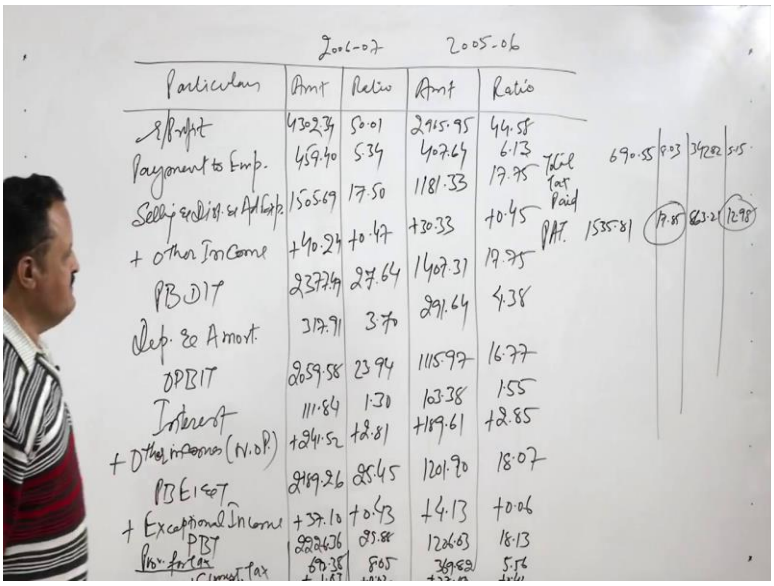
Financial Statements Analysis and Reporting
Dr. Anil Kumar Sharma
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture - 47
Profitability Ratios- Grasim Industries Part – III

Welcome students. So, we are in the process of discussing the ratio analysis, one of the important tool for the financial analysis or the financial statement analysis. And till my last part of discussion, we were discussing the say preparation of we were learning how to prepare the multistep profitability statement. And in that multistep profitability statement, we tried to find out the gross profit ratio with the net sales and then we found out that the gross profit ratio for the Grasim industries is very, very good is a wonderful ratio that gross profit is almost 50 percent and it is improving over the previous year. So, whatever the gross profit this company had in the previous year, this is in the 2006 and 07, the profit has gross profit has gone up by 5 percent in the say the year that is 2006 and 07. So, this is the GP ratio we have calculated.

(Refer Slide Time: 01:23)



And now we will proceed further with the other end ratios in the multistep income statement; and in that multistep income statement, we will be talking about the other ratios and other components. So, we can take here the particulars, we can take here the particulars, then it is amount, and then it is the ratio, then it is amount, and it is the ratio amount and it is the ratio. Here the year is 2006 and 07, and here the amount year is 2005 and 06. So, these are the this multistep income statement is continuing that after calculating the GP ratio.

Now let us see how much is the how much are the other ratios and then what is the overall profitability position of the firm. So, next item here we take after GP, so we will write here as the I am continuing with the GP gross profit. And the gross profit the absolute amount of the gross profit was 4302 they are connecting the previous statement with this and it was 4302.34 and it is ratio was 50.01, then it is 2965.95 and the ratio was 44.58, so this is the GP ratio - gross profit ratio. And after this after this gross profit ratio we will be calculating the other ratio.

(Refer Slide Time: 03:28)

GRASIM INDUSTRIES LIMITED
Balance Sheet
AS ON 31st March 2007

	Schedule		Current Year	Previous Year
SOURCES OF FUNDS				
Shareholders' Funds				
Share Capital	1	91.69		91.69
Reserve and Surplus	2	6,138.35		4,890.39
			6,230.04	4,982.08
Loan Funds				
Secured Loans	3	2,291.00		1,386.12
Unsecured Loans	4	660.56		593.55
			2,951.56	1,979.67
Deferred Tax Liabilities			582.55	584.38
TOTAL			9,764.15	7,546.13
APPLICATION OF FUNDS				
Fixed Assets				
Gross Block	5	6,770.97		6,114.12
Less: Depreciation/Amortization		3,380.53		3,109.49
Net Block		3,390.44		3,004.63
Capital Work-in-Progress		1,192.35		293.64
			4,582.79	3,298.27

(Refer Slide Time: 03:29)

Fixed Assets held for disposal			14.33	12.76
Investments	6		4,274.70	3,481.71
Current Assets, Loans and Advances				
Interest accrued on Investments		0.70		1.46
Inventories	7	824.14		750.73
Sundry Debtors	8	576.48		413.45
Cash and Bank Balances	9	116.38		155.58
Loans and Advances	10	824.69		705.54
		2,342.39		2,026.76
Less:				
Current Liabilities and Provisions				
Liabilities	11	1,266.86		969.15
Provisions	12	183.20		304.22
		1,450.06		1,273.37
Net Current Assets			892.33	753.39
TOTAL			9,764.15	7,546.13

(Refer Slide Time: 03:30)

GRASIM INDUSTRIES LIMITED
Profit and Loss Account for the year ended
AS ON 31st March 2007

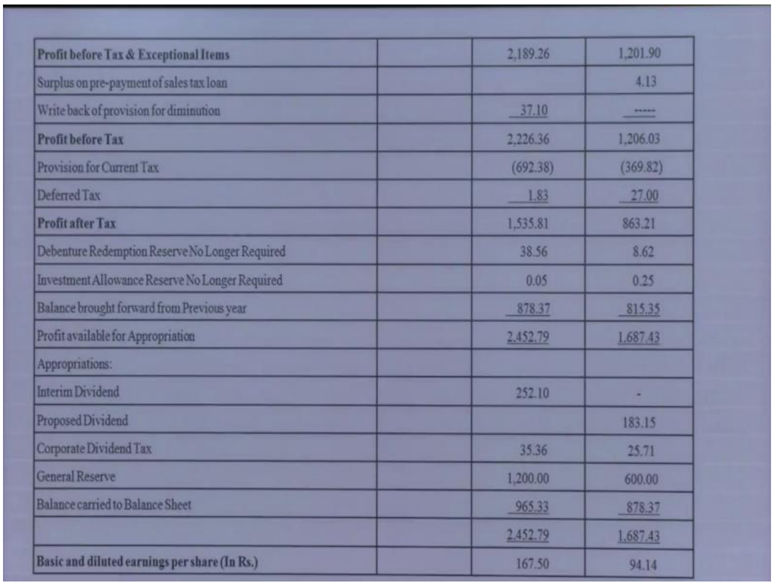
	Schedule	Current Year	Previous Year
INCOME			
Gross Sales		9,607.97	7,638.41
Less: Excise Duty		1,004.38	985.80
Net Sales		8,603.59	6,652.61
Interest and Dividend Income	13	113.27	67.53
Other Income	14	168.49	152.41
Increase/(Decrease) in stocks	15	(16.44)	(43.48)
		8,868.91	6,829.07
EXPENDITURE			
Raw materials consumed	16	2,219.32	1,822.69
Manufacturing Expenses	17	1,744.33	1,580.34
Purchases of Finished and Other Products		321.16	240.15
Payments to and Provisions for Employees	18	459.40	407.64
Selling, Distribution, Administration and Other Expenses	19	1,505.69	1,181.33
Interest	20	111.84	103.38
Depreciation and Amortisation		317.91	291.64
		6,679.65	5,627.17

So, let us take the now subtract the other expenses first. So, we will be talking about the payment to employees, how much payment is made to the employees. How much payment is made to the employees if you look at, so looking at the payment made to the employees we will see here the information given and that is the payment made to the employees and provisions, here it is the schedule number 18, 459.40 crores. So, we will be taking this item 459.40 crores. This is the 459.40 crores and this is the 5.34 percent that is the percentage of the net sales and it is 407.64 and this 6.13, this is the another one indirect expense.

Then is the selling and distribution and administrative expenses; selling distribution and administrative expenses. If you look at this set of expense selling administrative and distribution expenses then here we have this 1505.69. So, this is 1505.69 and this ratio is 17.50. So, selling expenses are also quite high that is administrative and selling expenses they are also quite high. And this is here it is 1181.33, and this works out as 17.75. So, it means this cost is also going down if you look at the trend of the cost, so in case of the employees also it has the ratio has come down from 6.13 percent in the previous year to 5.34 in the year 2006 and 07. And if you look at the next ratio selling head of expense selling and distribution and expenses and administrative expenses then it has come down from 17.75 percent to 17.5 percent. So, this is the selling and distribution expenses.

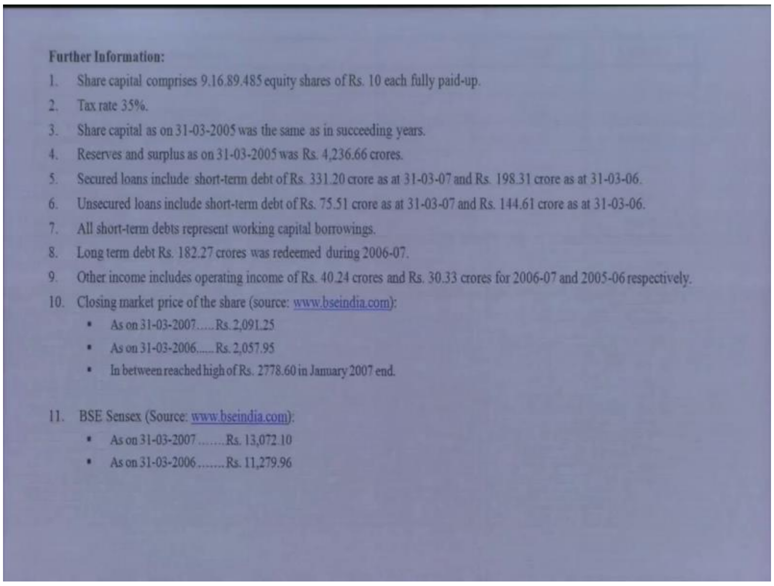
And then we have, so we will be talking about the next thing that is. So, we will add into this the other expenses plus means other than this is add plus we will be talking about the other incomes. We will be taking here the other incomes, because we will calculate the profit before depreciation interest and tax. We have to calculate the profit before PBDIT. So, for calculating PBDIT, we will be subtracting depreciation interest and tax after calculating the ratio up to that level, so we are including the other incomes and other incomes are given here as 168.49; in this year, other incomes were 168.49.

(Refer Slide Time: 06:36)



Profit before Tax & Exceptional Items		2,189.26	1,201.90
Surplus on pre-payment of sales tax loan			4.13
Write back of provision for diminution		37.10	-----
Profit before Tax		2,226.36	1,206.03
Provision for Current Tax		(692.38)	(369.82)
Deferred Tax		1.83	27.00
Profit after Tax		1,535.81	863.21
Debenture Redemption Reserve No Longer Required		38.56	8.62
Investment Allowance Reserve No Longer Required		0.05	0.25
Balance brought forward from Previous year		878.37	815.35
Profit available for Appropriation		2,452.79	1,687.43
Appropriations:			
Interim Dividend		252.10	-
Proposed Dividend			183.15
Corporate Dividend Tax		35.36	25.71
General Reserve		1,200.00	600.00
Balance carried to Balance Sheet		965.33	878.37
		2,452.79	1,687.43
Basic and diluted earnings per share (In Rs.)		167.50	94.14

(Refer Slide Time: 06:37)



Further Information:

1. Share capital comprises 9.16.89.485 equity shares of Rs. 10 each fully paid-up.
2. Tax rate 35%.
3. Share capital as on 31-03-2005 was the same as in succeeding years.
4. Reserves and surplus as on 31-03-2005 was Rs. 4,236.66 crores.
5. Secured loans include short-term debt of Rs. 331.20 crore as at 31-03-07 and Rs. 198.31 crore as at 31-03-06.
6. Unsecured loans include short-term debt of Rs. 75.51 crore as at 31-03-07 and Rs. 144.61 crore as at 31-03-06.
7. All short-term debts represent working capital borrowings.
8. Long term debt Rs. 182.27 crores was redeemed during 2006-07.
9. Other income includes operating income of Rs. 40.24 crores and Rs. 30.33 crores for 2006-07 and 2005-06 respectively.
10. Closing market price of the share (source: www.bseindia.com):
    - As on 31-03-2007.....Rs. 2,091.25
    - As on 31-03-2006......Rs. 2,057.95
    - In between reached high of Rs. 2778.60 in January 2007 end.
11. BSE Sensex (Source: www.bseindia.com):
    - As on 31-03-2007........Rs. 13,072.10
    - As on 31-03-2006........Rs. 11,279.96

So, if you talk about the other incomes we will have to now talk about the operating incomes. We will not be taking the non-operating incomes we will be calculating the operating incomes. So, what is the operating incomes, let us see now we have the total income here other income is 168.49 out of this we will be taking the operating income only and other incomes include operating income of 40.24 and 30.33 crores. So, we will be adding this operating income and after that we will be operating the adding the non-operating incomes also.

So, if you talk about the other incomes then it is the, so we will have to add this figure 40.24, and this has to be added here 40.24. So, this works out as positive part, because it is income, so plus 0.47. And here it is the plus previous year this income was 30.33. So, this is the plus 0.45. So, this is the 4 7. So, other incomes are operating incomes have been increased. So, first operating income was from the sales, and then we calculated the GP and then we subtracted some indirect expenses, and then adding some other operating incomes. So, now, up to this part, whatever the profit is coming that is the profit from the operating incomes that is the sales plus other incomes minus direct expenses direct and indirect expenses, but operating expenses.

So, now we will be calculating at this level, if you talk about we will be calculating the PBDIT, this is PBDIT - profit before depreciation interest and tax. And if you talk about the PBDIT, this works out as 2377.49, this is 27.64 percent you can say as a ratio and it is 1407.31 and it is 17.75. So, it is now you see that the profit before depreciation interest and tax has gone up from 17 or 18 percent to roughly 27 plus percent. So, it means there is a is a increase of 10 percent in the profit before depreciation interest and tax also. So, this is again a good increase.

And if you talk about the other parts then you see that it is the other things will be taking into account. So, first we will be now taking the depreciation, depreciation and amortization. So, if you take the depreciation and amortization here, what is the amount of the depreciation and amortization let us check that amount and that amount of depreciation and amortization is profit for exceptional items. So, here would be depreciation and amortization, it is depreciation and amortization, this is 317.91 for the current year. So, it is 317.91, and previous year it was 291.64. So, it is 3.7 here, and it is 4.38 is the depreciation and amortization this amount. So, ratio that is depreciation figure is also going down over the years. So, depreciation expenditure non-cash expense though it is, but it is also going down over the years depending over the (Refer Time: 10:14) or depreciation keep on changing.

Now, we can calculate the operating profit before interest and tax OPBIT, this is the operating profit before interest and tax. So, this profit works out as 2059.58; and in the other case, it is 1115.97, and here it is 23.94, and it is 16.17 OPBIT. And now let us take the interest component. Interest is the financial cause. So, how much is the interest component if you look the interest here 111.84 and then it in previous year it was 103.38. So, it is 111.84 and then it is 103.38, so it means the percentage of the interest component is 1.3 not a very big amount that interest component interest cost is which was 1.55, in the previous year has come down to the 1.30 in the current year. It means evident also because firm has not borrowed more money from the external sources, they are not depending much on the external sources, they have not borrowed much money from the external sources. So, yes, this interest burden has to be minimum.

Now, we talk add into this the other incomes. Ad these other incomes will be non-operating incomes, we will have to calculate the non-operating incomes now. And for calculating the non-operating income, the total non-operating income becomes 241.52. How it becomes 241.52 non-operating income, we see that what is the non-operating income here, we have here the one head of the income is the interest and dividend income this is non-operating income. And next part of the this income is the this amount is 168.49 and interest and dividend is this much and other incomes amount is how much other incomes amount is which is non-operating, so this is 168.49. And out of this we have to subtract the operating income which we have already taken into account.

So, you see that the total other incomes non-operating is the interest and dividend income which is 113.27 crores, and the other income is 168.49. And out of this we have taken some that is the operating income which is included in the other incomes we have already that. So, we have to subtract it and that amount was here that is 40.24. So, it is 40.24 we have to subtract, so this is plus and this is minus 40.24, this is 40.24. So, if you take this into account, so finally, this income works out as this is 241.52, 241.52 is going to be the non-operating income 241.52, so which we want to add here this is plus sign. So, it is 241.52 is the other income. And this is this ratio is 2.81 and here earlier it was 189.61 and this is the plus 2.85. So, this is the other incomes that is non-operating we are adding.

So, what else is left here now if we talk about then it is the profit, you can call it as profit before exceptional incomes and tax, profit before tax and extra ordinary incomes or the exceptional incomes. So, this profit is going to be how much if you calculate this tax then we have a that is other incomes profit before tax and exceptional incomes is 2189.26 and it is 1201.90. So, it is how much it is 25.45 percent, and this works out as 18.07 percent. So, this is the profit before exceptional incomes or extra ordinary incomes and the tax.

Now, we will be adding the incomes that is exceptional items plus exceptional income you can say exceptional income. In exceptional income is basically some means once in a while it is not a regular income it is not a regular source of income it is once in a while income. So, we will be taking only the exceptional income here. So, we have to say show it separately which is very less in this case it is thirty seven point how much it is one zero and this is plus we are doing. So, this is plus 0.43 is the exceptional income; here in this case it is it was very less in the previous year that is 4.13 this is plus 0.06 is the exceptional income we have taken. And after taking this into account nothing is left all expenses and incomes are taken into account. And now we will have to calculate the PBT - profit before tax

So, it is the profit before tax. And if you calculate the profit before tax, this works out as 2226 profit before tax is 2226.36 and then in the second case it is 1206.03, and this amount is 25.88 and in this case it is 18.13. So, this is the profit before tax, and now we will be talking about the, we will be making the provision for the tax. We will have to make the provisions for the tax. And if you make the provision for the tax, so we have two kind of the taxes current tax and then the defer tax. So, we will have to make the total provision for the tax. So, if we make the provision for the tax, we will be finding out that what is the current tax and what is the so we will be making the provision for tax. So, it is provision for tax. And when we talk about the provision for tax it is a current put a line here then it is the current tax. And how much it is, current tax is current income tax.

(Refer Slide Time: 17:50)

Profit before Tax & Exceptional Items		2,189.26	1,201.90
Surplus on pre-payment of sales tax loan			4.13
Write back of provision for diminution		37.10	-----
Profit before Tax		2,226.36	1,206.03
Provision for Current Tax		(692.38)	(369.82)
Deferred Tax		1.83	27.00
Profit after Tax		1,535.81	863.21
Debenture Redemption Reserve No Longer Required		38.56	8.62
Investment Allowance Reserve No Longer Required		0.05	0.25
Balance brought forward from Previous year		878.37	815.35
Profit available for Appropriation		2,452.79	1,687.43
Appropriations:			
Interim Dividend		252.10	-
Proposed Dividend			183.15
Corporate Dividend Tax		35.36	25.71
General Reserve		1,200.00	600.00
Balance carried to Balance Sheet		965.33	878.37
		2,452.79	1,687.43
Basic and diluted earnings per share (In Rs.)		167.50	94.14

We will see the how much is the current income tax here current income tax is when we talk about the current income tax current income tax is corporate dividend tax general interim dividend appropriations then profit after tax. So, yeah, a provision for the tax profit before tax is this much 2226.36 and 1206.03 is the profit before tax. Now, the provision for tax is that is the current tax 692.38, and then we have the total provision made is 692.38 and previous it was 369.82, but part of this provision 1.83 tax is deferred.

So, it means we will be paying the total tax that is 692.38 minus 1.83. So, total tax will be this. So, provision for tax is current tax. If you talk about the current income tax, so this is 692.38, and then this is 8.05 big amount of tax. And in the second case it is three 369.82, it is 5.56, this is the current tax. And now you have to add the defer tax. And if you talk about the defer tax, so it is how much is the defer tax which part of the tax is defer we have to add it back. So, it is plus 1.83, and it is you call it as plus 0.02. And in the second case it is plus 27, and it is how much plus 0.41. So, this is the defer this part of the tax is defer we made a total provision of 692.38 for the current, and 1.83 amount of the tax is defer. If you take into consideration the total income tax is we have paid is that is 190.

So, we will say here the total tax paid is how much, this works out as 690.55; and in the second case it is 342.82. So, if you calculate this as a ratio this is 8.03; and in the second case, it is 5.15, this is the ratio we are calculating here. So, this is the income tax part

690.55, and this works out as 8.03 percent of the sales because sales it the common denominator and then we take the previous year which works out as. So, text component is also gone up because the profit has increased. So, tax will be more. So, total income tax we have taken now the PAT - profit after tax. How much is the profit after tax for the firm for the net operating profit you can say that is the 1535.81 and 863.21. So, it is 17.85 and 12.98 is the profit after tax. So, it is almost 18 percent you can say profit after tax for the 2006 and 07 is 18 percent, and previous year it was 13 percent profit that is the profit after tax.

So, this is the multistep income statement which is including the detailed analysis detailed information. And it is not only the absolute figure, if you look at the profit and loss account its including only the absolute figure, but we have calculated here the ratios also. And all the ratios easily show that way to exercise the control, and how to cut the cost. So, if you look at the statement what we prepared in the previous lecture, if you look at and we calculate the gross profit, so in that we only took two things into account. One was the income from sales that is our net sales after excise duty, and then we subtracted the manufacturing expenses and then we subtracted the material cost.

So, if you look at the material cost that was about 30 percent, not a big amount. So, there is hardly any chance to reduce the material cost, but manufacturing expenses, yes, the company has already tried to reduce it. They have reduced both the expenses material also has been brought down in the year 2006-07 as compared to the previous year and manufacturing expenses also have been brought down significantly from about say 24 percent to 21 percent. So, 3 percent reduction is already exercised.

So, in these two heads there is hardly any scope in the reduction of the further expense. If it is possible the firm can try, but they are not going to gain much. But if you talk about on the basis of the that we have calculated the gross profit which is about say 50 percent in the current year and it was 45 percent in the previous year. If you look at now the present analysis here this statement here, so we will take into account that which head of the cost is considered as on the higher side. We can think about that we should suggest to the firm that it should be reduced.

Now, for example, you talk about the employees payments, employee payment are also coming down may be part of the temporary workers that number of the workers has been reduced. So, you see the cost has come down from 6.13 to 5.34 percent of the sales. Selling and distribution expense is the one head where the cost seems to be little on the higher side, but it is including three things selling cost, distribution cost and the administrative overheads. But you see in the administrative overheads we generally include the employees expense also, so if you have segregated the employees expense then what else is left with the administrative expenses, stationary then some you can call it as office rent or some other kind of maintenance related expenses they could be.

So, but there seems to be scope that yes selling and distribution and administrative expenses can be thought of that if there is any possibility, they can be brought down, there is a chance. And if they are brought down profit will improve. Then we talk about the other incomes other operating incomes and they are quite good maybe some you can call it as some finished goods directly being sold in the market, here are other operating income. So, not a big chunk, but yes it is also growing into 0.45 percent and it has become 0.47 percent, so good growth. So, profit before depreciation interest and taxes gone up by 10 percent it was 17.75 percent, and it has become 27.64 percent this time. And if you talk about the depreciation next part is a noncash cost this is a noncash cost which is generally not in the hands of anybody.

Whatever the amount of the fix assets have been purchased, those assets will remain with the firm. We cannot normally sell these assets because that will affect the operating performance of the firm. So, normally depreciation automatically by the choice of method of depreciation, say for example, if it is the straight line method then the amount of depreciation would remain same all through, but if it is a diminishing balance method or written down value method, then yes the depreciation will come down. So, probably the firm is using written down value method that is why depreciation amount has come down from this place to this place. So, it is operating profit before interest and tax is about 24 percent which was 17 percent, so again it is growing as compared to previous year.

Interest component is also very high 1.3 and 1.5 growth is coming down that is not a very high no scope if the money has been already borrowed. If the funds have been already borrowed by the firm then reducing this cost is not generally possible and it is not very high also. We have seen in the balance sheet, if you look at the amount of the borrowed funds, loans and advances, if you look at in the balance sheet here that is also not very high. So, probably here if you look at the secured loans it is about say how much it is roughly 3,000 crores. So, because of that the interest cost is very well managed it is very much under control, so nothing to worry about.

(Refer Slide Time: 26:13)

GRASIM INDUSTRIES LIMITED
Balance Sheet
AS ON 31st March 2007

	Schedule		Current Year	Previous Year
SOURCES OF FUNDS				
Shareholders' Funds				
Share Capital	1	91.69		91.69
Reserve and Surplus	2	6,138.35		4,890.39
			6,230.04	4,982.08
Loan Funds				
Secured Loans	3	2,291.00		1,386.12
Unsecured Loans	4	660.56		593.55
			2,951.56	1,979.67
Deferred Tax Liabilities			582.55	584.38
TOTAL			9,764.15	7,546.13
APPLICATION OF FUNDS				
Fixed Assets				
Gross Block	5	6,770.97		6,114.12
Less: Depreciation/Amortization		3,380.53		3,109.49
Net Block		3,390.44		3,004.63
Capital Work-in-Progress		1,192.35		293.64
			4,582.79	3,298.27

Now, if you talk about the other incomes they are yes you can call it as non-operating incomes, why we often trust on investments because this company has good amount of the long-term investments. Similarly, some buildings some rent is coming to them some interest is coming to them, so all these non-operating income is here and it is not big, but it is growing. Then we have the exceptional income, but it is once in a while not a big amount, it may come or may not come. So, profit before tax which was about 26 percent say some 18 percent previous here has been grown up by 8 percent and it has become 26 percent almost in the current year 2006 and 07 that component is not in the hands. So, whatever the reported profit is the company has to pay the tax on that, so it is not a very big amount. So, in this case, if you talk about the other components that is the total tax paid means the total tax due was 692.38 and 369.82 crores, but part of that has been deferred to that to be paid in the next period. So, it means currently the tax being paid is that is 690.55 crores which is about 8 percent, and the tax component has gone up from the 5.15 percent in the previous year to the 8.03 percent maybe the company has not taken much deductions this year or the rate of the tax has gone up. So, the final year and tax the rate of the tax or you can call it as means it is a ratio to the sales not the tax. So, because of the variation in the sales, the tax amount is also varying and the ratio is also varying.

Finally, if you look at the profit after tax, so that is growing it was 13 percent last year; it has become say 18 percent almost in this year. And if you look at it in isolation, we say that profit is depicting rising trend. So, it means this is considered as the good trend and fine that the company’s profit is going up and expense is to some extent are going down. And there is a need to look at the selling distribution and administrative expenses; if it is possible they can be brought down. And if these expenses are brought down then the profit after tax can further improve.

So, this is the multistep profitability statement or income statement, and that helps us to know that what is the say profit position of the firm, what are the different heads of expenses, how the trend is going on, and is there any possibility of reducing any particular type of the expenses. If it is possible, we can reduce it; but if it is not possible then we cannot and the profit can be increased only by increasing the sales; and at least keeping the cost under control. Other important aspects relating to this multistep income statement, I will be talking to you in the next part of discussion.

Thank you very much.