you are not paying interest out there, you are paying taxes on that 4 dollars what you are getting as debt interest out there personal income tax. If personal income tax is lower than the corporate taxes, then well you can always do or play around with that advantage. Yes that is all possible. All that tax planning we can sort of look at it independently out there. Any other question at this stage? Yes Joyal.

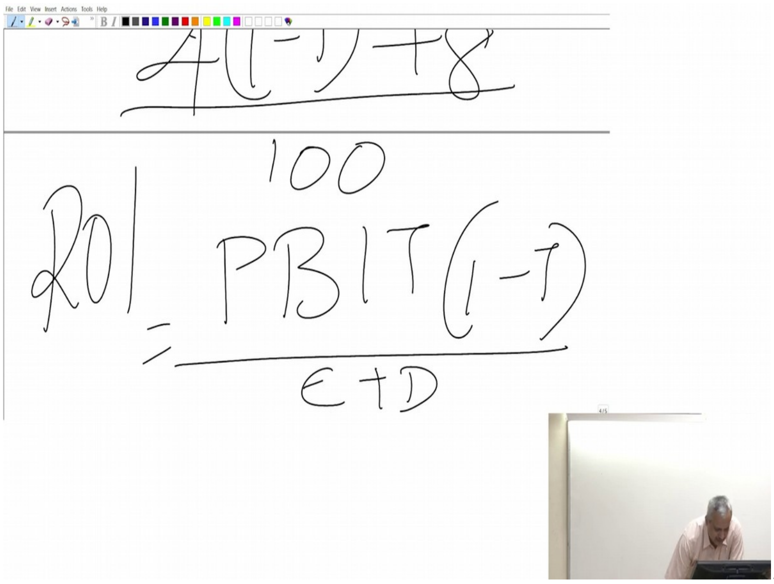
Student: So, we have to compare the PBT.

I am looking at.

Student: PBT.

PBT is one, PBT is part of it. Now on the PBT is there a tax. There is always a tax out there. So, what do I do? I have the now in this particular case what I have done? I have looked at what is the return for the equity holder. I have looked at what is the return for the debt holder, I have knocked out what is a tax out there.

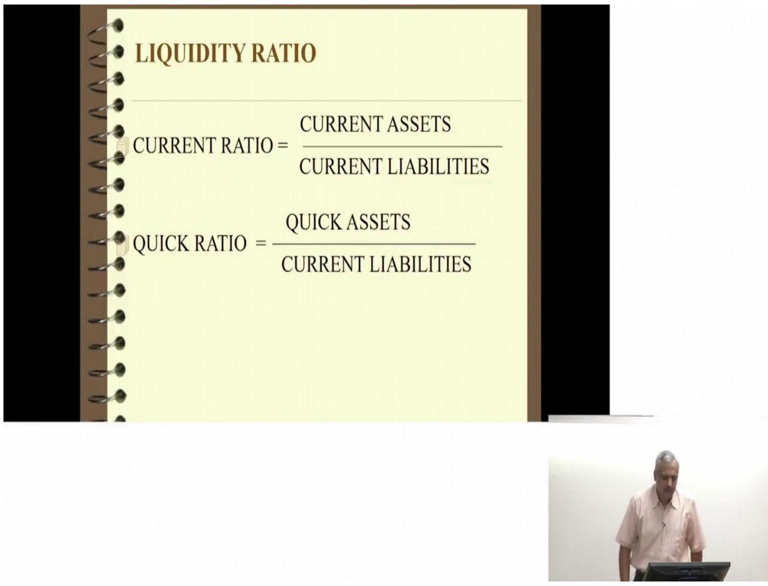
(Refer Slide Time: 31:25)



So, instead of that I can simply do what I call it as I can simply as you rightly said. I can just say PBIT profit before interest and tax belongs to whom? To the capital provider into I just do 1 minus T that is the tax part of it and then say I have equity plus debt out there. This will give me what is called as my return on investment out there. Am I with you on this? So far so good. Either I can separate it out and take out the tax and the debt or I can just do what is called as that total PBIT part of it. Am I right ok?

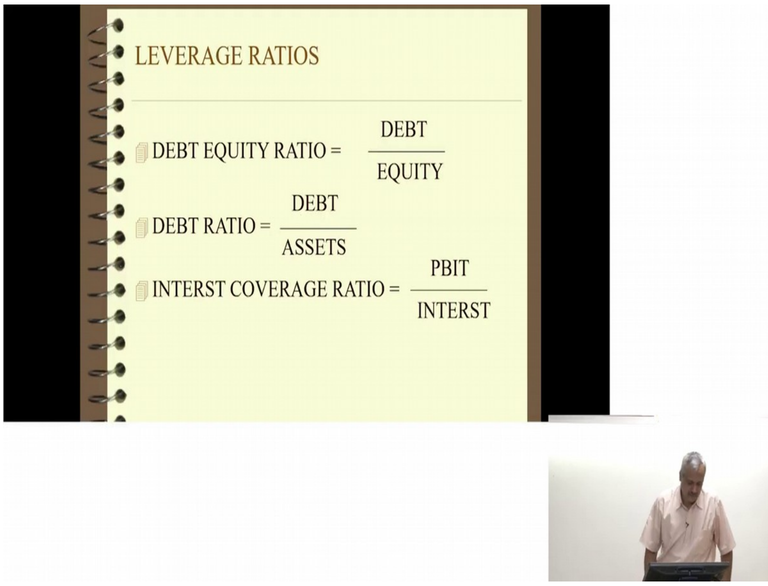
I can take out, take it out and then just do that taxes out there. This is what we call it as return on investment. I have the slides do not even worry about copying. I have the slides for all these things which I will provide. I will load it on Moodle.

(Refer Slide Time: 32:10)



I will load all these things on Moodle also (Refer Time: 32:14).

(Refer Slide Time: 32:14)



You do not need to worry about all these ratios. I can load all these things on Moodle. So, you do not have to worry about it. That is all what I wanted to convey. Yes Rishab.

Student: In this profit before interest EBIT (Refer Time: 32:34) the same or.

EBIT yeah earnings before interest and tax I will say profit. I mean for example, when we say share capital, they will say equity synonymously used when I say earnings before interest and tax. So, our textbook will say profit before interest and tax whereas, if you look at a company's financials, they will say EBIT. They will even say EBITA. They will again it will go on. So, let us that all that you say it we will sort of get accustomed. Do it as we call it. Am I with you on this?

Now what did I do? I looked at two aspects. I looked at the first debt and equity components. For example, if I am a debt inter or holder, if I am going to provide debt for the company, I look at three things instead I talked to you about interest coverage ratio, I talked to you about the interest, I look at the debt and equity part of it, third I look at what is called as the return on investment part of it. Am I with you? As a debt provider. Now if I sort of bit move from a debt provider to what is called as an equity provider out there.