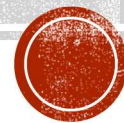


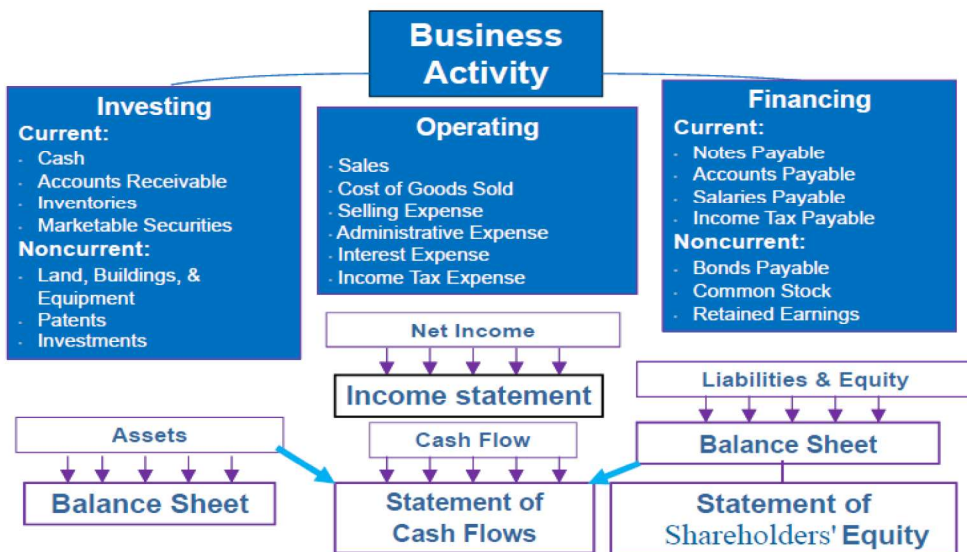
# FINANCIAL STATEMENT ANALYSIS

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## REFLECTION OF BUSINESS ACTIVITIES



# FINANCIAL STATEMENTS

Balance Sheet

Income Statement

Statement of Cash Flows

Statement of Shareholders' Equity

# FINANCIAL STATEMENT ANALYSIS

## What is financial statement analysis?

- Evaluating past performance and current position
  - Monitoring management
  - Past as a guide to the future
- Predicting future performance
  - Forecasting

## Evaluation of:

- Risk
- Return
- Growth

## **PUBLIC SOURCES OF INFORMATION**

- Annual and quarterly reports
- Stock exchange filings
- Government and RBI reports

## **COMPARISON**

### **Cross Sectional:**

- One entity with other entities at the same point of time

### **Time Series:**

- One entity at different points of time

## STANDARDS OF COMPARISON

- Rule of thumb indicators
- Past performance
- Internal standards
- Industry standards

## TECHNIQUES OF ANALYSIS

- Horizontal Analysis
- Trend Analysis
- Vertical Analysis
- Ratio Analysis

## HORIZONTAL ANALYSIS

- Calculates the amount and percentage changes from the previous year to current year
- Simple but useful
- Helps in analysing the magnitude of change

## TREND ANALYSIS

- Studies changes in financial statement items for many years
- An extension of Horizontal Analysis
- Value of 100 is assigned to the items of past financial year to be used as base year and then the amount in the following years are expressed as a percentage of the base year values.

## VERTICAL ANALYSIS

- It is an expression of the amounts of financial statement items as percentages of the statement total
- Results in a common size statement in which the items within each statement are expressed in percentages of some common number and always add up to 100
- Items in the statement of profit and loss are expressed as percentage of sales and balance sheet items as percentages of the total equity and liabilities (or total assets)
- Helps in comparing companies that differ in sizes
- Also, reveals important changes in the components over time

## DR REDDY LABS- P&L AND HORIZONTAL ANALYSIS

| DR. REDDY'S LABORATORIES LIMITED<br>Condensed Statement of Profit and Loss<br>For the year ended March 31, 2016 |               |           |            |
|---|---------------|-----------|------------|
|   | 2016          | 2015      | Change (%) |
|   | (in millions) |           |            |
| Revenue from operations .....   | ₹156,978      | ₹150,233  | 4.49       |
| Other income .....  | 2,693         | 2,741     | (1.75)     |
| Total revenue .....   | 159,671       | 152,974   | 4.38       |
| Total expenses .....  | (128,299)     | (123,978) | 3.49       |
| Profit before exceptional items and tax .....   | 31,372        | 28,996    | 8.19       |
| Exceptional items .....   | (4,621)       | 0         | —          |
| Profit before tax .....   | 26,751        | 28,996    | (7.74)     |
| Tax .....   | (5,237)       | (5,632)   | (7.01)     |
| Profit for the year .....   | 21,514        | 23,364    | (7.92)     |

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## DR REDDY LABS- BALANCE SHEET AND HORIZONTAL ANALYSIS

| DR. REDDY'S LABORATORIES LIMITED<br>Condensed Balance Sheet, March 31 |               |         |            |
|---|---------------|---------|------------|
|   | 2016          | 2015    | Change (%) |
|   | (in millions) |         |            |
| <b>Assets</b>   |               |         |            |
| Property, plant and equipment .....                                   | ₹46,296       | ₹41,837 | 10.67      |
| Capital work-in-progress .....  | 6,631         | 5,290   | 25.35      |
| Intangible assets .....   | 19,338        | 11,933  | 62.05      |
| Non-current investments .....   | 1,456         | 1,456   | 0.00       |
| Long-term loans .....   | 5,194         | 4,181   | 24.23      |
| Deferred tax assets, net .....  | 2,853         | 2,450   | 16.45      |
| Other non-current assets .....  | 135           | 64      | 110.94     |
| Non-current assets .....  | 81,903        | 67,211  | 21.86      |
| Inventories .....   | 25,799        | 25,699  | 0.39       |
| Current investments .....   | 21,122        | 21,022  | 0.48       |
| Trade receivables .....   | 41,667        | 41,012  | 1.60       |
| Cash and cash equivalents .....                                       | 18,358        | 18,724  | (1.95)     |
| Short-term loans .....  | 10,058        | 10,747  | 6.41       |
| Other current assets .....  | 1,197         | 1,563   | 23.42      |
| Current assets .....  | 118,201       | 118,767 | (0.48)     |
| Total assets .....  | 200,104       | 185,978 | 7.60       |
| <b>Equity and Liabilities</b>   |               |         |            |
| Equity .....  | ₹117,009      | ₹98,531 | 18.92      |
| Borrowings .....  | 10,690        | 14,315  | (25.32)    |
| Other long-term liabilities .....                                     | 2,498         | 2,733   | 8.60       |
| Long-term provisions .....  | 947           | 779     | 21.57      |
| Deferred tax liabilities .....  | 592           | 1,407   | (57.92)    |
| Non-current liabilities .....   | 14,727        | 19,234  | (23.43)    |
| Short-term borrowings .....   | 22,718        | 21,857  | 3.94       |
| Trade payables .....  | 9,309         | 8,673   | 7.33       |
| Other current liabilities .....                                       | 24,395        | 26,244  | (7.05)     |
| Short-term provisions .....   | 11,946        | 11,439  | 4.43       |
| Current liabilities .....   | 68,368        | 68,213  | 0.23       |
| Total equity and liabilities .....                                    | 200,104       | 185,978 | 7.60       |

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## DR REDDY LABS- TREND ANALYSIS

| DR. REDDY'S LABORATORIES LIMITED<br>Selected Financial Data |          |          |          |          |                       |
|---|----------|----------|----------|----------|-----------------------|
|   | 2016     | 2015     | 2014     | 2013     | 2012<br>(in millions) |
| <b>Item</b>   |          |          |          |          |                       |
| Revenue from operations .....                               | ₹156,978 | ₹150,233 | ₹134,153 | ₹118,956 | ₹98,145               |
| Net profit .....  | 21,514   | 23,364   | 19,632   | 15,268   | 13,009                |
| Property, plant and equipment.....                          | 46,296   | 41,837   | 37,496   | 31,416   | 25,732                |
| <b>Trend</b>  |          |          |          |          |                       |
| Revenue from operations .....                               | 160      | 153      | 137      | 121      | 100                   |
| Net profit .....  | 165      | 180      | 151      | 117      | 100                   |
| Property, plant and equipment.....                          | 180      | 163      | 146      | 122      | 100                   |

## DR REDDY LABS- VERTICAL ANALYSIS

| DR. REDDY'S LABORATORIES LIMITED<br>Common-size Statement of Profit and Loss<br>For the year ended March 31, 2016 |      |      |
|---|------|------|
|   | 2016 | 2015 |
| Total revenue .....   | 100  | 100  |
| Total expenses.....   | (80) | (81) |
| Profit before exceptional items and tax.....  | 20   | 19   |
| Exceptional items.....  | (3)  | 0    |
| Profit before tax .....   | 17   | 19   |
| Tax .....   | (3)  | (4)  |
| Profit for the year .....   | 14   | 15   |

## DR REDDY LABS- VERTICAL ANALYSIS


| DR. REDDY'S LABORATORIES LIMITED          |      |      |
|---|------|------|
| Common-size Balance Sheet, March 31, 2016 |      |      |
|   | 2016 | 2015 |
| <b>Assets</b>                             |      |      |
| Property, plant and equipment.....        | 23   | 23   |
| Capital work-in-progress.....             | 3    | 3    |
| Intangible assets.....                    | 10   | 6    |
| Non-current investments.....              | 1    | 1    |
| Long-term loans.....                      | 3    | 2    |
| Deferred tax assets, net.....             | 1    | 1    |
| Other non-current assets.....             | 0    | 0    |
| Inventories.....                          | 13   | 14   |
| Current investments.....                  | 11   | 11   |
| Trade receivables.....                    | 21   | 22   |
| Cash and cash equivalents.....            | 9    | 10   |
| Short-term loans.....                     | 5    | 6    |
| Other current assets.....                 | 0    | 1    |
| Total assets.....                         | 100  | 100  |
| <b>Equity and Liabilities</b>             |      |      |
| Equity.....                               | 59   | 53   |
| Long-term borrowings.....                 | 5    | 8    |
| Other long-term liabilities.....          | 1    | 1    |
| Long-term provisions.....                 | 1    | 0    |
| Deferred tax liabilities.....             | 0    | 1    |
| Short-term borrowings.....                | 11   | 12   |
| Trade payables.....                       | 5    | 5    |
| Other current liabilities.....            | 12   | 14   |
| Short-term provisions.....                | 6    | 6    |
| Total equity and liabilities.....         | 100  | 100  |

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## RATIO ANALYSIS

- Establish a relevant financial relationship between components of financial statements
- Two Cos. having same profit in a year  Both Cos. are equally sound
- When profit figures are related with respective sales, their true profitability is revealed
- Generally, divided into three categories

Profitability  
ratios

Liquidity  
ratios

Solvency  
ratios

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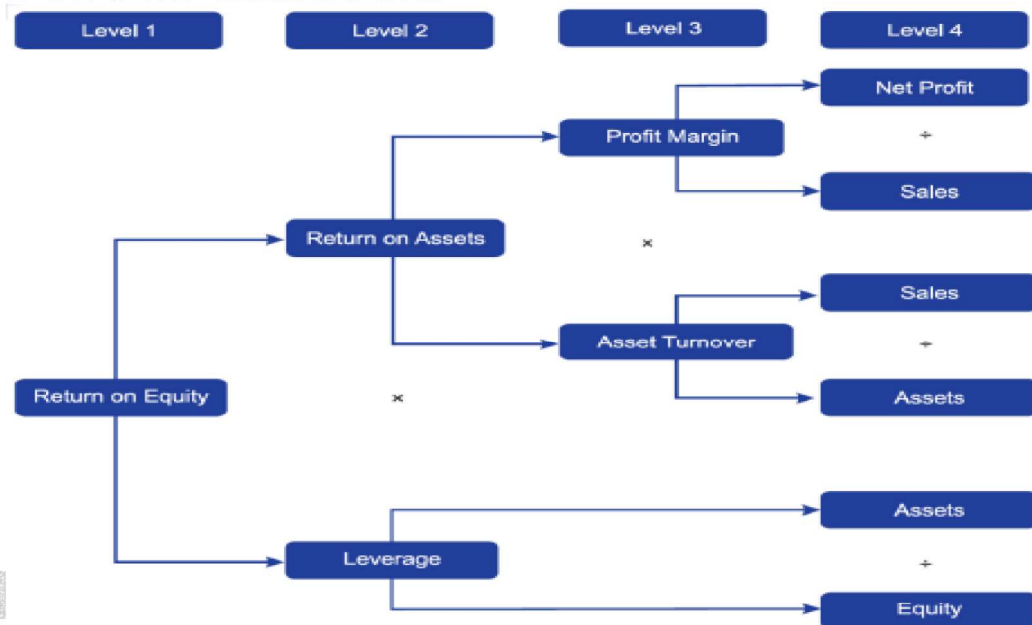
# PROFITABILITY ANALYSIS

- Helps to measure firms ability to earn revenues in excess of expenses

Commonly used ratios are:

- Profit Margin
- Asset Turnover
- Return on Assets
- Return on Equity
  - Effect of Leveraging
- Extended DuPont Analysis
- Earnings Per Share (EPS)

# DUPONT ANALYSIS



## LIQUIDITY ANALYSIS

- Helps to measure the ability of the business to meet its short term obligations when they fall due

### Commonly used ratios are:

- Current Ratio
- Quick Ratio
- Receivable Turnover
  - Average Collection Period
- Inventory Turnover
  - Inventory Holding Period
- Operating Cycle

## SOLVENCY ANALYSIS

- Helps to understand the long term stability of the business
  - Ability to discharge long term obligations in the form of debts

### Majorly used ratios are:

- Debt to Equity Ratio
- Liabilities to Equity Ratio
- Operating Leverage
- Interest Cover

## CAPITAL MARKET STANDING

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

## RATIO FORMULAE

- Please look in a separate annexure

