K.J. Somaiya Institute of Management Studies & Research

Course: PGDM (FS) Tri I

Sub: Financial Statement Analysis

Time: 3 Hours **Marks: 25** **Date : 28/09/2018**

Note: Question no 1 is compulsory. Attempt any two questions from Qu. 2 to 4 .

1. Amanda's Anchors has applied for a loan from a local bank. The bank is basing its decision on the following information-

Ratios	Industry Average
Current Ratio	1.5
Quick Ratio	0.80
Receivable turnover ratio	18
Inventory turnover ratio	20
Total Debt to assets ratio	0.56
Interest Coverage Ratio	6.52
Net Profit margin	10.25%
Return on assets	11.5%
Return on equity	20.30%

Amanda's Anchores

Income Statement

For the year ending December 31, 2017 (Rs in millions)

Sales	60
Cost of Goods sold	35
Gross Profit	25
Operating expenses	10
Operating Income	15
Interest Expenses	2.5
Income before tax	12.5
Income tax expenses	6.5
Net Income after tax	6

Amanda's Anchores

Balance Sheet (Rs in millions)

	As on Dec 31, 2017	As on Dec 31, 2016
Cash	7.5	6.0
Accounts receivables	3	2
Inventory	3	2
Prepaid Insurance	0.5	0.5
Total current assets	14	10.5
Property and Equipment	60	55

Less- Accumulated Depreciation	14	11
Net Property & Equipment	46	44
Total Assets	60	54.5
Accounts payables	6	6
Other current liability	4	4.5
Total current liabilities	10	10.5
Bonds payable	15	15
Equity Capital	25	25
Retained earnings	10	4
Total Liabilities & Equity	60	54.5

Required-

From Amanda's Anchors data, calculate the ratios for which the bank has an industry average. After calculating first comment on company's performance and then compare Amanda's ratios with the industry average, should the bank approve the loan? Why or Why not? **(13 marks)**

2. The following statements describe various financial statement analysis ratios:

a) Show the return to each share of stock owned by an investor

b) Measure the difference between quick assets and current liabilities

c) Measure the ability of a company to generate profits from sale

d) Provide a measure of a company's capital structure

e) Show a company's ability to generate profits from its entire resource base

f) Give information as to how a company manages its inventory

g) Measures a company's capital structure using liabilities and equity

h) Shows how effectively a company uses its current equity to generate additional equity

i) Gives a less strict measure of a company's ability to meet its short term obligations

j) Shows how well a company can pay interest on debt out of current year earnings

k) Measure a company's ability to make and collect sales

l) Provides an indication of current investor perceptions of the company **(6 Marks)**

3. Avantika is DuPont analysis lover. In the table below Avantika has provided you with four ratios related to profitability analysis, the ratios enabling DuPont Decomposition analysis for four companies, namely, AniK Industries (Milk Processing and other diverse sectors), Gayatri Bioorganics (Starch Manufacturing), Lawreshwar Polymers (Footwear manufacturer) and

Mukund Engineering (Construction Engineering) for four recent years-

Financial Ratio(s)	Year 4 (12m)	Year 3 (12m)	Year 2 (12m)	Year 1 (12m)
Anik Industries Limited				
Total Asset Turnover (captures *Asset Utilization* of the entity)	*?*	1.8	1.5	1.4
Equity Multiplier (captures *Financial Leverage* of the entity)	3.5	4.4	3.8	*?*
Net Profit Margin (%) (captures the entity's *Cost-Price difference*)	0.9	0.8	0.8	0.9
Return on Equity (%) (captures the overall performance)	4.7	*?*	4.7	5.3
Gayatri Bioorganics Limited				
Total Asset Turnover (captures *Asset Utilization* of the entity)	1.4	1.3	1.2	1.1
Equity Multiplier (captures *Financial Leverage* of the entity)	3.3	3.0	*?*	1.6
Net Profit Margin (%) (captures the entity's *Cost-Price difference*)	0.6	*?*	3.4	2.4
Return on Equity (%) (captures the overall performance)	*?*	-7.7	8.0	4.3
Lawreshwar Polymers Limited				
Total Asset Turnover (captures *Asset Utilization* of the entity)	1.2	1.1	*?*	0.7
Equity Multiplier (captures *Financial Leverage* of the entity)	1.9	1.8	1.6	*?*
Net Profit Margin (%) (captures the entity's *Cost-Price difference*)	2.0	*?*	4.2	2.3
Return on Equity (%) (captures the overall performance)	4.6	4.2	5.5	2.7
Mukand Engineers Limited				
Total Asset Turnover (captures *Asset Utilization* of the entity)	0.6	0.5	0.5	0.9
Equity Multiplier (captures *Financial Leverage* of the entity)	2.4	*?*	2.9	3.0
Net Profit Margin (%) (captures the entity's *Cost-Price difference*)	4.7	5.1	*?*	6.5

	Return on Equity (%) (captures the overall performance)	6.3	6.0	12.6	?

Required-

(a) A few numbers up there are missing. You are required to fill the same.

(b) As you can observe- all the four companies have their own problem area. You are required to identify the same? Discuss your reasoning for the same. **(6 Marks)**

4. Given below are the Balance Sheets of the two firms-Gloria Ltd and Victoria Ltd
As on 31st March 2017 (Figures in lakhs)

	Gloria Ltd	Victoria Ltd
Cash and bank balance	12.7	38.6
Marketable Securities	10	21
Debtors	22	23.7
Stock	93.5	162.45
Prepaid Expenses	1.12	2.15
Current Assets	139.32	247.9
Net Fixed assets	589	642
Total Assets	728.32	889.9
Creditors	6.75	26.45
Notes payable	6.56	6.45
Long term debt	130.01	345
Equity	585	512
Total liabilities & Equity	728.32	889.9

a. Can the financial position of the two firms be compared assuming that the two firms fall in the same industry?

b. Prepare a common size Balance Sheet for the two firms and compare their financial positions in terms of size and mix of their assets and liabilities **(6 Marks)**

*****