Linking "Balance Sheet" Items with "Profit & Loss Statement"

ram kumar kakani

UltraTech Cements Ltd.	All figures in Rs. crores		
BALANCE SHEET			
Assets Side	FY2016	FY2015	FY2014
Cash & Bank Balances	22	2	3
Accounts Receivable	14	12	13
Loans and Advances	31	36	51
Inventories	24	28	24
Current Assets	92	78	90
Non Current Tangible Assets	239	230	179
Other Non Current Assets	47	44	29
Total Assets	**379**	**352**	**298**

INCOME STATEMENT	FY2016	FY2015	FY2014
Total Sales	**238**	**226**	**201**
Other Income & Exceptional Items	5	7	5
Cost of Goods Sold (includes contract m	142	137	120
Gross Profit	97	89	80
Operating/Other Expenses	53	50	44
PBDIT	**49**	**46**	**41**
Interest	5	5	3
Depreciation & Amortization	13	11	11
Tax	9	9	6
Profit After Tax	**22**	**20**	**21**

- **Linking "Cash & Bank Balances"**
- **Positives:** High "Cash & Bank Balances" can (a) lead to higher "Other Income"; (b) reducing finance folks running around for last mile financing requirements / urgent needs & such exigencies; and (c) be psychologically comforting for the firms top management
- **Negatives:** It gives very low returns (currently, about 3-5% post-tax). Did the shareholders invest in the firm for this purpose?

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- **Linking "Accounts Receivable"**
- **Positives:** High "Accounts Receivable" can lead to better customer credit terms; more number of customers; and thus more business
- **Negatives:** It can lead to (a) increased uncollectible Accounts Receivable & so, increased provisions; increased bad debts and write offs; and (b) higher interest cost (for funding these receivables)

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- ***Linking "Loans and Advances"***
- ***Positives:*** *High of the above can lead to (a) happier stakeholders (esp. employees, channel partners and vendors) leading to cost efficiencies; (b) higher other income*
- ***Negatives:*** *It can lead to (a) an attitude of taking the organization's value maximization objective for granted (by its stakeholders); and (b) higher interest cost (for funding these loans and advances)*

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- **Linking "Inventories"**
- **Positives:** High of the above can lead to (a) no stock out situation of final product; (b) no shortage of raw material ensuring smooth production; & (b) wider range of products/services – thus, **higher sales**
- **Negatives:** Can lead to (a) loss of inventory due to more wastage, pilferage & demurrages, etc.; (b) higher warehouse charges; and (c) higher interest cost (for funding these inventories)

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- **Linking "Non-Current Tangibles"**
- **Positives:** High of the above can lead to (a) higher capacity availability; & (b) no resource constraint– thus, **higher sales** and more market power
- **Negatives:** Can lead to (a) obsolescence risk (say, due to technology); (b) higher depreciation expenses; and (c) higher interest cost (for funding these non-current tangible assets)

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- ***Linking "Non-Current Intangibles"***
- ***Positives:*** *High of above can lead to (a) higher value and volume of business and more market power; & (b) (if its investments) high other income.*
- ***Negatives:*** *Can lead to (a) wasted resources OR obsolescence risk (say, due to no benefits from the intangible); (b) higher amortization expenses; and (c) higher interest cost (for funding these non-current intangibles)*

UltraTech Cements Ltd.	All figures in Rs. crores		
Liabilities Side	**FY2016**	**FY2015**	**FY2014**
Accounts Payable	16	16	24
Other Current Liabilities & Provisions	96	72	33
Non-Current Liabilities	59	76	69
Net Worth (~ Total Shareholder Funds)	207	189	171
Total Liabilities	**379**	**352**	**298**

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- **Linking "Accounts Payable"**
- **Positives:** High of above can lead to lower interest costs (due to a non-interest bearing liability replacing a interest bearing liability) and strategic control over the supplier
- **Negatives:** Can lead to (a) higher cost of goods sold (say, as supplier builds in the delay in payment); (b) higher other expenses (as some suppliers of products/services may refuse to do business with such firms.

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- ***Linking "Other Current Liabilities"***
- ***Positives*** *will depends on the type of items within "other current liabilities and provisions" such as advance from customers (lower interest cost); deferred tax liabilities (lower interest cost and higher current cash flows)*
- ***Negatives*** *will depends on the type of items within "other current liabilities and provisions" such as working capital loan (higher interest costs); accrued liabilities (increases operating and other expenses)*

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- ***Linking "Non-Current Liabilities"***
- ***Positives:** High of above can lead to (a) lower cost of funds due to tax shield (compared to equity financing); (b) higher volume of business.*
- ***Negatives:** Can lead to (a) higher interest expenses; & (b) risk averse work culture (due to increased fixed costs of the organization). May even lead to a mindset of managing a larger firm than maximising shareholders wealth*

Thank You …

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