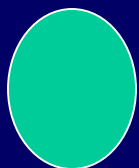


# Financial Statement Analysis



Ram Kumar Kakani

# Financial Analysis

- Why is it needed?
  - As a Lender/Banker
  - As a Customer
  - As a Supplier
  - As a Equity Holder or Potential Investor
  - As a Government/Regulator or any other Stakeholder
- Comparison of a firm with what?
  - With its Past
  - With its Peers

# Different Methods

- What are the different Methods?
- Common Size Analysis
- Index Based Analysis
- Ratio Analysis

# Vinyl Chemicals Limited

	All figures in Rs. Crores	
<b>BALANCE SHEET</b>		
<b>Assets Side</b>	<b>Year 2001</b>	<b>Year 2000</b>
Cash & Bank Balances	1.01	1.00
Accounts Receivable	16.75	13.01
Loans and Advances	3.76	3.44
Inventories	11.53	11.98
Current Assets	33.05	29.43
Fixed Assets	37.22	32.43
Other Assets (includes inv	3.42	4.41
<b>Total Assets</b>	<b>73.69</b>	<b>66.27</b>

# Vinyl Chemicals Limited

<b>Liabilities Side</b>	<b>Year 2001</b>	<b>Year 2000</b>
Current Liabilites & Provis	8.18	8.63
Long-term Liabilities	12.32	8.08
Net Worth	53.18	49.55
No. of Shares of Rs.10	1.83	1.83
<b>Total Liabilities</b>	<b>73.68</b>	<b>66.26</b>
Average Share Price	10.00	18.00

# Vinyl Chemicals Limited

<b>INCOME STATEMENT</b>	<b>Year 2001</b>	<b>Year 2000</b>
Total Sales	92.46	88.18
Other Income	3.18	1.11
Operational Expenditure	84.64	87.62
Gross Profit	10.62	1.03
Interest	0.82	0.58
Depreciation	2.53	2.42
Profit Before Tax	7.27	-1.97
Tax	1.62	0.00
Profit After Tax	5.65	-1.97
Dividend to Shareholders	1.83	0.00

# Common Size Analysis

<b>BALANCE SHEET</b>			
<b>Assets Side</b>	<b>Ind. Average</b>	<b>Year 2001</b>	<b>Year 2000</b>
Cash & Bank Balances	2.0	1.4	1.5
Accounts Receivable	21.0	22.7	19.6
Loans and Advances	7.0	5.1	5.2
Inventories	25.0	15.6	18.1
Current Assets	55.0	44.9	44.4
Fixed Assets	41.6	50.5	48.9
Other Assets (includes	3.4	4.6	6.7
<b>Total Assets</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

# Common Size Analysis

<b>Liabilities Side</b>	<b>Ind. Average</b>	<b>Year 2001</b>	<b>Year 2000</b>
Current Liabilites & Pro	12.0	11.1	13.0
Long-term Liabilities	22.0	16.7	12.2
Net Worth	66.0	72.2	74.8
<b>Total Liabilities</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



# Common Size Analysis

<b>INCOME STATEMENT</b>	<b>Ind. Average</b>	<b>Year 2001</b>	<b>Year 2000</b>
Total Sales	100.0	100.0	100.0
Other Income	0.5	3.4	1.3
Operational Expenditur	82.0	91.5	99.4
Gross Profit	17.5	11.5	1.2
Interest	1.5	0.9	0.7
Depreciation	1.0	2.7	2.7
Profit Before Tax	15.0	7.9	-2.2
Tax	5.0	1.8	0.0
Profit After Tax	10.0	6.1	-2.2
Dividend to Shareholde	5.0	2.0	0.0

# Index Based Analysis

## Indexed Balance Sheet

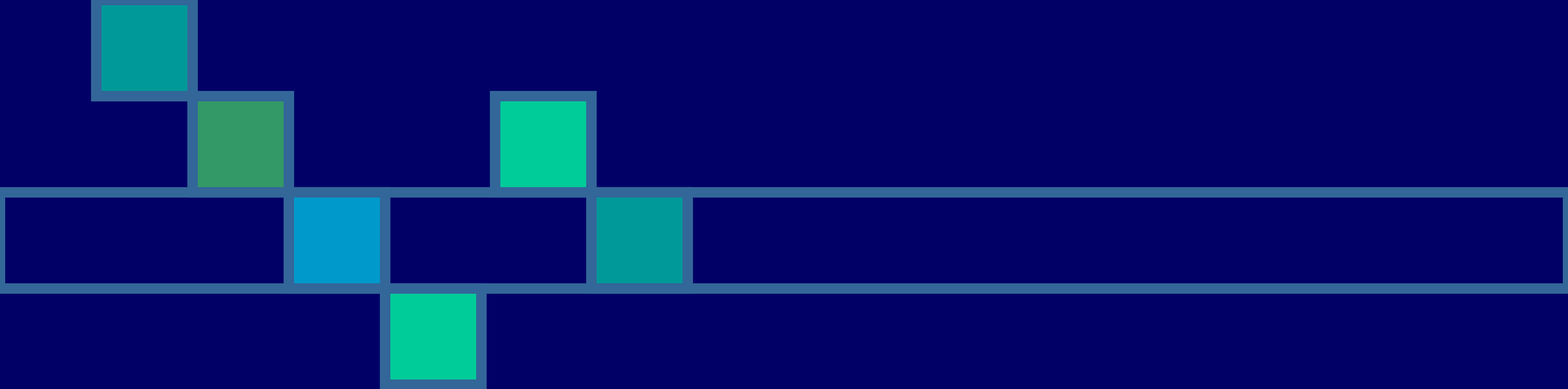
<b>Assets Side</b>	<b>Year 2001</b>	<b>Year 2000</b>
Cash & Bank Balances	101.0	100.0
Accounts Receivable	128.7	100.0
Loans and Advances	109.3	100.0
Inventories	96.2	100.0
Current Assets	112.3	100.0
Fixed Assets	114.8	100.0
Other Assets (includes	77.6	100.0
<b>Total Assets</b>	<b>111.2</b>	<b>100.0</b>

# Index Based Analysis

Liabilities Side	Year 2001	Year 2000
Current Liabilites & Pro	94.8	100.0
Long-term Liabilities	152.5	100.0
Net Worth	107.3	100.0
<b>Total Liabilities</b>	<b>111.2</b>	<b>100.0</b>

# Index Based Analysis

Indexed Income Statement		
	Year 2001	Year 2000
Total Sales	104.9	100.0
Other Income	286.5	100.0
Operational Expenditure	96.6	100.0
Gross Profit	1031.1	100.0
Interest	141.4	100.0
Depreciation	104.5	100.0
Profit Before Tax	-369.0	100.0
Profit After Tax	-286.8	100.0



# Case on Linc Pen & Plastics Ltd.



<b>BALANCE SHEET</b>	<b>All figures in Rs. Crores</b>	
<b>Assets Side</b>	<b>Year 2000</b>	<b>Year 1999</b>
Cash & Bank Balances	0.67	0.35
Accounts Receivable	5.56	3.62
Loans and Advances	1	0.58
Inventories	6.75	4.03
Current Assets	13.98	8.58
Fixed Assets	5.14	3.63
Other Assets (includes inves	0.12	0.15
<b>Total Assets</b>	<b>19.24</b>	<b>12.36</b>
<b>Liabilities Side</b>	<b>Year 2000</b>	<b>Year 1999</b>
Current Liabilities & Provisor	5.6	2.68
Long-term Liabilities	4.58	1.73
Net Worth	9.07	7.97
No. of Shares of Rs.10	0.60	0.60
<b>Total Liabilities</b>	<b>19.25</b>	<b>12.38</b>
<b>Average Share Price</b>	<b>17.00</b>	<b>25.00</b>

<b>INCOME STATEMENT</b>	<b>Year 2000</b>	<b>Year 1999</b>
<b>Total Sales</b>	<b>28.3</b>	<b>21.85</b>
<b>Other Income</b>	<b>0.36</b>	<b>0.1</b>
<b>Operational Expenditure</b>	<b>25.41</b>	<b>19.85</b>
<b>Gross Profit</b>	<b>3.25</b>	<b>2.01</b>
<b>Interest</b>	<b>0.27</b>	<b>0.16</b>
<b>Depreciation</b>	<b>0.30</b>	<b>0.29</b>
<b>Profit Before Tax</b>	<b>2.68</b>	<b>1.56</b>
<b>Tax</b>	<b>0.74</b>	<b>0.22</b>
<b>Profit After Tax</b>	<b>1.94</b>	<b>1.35</b>
<b>Dividend to Shareholders</b>	<b>0.72</b>	<b>0.72</b>

# Ratio Analysis

- **Short-term Solvency/Liquidity Ratios**
  - **Current Ratio**
  - **Quick Ratio**
- **Long-term Solvency/Liquidity Ratios**
  - **Debt-to-Equity Ratio**
  - **LT Debt-to-Equity Ratio**
  - **Times Interest Earned Ratio**



<b>Financial Ratios</b>	<b>Year 2000</b>	<b>Year 1999</b>
Current Ratio	2.50	3.20
Quick Ratio	1.29	1.70
Debt-to-Equity Ratio	1.12	0.55
L.T.Debt-to-Equity-Ratio	0.50	0.22
Times Interest Earned (con	12.04	12.56

# Ratio Analysis

## ■ Activity Ratios

- Receivables Turnover Ratio
- Average Collectibles Period (a.k.a. Days Receivables)
- Inventory Turnover Ratio
- Inventory Conversion Period
- Operating Cycles = ICP + ACP
- Operating Cycles Per Year
- Average Payable Period (a.k.a. Days Payables)
- Cash Conversion Period
- Sales-to-Assets Ratio (a.k.a. Assets Utilization Ratio)

<b>Financial Ratios</b>	<b>Year 2000</b>	<b>Year 1999</b>
Average Collection Period	71.71	60.47
Inventory Conversion Period	96.96	74.10
No. of Operational Cycles/Y	2.16	2.71
Average Payments Period	Figures are not available	
Inventory Turnover Ratio	3.76	4.93

# Ratio Analysis

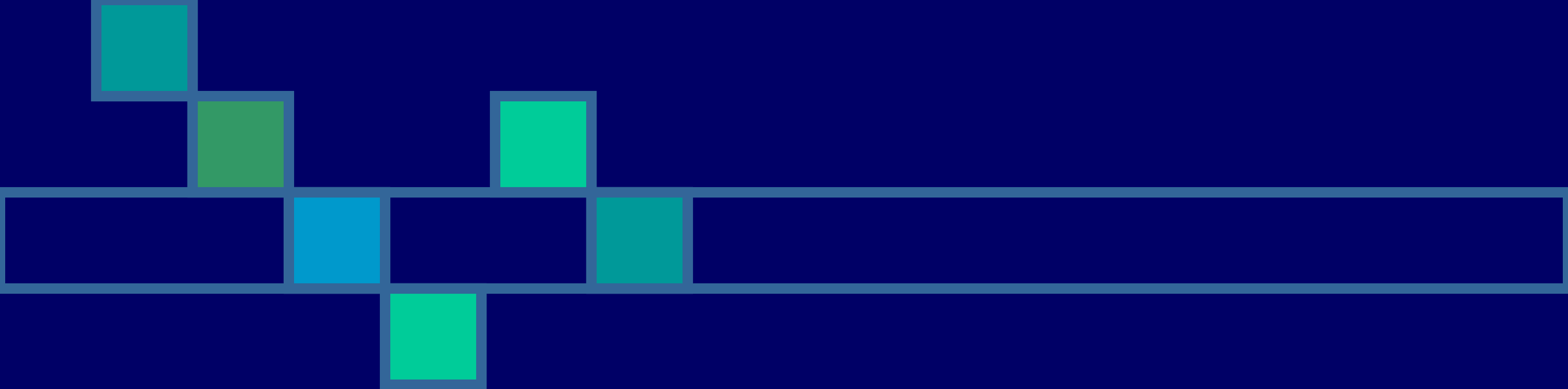
## ■ Profitability Ratios

- Return on Assets
- Net Profit Margin
- Gross Profit Margin
- Return on Net Worth
- Return on Capital Employed
- Dividend Payout Ratio

## ■ Market-based Ratios

- Price-to-Earnings Ratio
- Price-to-Book Value Ratio
- Dividend Yield Ratio

<b>Financial Ratios</b>	<b>Year 2000</b>	<b>Year 1999</b>
<b>Sales Turnover Ratio</b>	<b>1.47</b>	<b>1.77</b>
<b>Gross Profit Margin %</b>	<b>11.48</b>	<b>9.20</b>
<b>Net Profit Margin %</b>	<b>6.86</b>	<b>6.18</b>
<b>Return on Assets</b>	<b>10.08</b>	<b>10.92</b>
<b>Return on Equity</b>	<b>21.39</b>	<b>16.94</b>
<b>Return on Capital Employed</b>	<b>16.19</b>	<b>15.57</b>
<b>Earnings Per Share</b>	<b>3.23</b>	<b>2.25</b>
<b>Book Value Per Share</b>	<b>15.12</b>	<b>13.28</b>
<b>Market Capitalization</b>	<b>10.20</b>	<b>15.00</b>
<b>Price-to-Book Value Ratio</b>	<b>1.12</b>	<b>1.88</b>
<b>Price-to-Earnings Ratio</b>	<b>5.26</b>	<b>11.11</b>
<b>Dividend Payout Ratio</b>	<b>37.11</b>	<b>53.33</b>
<b>Dividend Per Share</b>	<b>1.20</b>	<b>1.20</b>
<b>Dividend Yield</b>	<b>7.06</b>	<b>4.80</b>



# Case on Abu Dhabi Ship Building



# ADSB

## BALANCE SHEET

<b>Assets Side</b>	<b>Year 2000</b>	<b>Year 1999</b>
Cash & Bank Balances	96.42	116.34
Accounts Receivable	40.89	8.41
Loans and Advances	6.12	57.27
Inventories	48.01	70.68
Current Assets	191.44	252.71
Fixed Assets	87.52	34.72
Other Assets (includes inves	0.82	5.78
<b>Total Assets</b>	<b>279.78</b>	<b>293.21</b>



# ADSB

<b>Liabilities Side</b>	<b>Year 2000</b>	<b>Year 1999</b>
Current Liabilites & Provision	64.22	73.81
Long-term Liabilities	1.88	1.44
Net Worth	213.67	217.96
No. of Shares (par AED10)	17.52	17.52
<b>Total Liabilities</b>	<b>279.77</b>	<b>293.21</b>
Average Share Price	20.00	35.00



# ADSB

<b>INCOME STATEMENT</b>	<b>Year 2000</b>	<b>Year 1999</b>
Total Sales	88.47	103.93
Other Income	4.09	5.6
Operational Expenditure	83.19	86.71
Gross Profit	9.37	22.82
Interest	0.00	0.00
Depreciation	4.70	7.83
Profit Before Tax	4.67	14.99
Tax	0.00	0.00
Profit After Tax	4.67	14.99
Dividend to Shareholders	0.00	0.50

<b>Financial Ratios</b>	<b>Year 2000</b>	<b>Year 1999</b>
Current Ratio	2.98	3.42
Quick Ratio	2.23	2.47
Debt-to-Equity Ratio	0.31	0.35
L.T.Debt-to-Equity-Ratio	0.01	0.01
Times Interest Earned (considering only interest)		
Average Collection Period	168.70	29.54
Inventory Conversion Period	210.65	297.52
No. of Operational Cycles/Yea	0.96	1.12
Average Payments Period	accounts payable (or sun	
Inventory Turnover Ratio	1.73	1.23
Sales Turnover Ratio	0.32	0.35
Gross Profit Margin %	10.59	21.96
Net Profit Margin %	5.28	14.42
Return on Assets	1.67	5.11
Return on Equity	2.19	6.88
Return on Capital Employed	2.17	6.83
Earnings Per Share	0.27	0.86
Book Value Per Share	12.20	12.44
Market Capitalization	350.40	613.20
Price-to-Book Value Ratio	1.64	2.81
Price-to-Earnings Ratio	75.03	40.91
Dividend Payout Ratio	0.00	3.34
Dividend Per Share	0.00	0.03
Dividend Yield	0.00	0.08

## Common-size Analysis

### BALANCE SHEET

Assets Side	Year 2000	Year 1999
Cash & Bank Balances	34.5	39.7
Accounts Receivable	14.6	2.9
Loans and Advances	2.2	19.5
Inventories	17.2	24.1
Current Assets	68.4	86.2
Fixed Assets	31.3	11.8
Other Assets (includes inv)	0.3	2.0
Total Assets	100.0	100.0
Liabilities Side	Year 2000	Year 1999
Current Liabilites & Provis	23.0	25.2
Long-term Liabilities	0.7	0.5
Net Worth	76.4	74.3
Total Liabilities	100.0	100.0

<b>INCOME STATEMENT</b>	<b>Year 2000</b>	<b>Year 1999</b>
<b>Total Sales</b>	<b>100.0</b>	<b>100.0</b>
<b>Other Income</b>	<b>4.6</b>	<b>5.4</b>
<b>Operational Expenditure</b>	<b>94.0</b>	<b>83.4</b>
<b>Gross Profit</b>	<b>10.6</b>	<b>22.0</b>
<b>Interest</b>	<b>0.0</b>	<b>0.0</b>
<b>Depreciation</b>	<b>5.3</b>	<b>7.5</b>
<b>Profit Before Tax</b>	<b>5.3</b>	<b>14.4</b>
<b>Tax</b>	<b>0.0</b>	<b>0.0</b>
<b>Profit After Tax</b>	<b>5.3</b>	<b>14.4</b>
<b>Dividend to Shareholders</b>	<b>0.0</b>	<b>0.5</b>

## Indexed Balance Sheet

<b>Assets Side</b>	<b>Year 2000</b>	<b>Year 1999</b>
<b>Cash &amp; Bank Balances</b>	<b>82.9</b>	<b>100.0</b>
<b>Accounts Receivable</b>	<b>486.2</b>	<b>100.0</b>
<b>Loans and Advances</b>	<b>10.7</b>	<b>100.0</b>
<b>Inventories</b>	<b>67.9</b>	<b>100.0</b>
<b>Current Assets</b>	<b>75.8</b>	<b>100.0</b>
<b>Fixed Assets</b>	<b>252.1</b>	<b>100.0</b>
<b>Other Assets (includes</b>	<b>14.2</b>	<b>100.0</b>
<b>Total Assets</b>	<b>95.4</b>	<b>100.0</b>
<b>Liabilities Side</b>	<b>Year 2000</b>	<b>Year 1999</b>
<b>Current Liabilites &amp; Prc</b>	<b>87.0</b>	<b>100.0</b>
<b>Long-term Liabilities</b>	<b>130.6</b>	<b>100.0</b>
<b>Net Worth</b>	<b>98.0</b>	<b>100.0</b>
<b>Total Liabilities</b>	<b>95.4</b>	<b>100.0</b>

## Indexed Income Statement

	Year 2000	Year 1999
<b>Total Sales</b>	<b>85.1</b>	<b>100.0</b>
<b>Other Income</b>	<b>73.0</b>	<b>100.0</b>
<b>Operational Expenditur</b>	<b>95.9</b>	<b>100.0</b>
<b>Gross Profit</b>	<b>41.1</b>	<b>100.0</b>
<b>Interest</b>		
<b>Depreciation</b>	<b>60.0</b>	<b>100.0</b>
<b>Profit Before Tax</b>	<b>31.2</b>	<b>100.0</b>
<b>Profit After Tax</b>	<b>31.2</b>	<b>100.0</b>

