



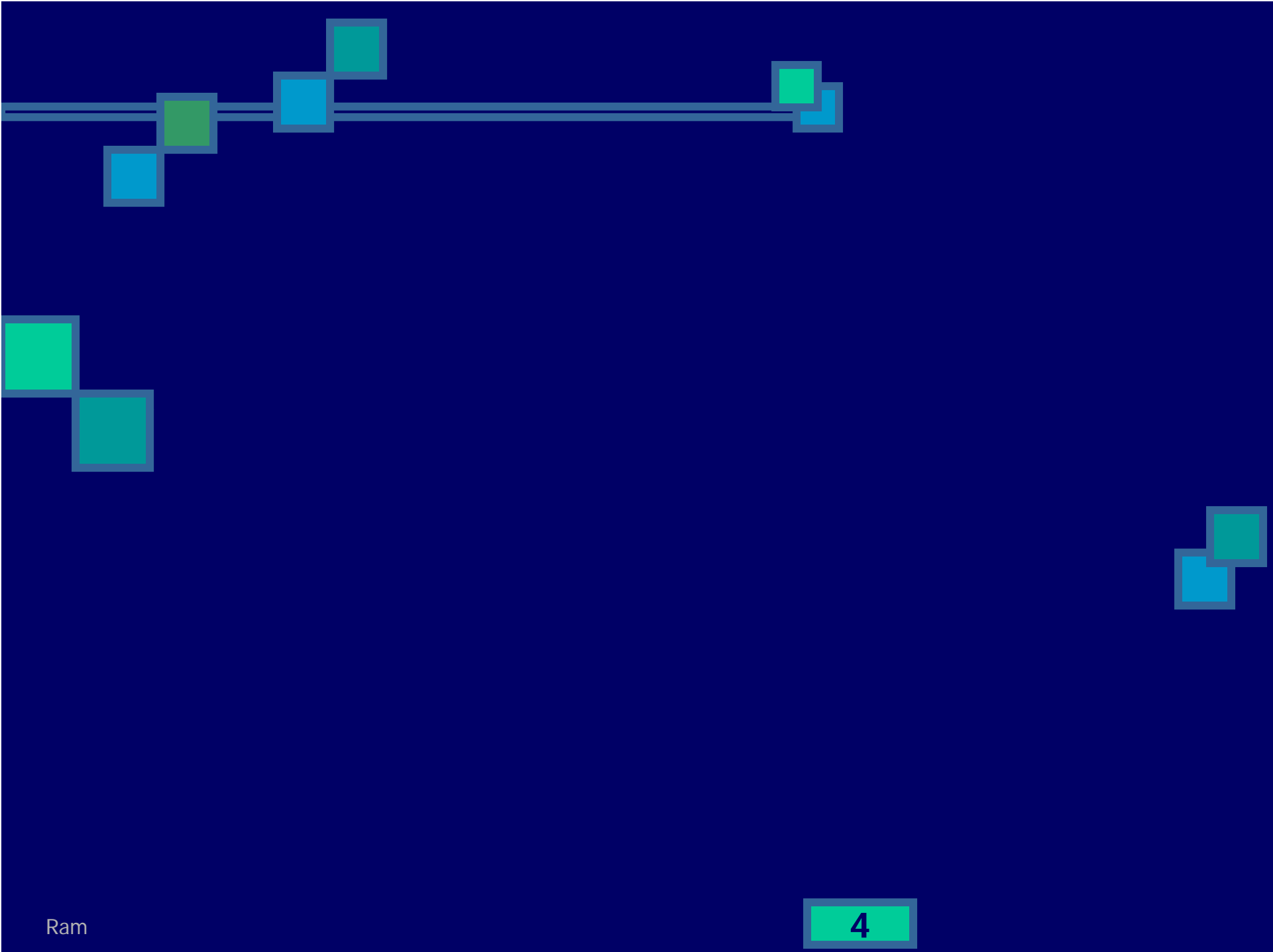
Financial Statement Analysis

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

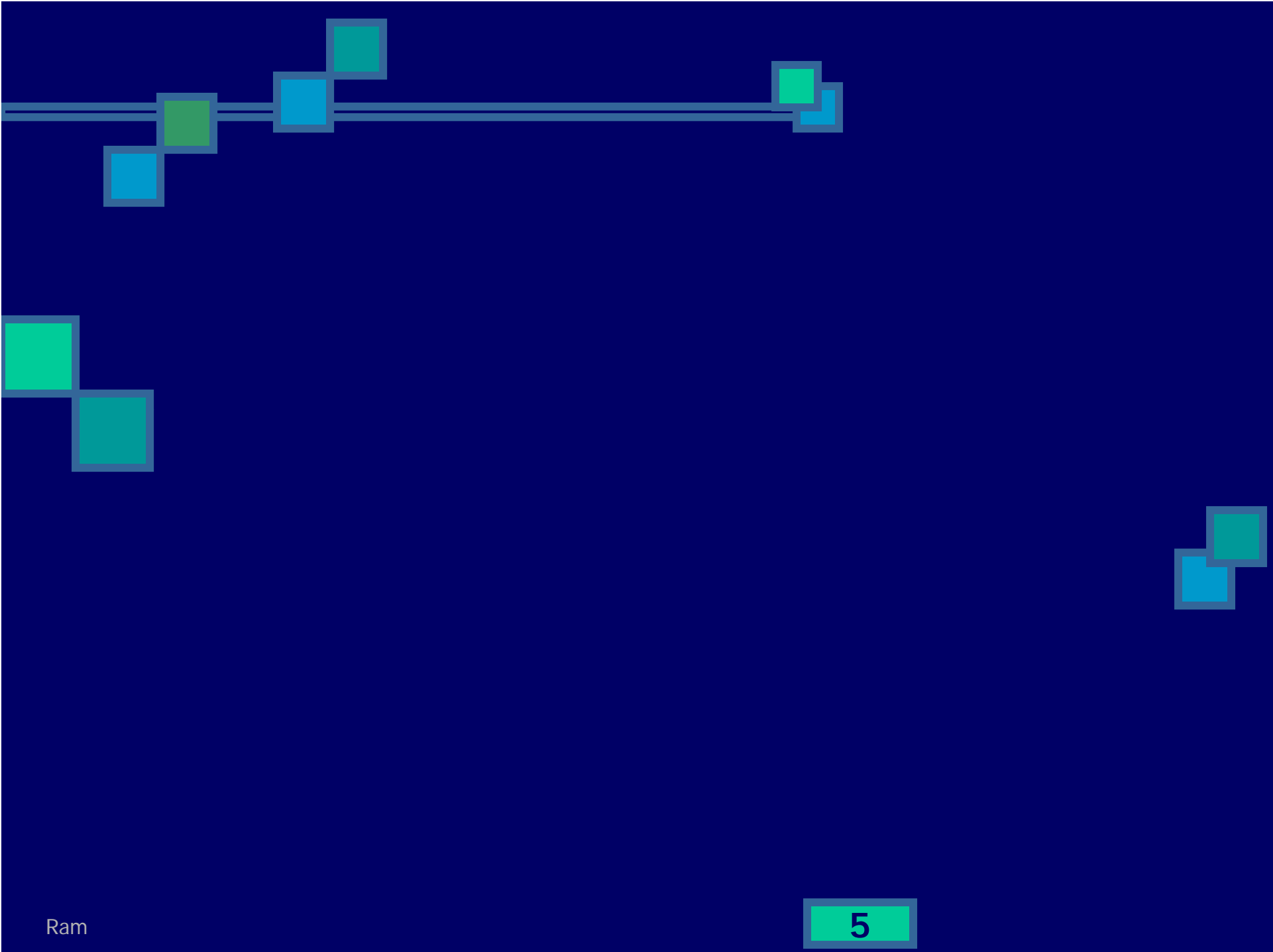
Different Methods

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



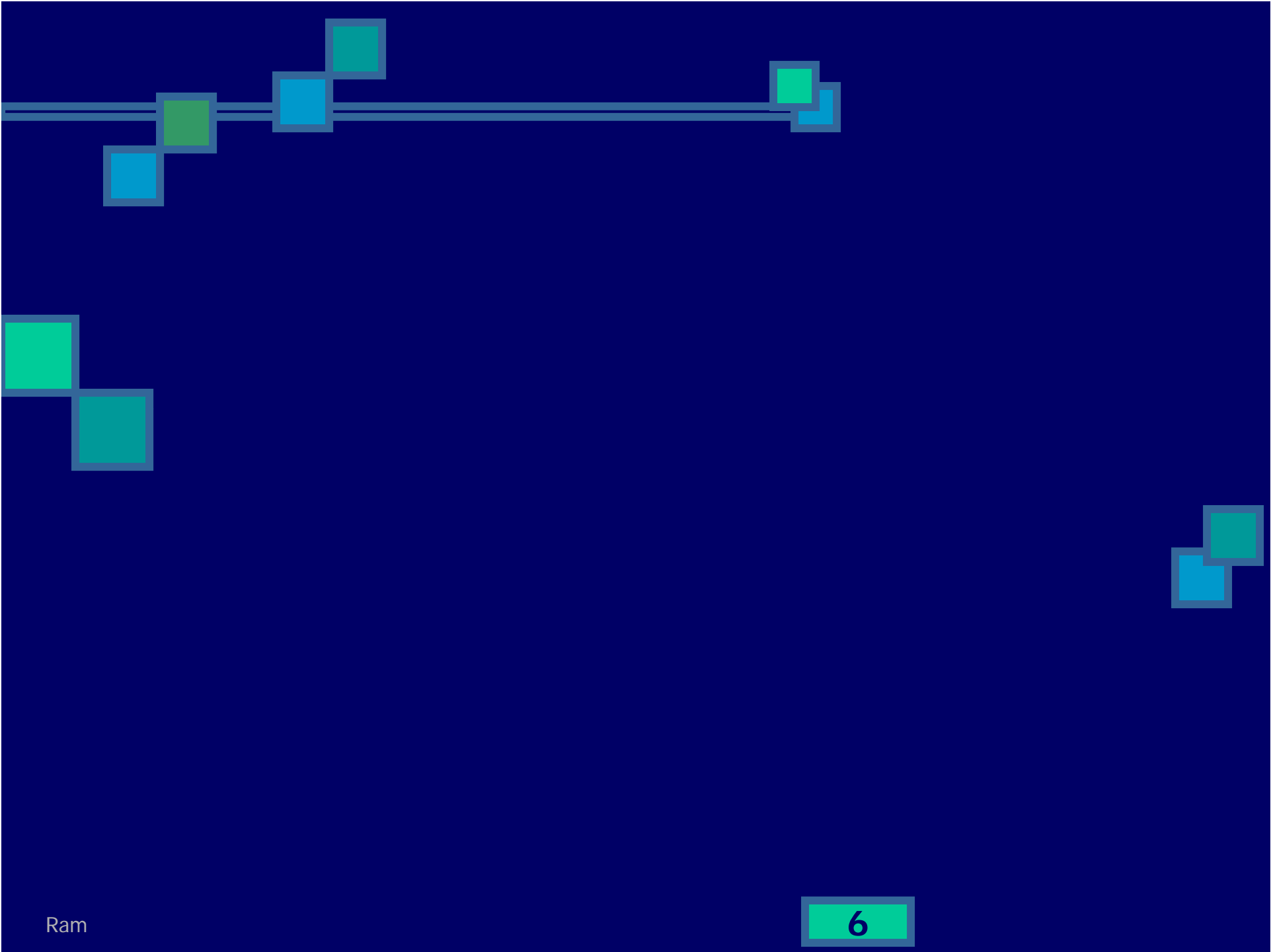
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Let us play discuss FMCG: Colgate India and Marico

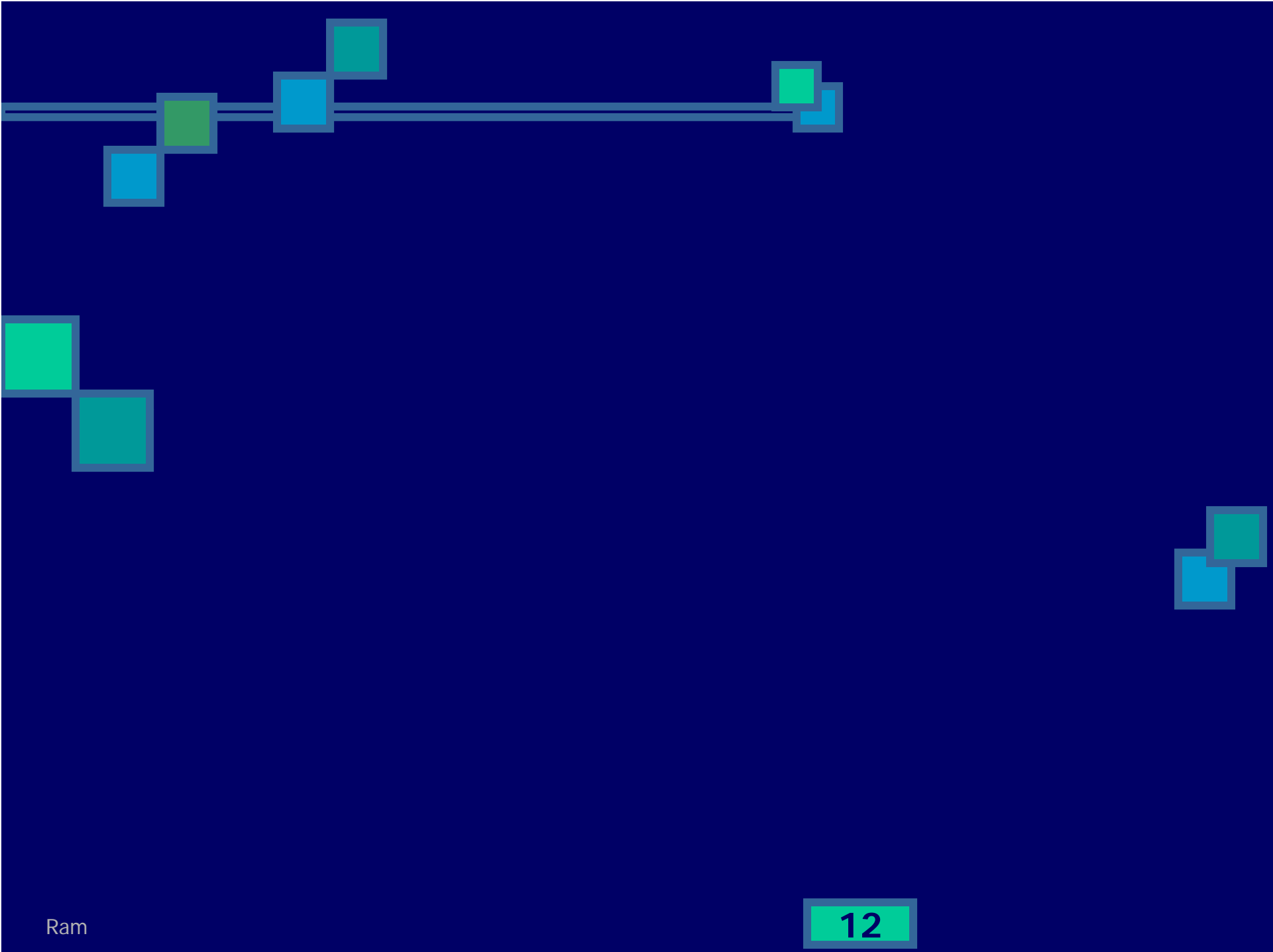


Marico	All figures in Rs. Lacs		
BALANCE SHEET			
Assets Side	2008-09	2007-08	2006-07
Cash & Bank Balances	922	753	427
Accounts Receivable	1,108	863	643
Loans and Advances	1,299	1,061	717
Inventories	3,390	2,605	2,215
Current Assets	6,719	5,281	4,001
Fixed Assets	3,961	3,416	2,104
Other Assets (incl Investment)	762	982	1,152
Total Assets	11,442	9,678	7,257
Liabilities Side	2008-09	2007-08	2006-07
Provisions	355	392	147
Accounts Paybles	2,747	2,498	2,537
Other Current Liabilities	56	62	140
Current Liabilitites	3,158	2,952	2,824
Long-term Liabilities	3,750	3,579	2,510
Net Worth	4,535	3,146	1,924
Total Liabilities	11,442	9,677	7,258
No of Equity Shares	609	609	609

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Colgate Palmolive	All figures in Rs. Millions		
BALANCE SHEET			
Assets Side	2008-09	2007-08	2006-07
Cash & Bank Balances	2,511	1,443	1,117
Accounts Receivable	111	92	93
Loans and Advances	1,902	1,700	1,512
Inventories	824	756	803
Other Current Assets	249	305	295
Current Assets	5,598	4,295	3,821
Fixed Assets	1,786	1,990	1,920
Other Assets (includes invest	383	726	1,333
Total Assets	7,767	7,011	7,074
Liabilities Side	2008-09	2007-08	2006-07
Provisions	1,612	1,873	1,069
Accounts Payables	3,417	3,047	2,428
Other Current Liabilities	528	422	729
Current Liabilitites	5,557	5,342	4,226
Long-term Liabilities	47	47	43
Net Worth	2,163	1,622	2,805
Total Liabilities	7,767	7,011	7,074
No of Equity Shares	136	136	136

Colgate Palmolive	All figures in Rs. Millions		
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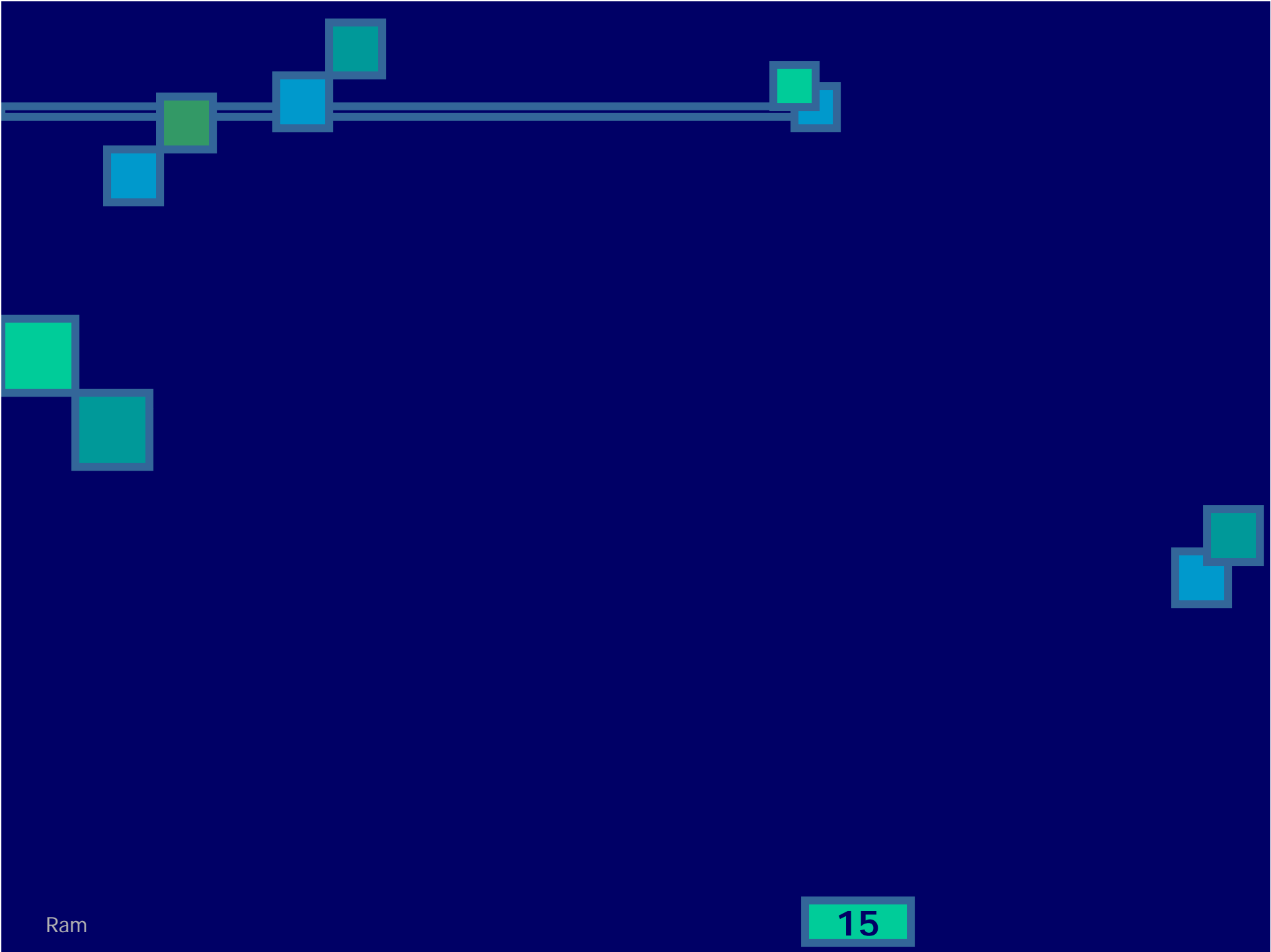


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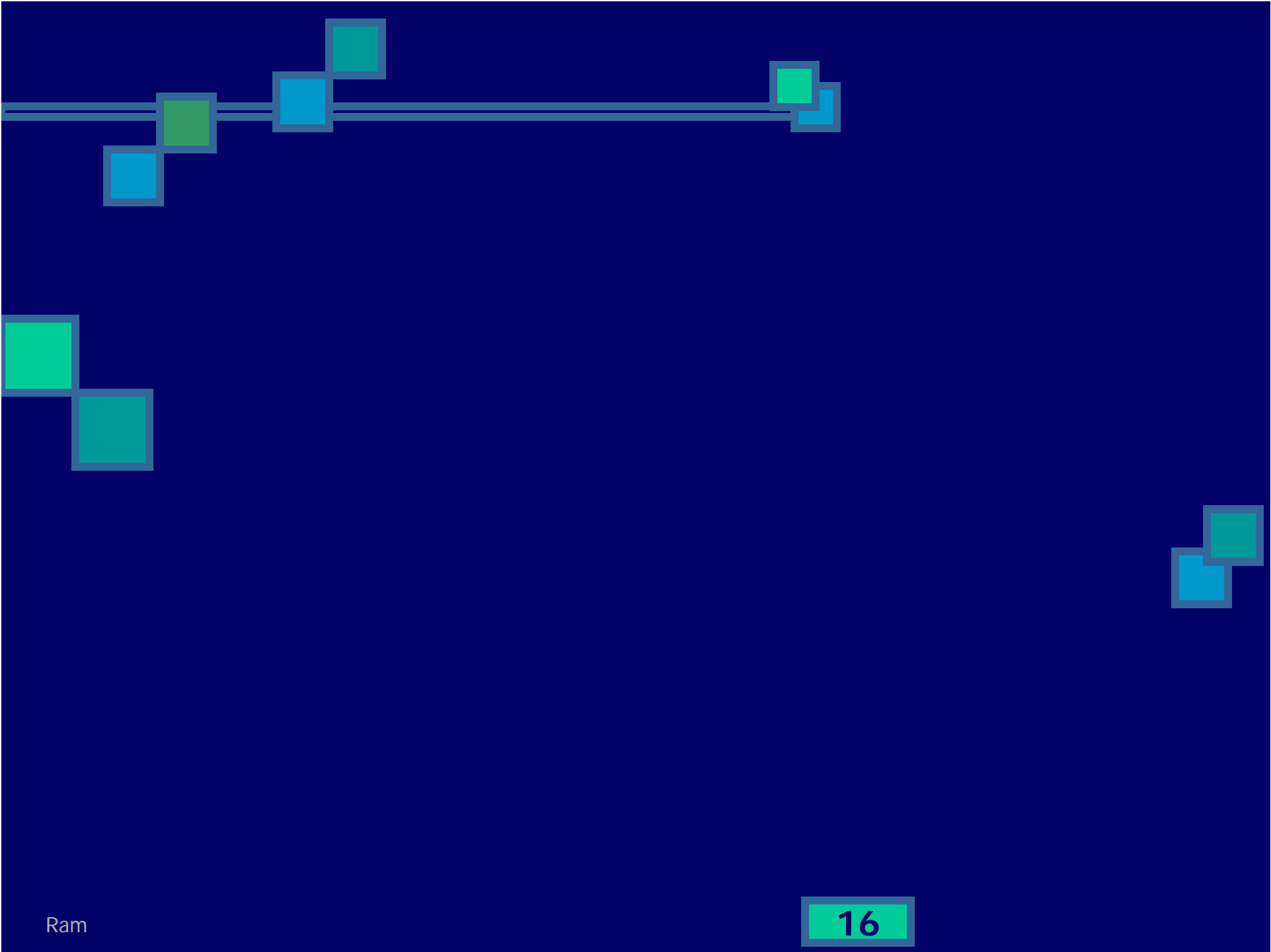
Marico			
INCOME STATEMENT	2008-09	2007-08	2006-07
Total Sales	23,884	19,067	15,569
Other Income	122	173	102
Cost of Goods Sold (RM + Other	13,105	10,043	8,184
Gross Profit	10,902	9,197	7,487
Operating/Other Expenses	7,890	6,561	5,258
PBDIT	3,012	2,636	2,229
Interest	357	276	206
Depreciation	358	308	521
Tax	409	360	372
Profit After Tax	1,887	1,693	1,130
Dividend to Shareholders	467	467	464

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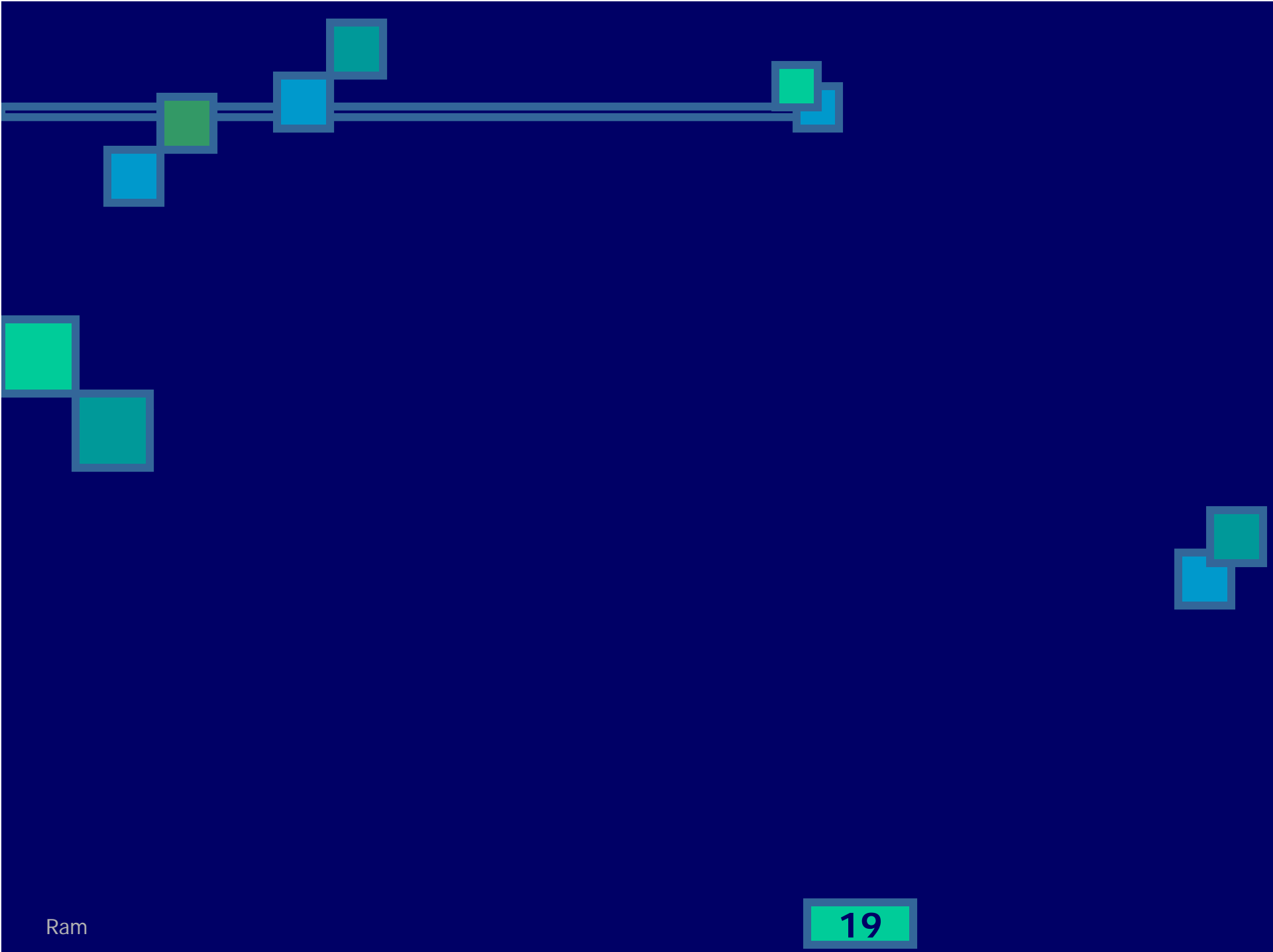


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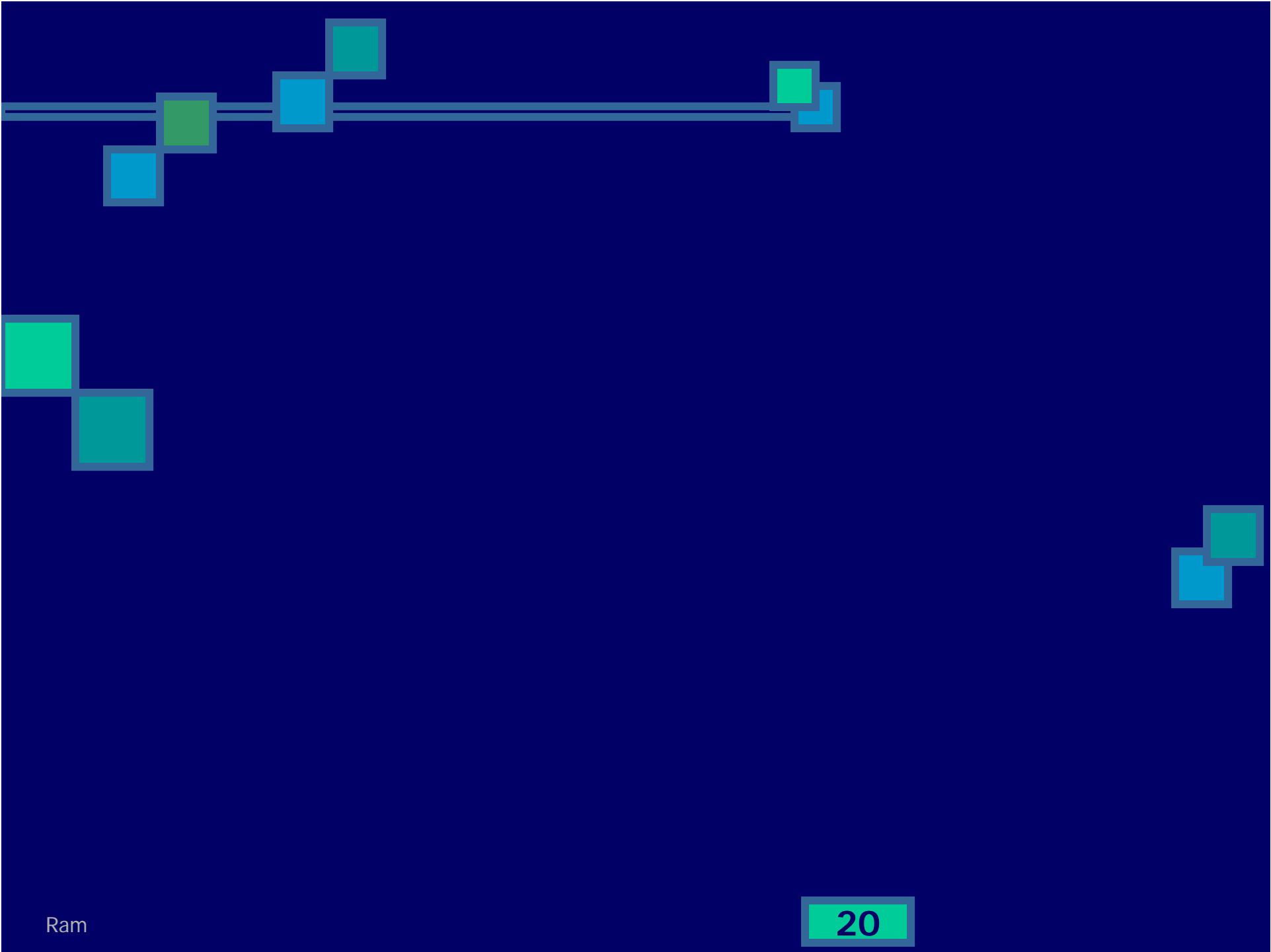
Marico	Common-size Analysis		
BALANCE SHEET			
Assets Side	2008-09	2007-08	2006-07
Cash & Bank Balances	<i>8.06</i>	<i>7.78</i>	<i>5.89</i>
Accounts Receivable	<i>9.68</i>	<i>8.91</i>	<i>8.86</i>
Loans and Advances	<i>11.35</i>	<i>10.96</i>	<i>9.88</i>
Inventories	<i>29.63</i>	<i>26.91</i>	<i>30.52</i>
Current Assets	<i>58.72</i>	<i>54.57</i>	<i>55.14</i>
Fixed Assets	<i>34.62</i>	<i>35.29</i>	<i>28.99</i>
Other Assets (includes investme	<i>6.66</i>	<i>10.14</i>	<i>15.87</i>
Total Assets	100.00	100.00	100.00
Liabilities Side	2008-09	2007-08	2006-07
Provisions	<i>3.10</i>	<i>4.05</i>	<i>2.03</i>
Accounts Paybles	<i>24.01</i>	<i>25.81</i>	<i>34.95</i>
Other Current Liabilities	<i>0.49</i>	<i>0.64</i>	<i>1.93</i>
Current Liabilitites	<i>27.60</i>	<i>30.50</i>	<i>38.92</i>
Long-term Liabilities	<i>32.77</i>	<i>36.99</i>	<i>34.58</i>
Net Worth	<i>39.63</i>	<i>32.51</i>	<i>26.51</i>
Total Liabilities	100.00	100.00	100.00

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Total Liabilities	100.00	100.00	100.00



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Marico			
INCOME STATEMENT	2008-09	2007-08	2006-07
Total Sales	100.0	100.0	100.0
Other Income	0.5	0.9	0.7
Cost of Goods Sold (RM + Othe	54.9	52.7	52.6
Gross Profit	45.6	48.2	48.1
Operating/Other Expenses	33.0	34.4	33.8
PBDIT	12.6	13.8	14.3
Interest	1.5	1.4	1.3
Depreciation	1.5	1.6	3.3
Tax	1.7	1.9	2.4
Profit After Tax	7.9	8.9	7.3
Dividend to Shareholders	2.0	2.4	3.0

Marico			
INCOME STATEMENT	2008-09	2007-08	2006-07
Total Sales	100.0	100.0	100.0
Other Income	0.5	0.9	0.7
Cost of Goods Sold (RM + Othe	54.9	52.7	52.6
Gross Profit	45.6	48.2	48.1
Operating/Other Expenses	33.0	34.4	33.8
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Dividend to Shareholders	2.0	2.4	3.0

Marico	Indexed Based Analysis		
BALANCE SHEET			
Assets Side	2008-09	2007-08	2006-07
Cash & Bank Balances	216	176	100
Accounts Receivable	172	134	100
Loans and Advances	181	148	100
Inventories	153	118	100
Current Assets	168	132	100
Fixed Assets	188	162	100
Other Assets (includes investments & other)	66	85	100
Total Assets	158	133	100
Liabilities Side	2008-09	2007-08	2006-07
Provisions	241	266	100
Accounts Payables	108	98	100
Other Current Liabilities	40	44	100
Current Liabilities	112	105	100
Long-term Liabilities	149	143	100
Net Worth	236	164	100
Total Liabilities	158	133	100
No of Equity Shares	100	100	100

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Long-term Liabilities	149	143	100
Net Worth	236	164	100
Total Liabilities	158	133	100
No of Equity Shares	100	100	100

Marico			
INCOME STATEMENT	2008-09	2007-08	2006-07
Total Sales	153	122	100
Other Income	120	170	100
Cost of Goods Sold (RM + Other Dir	160	123	100
Gross Profit	146	123	100
Operating/Other Expenses	150	125	100
PBDIT	135	118	100
Interest	173	134	100
Depreciation	69	59	100
Tax	110	97	100
Profit After Tax	167	150	100
Dividend to Shareholders	101	101	100

Marico			
INCOME STATEMENT	2008-09	2007-08	2006-07
Total Sales	153	122	100
Other Income	120	170	100
Cost of Goods Sold (RM + Other Dir	160	123	100
Gross Profit	146	123	100
Operating/Other Expenses	150	125	100
PBDIT	135	118	100
Interest	173	134	100
Depreciation	69	59	100
Tax	110	97	100
Profit After Tax	167	150	100
Dividend to Shareholders	101	101	100



Ratio Analysis of India FMCG: Colgate and Marico



	Marico			Colgate Palmolive		
	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Short Term Solvency						
Current Ratio	2.13	1.79	1.42	1.01	0.80	0.90
Quick Ratio	1.05	0.91	0.63	0.86	0.66	0.71
Average Daily Expenses (Rs in	57.66	45.63	36.42	40.15	35.21	32.07
Cash Cover for Daily Expense:	15.99	16.50	11.73	62.56	40.97	34.84

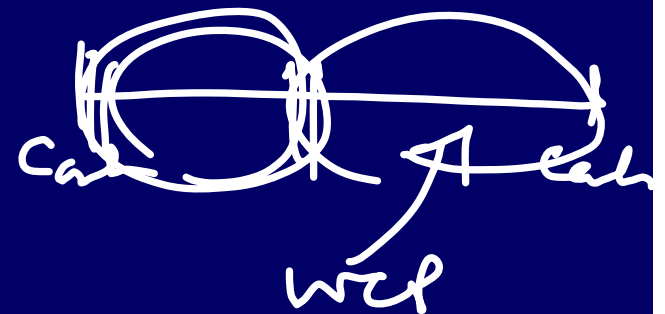
	Marico			Colgate Palmolive		
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Quick Ratio	1.05	0.91	0.63	0.86	0.66	0.71
Average Daily Expenses (Rs in	57.66	45.63	36.42	40.15	35.21	32.07
Cash Cover for Daily Expense:	15.99	16.50	11.73	62.56	40.97	34.84

	Marico			Colgate Palmolive		
Long Term Solvency	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Total Debt to Total Capital	1.52	2.08	2.77	2.59	3.32	1.52
Long-term Debt to Total Capit	0.83	1.14	1.30	0.02	0.03	0.02
Interest Cover	7.43	8.43	8.29	314.89	204.51	206.64
Equity Multiplier	2.52	3.08	3.77	3.59	4.32	2.52

	Marico			Colgate Palmolive		
Long Term Solvency	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
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$$\text{Op-cycle} = \text{ICP} + \text{ACP}$$

$$\text{A.p.p.} = \frac{\text{Av. Payable}}{\text{COGS/365}}$$



$$\text{Op. cyc} = \Delta CP + ACP = 15 + 83$$

$$\text{Rec. Turnover} = \frac{\text{Sales}}{\text{Av. Rec.}} = 98$$

$$\text{Op. cycles/year} = \frac{365}{98} = 3.5 \text{ yrs.}$$

$$\text{Inv. Turnover} = \frac{\text{COGS}}{\text{Av. Inv.}}$$

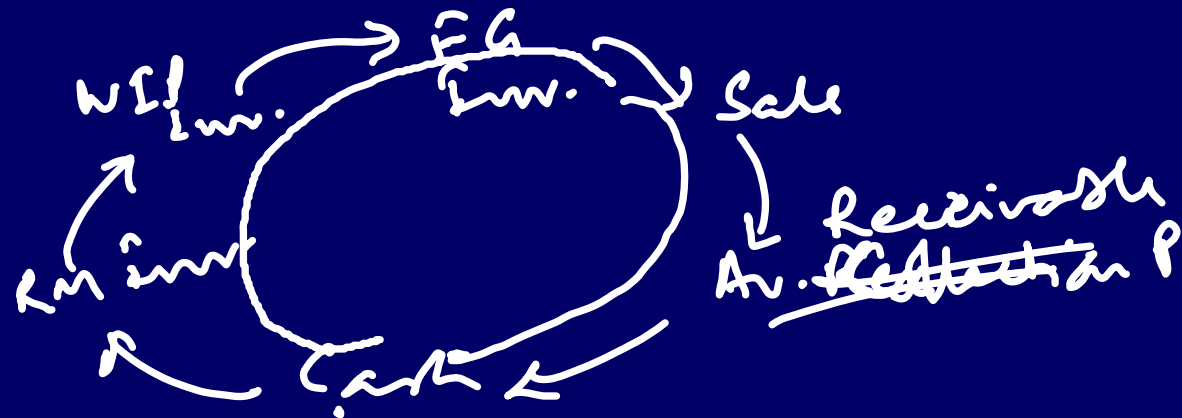
Av. Collection Period
Receivables Period

$$= \frac{\text{Av. Rec.}}{\text{Sales}/365}$$

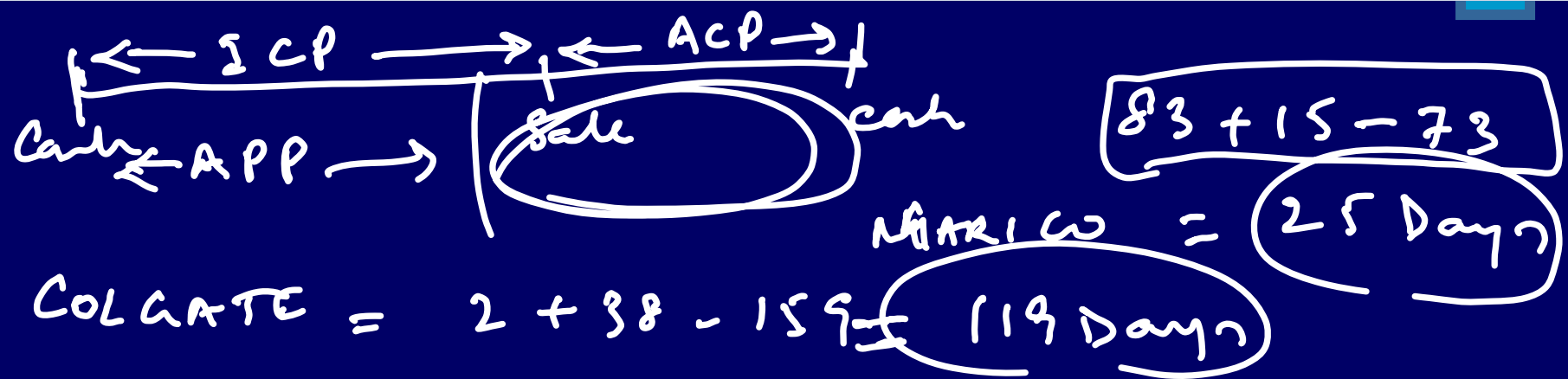
Inv. Conversion Period

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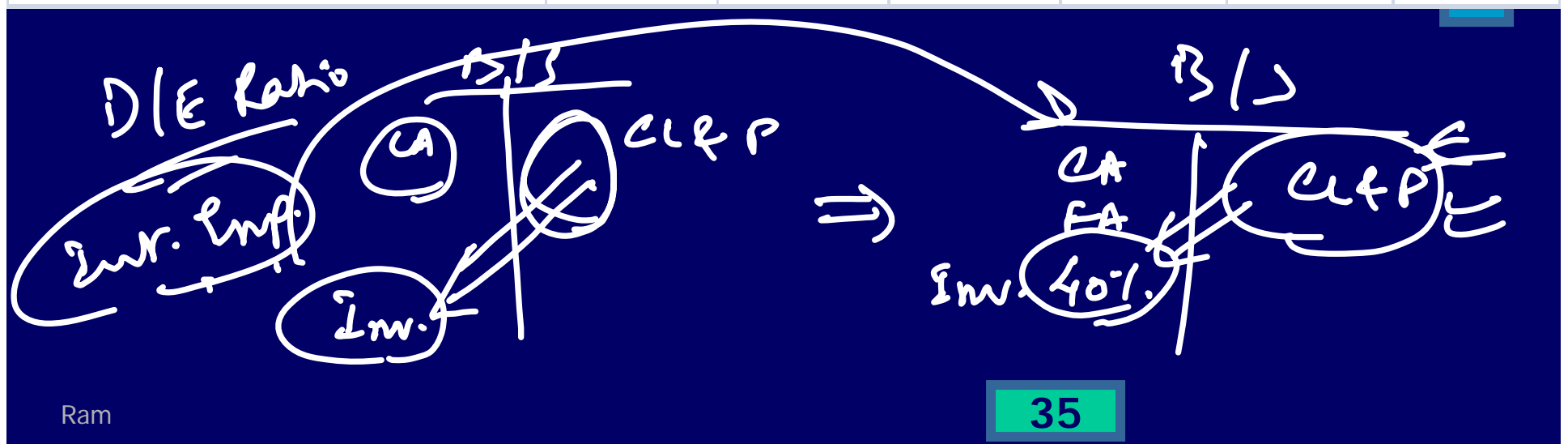
	Marico			Colgate		
Operating Cycle Ratios	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Accounts Receivable Turnover	24.24	25.33	24.23	166.81	159.18	138.87
Average Collection Period (days)	15.06	14.41	15.06	2.19	2.29	2.63
Inventory Turnover	4.37	4.17	3.70	9.38	8.11	7.18
Inventory Conversion Period (day)	83.49	87.58	98.77	38.91	44.98	50.87
Average Payables Period (days)	73.04	91.49	113.14	159.15	157.92	153.78



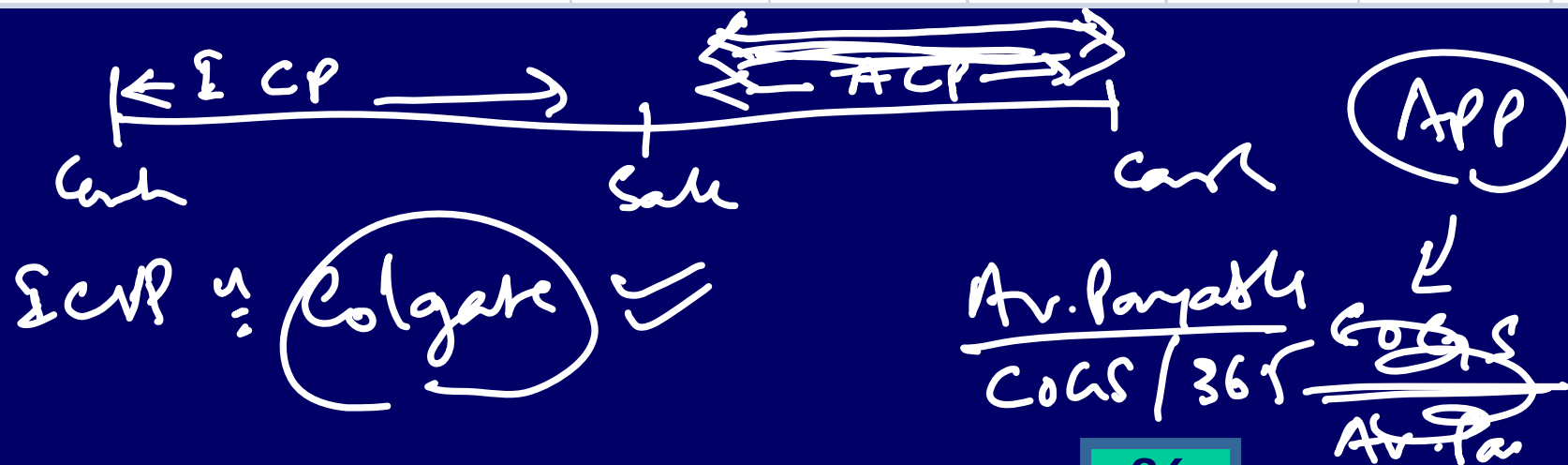
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ROE // ROE //
 $ROE =$

$$\frac{PAT}{Av. NW}$$

Stakeholders

Government
Regulator

$$ROCE = \frac{[PAT + Int.]}{Av. (LTL + NW)}$$

Shareholder
Eq. Analyst

ROA

$$\frac{PAT + Int. + TAX}{Av. (TA)}$$

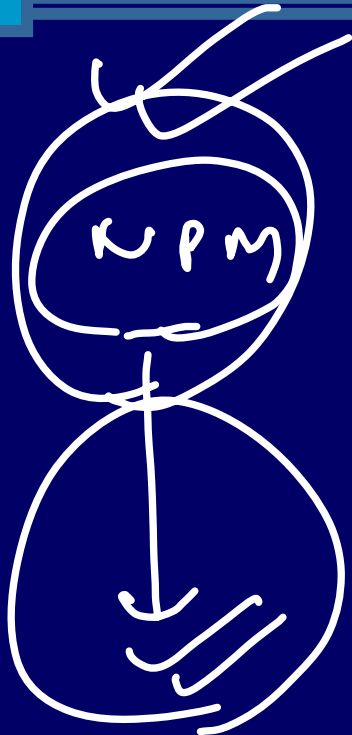
L.T.
Lender
Banker
FI

$$ROE = \frac{PAT}{NW}$$

$$= \left(\frac{PAT}{Sales} \right) \times \left(\frac{Sales}{TA} \right) \times \left(\frac{TA}{NW} \right) \times (D/E + 1)$$

$=$ $\left(\text{NPM} \uparrow \right) \times \left(\text{Asset Utilization Ratio} \uparrow \right) \times \left(\text{Eq. Multiplier} \uparrow \right)$

ROE =



x



x



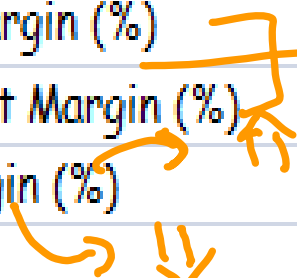
① Commodity Price

② Inv.



	Marico			Colgate		
Margin on Sales	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Gross Profit Margin (%)	45.13	47.33	47.43	56.26	57.05	55.50
Operating Profit Margin (%)	10.60	11.31	10.32	14.08	14.16	10.47
Net Profit Margin (%)	7.90	8.88	7.26	17.12	15.73	12.37
	Marico			Colgate		
Return on Investment	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Operating Profit to Operating Ass	26.13	29.13	26.32	34.92	34.71	23.62
Return on Equity (%)	49.14	66.78	58.75	153.35	104.67	57.10
	Marico			Colgate		
Efficiency of Use of Assets	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Total Asset Turnover	2.26	2.25	2.15	2.29	2.09	1.83
Operating Asset Turnover	2.47	2.58	2.55	2.48	2.45	2.26
	Marico			Colgate		
Return per Share of Equity	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Earnings per Share	3.10	2.78	1.86	21.34	17.04	11.78
Dividends per Share (including Di	0.77	0.77	0.76	17.51	15.21	10.89

MARKETING Exp.
PBIT



	Marico			Colgate		
Margin on Sales	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Gross Profit Margin (%)	45.13	47.33	47.43	56.26	57.05	55.50
Operating Profit Margin (%)	10.60	11.31	10.32	14.08	14.16	10.47
Net Profit Margin (%)	7.90	8.88	7.26	17.12	15.73	12.37
	Marico			Colgate		
Return on Investment	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Operating Profit to Operating Ass	26.13	29.13	26.32	34.92	34.71	23.62
Return on Equity (%)	49.14	66.78	58.75	153.35	104.67	57.10
	Marico			Colgate		
Efficiency of Use of Assets	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Total Asset Turnover	2.26	2.25	2.15	2.29	2.09	1.83
Operating Asset Turnover	2.47	2.58	2.55	2.48	2.45	2.26
	Marico			Colgate		
Return per Share of Equity	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Earnings per Share	3.10	2.78	1.86	21.34	17.04	11.78
Dividends per Share (including Di	0.77	0.77	0.76	17.51	15.21	10.89

50%

55%

2.5 3.1

3.1 3.7

	Marico			Colgate		
Margin on Sales	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Gross Profit Margin (%)	45.13	47.33	47.43	56.26	57.05	55.50
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Total Asset Turnover	2.26	2.25	2.15	2.29	2.09	1.83
Operating Asset Turnover	2.47	2.58	2.55	2.48	2.45	2.26
Return per Share of Equity	2.5	3.1	3.8	3.6	4.3	2.5
	Marico			Colgate		
Return per Share of Equity	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
Earnings per Share	3.10	2.78	1.86	21.34	17.04	11.78
Dividends per Share (including Di	0.77	0.77	0.76	17.51	15.21	10.89

EM

Handwritten annotations in orange: A large circle around the 'Return per Share of Equity' row for Marico, with arrows pointing to the values 2.5, 3.1, and 3.8. Another circle highlights the values 3.6, 4.3, and 2.5 for Colgate in the same row.

	Marico			Colgate		
Margin on Sales	2008-09	2007-08	2006-07	2008-09	2007-08	2006-07
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$\frac{GP}{Sales}$

$\frac{PBIT}{Sales}$

$\frac{PAT}{Sales}$

$\frac{PBIT}{[TA-OA]}$

$\frac{PAT}{NW}$

$\frac{Sales}{[TA-OA]}$

$\frac{PAT}{n}$

$\frac{Div.}{n}$

	Marico			Colgate		
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$\frac{DPS}{EPS}$

25-30%

80-90%

$$ROE = \frac{PAT}{NW}$$

$$EPS =$$

$$\frac{PAT}{S}$$

$$g =$$

$$R \cdot R \cdot X$$

75%

$$ROE =$$

49%

$$= 35\%$$

100 years EC
Cigarette
Manico
1990

ROE =

$$\frac{PAT}{Sales} \times$$

$$\frac{Sales}{TA} \times$$

$$\frac{TA}{NW}$$

15 → 10

1-4

0

$$EM = \frac{TA}{NW} = \left[\frac{D}{E} + 1 \right]$$

eps

