

DRIVING FINANCIAL PERFORMANCE



26th October 2017, IOD, Kolkata

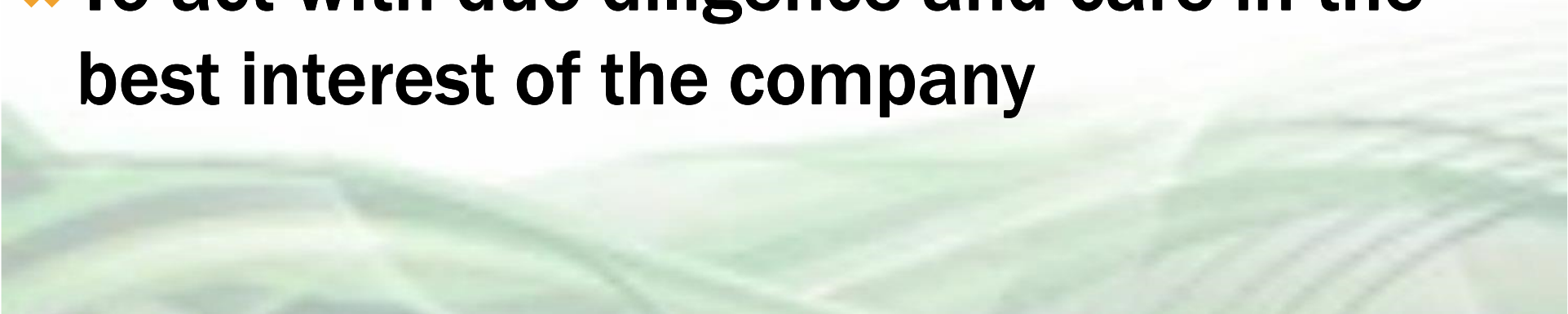
CA. PRAMOD JAIN

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 are 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

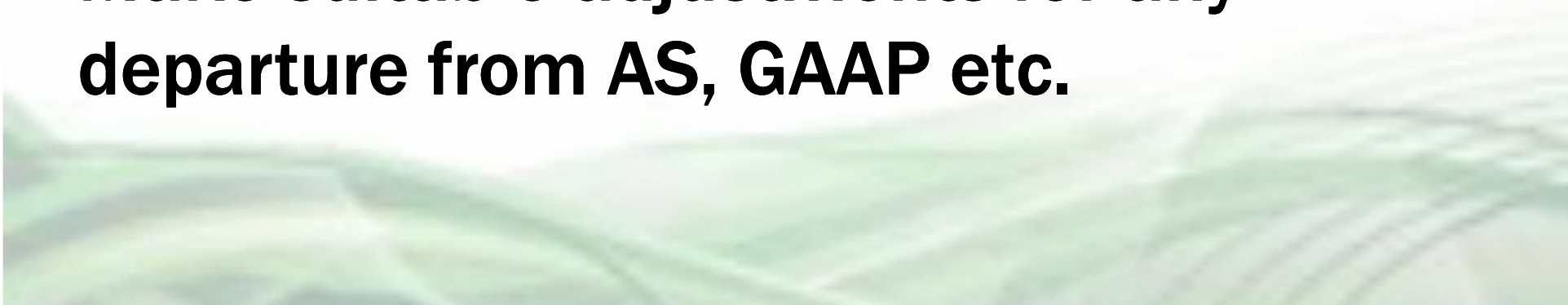
FINANCIAL HEALTH

- ✖ **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, 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 concerns regarding 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**

- $\text{Cost of Good Sold} / \text{Avg. Inventory}$

**Debtors
Turnover**

- $\text{Net Sales} / \text{Avg. Debtors}$

**Fixed Assets
Turnover**

- $\text{Sales} / \text{Fixed Assets}$

**Assets
Turnover**

- $\text{Sales} / \text{Total Assets}$

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

- $\text{Net Income} / \text{No. of Eq. Shares}$

Price Earning

- $\text{Market Price} / \text{EPS}$

Market Book

- $\text{Market Price} / \text{Book Value per share}$

Dividend Pay out

- $\text{Dividend Payout} / \text{EPS}$


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

- ✖ **GST 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**

**This Presentation would be available
on**

www.lunawat.com

Also may download free mobile app

“LUNAWAT”

for all updates since year 2007

Thank You!

CA. Pramod Jain

pramodjain@lunawat.com

+91 9811073867



© 2017 CA. Pramod Jain, Lunawat & Co