

FinShiksha

Course Outline

Applied Financial Statement Analysis (AFSA)

About Document

The purpose of this document is to provide an idea about the content covered in this course. You are also entitled to receive updated content for the next one year. All information has been sourced from publicly available data such as annual reports and news items.

Videos	Content Covered
Introduction to the Program	<p>Broad outline of the program</p> <p>Difference between textbook and practical application of financial statement analysis</p> <p>Objective of the program</p> <p>Important things to focus in FSA</p> <p>Places to find information on business</p>
Basics of Financial Statements	<p>Important components of Financial statement:</p> <ol style="list-style-type: none"> 1. Balance Sheet: Liabilities and Assets (Sources and application of funds) 2. Profit and loss statement: Income and Expenses 3. Cash flow statement: Inflow and Outflow <p>Features and Interlinkage of Financial statements</p> <p>Understanding the Business Model with respect to financial statements</p>
Income statement	<p>Segments in income statement: Income, Expenses, Profit</p> <p>Detailed understanding on certain important line items in income statement: Revenue from operations, other income, Raw material Cost, EBITDA, Depreciation, Amortization, Finance cost, Tax, Non-Recurring items</p>
Balance sheet	<p>Segments in Balance sheet: Shareholders fund, Non-current and current liabilities, Noncurrent and current assets</p> <p>Understanding on certain important line items: Tangible assets, Intangible assets, Goodwill, Cash and cash equivalents, Trade receivables, Inventories, Share capital, Reserves and Surplus, preference shares, Minority Interest, Long and short-term borrowings, Deferred tax liability, Long and short-term provisions, Accounts payable</p>
Cash Flow	<p>Construction of Cash flow: Indirect and Direct Method</p> <p>Components of Indirect method of cash flow</p> <p>Segments of cash flow statement: Cash flow from Operating activity, Cash flow from Financing activity, Cash flow from Investment activity</p> <p>Illustrations on creating cash flow using indirect method</p>
Financial Statement Linkage Exercise	<p>Exercise on excel explaining how balance sheet is balanced after each transaction conducted by the company</p>
Ratios	<p>Concept of ratio</p> <p>Business ratio explained with example</p> <p>Usage of a ratio: Historical and Industry</p> <p>Which Ratios are denoted by percentage values</p> <p>Categories of ratio</p> <p>Profitability ratio: Operating profit margin, Net profit margin</p> <p>Return ratio: Return on capital employed, return on long term assets, return on net worth</p> <p>Coverage ratio: Interest coverage ratio, Net debt to EBITDA</p> <p>Debt equity ratio</p> <p>Liquidity ratio: Current ratio, Quick ratio</p>

	<p>Efficiency ratio: Inventory turnover ratio, Receivable turnover ratio, Fixed asset turnover ratio</p> <p>Growth ratios: Sales (volume) growth, Sales (value) growth, EBITDA growth, Net profit growth</p> <p>Compounded annual growth rate (CAGR)</p> <p>Demonstration of Ratio calculation of Maruti Suzuki limited</p>
Annual Report Analysis - 1	<p>Sources of annual report explained with the example of Ajanta pharma</p> <p>Important components of annual report: Chairman's message/ letters to shareholders, financial highlights, director's report, Management discussion & analysis, financial statement & notes, related party transactions, Auditors report, remuneration of management</p> <p>Consolidates vs standalone</p> <p>Information in annual report:</p> <p>Which segment and geography is the company present in example Dixon, Hindustan Unilever, Bajaj auto, Ajanta pharma</p> <p>Industry details: example housing finance, steel industry</p>
Annual Report analysis – 2	<p>Complete annual report analysis of Apollo tyres with emphasis on Key performance highlights, management discussion and analysis, forward looking statement, message from chairman, boards report, corporate governance report, financial statements of standalone and consolidated, board of directors, form MGT 9, Auditors report, notes to accounts, Accounting principles, Ratings, comparison of consolidated and standalone statements, management remuneration, indebtedness</p>
Working capital analysis	<p>Conventional definition of working capital</p> <p>Ideal current ratio</p> <p>Positive working capital and negative working capital</p> <p>Understanding working capital with help of examples</p> <p>Funding of working capital</p> <p>Cash and working capital</p> <p>Banker and business perspective of working capital</p> <p>Position of current assets and current liabilities in working capital</p> <p>Conditions for negative working capital</p>
Working Capital Analysis – What companies want	<p>Interpretation of working capital as percentage of sales</p> <p>Trade-off between low level and high level of current assets</p> <p>Why exclude cash while calculating working capital explained with the example of SAIL</p> <p>Concern regarding working capital</p> <p>Working capital management- summary</p>
Working Capital – Cash conversion cycle	<p>Concept of cash conversion cycle</p> <p>Calculation of receivable turnover ratio, inventory turnover ratio and payable turnover ratio</p> <p>Calculation and interpretation of cash conversion cycle with examples</p> <p>Cash conversion cycle of various companies from different sectors</p>

	Comparing working capital management of companies in same sector Working capital and market value of companies
Ratios- sectoral implications	Exercise on identifying sector based on numbers by calculating ratios
Ratios- sectoral implications 2	Exercise on identifying sector based on numbers by calculating ratios Type of Ratios in various sectors
Cash interpretation	Using cash flow from operation, cash flow from investing and cash flow from financing to identify position of the company with example of companies like TCS, Infosys, GMR infra, SAIL, Aban offshore, Hindalco, BHE, Suzlon Importance of growth in Cash flow from operations Reason for improvement in cash flow from operations: Sales, profitability, working capital positions Concept and interpretation of cash per share, net cash positions and dispensable cash taking example of reliance and EIL
Adjustment to Ratios	Textbook method of financial statement analysis Practical approach in financial statement analysis Calculation and interpretation of interest coverage ratio and finance cost with examples of TATA steel and Hindalco Issues arising due to excessive goodwill in statements explained with examples Broads Steps required for financial statement analysis
Quality of Earnings	Evaluation quality of earning: Sustainable of earning and optically looking better earning, outright incorrectly quoted earnings Importance of quality of earnings explained with the help of example Possible ways of manipulating earnings Quality check: management remuneration, buying unnecessary stuff explained with examples of Hindalco
Quality of Earnings – case	Case study on Vakrangee Red flags in financial statements of company
Dividend bonus stock split	Concept and effect of stock dividend and stock split on EPS, dividend yield, stock price, share capital, reserve and surplus Reason for stock dividend Difference between stock split and bonus Concept and interpretation of dividend pay-out ratio with example of Nestle India Stock dividend vs stock split
Financial Statement Analysis – Tata Motors	Ratio calculation along with DuPont analysis Interpretation of ratios Cash flow and net profit interlinkage Relevant information from the annual report

For Applied FSA, under the project header, you need to do the following

1. Pick up **ANY ONE** of the following companies **ONLY**, and download its annual reports for the latest 3 years that are available
 - TVS Motors
 - Thyrocare
 - Airtel
 - Ceat
 - Titan Industries
 - Shree Cement
 - Britannia
2. Go through the Management Discussion and Analysis portions for the last 3 years, and write down key points that you think are relevant
3. Go to the Consolidated Financials – and put in the numbers for the last 4 years from **only the annual report**. Do not use any other database. The numbers need to be **manually put in from the annual report**. Other sources such as money control, screener, CMIE, ACE Equity etc will not be accepted.
4. Calculate ratios - all that have been discussed in the videos
5. Identify any increasing, decreasing trends. Identify any numbers which you think are too high or too low, when compared to the sector
6. Try and find the reasons for the trends in point 5 above, by linking data from point 2. You may not have answers to all questions, but basically try and ask the question Why?
7. Debt Analysis
 - Long term vs Short Term Debt
 - Analysis of Secured vs Unsecured Debt
 - Cost of Debt
 - Domestic vs Foreign Debt (if breakup available in Non-Current Liabilities Notes, else try and find from cost of debt)
 - Interest paid from P&L vs Cash Flow vs Notes to Accounts
8. Dupont Analysis
9. Operating Leverage Analysis
10. Key Costs Analysis – which are the largest costs, and how are they moving? Why are they going up or down?
11. Any other numbers that catch your eye from the notes to accounts.
12. Any specific Corporate Governance Issues
13. Calculate Dividend Yield, and note the dividend, stock split or bonus history if any.

Make a summary of your observations. You need to prepare an excel file and a supporting word document. The word document need not reproduce the data on excel but should speak more about observations. You should also put in those observations in the excel file, wherever possible.

Please name the file as companyname_yourname_collegename.xlsx

For example SAIL_Parth_NMIMS.xlsx

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