

A Financial Statement Analysis- Case Study for an Industry

Niraj Mahajan, Mr. Abhishek Yadav

Abstract— The project assigned to me was to study the financial health of any organization in the country. I decided to choose one of India's leading graphite electrode plant where leaders like Mr. Laxmi Niwas Jhunjhunwala taking it to new heights. Through this report, I try and analyze the financial environment in which ABCD Limited is operating. Through a thorough financial analysis, my aim is to understand the financial factors, influencing the company and its decision making. Later, I try and evaluate the various ratios to appreciate their impact on company's performance over the last five years. The financial statements of last five years are identified, studied and interpreted in light of company's performance. Critical decisions of distributing dividends, Issue of bonus Debentures and other current news are analyzed and their impact on the bottom line of the company is assessed. Finally, I studied ratio analysis, fund flow analysis, cash flow analysis and Trend Analysis of the company to analyze the financial position of the company in last five years.

Index Terms— Financial Statement Analysis, Quick Ratio, Quick current Assets, Earnings per Share, Dividend per Share, Return on Capital Employed.

I. INTRODUCTION

Meaning of Financial Statement Analysis:-Financial statement refers to which contains financial information about an enterprise. They report profitability and financial positions of the firm business at the end of accounting period. The financial statement include of two statements which the accountant prepare at the end of an accounting period. The two statements are as follow: -

- Profit and Loss Account
- The Balance Sheet

They provide some extremely useful information to the extent that Balance Sheet mirror the financial position on a particular date in term of the structure of asset, liability and owner equity, and the Profit and Loss account show the results of operation during a certain period of time in terms of this revenues obtained and the cost incurred during the years. Thus the financial statement provides a summary view of financial position and operations of a firm.

Financial Analysis which is the topic of this project refers to an assessment of the profitability, stability & viability of a business. Financial statement is the important part for analyzing of any business. Financial statement mainly consists of Profit and Loss Account and Balance – Sheet of the firm. Finance professionals perform this analysis in order to prepare financial or annual report. These financial reports are made with used the information taken from financial

statements of the company and it is based on the significant tool of ratio analysis.

Our Division:-

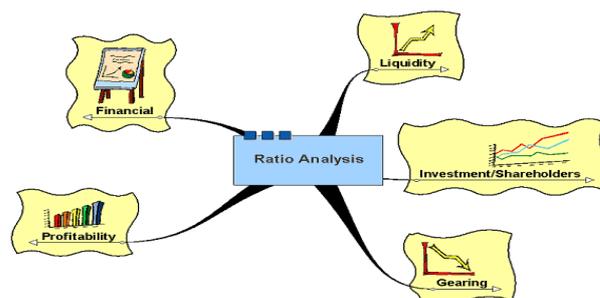
- 1). Graphite electrodes
- 2). Power
- 3). Carbon Specialties

II. TYPES OF FINANCIAL STATEMENT AND RATIOS

Tools of Financial Statement Analysis:- The various tools are used to evaluate the significance of financial statement data. Three commonly used tools are these:

- Ratio Analysis
- Funds Flow Analysis
- Cash Flow Analysis

1. Ratio Analysis: - Fundamental Analysis has a very broad detail. One phase looks at the general (qualitative) factors of a company. The other phase is considering real and measurable factors (quantitative). This means crunching and analyzing numbers forms are the financial statement. If it is used in added with other methods, quantitative analysis can produce excellent results. Ratio analysis isn't just comparing different numbers from the balance sheet, income statement, and cash flow statement. It compares the number against previous years, other companies, the industry, or even the economy in general.



2. Fund Flow Analysis: - Fund may be illustrate in various ways as

- (1) Cash,
- (2) Total current assets,
- (3) Net working capital,
- (4) Net current assets.

For the objective of fund flow statement the term means net working capital. The flow of fund will occur in a business when a transaction results in a change that is increase or decrease in the amount of fund. According to Robert Anthony, "the funds flow statement describes the sources from which additional funds were derived and the uses to which these funds were put".

3. Cash Flow Analysis: - Cash is a life blood of business. It is an most important tool of cash planning and control. A firm receives cash from various sources like debtors, sales, sale of

assets investments etc. Likewise the firm needs cash to make payment to salary, rent dividend, interest etc. Cash flow statement reveal that inflow and outflow of cash during a particular period. It is making on the basis of historical data showing the inflow and outflow of cashReview Stage.

III. FINANCIAL ANALYSIS THEORY AND TECHNIQUES

Meaning of Financial Analysis:-The first role of financial analysis is to select the information relevant to the decision under consideration to the total information implied in the financial statement. The second role is to arrange the information in a way to highlight significant relationship. The final role is interpretation and drawing of inference and conclusions. Financial statement is the process of selection, relation and evaluation.

Feature of Financial Analysis:- 1 To present a complex data contained in the financial statement in simple and comprehensible form.

2 To classify the items contained in the financial statement uncomfortable and rational groups.

3 To make proportion, between various groups to draw various conclusions.

Purpose of Analysis of Financial Statements:-

1. To know the earn capacity or profitability.
2. To know the paying capacity.
3. To know the financial vigor.
4. To know the capable of payment of dividend and interest.

IV. ANALYSIS OF CURRENT SYSTEM IN ABCD LTD

Calculation Of Ratios Of Company

Table No1
ABCD Limited Balance Sheets from 2007-08 to 2011-12

Year	2007-08	2008-09	2009-10	2010-11	2011-12
ABCD Limited Balance Sheets from 2007-08 to 2011-12					
in Rs. Lac.					
Source Of Funds					
Total Share Capital	1,393.17	1,393.21	1,453.39	1,573.33	1,576.39
Equity Share Capital	1,393.17	1,393.21	1,453.39	1,573.33	1,576.39
Share Application Money	0.00	60.14	1,682.40	69.25	62.33
Preference Share Capital	0.00	0.00	0.00	0.00	0.00
Reserves	43,760.90	59,861.81	77,441.55	112,943.44	108,343.67
Revaluation Reserves	4,850.19	2,851.97	871.28	11,784.75	10,342.31
Net worth	49,804.26	63,967.13	81,448.60	126,372.97	120,928.70
Secured Loans	7,664.90	9,369.12	6,600.17	10,697.92	11,347.96
Unsecured Loans	14,200.71	18,256.61	29,879.51	63,206.56	38,124.89
Total Debt	21,865.61	27,625.73	36,479.68	73,904.48	69,472.85
Total Liabilities	71,669.87	91,792.86	117,928.28	200,277.45	189,799.33
Application Of Funds					
Gross Block	84,970.13	99,532.77	104,229.10	149,628.70	134,872.91
Less Accum Depreciation	29,253.38	35,872.31	42,345.47	49,285.64	52,341.38
Net Block	55,716.75	63,660.46	61,883.63	100,343.06	102,331.33
Capital Work in Progress	6,957.79	7,528.13	23,005.84	69,043.83	71,987.12
Investments	5,846.18	16,251.34	20,516.11	20,268.18	20,009.23
Inventories	10,119.82	12,136.51	14,247.54	14,836.72	13,819.11
Sundry Debtors	4,163.62	3,732.42	6,227.58	4,571.38	5,034.65
Cash and Bank Balance	239.31	308.35	217.79	300.13	622.96
Total Current Assets	14,522.75	16,177.28	20,692.91	19,908.23	19,121.98
Loans and Advances	8,266.55	12,506.71	18,441.20	13,375.15	14,115.68
Fixed Deposits	1,908.83	1,527.00	5,609.73	23,014.71	24,011.23
Total Current Assets, Loans & Advances	24,698.13	30,210.99	44,743.86	56,298.09	57,248.87
Differed Credit	0.00	0.00	0.00	0.00	0.00
Current Liabilities	17,658.02	24,145.19	29,228.54	42,684.81	48,576.69
Provisions	3,890.98	1,712.87	2,992.62	3,010.90	3,216.89
Total Current Liabilities & Provisions	21,549.00	25,858.06	32,221.16	45,695.71	49,793.59
Net Current Assets	3,149.15	4,352.93	12,522.70	10,622.38	7,455.28
Miscellaneous Expenses	0.00	0.00	0.00	0.00	0.00
Total Assets	71,669.87	91,792.86	117,928.28	200,277.45	189,799.33
Contingent Liabilities	24,897.66	46,767.18	37,157.61	36,432.69	33,675.44
Book Value (Rs)	324.03	439.37	542.74	727.68	811.98

Table No 2
ABCD Limited Profit & Loss Accounts from 2007 - 08 to 2011-12

Year	2007-08	2008-09	2009-10	2010-11	2011-12
ABCD Limited Profit & Loss Accounts from 2007 - 08 to 2011-12					
in Rs. Cr.					
Income					
Sales Turnover	89,124.46	118,353.71	139,269.46	146,328.07	151,865.98
Excise Duty	8,246.67	6,654.68	5,463.68	4,369.07	4,033.88
Net Sales	80,877.79	111,699.03	133,805.78	141,959.00	147,832.10
Other Income	348.96	238.89	6,293.68	1,284.03	2,234.77
Stock Adjustments	2,131.19	654.60	-1,867.16	427.56	333.37
Total Income	83,555.94	112,590.52	138,534.28	143,650.59	150,400.24
Expenditure					
Raw Materials	59,739.29	80,791.65	98,832.14	109,284.34	114,234.39
Power & Fuel Cost	1,146.26	2,261.69	2,052.84	3,353.98	4,089.12
Employee Cost	978.45	2,094.09	2,119.33	2,397.50	2,764.19
Other Manufacturing Exp	688.31	1,112.17	713.19	1,182.98	1,397.11
Selling and Admin Exp	5,872.33	5,478.10	5,549.40	4,736.60	5,234.41
Miscellaneous Expenses	300.74	321.23	412.66	362.42	622.67
Preoperative Exp	-155.14	-111.21	-175.46	-3,265.65	-3,012.11
Capitalized					
Total Expenses	68,550.24	91,947.72	109,506.10	118,234.17	123,329.78
Operating Profit	3,400.91	4,815.15	4,347.14	5,195.29	5,368.18
PBDIT	0.00	0.00	0.00	0.00	0.00
Interest	10,711.18	14,528.75	23,018.14	18,446.66	20,007.37
PBDT	0.88	0.51	48.10	0.00	0.00
Depreciation	10,712.06	14,529.26	23,066.24	18,446.66	20,007.37
Other Written Off	1,642.72	2,383.35	3,539.85	3,137.34	3,076.81
Profit Before Tax	9,069.34	11,943.40	19,458.29	13,309.32	16,930.36
Extra-ordinary items	3,400.91	4,815.15	4,347.14	5,195.29	4,834.73
Tax	10,711.18	14,528.75	23,018.14	18,446.66	20,007.37
Reported Net Profit	0.88	0.51	48.10	0.00	0.00
Total Value Addition	8,810.95	11,156.07	10,673.96	9,949.83	8,708.84
Preference Dividend	0.00	0.00	0.00	0.00	0.00
Equity Dividend	1,393.51	1,440.44	1,831.24	1,897.05	1,942.10
Corporate Dividend Tax	195.44	202.02	277.23	322.40	409.37
Per share data (annualized)					
Shares in issue (Thousands)	13,935.08	13,935.08	14,536.49	15,737.98	15,767.34
Earnings Per Share (Rs)	65.08	85.71	133.88	97.28	88.97
Equity Dividend (%)	100.00	110.00	130.00	130.00	130.00
Book Value (Rs)	324.03	439.37	542.74	727.68	811.98

Calculations and Interpretation of Fund Flow Statement

Table No - 3
Fund Flow Statement (in Rs. Cr)

Year	2007-08	2008-09	2009-10	2010-11	2011-12
Source of funds					
Issue of shares	1,393.17	1,393.21	1,453.39	1,573.33	1,576.39
Long term borrowings	21,865.61	27,825.73	36,479.68	39,904.48	69,472.85
Operating profit	14,438.74	20,405.91	24,320.32	24,152.39	26,230.22
	37,707.52	49,624.85	60,365.59	69,630.44	97,279.46
Application of funds					
Investment	5,846.18	16,251.34	20,516.11	20,268.18	20,009.23
Inventories	10,119.82	12,136.51	14,247.54	14,836.72	13,819.11
Payment dividends	1,393.51	1,440.44	1,831.24	1,897.05	1,942.10
Payment of tax	1,842.72	2,383.35	3,539.85	3,137.34	3,076.81
	19,000.23	32,413.64	39,954.74	40,139.29	46,907.25
Net increase in working capital	18,707.29	17,211.21	20,410.85	29,491.11	50,372.21

Calculations and Interpretation of Cash Flow Statement

Table No - 4
Cash flow Statement (in Rs. Cr)

Year	2007-08	2008-09	2009-10	2010-11	2011-12
Profit before tax	18,433.23	23,010.14	14,320.47	10,704.06	12,303.22
Net cash flow-operating activity	18,243.86	17,426.74	16,810.53	10,301.38	12,203.38
Net cash used in investing activity	-24,084.20	-23,955.08	-18,567.01	-12,130.88	-11,987.38
Net cash used in fin. Activity	23,732.38	8,373.04	306.08	366.67	324.36
Net inc/dec in cash and equivalent	17,891.24	2,444.70	-1,390.38	-1,462.83	-15,456.41
Cash and equivalent begin of year	4,282.29	1,835.33	3,223.73	3,608.79	3,931.39
Cash and equivalent end of year	22,176.33	4,280.03	1,833.35	2,146.16	1,325.74

V. CONCLUSION

The Company overall position is very good. The company achieves sufficient profit in past four year. The long term paying capacity position of the company is very good. The company maintains low liquidity to achieve the high profitability. The company distribution dividends every year to it share holder. The profit of the company decrease in the last year due to maintain the comparatively high liquidity. The net working capital of the company is maximum in the last year show the maximum liquidity. The term financial statement does not make sense at first. Number is for count while statement needs word, so how could these two mix together? But when seen as money statement, then suddenly it

is a important matter. Not only it is the important for you but for the management and stockholders as well. It is the most important for the management because financial statement speaks of the company success and competence whereas stockholders refer to financial statement to know whether or not to invest in a company. In other word, financial statements tell whether the company made and the lost money. Financial statement holds the secrets of a company. Aside from stating whether the company earning or losses money, they also provide clues on where the management might find more resources to boost its revenue. In addition financial statement demonstration a company past performance and potential. It is equal important for business owner to understand financial statements to know if there business is earned. It would not be too wise to keep faith only on the accountant to paint the business financial condition. But whether or not you are a manager entrepreneur or stockholder, learn the language of finance would be true beneficially. First, all we will have to agree that it's helpful to understand your company financially health and behavior. Two, these is knowledge that you can use to make firm proposals and requests. Arm your reason with hard facts and it will be easy to prove how your proposal can have a bearing on the company financial status. Three, understanding financial statements is preparing for something that is sure to come around. By the time you face income statements, you will be able to analysis, interpret, and challenge numbers that you would otherwise be calm about in a meeting. Four, understanding number give you an edge. Through which you can compare present, past and projected financial statement then track change. You'll be able to give an explanation behind those changes instead of watch other do all the think. Through which you can also compare your company's operations against same organizations and your department with other internal areas. You can simplify your life instead of choosing to infringe how balance sheet works. Last level is the playing field for those who already have a background in account. Have you ever seat in a meeting where people suddenly started talking in numbers? When colleagues and bosses start mention ROI's and refer to cash flow statement, you would not have time to search for definition.

REFERENCES

- [1] Dragotă V., Ciobanu A., Obreja L., Dragotă M., (2003), „Management financiar”, Editura Economică, Bucharest;
- [2] Gherghina, R., Duca, I., (2012), „Gestiunea financiară a întreprinderii”, University Publishing House, Bucharest;
- [3] Gherghina Rodica, Crețan Georgiana (2012), „Finance”, University Publishing House, Bucharest; http://www.editurauniversitara.ro/carte/finante_banci-6/finante/10353
- [4] Gherghina, R., Duca, I., „Performanța financiară a întreprinderii - între rentabilitate și cash-flow”, Studia Universitatis „Vasile Goldiș” Arad, Științe Economice, series, no. 18/2008 vol. II, pp. 517-522, pg., indexed journal BDI: DOAJ, ProQuest, ISSN 1453-1038 <http://www.uvvg.ro/studia/economice>, http://www.uvvg.ro/studiaeconomia/http://www.uvvg.ro/studiaeconomia/index.php?option=com_content&view=article&id=55&Itemid=38;
- [5] Gherghina, R., Duca, I., Văduva, F., „Maximizing company value – an important objective in financial management”, Universitatea „Tibiscus”, Faculty of Economic Sciences of Timișoara, published in the Annals Economic Science Series, Vol.XV/2009,pp.665-668, indexed journal BDI: EconLit,RePec,ISSN1582-6333, <http://fse.tibiscus.ro/anale/>,<http://fse.tibiscus.ro/anale/anale-2009.htm>, <http://fse.tibiscus.ro/anale/Lucrari2009/112.%20Gherghina,%20Duca,%20Vaduva.pdf>
- [6] Ișfănescu, A., Stănescu, C., Băicuși, A., (1999), „Analiza economico-financiară cu aplicații în societățile comerciale

- [7] New York Times, August 16, 1998 Gretchen Morgenson – Market Watch Market Watch; A Time to Value Words Of Wisdom“... Security Analysis by Benjamin Graham and David Dodd, The 1934 Bible For Value Investors.”
- [8]New York Times, January 2, 2000 Business Section Humbling Lessons From Parties Past By Burton G. Malkiel “Benjamin Graham, Co-Author Of "Security Analysis," The 1934 Bible Of Value Investing, Long Ago Put His Finger On The Most Dangerous Words In An Investor's Vocabulary: "This Time Is Different." Burton G. Malkiel Is An Economics Professor At Princeton University And The Author Of "A Random Walk Down Wall Street" (W.W. Norton).
- [9]Dodd, David; Graham, Benjamin (1998). Security Analysis. John Wiley & Sons, Inc. Isbn 0-07-013235-6.