

DRIVING FINANCIAL PERFORMANCE



LUNAWAT & CO.

Chartered Accountants

11th June 2017, IOD

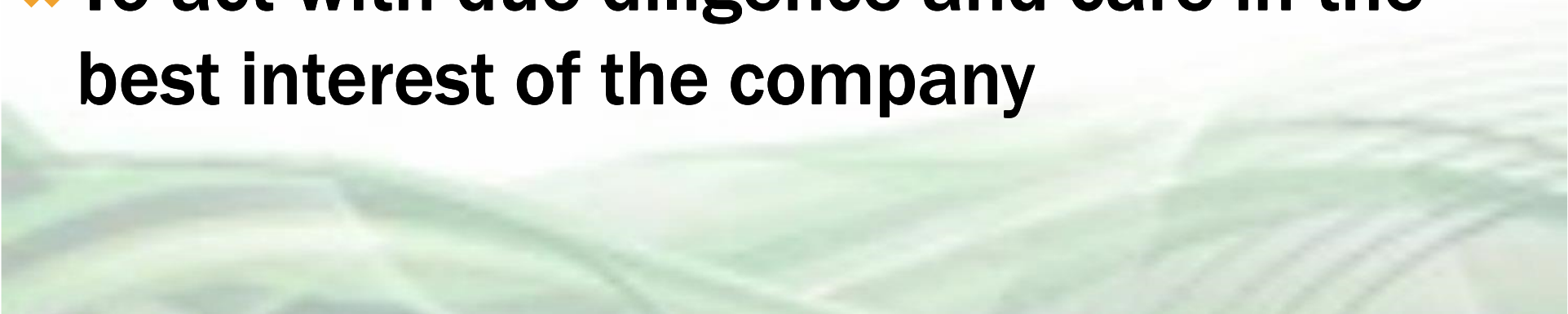
CA. PRAMOD JAIN

FCA, FCS, FCMA, LL.B, MIMA, DISA

BOD / DIRECTORS RESPONSIBILITIES

- ✘ **To act with due diligence and care in the best interest of the company**
- ✘ **Compliance of all applicable laws**
- ✘ **Maintenance of adequate accounting records for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities**
- ✘ **Compliance of applicable Accounting Standards**

BOD / DIRECTORS RESPONSIBILITIES

- ✘ **Internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively**
 - ✘ **Independent directors to abide by Schedule IV**
 - ✘ **To act with due diligence and care in the best interest of the company**
- 

INTERNAL AUDIT

- ✘ **All Listed Cos. In case of unlisted public Co:**
 - + Capital \geq 50 Cr. in preceding FY; or
 - + Turnover \geq 200 Cr. in preceding FY; or
 - + Outstanding loans from banks or PFIs \geq 100 Cr. At any point of time in preceding FY; or
 - + Outstanding deposits \geq 25 Cr. at any point of time in preceding FY;
- ✘ **Private Co:**
 - + Turnover \geq 200 Cr. in preceding FY; or
 - + Outstanding loans from banks or PFIs \geq 100 Cr. at any point of time in preceding FY

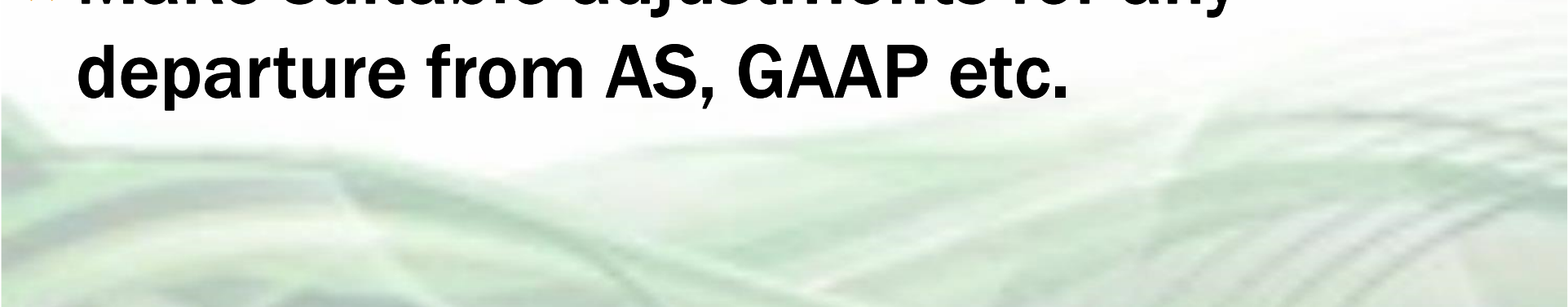
FINANCIAL HEALTH

- ✖ **Loans vis-à-vis Cash / Bank**
- ✖ **Inventory**
- ✖ **Immovable Properties**
- ✖ **Continued Losses**
- ✖ **Related Party Transactions**
- ✖ **Ratio Analysis**
- ✖ **Trend Analysis**
- ✖ **Comparison with Competitors**

INTERPRETATION OF FINANCIAL STATEMENTS

- ✖ **Major information required for decision making may be instantly available in various disclosures made in annual report**
- ✖ **Make Horizontal, Vertical and Ratio Analysis of financial data's for last 4 years**
- ✖ **Make comparative study of financial data with base year or benchmarks already fixed**
- ✖ **Make cross section analysis of financial data with that of the other companies operating under similar conditions**

INTERPRETATION OF FINANCIAL STATEMENTS

- ✘ **Extra-ordinary High or Low figures may be replaced by the figures obtained through technique of interpolation/extrapolation**
 - ✘ **Make necessary adjustments for changes in accounting policies, prior period adjustments and extra ordinary items.**
 - ✘ **Make suitable adjustments for any departure from AS, GAAP etc.**
- 

RATIO ANALYSIS

- ✖ **Ratio is a statistical yardstick that provides a measure of relationship between two accounting figures. It may be expressed as a co-efficient, proportion & percentages.**
- ✖ **Types of ratios may be:**
 - + **Liquidity Ratios**
 - + **Solvency Ratios**
 - + **Activity Ratios**
 - + **Profitability Ratios**
 - + **Owners Ratios**

LIQUIDITY RATIOS

- ✖ **Liquidity is the ability of a Company to meet its short term obligations like payment of creditors, BP and Outstanding Exp. etc.**
- ✖ **A Co. may be profitable and yet not liquid.**
- ✖ **A Co. which is not liquid may sooner or later find itself in a situation of insolvency.**
- ✖ **Thus liquidity in a way is more important than profitability.**

KEY LIQUIDITY RATIOS

**Current /
Working Capital**

- **Current Assets / Current Liabilities [Id - 2:1]**

Cash

- **Cash + Bank + Mkt Sec / Current Liabilities [Id - 1:1]**

**Operating Cash
Flow**

- **Op. Cash Flow (Net Income (+/-) change in WC + Non-cash expenses) / Current Liabilities [Id - 1:1]**

**Acid Test /
Quick**

- **Quick Assets (Cash + Govt. Sec. + Receivables) / Current Liabilities [Id - 1:1]**

SOLVENCY RATIOS

- ✖ **These ratios concerned the long term risk of the company i.e. Its ability to service long term debts. These ratios measure :**
 - + **Ability to cover current cost of debt from income generated by existing operations**
 - + **Current level of financial leverage**



KEY SOLVENCY RATIOS

**Interest
Coverage**

- **$\text{PBDITA} / \text{Interest}$**

**Debt
Coverage**

- **$\text{PBDIA} / \text{Due Installment} + \text{Int. on Long Term Debt}$**

**Debt
Equity**

- **$\text{Total Outside Liability} / \text{Tangible Net worth}$**

ACTIVITY RATIOS

- ✖ **Activity Ratios measures the efficiency with which assets are converted into sales.**
- ✖ **Activity ratios are derived by dividing sales by the book value of the assets.**
- ✖ **These ratios are basically productive ratios in relation to fixed assets and liquidity ratios in relation to current assets**

KEY ACTIVITY RATIOS

**Inventory
Turnover**

- **Cost of Good Sold/ Avg. Inventory**

**Debtors
Turnover**

- **Net Sales / Avg. Debtors**

**Fixed Assets
Turnover**

- **Sales / Fixed Assets**

**Assets
Turnover**

- **Sales / Total Assets**

PROFITABILITY RATIOS

- ✖ How far a Company is successful in its activities is largely dependent upon its profitability and comparison of the same with other companies in the segments and industry average.



KEY PROFITABILITY RATIOS

Net Profit

- **Net Profit / Sales**

Gross Profit

- **Gross Profit / Sales**

**Return on
Total Assets**

- **EBIT / Total Net Assets**

**Return on
Equity**

- **Net Income / Equity Share
Capital**

OWNERS RATIOS

- ✖ These ratios are useful to Stakeholders to judge the current status of their investment.
- ✖ Based upon the analysis, they may take a decision to hold their investment until an opportune time, buying further shares or dispose off their existing holding.



KEY OWNERS RATIOS

Earning per Share

- **Net Income / No. of Eq. Shares**

Price Earning

- **Market Price / EPS**

Market Book

- **Market Price / Book Value per share**

Dividend Pay out

- **Dividend Payout / EPS**

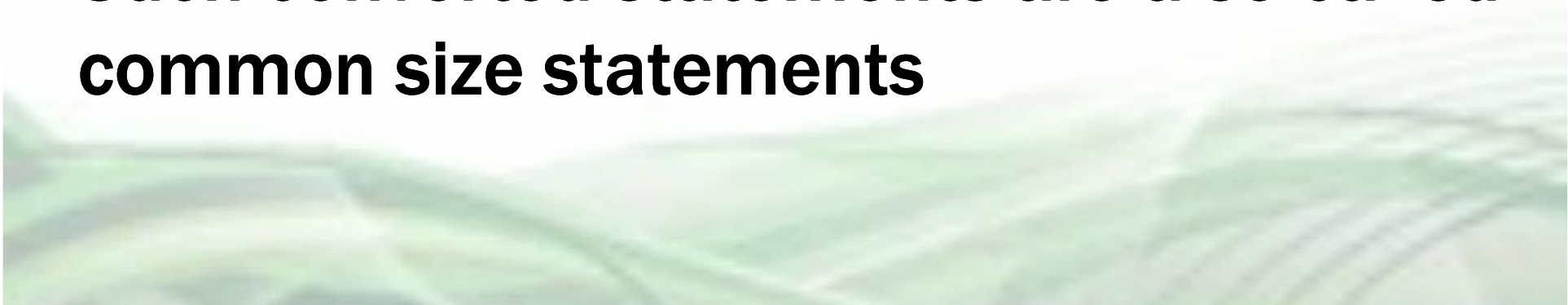
LIMITATION OF RATIO ANALYSIS

- ✖ It is based on FS which are themselves subject to several limitations.
- ✖ In case of inter-firm comparison, no two firms are similar in age, technology adopted, size & product profile.
- ✖ Both inter-period & inter-firm comparisons are affected by price level changes. Change in price-level can affect the validity of ratios calculated for different time periods.

TREND ANALYSIS

- ✖ **FS are compared for a no. of years to find out the trend. Since such FS constitute a time series in statistical sense. It is also known as Time Series Analysis.**
- ✖ **Each item in Co's FS is placed horizontally for no. of years. This facilitates increase / decrease in particular item for two periods or over a period.**
- ✖ **Such comparison may be made with help of absolute figures or by percentages.**

VERTICAL ANALYSIS

- ✘ Here we consider, FS for a single year.
 - ✘ It is a method of FS analysis in which each entry for each of the three major categories of accounts, or assets, liabilities & equities, in a B/S is represented as a proportion of the total account
 - ✘ Such converted statements are also called common size statements
- 

CROSS SECTIONAL ANALYSIS

- ✘ It is comparison of performance of a Co. with that of a similar Co. or performance of the industry as a whole.
- ✘ Compare ratios of Co. with that of competing co. or industry as a whole.
- ✘ Data for cross sectional analysis - CMIE, CII, Stock Exchange etc.
- ✘ Cross sectional analysis is difficult in case of diversified company as they do not come under single industry umbrella.

TRANSFER PRICING

✖ Company Law

- + Related Party Transactions – s. 188

✖ Income Tax

- + International Transfer Pricing
- + Domestic Transfer Pricing omitted w.e.f. 1.4.2017

✖ RBI

- + Allotment of shares to overseas investors

PERIODICAL COMPLIANCES

- ✖ **Indirect Tax Deposits & Returns**
- ✖ **Labour Laws dues and deposits**
- ✖ **TDS / TCS deposit and returns**
- ✖ **AIR Returns**
- ✖ **IT Returns**
- ✖ **Company Law / LLP Compliances**
- ✖ **SEBI Compliances**
- ✖ **RBI / FEMA Compliances**

TAKE NOTE OF EMERGING LAWS

- ✖ **Insolvency and Bankruptcy Code**
- ✖ **Prevention of Money Laundering Act**
- ✖ **Prohibition of Benami Properties Transactions Act**
- ✖ **GST**
- ✖ **ICDS**
- ✖ **Ind AS**

Thank You!

CA. Pramod Jain

pramodjain@lunawat.com

+91 9811073867



© 2017 CA. Pramod Jain, Lunawat & Co