Ask the Analyst: 1100 Questions for Mastering Stock Investments

1100 Questions to Elevate Your Equity Analysis and Investments

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Introduction

Welcome to "Unlocking Equity: Your Ultimate Q&A Guide

Investing in the stock market has long been considered an art form as much as a science. Whether you are a fledgling investor or a seasoned equity analyst, you know that understanding the fundamentals is key to successful stock investments. However, the labyrinth of financial statements, industry jargon, market indicators, and unpredictable human behavior can turn this seemingly straightforward process into a complex task.

That's where "Unlocking Equity: Your Ultimate Q&A Guide" comes in. Designed as an all-encompassing resource, this book aims to bridge the gap between investors of various expertise

levels. Its subtitle, "From Novice to Pro: The Ultimate Q&A Resource for Equity Analysts," encapsulates its commitment to serving a wide range of readers—everyone from those who are newly intrigued by the world of stocks to the most seasoned analysts.

Why 1100 Questions?

In today's fast-paced world, timely and accurate information is of the essence. The sheer volume of questions—1100, to be exact—ensures that nearly every topic and nuance related to equity analysis is covered. Got a question about reading income statements? It's in here. Curious about how mergers and acquisitions impact stock value? You'll find it. Wondering how to assess the risk factors in a volatile market? We've got you covered.

Who is this Book For?

Beginners: If you are new to the world of stock investing, this book will serve as a roadmap, providing you with essential questions and answers to guide you.

Intermediate Investors: For those with some experience, this book offers more advanced topics to deepen your understanding and sharpen your analysis skills.

Experienced Analysts: Even if you are a veteran in the field, you will find challenging questions that can offer new perspectives or serve as a handy refresher.

How to Use This Book

The questions are categorized by topic and range from basic to advanced, allowing you to either read from cover to cover or jump to sections that are most relevant to you. Each question is designed to be self-contained, providing succinct yet comprehensive answers to help you make informed decisions.

Whether you are looking to make your first stock purchase, diversify your portfolio, or find new strategies for analysis, "Unlocking Equity: Your Ultimate Q&A Guide" is designed to be your go-to resource. This book doesn't just give you the answers—it empowers you to ask better questions, which is the cornerstone of successful investing.

So, are you ready to unlock the world of equity investments? Turn the page, and let's dive in.

Audiobook Version Available at QuickTechie.com

Why Just Read When You Can Listen?

We understand that in the modern world, finding the time to read can be a challenge. Or perhaps you're someone who absorbs information better when you hear it. Whatever the reason, we've got you covered!

We are thrilled to announce that "Unlocking Equity: Your Ultimate Q&A Guide" is also available as an audiobook on our website https://www.quicktechie.com/.

How to Access the Audiobook

1. Visit Our Website: Go to https://www.quicktechie.com/ and navigate to the "Audiobooks" section.

2. Search for "Unlocking Equity": Type in the title, or go through our curated list to find this invaluable resource.
3. Listen or Download: You have the option to listen directly on the website or download the audiobook for offline listening.

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By accessing the audiobook through QuickTechie.com, you'll also be privy to exclusive offers and additional content that's not available in the print version. Enjoy interactive sessions, author interviews, and much more!

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- **Enhanced Learning**: Combine the audiobook with the printed version to reinforce your learning and deepen your understanding of the subject matter.

Don't miss out on the opportunity to take your equity analysis skills to the next level, no matter how busy your schedule may be. Visit https://www.quicktechie.com/ now to get your audiobook and unlock the full experience of "Unlocking Equity: Your Ultimate Q&A Guide."

Chapter-1: Basics of Fundamental Analysis.

Question: What is Fundamental Analysis (FA)?

Answer: Fundamental Analysis (FA) is a holistic approach to study a business.

Question: Why is it essential to understand a business from various perspectives when planning a long-term investment?

Answer: When an investor wishes to invest in a business for the long term, such as 3 – 5 years, it becomes essential to understand the business from various angles to separate the daily short-term noise in stock prices and focus on the underlying business performance.

Question: What tends to happen to the stock prices of a fundamentally strong company over the long term?

Answer: Over the long term, a fundamentally strong company's stock prices tend to appreciate, thereby creating wealth for its investors.

Question: Can you provide examples of companies in the Indian market that have shown strong growth?

Answer: Yes, examples from the Indian market include Infosys Limited, TCS Limited, Page Industries, Eicher Motors, Bosch India, Nestle India, and TTK Prestige.

Question: What has been the average Compounded Annual Growth Return (CAGR) of these companies?

Answer: Each of these companies has delivered an average of over 20% compounded annual growth return (CAGR) year on year for more than 10 years.

Question: How long would it take an investor to double their money with a 20% CAGR?

Answer: At a 20% CAGR, an investor would double his money in roughly about 3.5 years.

Question: How does a higher CAGR impact wealth creation?

Answer: The higher the CAGR, the faster the wealth creation process. For instance, companies like Bosch India Limited have delivered close to a 30% CAGR.

Question: What significance do the long-term charts of Bosch India, Eicher Motors, and TCS Limited hold?

Answer: The long-term charts of Bosch India, Eicher Motors, and TCS Limited provide examples of long-term wealth creation and emphasize the potential benefits of investing in fundamentally strong companies in the Indian markets.

Question: Are Bosch India, Eicher Motors, and TCS Limited the only examples of companies showing strong growth in the Indian market?

Answer: No, these are just 3 examples among many in the Indian markets that have showcased significant growth and wealth creation over time.

Question: Why is it important to separate daily short-term noise in stock prices when considering long-term investments?

Answer: It's essential to separate the daily short-term noise to concentrate on the underlying business performance, which provides a more accurate indication of the company's potential long-term growth and success.

Question: What is the key strategy in stock market investment?

Answer: The trick has always been to separate the investment-grade companies which create wealth from the companies that destroy wealth.

Question: Do investment-grade companies and wealth destructors have distinguishing attributes?

Answer: Yes, all investment-grade companies have a few common attributes that set them apart. Likewise, all wealth destructors have a few common traits which are clearly visible to an astute investor.

Question: What technique helps in understanding these attributes for long-term investment?

Answer: Fundamental Analysis is the technique that gives you the conviction to invest for a long term by helping you identify these attributes of wealth-creating companies.

Question: Can I be a fundamental analyst?

Answer: Of course, you can be. It is a common misconception that only chartered accountants and professionals from commerce background can be good fundamental analysts. This is not true at all.

Question: Is it true that only chartered accountants and commerce professionals can become good fundamental analysts?

Answer: No, it's a misconception. Anyone can become a fundamental analyst with the right skills.

Question: What does a fundamental analyst essentially do?

Answer: A fundamental analyst adds 2 and 2 to ensure it sums up to 4.

Question: What are the basic skills needed to become a fundamental analyst?

Answer: To become a fundamental analyst, you will need a few basic skills:

- Understanding the basic financial statements.
- Understanding businesses concerning the industry in which it operates.
- Basic arithmetic operations such as addition, subtraction, division, and multiplication.

Question: What is the objective of this module on Fundamental Analysis?

Answer: This module’s objective on Fundamental Analysis is to ensure that you gain the first two skill sets: understanding the basic financial statements and understanding businesses concerning the industry in which they operate.

Question: Why should I consider Fundamental Analysis when I'm already happy with Technical Analysis?

Answer: Technical Analysis (TA) is beneficial for quick short-term returns and for timing the market effectively. However, to create substantial wealth, you should consider making intelligent long-term investments which are guided by Fundamental Analysis. While TA is useful for better entry and exit in the short term, FA provides insights for long-term wealth creation. Ideally, both TA and FA should coexist in your market strategy.

Question: What happened with the Eicher Motors stock between 2006 and 2010?

Answer: A market participant who identified Eicher Motors as a fundamentally strong stock and invested in it in 2006 would have noticed that the stock made a relatively negligible move between 2006 and 2010. The significant movement in Eicher Motors began only from 2010. This means that a FA-based investment in Eicher Motors did not yield any significant return between 2006 and 2010.

Question: How can Technical Analysis be beneficial during stagnant periods like with Eicher Motors from 2006 to 2010?

Answer: During stagnant periods where a fundamentally strong stock doesn't yield significant returns, Technical Analysis can help the investor take short-term trading bets. This enables them to make returns even during periods when long-term investments aren't performing notably.

Question: What is the "Core Satellite Strategy" in capital allocation?

Answer: The "Core Satellite Strategy" is a capital allocation method where an investor's corpus is split into two unequal parts. For instance, if there's a 60-40 split on a corpus of Rs.500,000/-, the 60% (which is Rs. 300,000/-) can be invested in fundamentally strong stocks for the long term, making up the core of the portfolio. This core is expected to grow at 12% to 15% CAGR annually. The remaining 40% (Rs. 200,000/-) is used for active short-term trading employing Technical Analysis techniques on equities, futures, and options. This "Satellite" portfolio is anticipated to yield an absolute return of 10% to 12% annually.

Question: How much can one expect the core and satellite portfolios to yield annually?

Answer: One can expect the core portfolio to grow at a rate of 12% to 15% CAGR year on year. Meanwhile, the satellite portfolio, which involves active short-term trading, can be expected to yield an absolute return of 10% to 12% every year.

Question: What are the tools required for fundamental analysis?

Answer: The tools required for fundamental analysis include the company's annual report, industry-related data, access to the news, and MS Excel.

Question: Why is industry-related data important for fundamental analysis?

Answer: Industry-related data is important as it helps to see how the company under consideration is performing concerning the industry.

Question: Where can you source basic industry-related data?

Answer: Basic industry data is available for free and is usually published on the industry's association website.

Question: How can one stay updated on the latest developments in the industry and specific companies?

Answer: Daily News is essential to stay updated on the latest developments in the industry and the company you are interested in. A good business newspaper or services such as Google Alert can assist in keeping you informed.

Question: What is the outcome of investing in a company with good fundamentals?

Answer: Investment in a company with good fundamentals creates wealth.

Question: How does Fundamental Analysis differentiate between companies?

Answer: Using Fundamental Analysis, one can separate an investment-grade company from a junk company.

Question: Do investment-grade companies and junk companies have specific traits?

Answer: Yes, all investment-grade companies exhibit a few common traits. Likewise, all junk companies exhibit common traits.

Question: Should one rely solely on Fundamental Analysis for market strategy?

Answer: No, both technical analysis and fundamental analysis should coexist as a part of your market strategy.

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Question: What kind of approach is recommended for capital allocation?

Answer: A core-satellite approach to capital allocation is a prudent market strategy.

Chapter-2: I am really an investor?

Question: What is Fundamental Analysis (FA)?

Answer: Fundamental Analysis (FA) is a holistic approach to study a business.

Question: Why is it essential to understand a business from various perspectives when planning a long-term investment?

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Chapter-3: Analyzing Annual Report of a Company.

Question: What is an Annual Report?

Answer: The annual report (AR) is a yearly publication by the company and is sent to the shareholders and other interested parties. It is published by the end of the Financial Year, and all the data in the annual report is dated to 31st March in India and 31st December in many other countries. The AR is available on the company's website (in the investor's section) as a PDF document, or one can contact the company to receive a hard copy.

Question: When is the annual report usually published?

Answer: The annual report is published by the end of the Financial Year.

Question: How can one access the annual report of a company?

Answer: The AR is usually available on the company's website (in the investor's section) as a PDF document. Alternatively, one can contact the company to get a hard copy of the same.

Question: What significance does the information in the annual report hold?

Answer: Since the company's annual report contains official data, whatever is mentioned in the AR is assumed to be official. Any misrepresentation of facts in the annual report can be held against the company.

Question: What does the annual report typically contain to vouch for the accuracy of its financial data?

Answer: The annual report contains the auditor's certificates (signed, dated, and sealed) certifying the sanctity of the financial data included.

Question: Who are the primary audiences for the annual report?

Answer: Potential investors and the present shareholders are the primary audiences for the annual report.

Question: How should investors treat the information found in media websites compared to the annual report?

Answer: For an investor, the annual report should be the default option to seek information about a company. While many media websites claim to provide financial information about the company, investors should prioritize information directly from the annual report for reliability.

Question: Why might media websites misrepresent company information?

Answer: Media websites might not deliberately misrepresent company information, but they might present it differently due to various reasons. For instance, while a company may include

‘depreciation’ in the expense side of P&L, the media website might list it under a separate header. This can change the sequencing of data, even if the overall numbers remain the same.

Question: Why is it essential to be cautious while reading an annual report?

Answer: One needs to be cautious because there's a delicate balance between the company’s actual facts and the marketing content that the company includes to influence the reader's perspective.

Question: Are all annual reports structured the same way?

Answer: No, no two annual reports are the same. They are crafted to suit the company’s requirements, considering the industry they operate in. However, some sections are common across various annual reports.

Question: What kind of information does the "Financial Highlights" section of annual report contain?

Answer: The "Financial Highlights" section provides a bird’s eye view of the company’s financials for the past year. It might present this information in tables or graphical displays and usually makes a multi-year comparison of the operating and business metrics.

Question: What does the Financial Highlights section provide in a company's report?

Answer: The details in the Financial Highlights section are essentially an extract from its financial statement. The company may also include some financial ratios they've calculated themselves.

Question: Why does the investor should not spend too much time on the Financial Highlights section?

Answer: The investor should briefly looks through the Financial Highlights section to gain an overall idea but prefers to calculate many of the ratios independently to gain a deeper clarity on the company and its numbers.

Question: Which sections of the Annual Report does the investor should find quite important?

Answer: The investor finds the 'Management Statement' and 'Management Discussion & Analysis' sections to be quite significant.

Question: Why are the 'Management Statement' and 'Management Discussion & Analysis' sections essential to an investor?

Answer: These sections offer insights into what the company’s management thinks about their business and the industry overall. Every word in these sections can be crucial for an investor or potential investor, giving a sense of the company's qualitative aspects.

Question: What perspective does the 'Management Statement' provide?

Answer: In the 'Management Statement', sometimes referred to as the Chairman’s Message, an investor receives an understanding of the top executive's viewpoint on the business. The content usually offers a broad perspective on the positioning of the business.

Question: What does the investor look for when reading the 'Management Statement'?

Answer: The investor is keen to gauge the realism of the management, ensuring they are grounded in reality. The author also checks if the management is transparent about their achievements and failures.

Question: Can you provide an example the investor finds a discrepancy in the management's statement?

Answer: Yes, the investor recalls reading the chairman’s message of a prominent tea manufacturing company. The chairman mentioned a revenue growth of nearly 10%. However, historical data indicated growth rates of 4-5%. This discrepancy made the investor question the alignment of the top executive with the company's ground realities and led to a decision not to invest.

Question: What is the investor opinion about his decision not to invest in the mentioned tea company?

Answer: Retrospectively, the investor feels that the decision not to invest in that tea company was probably the right one.

Question: What is the significance of highlighting parts in the Annual Report of a company ?

Answer: Highlighting parts in the Annual Report, can emphasize interesting or crucial information. The investor encourages readers to thoroughly review the entire message in the Annual Report to grasp the full context.

Question: What is the significance of the 'Management Discussion & Analysis' section in the AR?

Answer: The 'Management Discussion & Analysis' or ‘MD&A’ is perhaps one of the most important sections in the whole of AR. It provides insights into the company's perspectives on macroeconomic trends, industry expectations, and specific performance metrics related to its business.

Question: What is the common starting point for the MD&A section?

Answer: The most standard way for any company to start the MD&A section is by talking about the macro trends in the economy, discussing the overall economic activity of the country, and the business sentiment across the corporate world.

Question: What do companies discuss if they have high exposure to exports in the MD&A section?

Answer: If the company has high exposure to exports, they often discuss global economic and business sentiment.

Question: How does a company present its MD&A given its business interests?

Answer: If a company has both exports and domestic business interest. Then they discuss both these angles in their AR.

Question: As a potential investor, why should I pay attention to the section on industry trends and expectations for the upcoming year in the MD&A?

Answer: This section offers valuable insights into the company's viewpoint on potential challenges and opportunities within their industry. By contrasting this section with information from peer companies, you can gauge the competitive stance and strategic positioning of the company you're considering investing in.

Question: Do companies discuss their future strategies in the MD&A?

Answer: Yes, some companies discuss their guidelines and strategies for the year ahead across the various verticals in the MD&A section.

Question: After the MD&A, what other reports are typically included in the annual report?

Answer: After the 'Management Discussion & Analysis,' the annual report typically includes a series of other reports such as – Human Resources report, R&D report, Technology report, etc.

Question: As a potential investor, what can I expect from the latter part of the MD&A section in terms of the company's detailed discussions?

Answer: In the latter part of the MD&A section, after covering general topics related to the global and domestic economy, as well as industry trends, the company provides a deeper dive into its specific business aspects. This includes discussions on performance across various divisions, how the current year's performance compares to the previous year, and the company often shares specific performance numbers.

Question: Why might someone reading a manufacturing company's annual report be particularly interested in the Human Resources report?

Answer: In the context of a manufacturing company, the Human Resources report can provide insights into potential labour issues. If there are serious signs of labour issues, it could lead to the factory being shut down, which is detrimental for its shareholders.

Question: How many financial statements are presented by the company in the Annual Report?

Answer: There are three financial statements that the company will present: The Profit and Loss statement, The Balance Sheet, and The Cash flow statement.

Question: In what two forms do financial statements appear in the Annual Report?

Answer: The financial statements come in two forms: Standalone financial statement (or simply standalone numbers) and Consolidated financial statement (or simply consolidated numbers).

Question: Why is it important to understand the difference between standalone and consolidated numbers?

Answer: To understand the difference between standalone and consolidated numbers, we need to understand a company’s structure, particularly its relationship with subsidiaries.

Question: Can you give an example of a company's shareholding complex structure?

Answer: In India CRISIL Limited’s shareholding structure is an example. Standard & Poor’s (S&P), a US-based rating agency, holds a 51% stake in CRISIL, making S&P the ‘Holding company’ or the ‘Promoter’ of CRISIL. However, S&P itself is a 100% subsidiary of another company called ‘The McGraw-Hill Companies’. Moreover, CRISIL fully owns another company called ‘Irevna’.

Question: How does the shareholding structure impact CRISIL's financial statements?

Answer: CRISIL's profitability is influenced by its subsidiaries. For instance, if CRISIL makes a loss but its subsidiary Irevna makes a profit, the overall profitability of CRISIL would consider both these figures. The consolidated financial statements would reflect this combined figure, while the standalone would only reflect CRISIL's individual profitability.

Question: In the given hypothetical situation, if CRISIL has a loss of Rs.1000 Crs and Irevna has a profit of Rs.700 Crs, what is the overall profitability of CRISIL?

Answer: The overall P&L of CRISIL would be (Rs.1000 Crs) + Rs.700 Crs = (Rs.300 Crs).

Question: How is CRISIL's loss affected by its subsidiary in the provided scenario?

Answer: Thanks to its subsidiary, Irevna, CRISIL's loss is reduced to Rs.300 Crs instead of a massive loss of Rs.1000 Crs.

Question: What do Standalone Financial statements represent?

Answer: Standalone Financial statements represent the company's standalone numbers/financials and do not include its subsidiaries' financials.

Question: What do consolidated numbers include in the financial statements?

Answer: The consolidated numbers include the company's standalone financials and its subsidiaries' financial statements.

Question: Which financial statements are preferable to get a better representation of a company's financial position?

Answer: I personally prefer to look through the consolidated financial statements to represent the company's financial position better.

Question: What are the schedules of financial statements?

Answer: Schedules of financial statements provide detailed explanations for each particular item mentioned in the main financial statement. When a company reports its financial statements, they present the full statement first and then support it with detailed explanations. Each specific detail in the financial statement is termed as a line item. These line items often have note numbers associated with them, which are referred to as the 'Schedules' related to the financial statement.

Question: What is a line item in a financial statement?

Answer: A line item in a financial statement refers to a specific detail or entry. For instance, in the balance sheet provided for a company, the first line item under "Equity and Liability" is the share capital.

Question: How can an investor determine the breakdown or details of a particular line item?

Answer: To understand the details or breakdown of a particular line item, an investor needs to look at the associated schedule or note number. For example, in a company's financial statement, the share capital has an associated note number. By referring to this note or schedule, one can see how the company arrived at the particular amount stated for that line item.

Question: What was the value of an example company share capital will consider further?

Answer: The value of example company share capital mentioned in the snapshot was Rs.17.081 Crs (or Rs.170.81 Million).

Question: What purpose do the associated schedules serve in a financial statement?

Answer: The main financial statement provides a summary of the company's financial position, while the associated schedules offer detailed insights about each line item. By looking into these schedules, one can get a deeper understanding of how certain numbers or values were derived.

Question: Are financial statements challenging to understand for someone new to them?

Answer: While the terminology of financial statements, like "share capital," might seem confusing initially, the statements are straightforward. With some time and exposure to the contents and structure of these documents, anyone can learn to understand and interpret them effectively.

Question: What is the Annual Report (AR) of a company?

Answer: The Annual Report (AR) of a company is an official communication from the company to its investors and other stakeholders.

Question: Why should investors consider the AR as a primary source of company information?

Answer: The AR is the best source to get information about the company; hence AR should be the default choice for the investor to source company-related information.

Question: What kind of information does the AR provide about a company?

Answer: The AR contains many sections, with each section highlighting a certain aspect of the business.

Question: Apart from the quantitative data, what else does the AR provide insights into?

Answer: The AR is also the best source to get information related to the qualitative aspects of the company.

Question: Which section in the AR gives the management's perspective on the overall economy and industry outlook?

Answer: The management discussion and analysis is one of the most important sections in the AR. It has the management's perspective on the country's overall economy, their outlook on the industry they operate in for the year gone by, and what they foresee for the year ahead.

Question: How many financial statements are included in the AR?

Answer: The AR contains three financial statements – Profit & Loss Statement, Balance Sheet, and Cash Flow statement.

Question: What is the difference between a standalone statement and a consolidated statement in the AR?

Answer: The standalone statement contains the financial numbers of only the company into consideration. However, the consolidated numbers contain the company and its subsidiaries financial numbers.

Chapter-4: Analyzing P&L Statement.

Question: What are the two different perspectives from which one can think about financial statements?

Answer: The two different perspectives are from the maker's perspective and from the user's perspective.

Question: What tasks are involved in the preparation of financial statements by the maker?

Answer: The tasks involved are preparing ledger entries, matching bills and receipts, tallying the inflows versus the outflows, and auditing.

Question: What is the primary objective of the maker when preparing financial statements?

Answer: The primary objective is to prepare transparent financial statements that best represent the company's true financial position.

Question: What skills are typically required to prepare financial statements?

Answer: The skills required usually include those developed through the rigour of a Chartered Accountant's training program.

Question: What is the main responsibility of the user of financial statements?

Answer: The user's main responsibility is to understand what the maker has prepared, read the financial statements, and use them to make decisions.

Question: How is the distinction between the maker and user of financial statements compared in the context?

Answer: The distinction is compared to Google where most people use Google without understanding its complex search engine algorithm, similar to users of financial statements who don't necessarily know the details of how they are prepared.

Question: Is it necessary for a fundamental analyst to be thorough with financial statement preparation concepts?

Answer: No, while knowing the preparation concepts helps, it is not really required. A fundamental analyst primarily needs to be the user and not the financial statement maker.

Question: What are the three main financial statements of a company?

Answer: The three main financial statements are The Profit and Loss statement, The Balance Sheet, and The Cash flow statement.

Question: What is the Profit and Loss statement commonly referred to as?

Answer: The Profit and Loss statement is also popularly referred to as the P&L statement, Income Statement, Statement of Operations, and Statement of Earnings. If you dont know this, you will get confused when investor use different names all the times, that is one of the tricky thing in financial world.

Question: What does the Profit and Loss statement depict?

Answer: The Profit and Loss statement shows what has transpired during a time period.

Question: What kind of information does the P&L statement report?

Answer: The P&L statement reports information on the revenue of the company for the given period (yearly or quarterly), the expenses incurred to generate the revenues, tax and depreciation, and the earnings per share number.

Question: Why is it important to understand every line item on the P&L statement?

Answer: Understanding every line item provides a comprehensive view of the company's financial health, revenues, expenses, and other related financial metrics.

Question: What is meant by the top line of a company?

Answer: The top line of a company refers to the revenue side of the P&L statement. It is the first set of numbers the company presents in the P&L.

Question: What does an example header of the P&L statement for a company indicate?

Answer: The header indicates that the statement of P&L is for the year ending March 31, 2014, making it an annual statement and not a quarterly one. This statement pertains to the Financial Year 2013 – 2014, also referred to as the FY14 numbers.

Question: In what currency is the P&L statement denominated?

Answer: The P&L statement is denominated in Rupee Million in India and USD Million in USA.

Question: What is the equivalent of 1 Million Rupees?

Answer: 1 Million Rupees is equal to Ten Lakh Rupees.

Question: Where can one find notes associated with the main headings of the P&L statement?

Answer: The associated notes to the main headings of the statement can be found in the note section, also known as the schedule. Each note has an associated number, referred to as the Note Number.

Question: How do companies typically present their financial numbers in the statement in terms of years?

Answer: By default, when companies report the numbers in the financial statement, they present the current year number on the left-most column and the previous year number to the right.

Question: What does the "Sale of Products" refer to in the context of the battery company described?

Answer: Since the company in question deals with batteries, the "Sale of Products" refers to the Rupee value of all the battery sales the company has made during FY14.

Question: How much did the company sell in battery products during FY14?

Answer: The company sold batteries worth Rs.38,041,270,000/- or about Rs.3,804 Crore during FY14.

Question: How much were the sales of the company in the previous financial year, FY13?

Answer: The company sold batteries worth Rs.3,294 Cr in the previous financial year, i.e. FY13.

Question: What is the excise duty mentioned in the text?

Answer: The excise duty is the amount the company pays to the government, which is Rs.400 Crs in this context.

Question: How does the excise duty affect the revenue of the company?

Answer: The revenue must be adjusted after considering the excise duty to arrive at the net sales.

Question: What are the net sales of example company for FY14 and FY13?

Answer: The net sales of example company are Rs.3403 Crs for FY14 and Rs.2943 Crs for FY13.

Question: Besides the sale of products, what is another source of revenue for the company?

Answer: Apart from the sale of products, the company also draws revenue from services, which might be in the form of annual battery maintenance.

Question: How much revenue did the company earn from the sale of services for FY14?

Answer: The revenue from the sale of services stands at Rs.30.9 Crs for FY14.

Question: What does "other operating revenues" refer to?

Answer: "Other operating revenues" refers to revenues generated through the sale of products or services that are incidental to the company's core operations. In this context, it's Rs.2.1crs.

Question: How is the company's total operating revenue calculated?

Answer: The company's total operating revenue is the sum of revenue from Sale of products, Sale of services, and Other operating revenues.

Question: What are the total operating revenues for FY14 and FY13?

Answer: The total operating revenue is reported at Rs.3436 Crs for FY14 and Rs.2959Crs for FY13.

Question: What was the revenue from the sale of storage batteries in the form of finished goods for FY14 and FY13?

Answer: Sale of storage batteries in the form of finished goods for FY14 was Rs.3523 Crs and for FY13, it was Rs.3036 Crs.

Question: What does "stock in trade" refer to?

Answer: Stock in trade refers to finished goods of the previous financial year being sold in the current financial year.

Question: How is the net sales from sales of products adjusted?

Answer: Net sales from sales of products is adjusted for excise duty, which amounts to Rs.3403 Crs for FY14, matching the number reported in the P&L statement.

Question: How is revenue from services presented in the notes?

Answer: The revenue from services is shown as Rs.30.9 Crs, which tallies with the number reported in the P&L statement.

Question: What is the revenue from the "Sale of Process Scrap"?

Answer: The "Sale of Process Scrap" generated a revenue of Rs.2.1 Crs and is reported as "Other operating revenue" since it is incidental to the operations of the company.

Question: How is the net revenue from operations calculated?

Answer: The net revenue from operations is calculated by adding all the revenue streams: Rs.3403 Crs + Rs.30.9 Crs + Rs.2.1 Crs, which equals Rs.3436 Crs.

Question: Does the company provide a split-up for FY13 as well?

Answer: Yes, a similar split-up for revenues is provided for FY13.

Question: What is the significance of 'Other Income' in the P&L statement?

Answer: Apart from net revenue from operations, the company reports 'Other Income' of Rs.45.5 Crs. Other income includes income that isn't related to the company's main business such as interest on bank deposits, dividends, insurance claims, royalty income, etc. A large 'other income' can be a concern and might require further investigation.

Question: What is the total revenue for FY14?

Answer: The total revenue for FY14 is the sum of revenue from operations (Rs.3436 Crs) and other income (Rs.45 Crs), amounting to Rs.3482 Crs.

Question: What does the financial statement convey about a company?

Answer: The financial statement provides information and conveys the financial position of the company.

Question: What are the components of a complete set of financial statements?

Answer: A complete set of financial statements include the Profit & Loss Account, Balance Sheet, and Cash Flow Statement.

Question: Who is a fundamental Analyst in the context of financial statements?

Answer: A fundamental Analyst is a financial statement user, and he needs to know what the maker of the financial statements states.

Question: What information does the profit and loss statement provide?

Answer: The profit and loss statement gives the profitability of the company for the year under consideration.

Question: Is the P&L statement final or can it be revised?

Answer: The P&L statement is an estimate, as the company can revise the numbers at a later point.

Question: How do companies typically present their P&L data?

Answer: By default, companies publish data for the current year and the previous year, side by side.

Question: What is another term for the revenue side of the P&L?

Answer: The revenue side of the P&L is also called the top line of the company.

Question: What constitutes the main source of revenue for a company?

Answer: Revenue from operations is the main source of revenue for the company.

Question: What does "other operating income" refer to?

Answer: Other operating income includes revenue incidental to the business.

Question: How is revenue from non-operating sources classified?

Answer: The other income includes revenue from non-operating sources.

Question: How is "net revenue from operations" calculated?

Answer: The sum of revenue from (operations less of duty) and other operating income gives the “net revenue from operations”.

Question: What did we learn till now?

Answer: We had learnt about the revenues a company generates.

Question: What will we focus on related to the P&L statement?

Answer: We will look at the expense side of the Profit and Loss Statement along with the associated notes.

Question: How are expenses generally classified?

Answer: Expenses are generally classified according to their function, which is also called the cost of sales method or based on the expense’s nature.

Question: Where should an analysis of the expenses be shown?

Answer: An analysis of the expenses must be shown in the Profit and Loss statement or the notes.

Question: What does the first line item on the expense side represent?

Answer: The first line item on the expense side is ‘Cost of materials consumed’ which represents the raw material cost that the company requires to manufacture finished goods.

Question: Is the cost of raw material consumed/raw material a significant expense for a company?

Answer: Yes, the cost of raw material consumed/raw material is the company’s largest expense.

Question: What was the expense for 'Cost of materials consumed' for FY14 and FY13?

Answer: This expense stands at Rs.2101 Crs for the FY14 and Rs.1760 Crs for the FY13.

Question: What details are provided in note number 19?

Answer: Note number 19 gives the associated details for the 'Cost of materials consumed' expense.

Question: What materials does the company use as mentioned in note 19?

Answer: The company uses lead, lead alloys, separators, and other items.

Question: How much do all the materials mentioned in note 19 add up to for the given year?

Answer: All of the materials mentioned in note 19 add up to Rs.2101 Crs.

Question: What do the line items 'Purchases of Stock in Trade' and ‘Change in Inventories of finished goods, work-in-process & stock-in-trade’ refer to?

Answer: Both these line items are related to the company's stock and inventory dealings and are associated with the same note (Note 20).

Question: What does 'Purchases of stock in the trade' mean?

Answer: Purchases of stock in the trade refer to all the purchases of finished goods that the company buys to conduct its business.

Question: What is the monetary value of the 'Purchases of Stock in Trade' for the financial year mentioned?

Answer: The 'Purchases of Stock in Trade' stands at Rs.211 Crs for the mentioned financial year.

Question: How do you define 'Change in the inventory of finished goods'?

Answer: Change in the inventory of finished goods refers to the costs of manufacturing incurred by the company in the past, but the goods manufactured in the past were sold in the present/current financial year.

Question: What does the figure (Rs.29.2) Crs for the FY14 in 'Change in Inventories of finished goods' signify?

Answer: This stands at (Rs.29.2) Crs for the FY14. A negative number indicates that the company produced more batteries in the FY14 than it managed to sell.

Question: How does the company account for producing more goods than it sold?

Answer: When the company produces more batteries than it sells, it deducts the cost incurred in manufacturing the extra goods from the current year costs. However, when these extra products are sold in the future, the company will add back this cost, which will then be included in the "Purchases of Stock in Trade" line item.

Question: What is included in the "Employee Benefits Expense" line item on the expense side?

Answer: The "Employee Benefits Expense" line item includes expenses incurred in terms of salaries paid, contributions towards provident funds, and other employee welfare expenses.

Question: How much was the "Employee Benefits Expense" for FY14?

Answer: The "Employee Benefits Expense" stands at Rs.158 Crs for the FY14.

Question: What percentage of its sales does a company generating Rs.3482 Crs spend on its employees if the employee expense is Rs.158 Crs?

Answer: A company generating Rs.3482 Crs spends only 4.5% of its sales on its employees.

Question: What is the definition of "Finance Cost" or "Borrowing Costs"?

Answer: Finance cost is the interest and other costs that an entity incurs when it borrows funds. This interest is paid to the company's lenders, which could be banks or private lenders.

Question: What was the company's finance cost for FY14?

Answer: The company's finance cost was Rs.0.7 Crs for the FY14.

Question: What are tangible and intangible assets?

Answer: A tangible asset has a physical form and offers economic value, such as laptops, cars, machinery, buildings. In contrast, an intangible asset lacks a physical form but provides economic value, like brand value, trademarks, copyrights, patents, and customer lists.

Question: How is the useful life of an asset defined?

Answer: Useful life is the period during which an asset can provide economic benefit to the company.

Question: How is depreciation related to the useful life of an asset?

Answer: An asset, whether tangible or intangible, needs to be depreciated over its useful life.

Question: What was example company's earnings and expenditure related to the high-performance computer server?

Answer: The example company generated Rs.100,000/- from the stockbroking business and incurred Rs.65,000/- towards the purchase of a high-performance computer server with an expected economic life of 5 years.

Question: What skews the earnings data for example company's in the provided example?

Answer: When comparing example company's earnings of Rs.100,000/- with an expenditure of Rs.65,000/- for a computer server, the retained amount appears to be Rs.35,000/-. This skews the earnings data for the current year and does not truly reflect the company's genuine earning capability.

Question: What is the reason for spreading the cost of an asset over its useful life?

Answer: The asset, even though purchased in a particular year, continues to provide economic benefits over its useful life. Hence, it makes sense to spread the cost of acquiring the asset over its useful life, rather than showing an upfront lump sum expense. This process is known as depreciation.

Question: How is the depreciation amount calculated for the server mentioned in the text?

Answer: The total cost of the server is Rs.65,000 and its useful life is 5 years. So, the depreciation would be 65,000 divided by 5, which equals Rs.13,000. This amount would be depreciated every year over the next five years.

Question: After accounting for depreciation, what would example company's earnings be?

Answer: After depreciation computation, example company's would show its earnings as Rs.100,000 minus Rs.13,000, which is Rs.87,000.

Question: How is the concept of depreciation applicable to non-tangible assets?

Answer: For non-tangible assets, the equivalent concept to depreciation is called amortization.

Question: If a company depreciates the cost of an asset over its useful life, how can an analyst understand the actual cash outflow for the asset purchase?

Answer: Although the P&L might not capture the entire outflow at once due to depreciation, the actual cash movement related to the asset purchase is captured in the cash flow statement.

Question: What information can be found in Note 23?

Answer: Note 23 provides details about the depreciation cost.

Question: What are included in the "other expenses" of Rs.434.6 Crs?

Answer: The "other expenses" include manufacturing, selling, administrative, and other expenses. The details of these are mentioned in the note. For instance, company has an expense of Rs.27.5 Crs on advertisements and promotional activities.

Question: How much has a company spent in total on the expense side of P&L?

Answer: Company has spent a total of Rs.2941.6 Crs on the expense side of P&L.

Question: What does "Profit before tax" refer to?

Answer: It refers to the net operating income after deducting operating expenses but before deducting taxes and interest.

Question: How is Profit before Tax (PBT) calculated?

Answer: Profit before Tax = Total Revenues – Total Operating Expenses.

Question: What was the calculated Profit before Tax for given company using the given figures?

Answer: Using the figures, Profit before Tax was Rs.540.5 (calculated as Rs.3482 minus Rs.2941.6).

Question: What are exceptional items/extraordinary items in the context of a P&L statement?

Answer: Exceptional items/ extraordinary items are expenses occurring at one odd time for the company, and the company does not foresee this as a recurring expense. Hence, they treat it separately on the P&L statement.

Question: How much was the exceptional item/extraordinary item as mentioned ?

Answer: The exceptional item/extraordinary item was Rs.3.8 Crs.

Question: How is the profit calculated after deducting the exceptional item/extraordinary item?

Answer: The profit after deducting the exceptional item/extraordinary item is calculated as the original Profit before Tax minus the exceptional item. Using the figures provided, it would be 540.5 – 3.88 = Rs.536.6 Crs.

Question: What is meant by net profit after tax?

Answer: After-tax, the net operating profit is the profit a company makes after deducting its tax liability.

Question: Where is the profit after tax mentioned in financial statements?

Answer: The profit after tax is mentioned in the last part of the P&L (Profit and Loss) statement, often referred to as the bottom line.

Question: How is profit after tax (PAT) derived?

Answer: To arrive at the profit after tax (PAT), one needs to deduct all applicable tax expenses from the profit before tax (PBT). In other words, Net PAT = PBT – Applicable taxes.

Question: What does the term "current tax" refer to?

Answer: Current tax refers to the corporate tax applicable for a given year.

Question: How much was the total tax amount for the company based on the provided data?

Answer: All taxes together for the company amounted to Rs.169.21 Crs.

Question: What is the calculated profit after tax (PAT) from the given data?

Answer: The calculated profit after tax (PAT) from the data provided stands at Rs.367.4 Crs.

Question: How is the earnings per share (EPS) defined?

Answer: The earnings per share (EPS) indicates how much the company is earning per face value of the ordinary share. It assesses the stewardship and management role performed by the company directors and managers.

Question: How much is earning per share based on the data provided?

Answer: Company's is earning Rs.21.51 per share.

Question: What is the calculation to determine the earnings per share?

Answer: To determine the earnings per share, one must divide the total profit after tax by the outstanding number of shares.

Question: How many shares are outstanding in the market for the company?

Answer: The company indicates that 17,08,12,500 shares are outstanding in the market.

Question: What is the calculated earnings per share based on the provided data and outstanding shares?

Answer: Based on the data provided, the calculated earnings per share is Rs.21.5 per share, derived from dividing Rs.367.4 Crs by 17,08,12,500.

Question: What can be done if one seeks greater clarity on the line items in the P&L statement?

Answer: Almost all line items in the P&L statement will have an associated note. You can always look into these notes to seek greater clarity.

Question: Have we completed the analysis of the P&L statement till now?

Answer: No, we have only understood how to read the P&L statement. The analysis of what the numbers mean will be done when financial ratios are discussed.

Question: How is the P&L statement related to other financial statements?

Answer: The P&L statement is closely connected with the other two financial statements, namely the balance sheet and the cash flow statement.

Question: What does the P&L statement's expense statement contain?

Answer: The P&L statement's expense statement contains information on all the expenses incurred by the company during the financial year.

Question: Can individual expenses on the P&L statement be explored in detail?

Answer: Yes, each expense can be studied concerning a note which you can explore for further information.

Question: What do depreciation and amortization signify in financial terms?

Answer: Depreciation and amortization is a way of spreading the cost of an asset over its useful life.

Question: What does the cost of interest represent on the P&L statement?

Answer: The cost of interest represents the charges paid when the company borrows money for its capital expenditure.

Question: How is PBT calculated?

Answer: PBT is calculated as Total Revenue – Total Expense – Exceptional items (if any).

Question: What is Net PAT?

Answer: Net PAT is PBT minus applicable taxes.

Question: How does EPS reflect a company's financial health?

Answer: EPS reflects the earning capacity of a company on a per-share basis. Earnings are profit after tax and preferred dividends.

Question: How is the EPS calculated?

Answer: EPS is calculated as PAT divided by the total number of outstanding ordinary shares.

Chapter-5: Understanding Balance Sheet Statement

Question: What information does the P&L statement provide?

Answer: The P&L statement gives us information about the company's profitability and discusses the profitability for the financial year under consideration.

Question: How is the balance sheet different from the P&L statement in terms of the duration it covers?

Answer: The P&L statement is standalone and discusses how the company performed in a particular financial year. In contrast, the balance sheet is prepared on a flow basis, which means it has financial information about the company right from the time it was incorporated, discussing how the company has evolved financially over the years.

Question: What details does a balance sheet contain?

Answer: The balance sheet contains details about the assets, liabilities, and equity of a company.

Question: How is an asset defined?

Answer: An asset is a resource controlled by the company and is expected to have an economic value in the future. Assets can be both tangible and intangible, like plants, machinery, cash, brands, and patents.

Question: What are the two types of assets?

Answer: Assets are of two types: current and non-current.

Question: How is liability defined in the context of a company?

Answer: Liability represents the company's obligation, which the company undertakes believing that these obligations will provide economic value in the long run. In simple terms, it is the loan that the company has taken and is obligated to repay.

Question: Can you provide some examples of liabilities?

Answer: Typical examples of obligation include short term borrowing, long term borrowing, and payments due.

Question: How are liabilities categorized?

Answer: Liabilities are of two types: current and non-current.

Question: Why should the balance sheet always be balanced?

Answer: The balance sheet should always be balanced because everything that a company owns (Assets) has to be purchased either from the owner's capital or liabilities.

Question: How is the owner's capital or shareholders' equity determined in the context of a balance sheet?

Answer: Owners Capital or Shareholders equity is the difference between the Assets and Liabilities. It is also called the 'Net worth'. It can be represented by the equation: Shareholders equity = Assets – Liabilities.

Question: What are the two main sections of the balance sheet?

Answer: The balance sheet has two main sections: assets and liabilities.

Question: What do liabilities on a balance sheet represent?

Answer: The liabilities on a balance sheet represent the obligation of the company.

Question: Where is the shareholders' fund located on the balance sheet?

Answer: The shareholders' fund is located on the liabilities side of the balance sheet.

Question: Why do some people find the term "shareholders' fund" confusing in the context of the balance sheet?

Answer: Many people find the term "shareholders' fund" confusing because, on one hand, liabilities represent the company's obligation, while on the other hand, the shareholders' fund represents the shareholders' wealth. This seems counter-intuitive as the shareholders' funds are placed on the 'Liabilities' side of the balance sheet, even though they represent assets belonging to the shareholders.

Question: How can shareholders' funds, which represent the shareholders' wealth, appear on the 'Liabilities' side of the balance sheet?

Answer: Shareholders' funds appear on the 'Liabilities' side of the balance sheet because from the company's perspective, these funds are an obligation payable to the shareholders. While the funds belong to the shareholders and represent their wealth, they do not belong to the company itself.

Question: Why are shareholders' funds considered a liability and not an asset from the company's perspective?

Answer: From the company's perspective, the shareholders' funds are an obligation payable to shareholders'. Therefore, they are considered a liability because they represent amounts the company owes to its shareholders.

Question: How should one perceive a company's financial statement to understand the placement of shareholders' funds?

Answer: To understand the placement of shareholders' funds, one should view the entire company as an individual entity separate from its shareholders. By doing this, you can appreciate that the financial statements are a way for the company to communicate its financial well-being to the world. The shareholders' funds, while belonging to the shareholders, do not belong to the company, and hence, from the company's perspective, they are an obligation.

Question: What does the liabilities side of the balance sheet detail?

Answer: The liabilities side of the balance sheet details all the liabilities of the company.

Question: What are the three sub-sections within liabilities on the balance sheet?

Answer: The three sub-sections within liabilities are shareholders’ fund, non-current liabilities, and current liabilities.

Question: What does the term 'share capital' refer to in the context of a fictional company issuing shares for the first time?

Answer: Share capital refers to the total value of the shares issued by the company. For instance, if Company ABC issues 1000 shares with each share having a face value of Rs.10 each, the share capital would be Rs.10 x 1000 = Rs.10,000/-.

Question: How is the share capital for for a given company is defined?

Answer: For a given company, the share capital is Rs.17.081 Crs, as published in the Balance Sheet, and the Face Value is Rs.1/-.

	Particulars	As at 31.03.2015 Audited	As at 31.03.2014 Audited
A	EQUITY AND LIABILITIES		
1	Shareholder's funds		
	a. Share capital	17.08	17.08
	b. Reserves and surplus	1,682.49	1,345.62
	Sub Total - Shareholders' funds	1,699.57	1,362.70

Question: How can you calculate the number of shares outstanding using the Face Value (FV) and share capital?

Answer: The number of shares outstanding can be calculated using the formula: Number of shares = Share Capital / FV.

Question: What is the number of shares outstanding in the case of given company?

Answer: In the case of **of given company**, the number of shares outstanding is 17,08,10,000 shares.

Series	Symbol	ISIN	Status	Date of Listing	Basic Industry	Symbol P/E	Secto
EQ	AMARAJABAT	INE885A01032	Listed	05-Sep-2003	Auto Components & Equipments	13.97	23.3

Securities Information

Board Status	Trading Status	Trading Segment	Session No.	SLB	Class of Shares	Derivatives	Face Value	Issued Capital (Shares)
MAIN	ACTIVE	NORMAL MARKET	-	YES	EQUITY	NO	1	17,08,12,500

SDD Compliance	Name of Compliance Officer
-	-

Question: What are 'Reserves and Surplus' on the Balance Sheet's liability side?

Answer: Reserves are usually money earmarked by the company for specific purposes, while the surplus is where all the profits of the company reside.

Question: How much does the reserves and surplus for ARBL stand at?

Answer: The reserves and surplus for ARBL stand at Rs.1,345.6 Crs.

Balance Sheet as at March 31, 2014 ₹ million

Particulars	Note No.	As at March 31, 2014		As at March 31, 2013	
EQUITY AND LIABILITIES					
Shareholders' funds					
Share capital	2	170.81		170.81	
Reserves and surplus	3	13,456.20		10,427.33	
			13,627.01		10,598.14
Non-current liabilities					
Long-term borrowings	4	759.47		773.13	
Deferred tax liabilities (net)	5	301.33		195.09	
Long-term provisions	6	369.57		376.41	
			1,430.37		1,344.63
Current liabilities					
Short-term borrowings	7	83.83		98.63	
Trade payables	8	1,277.79		1,362.84	
Other current liabilities	9	2,156.68		1,807.26	
Short-term provisions	6	2,818.73		2,493.20	

Question: What are capital reserves typically earmarked for?

Answer: Capital reserves are usually earmarked for long-term projects.

Question: Can capital reserves be distributed to shareholders?

Answer: The amount in capital reserves belongs to the shareholders, but cannot be distributed to them.

Question: What is the Securities premium reserve/account?

Answer: The Securities premium reserve/account is where the premium over and above the shares' face/par value sits. For ARBL, it's Rs.31.18 Crs under this reserve.

NOTE 3: RESERVES AND SURPLUS ₹ million

Particulars	As at March 31, 2014		As at March 31, 2013	
Capital reserve		0.01		0.01
Securities premium account		311.86		311.86
General reserve				
As per last Balance Sheet	1,817.27		1,530.56	
Add: Transfer from surplus in the Statement of Profit and Loss	367.44		286.71	
		2,184.71		1,817.27
Surplus in the Statement of Profit and Loss				
As per last Balance Sheet	8,298.19		6,221.45	
Add: Profit for the year	3,674.36		2,867.05	
Amount available for appropriation	11,972.55		9,088.50	
Less: Appropriations				
Transfer to general reserve	367.44		286.71	
Proposed dividend	551.72		430.45	
Dividend tax on proposed dividend	93.77		73.15	
		10,959.62		8,298.19
Total		13,456.20		10,427.33

Question: What purpose does the General reserve serve?

Answer: The General reserve is where all the company's accumulated profits, which are not yet distributed to the shareholders, reside. The company can use this money as a buffer.

Question: How much does ARBL have in general reserves?

Answer: ARBL has Rs.218.4 Crs in general reserves.

Question: What does the surplus represent in the financial context?

Answer: The surplus holds the profits made during the year.

Question: What was the surplus amount as per the last year (FY13) balance sheet?

Answer: As per the last year (FY13) balance sheet, the surplus was Rs.829.8 Crs.

NOTE 3: RESERVES AND SURPLUS

₹ million

Particulars	As at March 31, 2014		As at March 31, 2013	
Capital reserve		0.01		0.01
Securities premium account		311.86		311.86
General reserve				
As per last Balance Sheet	1,817.27		1,530.56	
Add: Transfer from surplus in the Statement of Profit and Loss	367.44		286.71	
		2,184.71		1,817.27
Surplus in the Statement of Profit and Loss				
As per last Balance Sheet	8,298.19		6,221.45	
Add: Profit for the year	3,674.36		2,867.05	
Amount available for appropriation	11,972.55		9,088.50	
Less: Appropriations				
Transfer to general reserve	367.44		286.71	
Proposed dividend	551.72		430.45	
Dividend tax on proposed dividend	93.77		73.15	
		10,959.62		8,298.19
Total		13,456.20		10,427.33

Question: How is the surplus for the current year (FY14) calculated?

Answer: The current year (FY14) profit of Rs.367.4 Crs is added to the previous year's closing balance of surplus.

Question: How do the Profit & Loss statement and the balance sheet relate?

Answer: The bottom line of P&L interacts with the balance sheet. This highlights the fact that all three financial statements are closely related.

Question: How does the balance sheet represent year-on-year data?

Answer: The balance sheet is prepared on a flow basis, adding the carrying forward numbers year on year.

Question: What is the total amount of the surplus for the current year after adding last year's balance and this year's profit?

Answer: Previous year’s balance plus this year’s profit adds up to Rs.1197.2 Crs.

NOTE 3: RESERVES AND SURPLUS

₹ million

Particulars	As at March 31, 2014		As at March 31, 2013	
Capital reserve		0.01		0.01
Securities premium account		311.86		311.86
General reserve				
As per last Balance Sheet	1,817.27		1,530.56	
Add: Transfer from surplus in the Statement of Profit and Loss	367.44		286.71	
		2,184.71		1,817.27
Surplus in the Statement of Profit and Loss				
As per last Balance Sheet	8,298.19		6,221.45	
Add: Profit for the year	3,674.36		2,867.05	
Amount available for appropriation	11,972.55		9,088.50	
Less: Appropriations				
Transfer to general reserve	367.44		286.71	
Proposed dividend	551.72		430.45	
Dividend tax on proposed dividend	93.77		73.15	
		10,959.62		8,298.19
Total		13,456.20		10,427.33

Question: What is the purpose of transferring some amount from the surplus to general reserves?

Answer: A company transfers some money from the surplus to general reserves so that it will come handy for future use.

Question: How much money was transferred to general reserves this year?

Answer: They have transferred close to Rs.36.7 Crs for this purpose.

Question: What amount was distributed as dividends this year?

Answer: After transferring to general reserves, they have distributed Rs.55.1 Crs as dividends.

NOTE 3: RESERVES AND SURPLUS ₹ million

Particulars	As at March 31, 2014		As at March 31, 2013	
Capital reserve		0.01		0.01
Securities premium account		311.86		311.86
General reserve				
As per last Balance Sheet	1,817.27		1,530.56	
Add: Transfer from surplus in the Statement of Profit and Loss	367.44		286.71	
		2,184.71		1,817.27
Surplus in the Statement of Profit and Loss				
As per last Balance Sheet	8,298.19		6,221.45	
Add: Profit for the year	3,674.36		2,867.05	
Amount available for appropriation	11,972.55		9,088.50	
Less: Appropriations				
Transfer to general reserve	367.44		286.71	
Proposed dividend	551.72		430.45	
Dividend tax on proposed dividend	93.77		73.15	
		10,959.62		8,298.19
Total		13,456.20		10,427.33

Question: What amount was paid as dividend distribution taxes?

Answer: They have to pay Rs.9.3 Crs as dividend distribution taxes.

Question: What is the surplus amount as the closing balance for the year FY14?

Answer: After making the necessary apportions, the company has Rs.1095.9 Crs as surplus as closing balance.

Question: What constitutes the Total Reserves and Surplus?

Answer: Total Reserves and Surplus = Capital reserve + securities premium reserve + general reserves + surplus for the year.

Question: What was the Total Reserves and Surplus for FY14 and FY13?

Answer: This stands at Rs.1345.6 Crs for the FY 14 against Rs.1042.7 Crs for the FY13.

Question: What makes up the total shareholders' fund?

Answer: The total shareholders' fund is a sum of share capital and reserves & surplus.

Question: Why is it called the 'shareholders funds' on the balance sheet's liability side?

Answer: Since this amount on the balance sheet's liability side represents the money belonging to shareholders', this is called the 'shareholders funds'.

Question: What are non-current liabilities?

Answer: Non-current liabilities represent the long-term obligations, which the company intends to settle/pay off not within 365 days/12 months of the balance sheet date. These obligations remain on the books for several years.

Question: When are non-current liabilities generally settled?

Answer: Non-current liabilities are generally settled after 12 months following the reporting period.

Question: How many types of non-current liabilities does Amara Raja batteries Ltd have?

Answer: Amara Raja batteries Ltd has three types of non-current liabilities.

Balance Sheet as at March 31, 2014 ₹ million

Particulars	Note No.	As at March 31, 2014		As at March 31, 2013	
EQUITY AND LIABILITIES					
Shareholders' funds					
Share capital	2	170.81		170.81	
Reserves and surplus	3	13,456.20		10,427.33	
			13,627.01		10,598.14
Non-current liabilities					
Long-term borrowings	4	759.47		773.13	
Deferred tax liabilities (net)	5	301.33		195.09	
Long-term provisions	6	369.57		376.41	
			1,430.37		1,344.63
Current liabilities					
Short-term borrowings	7	83.83		98.63	
Trade payables	8	1,277.79		1,362.84	
Other current liabilities	9	2,156.68		1,807.26	
Short-term provisions	6	2,818.73		2,493.20	
			6,337.03		5,761.93
Total			21,394.41		17,704.70

Question: What is the first line item within the non-current liabilities for Amara Raja batteries Ltd?

Answer: The first line item within the non-current liabilities for Amara Raja batteries Ltd is the long-term borrowing, which is associated with note 4.

Question: Why is long-term borrowing significant in the balance sheet?

Answer: Long-term borrowing is one of the most important line items in the entire balance sheet as it represents the amount of money that the company has borrowed through various sources. It is also a key input when calculating certain financial ratios.

Question: What do 'Long term borrowings' refer to in the note Chart?

Answer: The 'Long term borrowings' in the note Chart refer to ‘interest-free sales tax deferment’.

NOTE 4: LONG-TERM BORROWINGS

₹ million

Particulars	Non-current portion		Current maturities	
	As at March 31, 2014	As at March 31, 2013	As at March 31, 2014	As at March 31, 2013
Deferred payment liabilities				
Interest free sales tax deferment (Unsecured)	759.47	773.13	13.66	9.27
Total	**759.47**	**773.13**	**13.66**	**9.27**

Interest free sales tax deferment

The Company has availed interest free sales tax deferment under Andhra Pradesh sales tax deferment scheme (Target 2000) from the financial year 1997-98 as per the eligibility norms in respect of expanded capacities. The Company has availed total deferment of ₹811.40 million since March,1998, which is repayable after a period of 14 years from the date of each availment in annual installments.

- Eligible amount of interest free sales tax deferment - ₹813.33 million
- Period eligible for availment - January 1998 till September 2015

Question: What is the meaning of 'interest-free sales tax deferment'?

Answer: Interest-free sales tax deferment is a tax incentive from the state government.

Question: Over what period does the company plan to settle the interest-free sales tax deferment?

Answer: The company plans to settle this amount over a period of 14 years.

Question: Why might some companies not have long term borrowings or debt?

Answer: Some companies might not have long term borrowings because either the banks are refusing to lend to them, or the company might not be taking initiatives to expand its business operations.

Question: What can be inferred if a company has high finance cost?

Answer: If the debt of the company is high, then the finance cost will also be high.

Question: What is 'Deferred Tax Liability'?

Answer: Deferred Tax Liability is a provision for future tax payments. It arises when a company foresees a situation where it may have to pay additional taxes in the future, so they set aside some funds for this purpose.

Question: Why might a company end up with a deferred tax liability?

Answer: This happens because of the difference in the way depreciation is treated as per the Company’s act and Income tax. Deferred tax liability arises due to the treatment of depreciation.

Question: What are 'Long term provisions'?

Answer: Long term provisions are money set aside for employee benefits such as gratuity, leave encashment, and provident funds.

Chapter-6: Current Liabilities.

Question: What are current liabilities?

Answer: Current liabilities are a company’s obligations which are expected to be settled within 365 days or less than 1 year.

Question: Why is the term 'Current' used in current liabilities?

Answer: The term 'Current' is used to indicate that the obligation will be settled soon, specifically within a year.

Question: What does 'non-current' mean in terms of liabilities?

Answer: 'Non-current' refers to obligations that extend beyond 365 days.

Question: Can you provide an example of a current liability?

Answer: Yes, if you buy a mobile phone on EMI (via a credit card) and plan to repay your credit card company within a few months, this becomes your 'current liability'.

Question: What would be an example of a 'non-current liability'?

Answer: An example of a 'non-current liability' is when you buy an apartment by seeking a 15-year home loan from a housing finance company.

Question: What are the typical line items within current liabilities?

Answer: In the context of ARBL's current liabilities, there are 4 line items. One of them is the short-term borrowings.

Balance Sheet as at March 31, 2014 ₹ million

Particulars	Note No.	As at March 31, 2014		As at March 31, 2013	
EQUITY AND LIABILITIES					
Shareholders' funds					
Share capital	2	170.81		170.81	
Reserves and surplus	3	13,456.20		10,427.33	
			13,627.01		10,598.14
Non-current liabilities					
Long-term borrowings	4	759.47		773.13	
Deferred tax liabilities (net)	5	301.33		195.09	
Long-term provisions	6	369.57		376.41	
			1,430.37		1,344.63
Current liabilities					
Short-term borrowings	7	83.83		98.63	
Trade payables	8	1,277.79		1,362.84	
Other current liabilities	9	2,156.68		1,807.26	
Short-term provisions	6	2,818.73		2,493.20	
			6,337.03		5,761.93
Total			21,394.41		17,704.70

Question: What are short-term borrowings?

Answer: Short-term borrowings are short-term obligations of the company usually undertaken to meet day-to-day cash requirements or working capital requirements.

Question: What do short-term borrowings in ARBL's current liabilities mean?

Answer: For ARBL, the short-term borrowings are loans available from the State Bank of India and Andhra Bank to meet their working capital requirements.

NOTE 7: SHORT-TERM BORROWINGS

₹ million

Particulars	As at March 31, 2014	As at March 31, 2013
Loans repayable on demand		
Cash credit from banks (Secured)		
State Bank of India	56.57	98.63
Andhra Bank	27.26	-
Total	83.83	98.63

The working capital facilities from State Bank of India, State Bank of Hyderabad, Andhra Bank and The Bank of Nova Scotia are secured by hypothecation of all current assets of the Company. The fixed assets of the Company are provided as collateral security by way of pari-passu second charge for the working capital facilities availed from State Bank of India.

Question: What is the amount of short-term borrowing for ARBL?

Answer: The short-term borrowing for ARBL is kept at a low level, at just Rs.8.3Crs.

Question: What is meant by Trade Payable?

Answer: Trade Payable, also known as account payable, refers to obligations payable to vendors who supply to the company.

Question: How much is the amount marked for Trade Payable?

Answer: The amount marked for Trade Payable is Rs.127.7 Crs.

Question: Who might be considered as vendors for a company?

Answer: The vendors could be raw material suppliers, utility companies providing services, stationery companies, and others.

NOTE 8: TRADE PAYABLES

₹ million

Particulars	As at March 31, 2014	As at March 31, 2013
(Unsecured)		
Trade payables		
i) Dues to Micro, Small and Medium Enterprises	4.87	7.17
ii) Others	1,272.92	1,355.67
Total	1,277.79	1,362.84

Question: What are 'Other current liabilities'?

Answer: ‘Other current Liabilities’ are obligations associated with the statutory requirements and obligations that are not directly related to the company’s operations.

Question: What is the amount set aside for 'Other current liabilities'?

Answer: The amount set aside for 'Other current liabilities' is Rs.215.6 Crs.

Balance Sheet as at March 31, 2014

₹ million

Particulars	Note No.	As at March 31, 2014		As at March 31, 2013	
EQUITY AND LIABILITIES					
Shareholders' funds					
Share capital	2	170.81		170.81	
Reserves and surplus	3	13,456.20		10,427.33	
			13,627.01		10,598.14
Non-current liabilities					
Long-term borrowings	4	759.47		773.13	
Deferred tax liabilities (net)	5	301.33		195.09	
Long-term provisions	6	369.57		376.41	
			1,430.37		1,344.63
Current liabilities					
Short-term borrowings	7	83.83		98.63	
Trade payables	8	1,277.79		1,362.84	
Other current liabilities	9	2,156.68		1,807.26	
Short-term provisions	6	2,818.73		2,493.20	
			6,337.03		5,761.93
Total			21,394.41		17,704.70

Notes forming part of the Financial Statements

NOTE 9: OTHER CURRENT LIABILITIES

₹ million

Particulars	As at March 31, 2014		As at March 31, 2013	
(Unsecured)				
Unclaimed dividends*		17.04		13.22
Other payables				
a) Employee related payables	370.12		311.60	
b) Outstanding liabilities	860.06		643.10	
c) Commission payable to Non-Executive Chairman	175.99		140.88	
d) Excise duty/Service tax payable	15.36		4.17	
e) Sales tax payables	169.88		200.39	
f) TDS/TCS payables	31.31		14.48	
g) Advances from customers	25.02		42.52	
h) Creditors for capital goods/services	176.30		214.15	
i) Other non-trade payables	301.94	2,125.98	213.48	1,784.77
Sub-Total		2,143.02		1,797.99
Add: Current maturities of long-term debt (Refer Note No. 4)				
Interest free sales tax deferment (Unsecured) repayable within 12 months		13.66		9.27
Total		2,156.68		1,807.26

*The unclaimed dividends represent those relating to the years 2006-07 to 2012-13 (for previous year from 2005-06 to 2011-12) and no part thereof has remained unpaid or unclaimed for a period of seven years or more from the date they became due for payment requiring transfer to the Investor Education and Protection Fund.

Question: What are 'Short term provisions'?

Answer: Short term provisions are quite similar to long term provisions, which deal with setting aside funds for employee benefits such as gratuity, leave encashment, provident funds, etc.

Balance Sheet as at March 31, 2014

₹ million

Particulars	Note No.	As at March 31, 2014		As at March 31, 2013	
EQUITY AND LIABILITIES					
Shareholders' funds					
Share capital	2	170.81		170.81	
Reserves and surplus	3	13,456.20		10,427.33	
			13,627.01		10,598.14
Non-current liabilities					
Long-term borrowings	4	759.47		773.13	
Deferred tax liabilities (net)	5	301.33		195.09	
Long-term provisions	6	369.57		376.41	
			1,430.37		1,344.63
Current liabilities					
Short-term borrowings	7	83.83		98.63	
Trade payables	8	1,277.79		1,362.84	
Other current liabilities	9	2,156.68		1,807.26	
Short-term provisions	6	2,818.73		2,493.20	
			6,337.03		5,761.93
Total			21,394.41		17,704.70

Question: How much is allocated to 'Short term provisions'?

Answer: The amount allocated to 'Short term provisions' is Rs.281.8 Crs.

Question: Are the notes associated with 'Short term Provisions' and the 'Long term provisions' the same?

Answer: Yes, the note associated with ‘Short term Provisions’ and the ‘Long term provisions’ is the same.

Question: What do the line items "short and long-term provisions" in a financial statement pertain to?

Answer: These line items deal with the employee and related benefits.

Question: What should one do to understand the details of the line items in a financial statement?

Answer: One should always look at the associated note to run through the details.

Question: What part of the balance sheet have we examined?

Answer: We have looked through half of the balance sheet, which is broadly classified as the Balance sheet’s Liabilities side.

Question: How is the "Total Liability" on a balance sheet calculated?

Answer: Total Liability = Shareholders’ Funds + Non Current Liabilities + Current Liabilities.

Question: What are the numerical values given for the Total Liability calculation?

Answer: Total Liability is calculated as 1362.7 (Shareholders’ Funds) + 143.03 (Non Current Liabilities) + 633.7 (Current Liabilities), which equals Rs.2139.4 Cars.

Balance Sheet as at March 31, 2014

₹ million

Particulars	Note No.	As at March 31, 2014		As at March 31, 2013	
EQUITY AND LIABILITIES					
Shareholders' funds					
Share capital	2	170.81		170.81	
Reserves and surplus	3	13,456.20		10,427.33	
			13,627.01		10,598.14
Non-current liabilities					
Long-term borrowings	4	759.47		773.13	
Deferred tax liabilities (net)	5	301.33		195.09	
Long-term provisions	6	369.57		376.41	
			1,430.37		1,344.63
Current liabilities					
Short-term borrowings	7	83.83		98.63	
Trade payables	8	1,277.79		1,362.84	
Other current liabilities	9	2,156.68		1,807.26	
Short-term provisions	6	2,818.73		2,493.20	
			6,337.03		5,761.93
Total			21,394.41		17,704.70

Question: What is a Balance Sheet also known as?

Answer: A Balance sheet is also called the Statement of Financial Position.

Question: What is the basis on which a Balance Sheet is prepared?

Answer: A Balance sheet is prepared on a flow basis that depicts the company's financial position at any given point in time.

Question: What does a Balance Sheet show?

Answer: A Balance Sheet shows what the company owns (assets) and what the company owes (liabilities).

Question: When might a business need a Balance Sheet?

Answer: A business will generally need a balance sheet when it seeks investors, applies for loans, submits taxes, etc.

Question: What is the Balance Sheet equation?

Answer: The Balance Sheet equation is Assets = Liabilities + Shareholders' Equity.

Question: How are liabilities defined?

Answer: Liabilities are obligations or debts of a business from past transactions.

Question: What is Share capital?

Answer: Share capital is the number of shares multiplied by their face value.

Question: What are Reserves in a Balance Sheet?

Answer: Reserves are the funds earmarked for a specific purpose, which the company intends to use in the future.

Question: Where do the profits of a company reside in a Balance Sheet?

Answer: The profits of the company reside in the surplus. This is where the balance sheet and the P&L interact.

Question: How are dividends related to the surplus?

Answer: Dividends are paid out of the surplus.

Question: What constitutes Shareholders' equity?

Answer: Shareholders' equity is the sum of Share capital, Reserves, and Surplus.

Question: How is equity defined in relation to a company's assets and liabilities?

Answer: Equity is the claim of the owners on the assets of the company. If you rearrange the Balance Sheet equation, Equity = Assets – Liabilities.

Question: What are Non-current liabilities?

Answer: Non-current liabilities or the long-term liabilities are expected to be settled in not less than 365 days or 12 months of the balance sheet date.

Question: Why do Deferred tax liabilities arise?

Answer: Deferred tax liabilities arise due to the discrepancy in the way depreciation is treated. They are amounts of income taxes payable in the future concerning taxable differences as per accounting books and tax books.

Question: What are Current liabilities?

Answer: Current liabilities are the company's obligations to settle within 365 days /12 months of the balance sheet date.

Question: What do long and short term provisions typically deal with?

Answer: In most cases, both long and short term provisions are liabilities dealing with employee-related matters.

Question: How is Total Liability calculated?

Answer: Total Liability = Shareholders' Funds + Non-Current Liabilities + Current Liabilities. Thus, total liabilities represent the total amount of money the company owes to others.

Chapter-7: Asset Side of Balance Sheet.

Question: What did we explore in the previous chapter concerning the balance sheet?

Answer: In the previous chapter, we looked at the liability side of the balance sheet in detail.

Question: What does the Asset side of the balance sheet represent?

Answer: The Asset side of the balance sheet shows us all the company's assets (in different forms) right from its inception.

Question: How can assets be defined in simple terms?

Answer: Assets in simple terms are the resources held by a company, which help in generating the revenues.

Question: Are there any specific sections on the Asset side of the balance sheet?

Answer: Yes, the Asset side has two main sections, i.e. Non-current assets and Current assets.

Question: Do these sections on the Asset side contain further subdivisions or line items?

Answer: Yes, both the Non-current assets and Current assets sections have several line items (with associated notes) included within.

ASSETS					
Non-current assets					
Fixed assets	10				
Tangible assets		6,198.94		3,554.97	
Intangible assets		32.96		33.69	
Capital work-in-progress		1,443.60		1,024.97	
Intangible assets under development		3.14		4.84	
		7,678.64		4,618.47	
Non-current investments	11	160.76		160.76	
Long-term loans and advances	12	567.69		353.52	
Other non-current assets	13	1.22		3.43	
			8,408.31		5,136.18
Current assets					
Inventories	14	3,350.08		2,928.58	
Trade receivables	15	4,527.89		3,806.77	
Cash and bank balances	16	2,945.67		4,107.90	
Short-term loans and advances	12	2,119.30		1,656.78	
Other current assets	13	43.16		68.49	
			12,986.10		12,568.52
Total			21,394.41		17,704.70

Question: What are non-current assets?

Answer: Non-current assets refer to the company's assets whose economic benefit is enjoyed over a long period (beyond 365 days). These are assets owned by a company expected to provide economic benefit over its useful life.

Question: How are non-current assets different from fixed assets?

Answer: Fixed assets are a subsection within non-current assets. They are assets, both tangible and intangible, that the company owns and cannot be easily converted to cash or liquidated. While all fixed assets are non-current assets, not all non-current assets are necessarily fixed assets.

Question: Can you provide examples of fixed assets?

Answer: Yes, typical examples of fixed assets include land, plant and machinery, vehicles, buildings, etc. Intangible assets such as patents, copyrights, trademarks, and designs are also considered fixed assets because they benefit companies over a long period of time.

Question: What are tangible assets?

Answer: Tangible assets are assets which have a physical form. These can be seen or touched. Examples include plant and machinery, vehicles, buildings, fixtures, etc.

Question: How are intangible assets defined?

Answer: Intangible assets are assets which have an economic value but do not possess a physical nature. This encompasses assets like patents, copyrights, trademarks, and designs.

Question: What is depreciation in the context of assets?

Answer: Depreciation is a method of spreading the cost of acquiring an asset over its useful life. It reflects the reduction in the value of assets due to obsolescence, physical wear and tear. This reduced value is known as the Depreciation expense and is reflected in the Profit and Loss Account and the Balance Sheet.

Question: How is the Net Block of an asset calculated?

Answer: Net Block is calculated by subtracting Accumulated Depreciation from the Gross Block.

Formula: Net Block = Gross Block – Accumulated Depreciation.

Question: What does the term 'Accumulated' signify in Accumulated Depreciation?

Answer: The term 'Accumulated' is used to denote all the depreciation value of an asset since its acquisition or incorporation.

Question: What is the reported value of tangible assets?

Answer: The tangible assets are reported at Rs.619.8 Crs.

Fixed assets	10			
Tangible assets		6,198.94		3,554.97
Intangible assets		32.96		33.69
Capital work-in-progress		1,443.60		1,024.97
Intangible assets under development		3.14		4.84
		7,678.64		4,618.47

Question: What is the reported value of intangible assets?

Answer: The intangible assets are reported at Rs.3.2 Crs.

Question: What does the company mean by reporting its Net block?

Answer: The company is reporting its Net block which is Net of Accumulated depreciation.

Question: Where can I find more details associated with fixed assets?

Answer: More details associated with fixed assets can be found in Note 10.

Question: What details are highlighted at the top of Note 10?

Answer: At the top of the note, the Gross Block, Depreciation/amortization, and Net block are highlighted.

NOTE 10: FIXED ASSETS & DEPRECIATION

₹ million

Particulars	GROSS BLOCK				DEPRECIATION / AMORTISATION				IMPAIRMENT				NET BLOCK	
	As at March 31, 2013	Additions during he year	Deductions during the year	As at March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	As at March 31, 2014	As at March 31, 2013
A. Tangible assets														
Land and land development														
- Freehold land	170.17	-	-	170.17	-	-	-	-	75.52	-	-	75.52	94.65	94.65
- Leasehold land*	133.65	267.86	-	401.51	0.84	2.22		3.06	-	-	-	-	398.45	132.81
Buildings	934.48	858.44	6.68	1,786.24	172.70	28.42	3.76	197.36	-	-	-	-	1,588.88	761.78
R&D buildings	9.90	9.03	-	18.93	4.59	0.48	-	5.07	-	-	-	-	13.86	5.31
Plant & machinery	4,549.43	1,950.56	121.13	6,378.86	2,527.37	522.95	105.11	2,945.21	-	-	-	-	3,433.65	2,022.06
R&D plant & machinery	118.84	36.85	9.75	145.94	81.90	12.84	8.95	85.79	-	-	-	-	60.15	36.94
Electrical installations	468.15	58.55	4.52	522.18	153.50	31.08	4.24	180.34	-	-	-	-	341.84	314.65
Furniture	79.25	21.56	0.002	100.81	42.45	4.87	0.002	47.32	-	-	-	-	53.49	36.80
Vehicles	105.50	37.65	12.54	130.61	33.81	9.73	10.07	33.47	-	-	-	-	97.14	71.69
Office equipment	181.06	63.16	6.71	237.51	102.78	24.09	6.19	120.68	-	-	-	-	116.83	78.28
Total	**6,750.43**	**3,303.66**	**161.33**	**9,892.76**	**3,119.94**	**636.68**	**138.32**	**3,618.30**	**75.52**	-	-	**75.52**	**6,198.94**	**3,554.97**
Previous year	6,181.26	724.78	155.61	6,750.43	2,656.46	578.04	114.56	3,119.94	-	75.52	-	75.52	3,554.97	3,524.80
B. Intangible assets														
Brands/trademarks	0.12	-	-	0.12	0.12	-	-	0.12	-	-	-	-	-	-
Computer software	52.08	10.30	-	62.38	18.39	11.04	-	29.43	-	-	-	-	32.96	33.69
Total	**52.20**	**10.30**	-	**62.50**	**18.51**	**11.04**	-	**29.55**	-	-	-	-	**32.96**	**33.69**
Previous year	31.23	20.97	-	52.20	10.31	8.20	-	18.51	-	-	-	-	33.69	20.92
Grand Total (A+B)	**6,802.63**	**3,313.96**	**161.33**	**9,955.26**	**3,138.45**	**647.72**	**138.32**	**3,647.85**	**75.52**	-	-	**75.52**	**6,231.90**	**3,588.66**
Previous year	6,212.49	745.75	155.61	6,802.63	2,666.77	586.24	114.56	3,138.45	-	75.52	-	75.52	3,588.66	3,545.72
C. Capital work-in-progress													1,443.60	1,024.97
D. Intangible assets under development													3.14	4.84

*Leasehold land represents one time lease rental paid for 99 years. Amortisation of leasehold land rent of ₹2.85 million is capitalised/included in capital work-in-progress as part of pre-operative expenses.

Question: Do the net block numbers in Note 10 match with the balance sheet?

Answer: Yes, the two net block numbers in Note 10 tally with what was mentioned in the balance sheet. When we read tangible assets at Rs.619.8 Crs and Intangible assets at Rs.3.2 Crs, remember the company is reporting its Net block, which is Net of Accumulated depreciation. Have a look at Note 10, which is associated with fixed assets.

Question: What is listed under the 'Tangible assets' section in Note 10?

Answer: Under Tangible assets, there is a list of all the assets the company owns.

Question: How is 'Buildings' listed under the company's tangible assets?

Answer: The company has listed ‘Buildings’ as one of its tangible assets.

Question: What was the reported value of the building for the financial year ending 31st March 2013?

Answer: As of 31st March 2013 (FY13), ARBL reported the building’s value at Rs.93.4 Crs.

Question: How much value of building was added and deducted during FY14?

Answer: During FY14, the company added Rs.85.8Crs worth of building, classified as ‘additions during the year’. They also wound up 0.668 Crs worth of building, classified as ‘deductions during the year’.

Question: How do you calculate the current year value of the building based on the given details?

Answer: The current year value of the building is calculated as:

Previous year’s value of building + addition during this year – deduction during the year, which in this case is 93.4 + 85.8 – 0.668 = 178.5Crs.

NOTE 10: FIXED ASSETS & DEPRECIATION

₹ million

Particulars	GROSS BLOCK				DEPRECIATION / AMORTISATION				IMPAIRMENT				NET BLOCK	
	As at March 31, 2013	Additions during he year	Deductions during the year	As at March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	As at March 31, 2014	As at March 31, 2013
A. Tangible assets														
Land and land development														
- Freehold land	170.17	-	-	170.17	-	-	-	-	75.52	-	-	75.52	94.65	94.65
- Leasehold land*	133.65	267.86	-	401.51	0.84	2.22	-	3.06	-	-	-	-	398.45	132.81
Buildings	934.48	858.44	6.68	1,786.24	172.70	28.42	3.76	197.36	-	-	-	-	1,588.88	761.78
R&D buildings	9.90	9.03	-	18.93	4.59	0.48	-	5.07	-	-	-	-	13.86	5.31
Plant & machinery	4,549.43	1,950.56	121.13	6,378.86	2,527.37	522.95	105.11	2,945.21	-	-	-	-	3,433.65	2,022.06
R&D plant & machinery	118.84	36.85	9.75	145.94	81.90	12.84	8.95	85.79	-	-	-	-	60.15	36.94
Electrical installations	468.15	58.55	4.52	522.18	153.50	31.08	4.24	180.34	-	-	-	-	341.84	314.65
Furniture	79.25	21.56	0.002	100.81	42.45	4.87	0.002	47.32	-	-	-	-	53.49	36.80
Vehicles	105.50	37.65	12.54	130.61	33.81	9.73	10.07	33.47	-	-	-	-	97.14	71.69
Office equipment	181.06	63.16	6.71	237.51	102.78	24.09	6.19	120.68	-	-	-	-	116.83	78.28
Total	6,750.43	3,303.66	161.33	9,892.76	3,119.94	636.68	138.32	3,618.30	75.52	-	-	75.52	6,198.94	3,554.97
Previous year	6,181.26	724.78	155.61	6,750.43	2,656.46	578.04	114.56	3,119.94	-	75.52	-	75.52	3,554.97	3,524.80
B. Intangible assets														
Brands/trademarks	0.12	-	-	0.12	0.12	-	-	0.12	-	-	-	-	-	-
Computer software	52.08	10.30	-	62.38	18.39	11.04	-	29.43	-	-	-	-	32.96	33.69
Total	52.20	10.30	-	62.50	18.51	11.04	-	29.55	-	-	-	-	32.96	33.69
Previous year	31.23	20.97	-	52.20	10.31	8.20	-	18.51	-	-	-	-	33.69	20.92
Grand Total (A+B)	6,802.63	3,313.96	161.33	9,955.26	3,138.45	647.72	138.32	3,647.85	75.52	-	-	75.52	6,231.90	3,588.66
Previous year	6,212.49	745.75	155.61	6,802.63	2,666.77	586.24	114.56	3,138.45	-	75.52	-	75.52	3,588.66	3,545.72
C. Capital work-in-progress													1,443.60	1,024.97
D. Intangible assets under development													3.14	4.84

*Leasehold land represents one time lease rental paid for 99 years. Amortisation of leasehold land rent of ₹2.85 million is capitalised/included in capital work-in-progress as part of pre-operative expenses.

Question: How is the 'Net Block' calculated from the gross block?

Answer: The 'Net Block' is calculated by deducting the accumulated depreciation from the gross block.

NOTE 10: FIXED ASSETS & DEPRECIATION

₹ million

Particulars	GROSS BLOCK				DEPRECIATION / AMORTISATION				IMPAIRMENT				NET BLOCK	
	As at March 31, 2013	Additions during he year	Deductions during the year	As at March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	As at March 31, 2014	As at March 31, 2013
A. Tangible assets														
Land and land development														
- Freehold land	170.17	-	-	170.17	-	-	-	-	75.52	-	-	75.52	94.65	94.65
- Leasehold land*	133.65	267.86	-	401.51	0.84	2.22	-	3.06	-	-	-	-	398.45	132.81
Buildings	934.48	858.44	6.68	1,786.24	172.70	28.42	3.76	197.36	-	-	-	-	1,588.88	761.78
R&D buildings	9.90	9.03	-	18.93	4.59	0.48	-	5.07	-	-	-	-	13.86	5.31
Plant & machinery	4,549.43	1,950.56	121.13	6,378.86	2,527.37	522.95	105.11	2,945.21	-	-	-	-	3,433.65	2,022.06
R&D plant & machinery	118.84	36.85	9.75	145.94	81.90	12.84	8.95	85.79	-	-	-	-	60.15	36.94
Electrical installations	468.15	58.55	4.52	522.18	153.50	31.08	4.24	180.34	-	-	-	-	341.84	314.65
Furniture	79.25	21.56	0.002	100.81	42.45	4.87	0.002	47.32	-	-	-	-	53.49	36.80
Vehicles	105.50	37.65	12.54	130.61	33.81	9.73	10.07	33.47	-	-	-	-	97.14	71.69
Office equipment	181.06	63.16	6.71	237.51	102.78	24.09	6.19	120.68	-	-	-	-	116.83	78.28
Total	6,750.43	3,303.66	161.33	9,892.76	3,119.94	636.68	138.32	3,618.30	75.52	-	-	75.52	6,198.94	3,554.97
Previous year	6,181.26	724.78	155.61	6,750.43	2,656.46	578.04	114.56	3,119.94	-	75.52	-	75.52	3,554.97	3,524.80
B. Intangible assets														
Brands/trademarks	0.12	-	-	0.12	0.12	-	-	0.12	-	-	-	-	-	-
Computer software	52.08	10.30	-	62.38	18.39	11.04	-	29.43	-	-	-	-	32.96	33.69
Total	52.20	10.30	-	62.50	18.51	11.04	-	29.55	-	-	-	-	32.96	33.69
Previous year	31.23	20.97	-	52.20	10.31	8.20	-	18.51	-	-	-	-	33.69	20.92
Grand Total (A+B)	6,802.63	3,313.96	161.33	9,955.26	3,138.45	647.72	138.32	3,647.85	75.52	-	-	75.52	6,231.90	3,588.66
Previous year	6,212.49	745.75	155.61	6,802.63	2,666.77	586.24	114.56	3,138.45	-	75.52	-	75.52	3,588.66	3,545.72
C. Capital work-in-progress													1,443.60	1,024.97
D. Intangible assets under development													3.14	4.84

*Leasehold land represents one time lease rental paid for 99 years. Amortisation of leasehold land rent of ₹2.85 million is capitalised/included in capital work-in-progress as part of pre-operative expenses.

Question: How was the total depreciation for the year calculated for ARBL as of 31st March 2013 (FY13)?

Answer: As of 31st March 2013 (FY13), ARBL has depreciated Rs.17.2 Crs, to which they need to add Rs.2.8 Crs belonging to the year FY14, adjust 0.376 Crs as the deduction for the year. Thus, the Total Depreciation for the year is:-

Previous year's depreciation value + Current year's depreciation – deduction for the year

= 17.2 + 2.8 – 0.376

Total Depreciation= Rs.19.736 Crs.

Question: How is the net block derived after considering depreciation for ARBL?

Answer: The net block is derived by deducting the total depreciation from the gross block. For ARBL, it is Rs.158.8 Crs (178.6 - 19.73).

Question: What are the items considered under the fixed assets section?

Answer: The items under the fixed assets section include the Total Net block number, Capital Work in Progress (CWIP), and Intangible assets under development.

Question: What does CWIP stand for and what does it include?

Answer: CWIP stands for Capital Work in Progress. It includes buildings under construction, machinery under assembly, etc., at the time of preparing the balance sheet. CWIP represents work that is not yet complete but where capital expenditure has already been incurred.

Question: How is the treatment of an asset from CWIP changed once it is completed?

Answer: Once the construction process is done and the asset is put to use, the asset is moved from CWIP to tangible assets (under fixed assets).

NOTE 10: FIXED ASSETS & DEPRECIATION

₹ million

	GROSS BLOCK				DEPRECIATION / AMORTISATION				IMPAIRMENT				NET BLOCK	
Particulars	As at March 31, 2013	Additions during he year	Deductions during the year	As at March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	As at March 31, 2014	As at March 31, 2013
A. Tangible assets														
Land and land development														
- Freehold land	170.17	-	-	170.17	-	-	-	-	75.52	-	-	75.52	94.65	94.65
- Leasehold land*	133.65	267.86	-	401.51	0.84	2.22		3.06	-	-	-	-	398.45	132.81
Buildings	934.48	858.44	6.68	1,786.24	172.70	28.42	3.76	197.36	-	-	-	-	1,588.88	761.78
R&D buildings	9.90	9.03	-	18.93	4.59	0.48	-	5.07	-	-	-	-	13.86	5.31
Plant & machinery	4,549.43	1,950.56	121.13	6,378.86	2,527.37	522.95	105.11	2,945.21	-	-	-	-	3,433.65	2,022.06
R&D plant & machinery	118.84	36.85	9.75	145.94	81.90	12.84	8.95	85.79	-	-	-	-	60.15	36.94
Electrical installations	468.15	58.55	4.52	522.18	153.50	31.08	4.24	180.34	-	-	-	-	341.84	314.65
Furniture	79.25	21.56	0.002	100.81	42.45	4.87	0.002	47.32	-	-	-	-	53.49	36.80
Vehicles	105.50	37.65	12.54	130.61	33.81	9.73	10.07	33.47	-	-	-	-	97.14	71.69
Office equipment	181.06	63.16	6.71	237.51	102.78	24.09	6.19	120.68	-	-	-	-	116.83	78.28
Total	6,750.43	3,303.66	161.33	9,892.76	3,119.94	636.68	138.32	3,618.30	75.52	-	-	75.52	6,198.94	3,554.97
Previous year	6,181.26	724.78	155.61	6,750.43	2,656.46	578.04	114.56	3,119.94	-	75.52	-	75.52	3,554.97	3,524.80
B. Intangible assets														
Brands/trademarks	0.12	-	-	0.12	0.12	-	-	0.12	-	-	-	-	-	-
Computer software	52.08	10.30	-	62.38	18.39	11.04	-	29.43	-	-	-	-	32.96	33.69
Total	52.20	10.30	-	62.50	18.51	11.04	-	29.55	-	-	-	-	32.96	33.69
Previous year	31.23	20.97	-	52.20	10.31	8.20	-	18.51	-	-	-	-	33.69	20.92
Grand Total (A+B)	6,802.63	3,313.96	161.33	9,955.26	3,138.45	647.72	138.32	3,647.85	75.52	-	-	75.52	6,231.90	3,588.66
Previous year	6,212.49	745.75	155.61	6,802.63	2,666.77	586.24	114.56	3,138.45	-	75.52	-	75.52	3,588.66	3,545.72
C. Capital work-in-progress													1,443.60	1,024.97
D. Intangible assets under development													3.14	4.84

*Leasehold land represents one time lease rental paid for 99 years. Amortisation of leasehold land rent of ₹2.85 million is capitalised/included in capital work-in-progress as part of pre-operative expenses.

Question: What constitutes 'Intangible assets under development'?

Answer: 'Intangible assets under development' is similar to CWIP but for intangible assets. The work in process could include patent filing, copyright filing, brand development, etc.

Question: What is the cost of 'Intangible assets under development' for ARBL?

Answer: The cost of 'Intangible assets under development' for ARBL is at a minuscule amount of 0.3 Crs.

Question: How is the total fixed cost of the company derived?

Answer: The total fixed cost of the company is derived by adding all the costs associated with tangible and intangible assets, including those under development and in progress.

Question: What are the other line items besides fixed assets under non-current assets?

Answer: Besides the fixed assets, other line items under non-current assets include non-current investments, long term loans and advances, and other non-current assets.

Non-current investments	11	160.76	160.76
Long-term loans and advances	12	567.69	353.52
Other non-current assets	13	1.22	3.43

Question: What are non-current investments?

Answer: Non-current investments are investments made by ARBL with a long-term perspective. These could include buying listed equity shares, taking a minority stake in other companies, debentures, mutual funds, etc.

Question: What is the value of non-current investments made by ARBL?

Answer: The non-current investments made by ARBL stand at Rs. 16.07 Crs.

Question: What does the line item "long term loans and advances" entail?

Answer: Long term loans and advances are loans and advances given out by the company to other group companies, employees, suppliers, vendors, etc.

Question: What is the value of long term loans and advances?

Answer: The long term loans and advances stand at Rs. 56.7 Crs.

Question: What are included in the 'Other Non-current assets' line item?

Answer: The 'Other Non-current assets' line item includes other miscellaneous long term assets.

Question: What is the value of 'Other Non-current assets'?

Answer: 'Other Non-current assets' is valued at Rs. 0.122 Crs.

NOTE 11: NON-CURRENT INVESTMENTS

₹ million

Particulars	As at March 31, 2014		As at March 31, 2013	
A. In Equity Instruments				
a. Quoted - Non trade at cost				
i) 125 Fully paid up equity shares of ₹1 each				
in Standard Batteries Limited	0.01		0.01	
Less: Provision for diminution in value	0.01		0.01	
	-		-	
ii) 25 Fully paid up equity shares of ₹2 each				
in Nicco Corporation Limited	0.001		0.001	
iii) 10,000 Fully paid up equity shares of ₹1 each				
in Exide Industries Limited	0.04		0.04	
iv) 5,500 Fully paid up equity shares of ₹1 each				
in HBL Power Systems Limited	0.01		0.01	
v) 160,000 Fully paid up equity shares of ₹2 each				
in IVRCL Limited	0.21		0.21	
vi) 23,749 Fully paid up equity shares of ₹10 each				
in IDBI Bank Limited	1.01		1.01	
vii) 227,900 Fully paid up equity shares of ₹10 each				
in Andhra Bank	2.28	3.55	2.28	3.55
b. Unquoted - Non trade at Cost				
i) 1,128 Fully paid up equity shares of ₹10 each				
in Indian Lead Limited	0.03		0.03	
Less: Provision for diminution in value	0.03	-	0.03	-
c. Unquoted - Trade at Cost				
i) 1,206,000 Fully paid up equity shares of ₹10 each				
in Andhra Pradesh Gas Power Corporation Limited		157.14		157.14
B. In Government Securities - Non trade at Cost				
a) 6 years National Savings Certificates				
(Lodged as security with Government departments.				
₹12,000 held in the name of Dr. Ramachandra N Galla,				
Non-Executive Chairman)		0.07		0.07
Total		160.76		160.76
Aggregate of quoted investments				
At cost		3.56		3.56
At market value		19.51		27.86
Aggregate of un-quoted investments - at cost		157.24		157.24
Aggregate provision for diminution in value of Investments		0.04		0.04

Question: What are current assets?

Answer: Current assets are assets that can be easily converted to cash, and the company anticipates consuming these assets within 365 days. They are the assets a company uses to fund its day-to-day operations and ongoing expenses.

Question: What are the most common types of current assets?

Answer: The most common current assets are cash and cash equivalents, inventories, receivables, short term loans and advances, and sundry debtors.

Current assets				
Inventories	14	3,350.08		2,928.58
Trade receivables	15	4,527.89		3,806.77
Cash and bank balances	16	2,945.67		4,107.90
Short-term loans and advances	12	2,119.30		1,656.78
Other current assets	13	43.16		68.49

Question: How is "Inventory" defined in the context of current assets?

Answer: Inventory includes all the finished goods manufactured by the company, raw materials in stock, and goods that are manufactured incompletely. Inventories are goods at various stages of production and hence have not been sold. When any product is manufactured in a company, it undergoes various raw material processes to transform from work in progress to finished good.

Question: How much is the inventory of ARBL valued at?

Answer: The inventory for ARBL stands at Rs.335.0 Crs.

Question: Which components of inventory hold the most value for ARBL?

Answer: A bulk of the inventory value for ARBL comes from ‘Raw material’ and ‘Work-in-progress’.

Question: What are 'Trade Receivables'?

Answer: ‘Trade Receivables’, also referred to as ‘Accounts Receivables’, represent the amount of money that the company is expected to receive from its distributors, customers, and other related parties.

Question: What is the value of trade receivables for ARBL?

Answer: The trade receivable for ARBL stands at Rs.452.7 Crs.

Question: What happens when a product is manufactured in a company?

Answer: When any product is manufactured in a company, it goes through various stages from raw material processes to work in progress and then to the finished good.

Question: In the snapshot of Note 14 associated with the company's inventory, which categories hold the bulk of the inventory value?

Answer: The bulk of the inventory value comes from 'Raw material' and 'Work-in-progress'.

NOTE 14: INVENTORIES ₹ million

Particulars	As at March 31, 2014		As at March 31, 2013	
(Valued at lower of cost or net realisable value)				
Raw materials	826.36		666.18	
Add: Raw materials in transit	120.73		264.64	
Total Raw materials		947.09		930.82
Work-in-process		1,052.11		828.95
Finished goods		941.75		536.44
Stock-in-trade		74.56		368.98
Stores and spares		323.27		255.22
Loose tools		6.07		4.39
Secondary packing materials and others		5.23		3.78
Total		**3,350.08**		**2,928.58**

Question: What are 'Trade Receivables' or 'Accounts Receivables'?

Answer: 'Trade Receivables' also referred to as 'Accounts Receivables', represents the amount of money that the company is expected to receive from its distributors, customers, and other related parties.

Question: What is the value of trade receivable for ARBL?

Answer: The trade receivable for ARBL stands at Rs.452.7 Crs.

Current assets			
Inventories	14	3,350.08	2,928.58
Trade receivables	15	4,527.89	3,806.77
Cash and bank balances	16	2,945.67	4,107.90
Short-term loans and advances	12	2,119.30	1,656.78
Other current assets	13	43.16	68.49

Question: What are Cash and Cash equivalents?

Answer: Cash and Cash equivalents are the most liquid assets found in any company's Balance sheet. Cash comprises cash on hand and cash on demand. Cash equivalents are short-term, highly liquid investments with a maturity date of fewer than three months from its acquisition date.

Question: How much does the Cash and Cash equivalents stand at?

Answer: Cash and Cash equivalents stand at Rs.294.5 Crs.

Question: How is the company's cash managed?

Answer: As per Note 16 associated with Cash and bank balances, the company has cash parked in various types of accounts.

NOTE 16: CASH AND BANK BALANCES ₹ million

Particulars	As at March 31, 2014		As at March 31, 2013	
a) Cash and cash equivalents				
i) Balances with banks				
in current accounts	156.95		238.37	
in deposit accounts	2,445.79		3,652.00	
in exchange earner's foreign currency account	56.65		30.23	
ii) Cheques/drafts on hand	268.15		172.61	
iii) Cash on hand	1.09	2,928.63	1.47	4,094.68
b) Other bank balances in earmarked accounts				
Unclaimed dividends		17.04		13.22
Total		**2,945.67**		**4,107.90**

Question: What is included in short-term loans and advances?

Answer: Short-term loans and advances include various items such as advances to suppliers, loans to customers, loans to employees, advance tax payments (income tax, wealth tax) etc.

Question: What is the value of short-term loans and advances?

Answer: The value of short-term loans and advances stands at Rs.211.9 Crs.

Current assets				
Inventories	14	3,350.08		2,928.58
Trade receivables	15	4,527.89		3,806.77
Cash and bank balances	16	2,945.67		4,107.90
Short-term loans and advances	12	2,119.30		1,656.78
Other current assets	13	43.16		68.49

Question: What are the 'Other current assets'?

Answer: 'Other current assets' are assets which are not considered important, hence termed 'Other'.

Question: How much is the value of 'Other current assets'?

Answer: The value of 'Other current assets' stands at Rs.4.3 Crs.

Question: How do you calculate the Total Assets of the company?

Answer: The Total Assets of the company is the sum of Fixed Assets and Current Assets.

Question: What is the total asset value of the company?

Answer: The total asset value of the company is Rs. 2139.441 Crs, which is exactly equal to the liabilities of the company.

Question: What is the formula to calculate the Total Assets of a company?

Answer: The Total Assets of the company can be calculated as the sum of its Fixed Assets and Current Assets.

Question: How does the Total Assets value compare to the company's liabilities?

Answer: The Total Assets value of Rs. 2139.441 Crs is exactly equal to the liabilities of the company.

Question: What is the equation that holds for ARBL's balance sheet?

Answer: The equation that holds for ARBL's balance sheet is: Asset = Shareholders' Funds + Liabilities.

Question: Have the balance sheet and the P&L statements been analyzed for quality in the recent chapters?

Answer: No, over the last few chapters, only the inspection of the balance sheet and the P&L statements was done, without analyzing if the numbers are good or bad.

Balance Sheet as at March 31, 2014

₹ million

Particulars	Note No.	As at March 31, 2014		As at March 31, 2013	
EQUITY AND LIABILITIES					
Shareholders' funds					
Share capital	2	170.81		170.81	
Reserves and surplus	3	13,456.20		10,427.33	
			13,627.01		10,598.14
Non-current liabilities					
Long-term borrowings	4	759.47		773.13	
Deferred tax liabilities (net)	5	301.33		195.09	
Long-term provisions	6	369.57		376.41	
			1,430.37		1,344.63
Current liabilities					
Short-term borrowings	7	83.83		98.63	
Trade payables	8	1,277.79		1,362.84	
Other current liabilities	9	2,156.68		1,807.26	
Short-term provisions	6	2,818.73		2,493.20	
			6,337.03		5,761.93
Total			21,394.41		17,704.70
ASSETS					
Non-current assets					
Fixed assets	10				
Tangible assets		6,198.94		3,554.97	
Intangible assets		32.96		33.69	
Capital work-in-progress		1,443.60		1,024.97	
Intangible assets under development		3.14		4.84	
		7,678.64		4,618.47	
Non-current investments	11	160.76		160.76	
Long-term loans and advances	12	567.69		353.52	
Other non-current assets	13	1.22		3.43	
			8,408.31		5,136.18
Current assets					
Inventories	14	3,350.08		2,928.58	
Trade receivables	15	4,527.89		3,806.77	
Cash and bank balances	16	2,945.67		4,107.90	
Short-term loans and advances	12	2,119.30		1,656.78	
Other current assets	13	43.16		68.49	
			12,986.10		12,568.52
Total			21,394.41		17,704.70
Significant accounting policies	1				

Question: What will be discussed in the financial ratio analysis chapter?

Answer: In the financial ratio analysis chapter, we will analyze the data to infer if the numbers are good or bad.

Question: Why is it essential to understand the interconnection between the Balance sheet and the P&L statement?

Answer: It is essential because both these financial statements provide insights into the company's financial health and performance, and understanding their interconnection helps in a comprehensive analysis.

Question: How are the Balance Sheet and the P&L statement connected?

Answer: The Balance Sheet and the P&L statement are interconnected through various line items. For instance, certain actions or events that affect the P&L also have corresponding impacts on the Balance Sheet.

The P&L Statement		The Balance Sheet Statement
Sales Revenue	=====>	Receivable and Cash Balance
Operating Expenses	=====>	Inventory and Trade Payables
Depreciation & Amortization	=====>	Accumulated Depreciation
Other Income	=====>	Investments
Finance Cost	=====>	Debt
PAT	=====>	Shareholders Equity

Question: What happens when a company makes a sale?

Answer: When a company makes a sale, it incurs expenses. These expenses, such as an advertisement campaign, can decrease the cash balance. If the sale is made on credit, the Receivables or Accounts Receivables go higher.

Question: What is included in the operating expenses?

Answer: Operating expenses include the purchase of raw material, finished goods, and other similar expenses necessary for manufacturing goods.

Question: How are Trade payables (accounts payable) affected by company expenses?

Answer: When a company incurs operating expenses, if the purchase is on credit (which often is the case), then the Trade payables or accounts payable go higher.

Question: How does inventory value change?

Answer: The Inventory level gets affected when a company incurs operating expenses. Whether the inventory value is high or low depends on how much time the company needs to sell its products.

Question: What happens when companies purchase Tangible or Intangible assets?

Answer: When companies purchase Tangible assets or invest in Brand building exercises (Intangible assets), the asset's purchase value is spread over its economic useful life. This action increases the depreciation in the Balance sheet, which is cumulative and referred to as Accumulated depreciation.

Question: How is the Balance sheet's depreciation different from regular depreciation?

Answer: Depreciation in the Balance sheet is prepared on a flow basis and accumulates year on year. It is referred to as the Accumulated depreciation.

Question: What constitutes "Other income" for a company?

Answer: Other income includes monies received in interest income, sale of subsidiary companies, rental income, etc. Investment activities by companies can affect other incomes.

Question: What is the Finance Cost or Borrowing Cost?

Answer: When a company undertakes Debt, be it short term or long term, the company spends money towards financing that debt. This money spent is termed as the Finance Cost or Borrowing Cost.

Question: How does an increase in debt affect the Finance Cost?

Answer: When debt increases, the finance cost also tends to increase and vice versa.

Question: What happens to the Profit after tax (PAT) in relation to the company's financial statements?

Answer: The Profit after tax (PAT) adds to the company's surplus, which then becomes a part of the Shareholders equity on the Balance Sheet.

Question: What does the Assets side of the Balance sheet display?

Answer: The Assets side of the Balance sheet displays all the assets the company owns.

Question: What is the expectation from assets in terms of economic benefit?

Answer: Assets are expected to give an economic benefit during its useful life.

Question: How are assets classified on the Balance sheet?

Answer: Assets are classified as Non-current and Current asset.

Question: What is the useful life of non-current assets?

Answer: The useful life of non-current assets is expected to last beyond 365 days or 12 months.

Question: Within what timeframe are Current assets expected to pay off?

Answer: Current assets are expected to pay off within 365 days or 12 months.

Question: What do you mean by the term 'Gross Block' in relation to assets?

Answer: Assets inclusive of depreciation are called the 'Gross Block.'

Question: How is the Net Block calculated?

Answer: Net Block = Gross Block – Accumulated Depreciation.

Question: How do you determine if a Balance sheet is balanced?

Answer: The sum of all assets should equal the sum of all liabilities. Only then the Balance sheet is said to have balanced.

Question: How are the Balance sheet and P&L statement related?

Answer: The Balance sheet and P&L statement are inseparable. They are connected in many ways.

Chapter-8: Cash Flow Statement Understanding

Question: What is the significance of the Cash flow statement?

Answer: The Cash flow statement is a significant financial statement as it reveals how much cash the company is actually generating.

Question: Does the P&L statement reveal the same information as the Cash flow statement?

Answer: The P&L statement may give an indication of a company's revenues, but it doesn't necessarily show the actual cash the company has in hand. The cash flow statement, on the other hand, provides details on the actual cash position of the company.

Question: In the Tea shop example, how much income did the shop make for the day?

Answer: Assume a simple Tea shop selling Tea and short eats. All the shop's sales are mostly on a cash basis, meaning if a customer wants to have a cup of Tea and a snack, he needs to have enough money to buy what he wants. On a particular day, assume the shop manages to sell Rs.2,500/- worth of Tea and Rs.3,000/- worth of snacks. The shop's income is Rs.5,500/- for that day. Rs.5,500/- is reported as revenues in P&L, and there is no ambiguity with this.

The shop's income for the day was Rs.5,500/-.

Question: For the business that sells laptops, if 5 of the 20 laptops were sold on credit, how would the numbers appear?

Answer: Now think about another business that sells mobiles. For the sake of simplicity, let us assume that the shop sells only 1 type of mobile at a standard fixed rate of Rs.25,000/- per mobile. Assume on a certain day; the shop manages to sell 20 such mobiles. Clearly the revenue for the shop would be Rs.25,000 x 20 = Rs.500,000/-. But what if 5 of the 20 mobiles were sold on credit? A credit sale is when the customer takes the product today but pays the cash at a later point in time. In this situation here is how the numbers would look:

Cash sale: 15 * 25000 = Rs.375,000/-

Credit sale: 5 * 25000 = Rs.125,000/-

Total sales: Rs.500,000/-

If this shop were to show its total revenue in its P&L statement, you would see revenue of Rs.500,000/- which may seem good on the face of it. However, how much of this Rs.500,000/- is actually present in the company's bank account is not clear. What if this company had a loan of Rs.400,000/- that had to be repaid urgently? Even though the company has a sale of Rs.500,000, it has only Rs.375,000/- in its account. This means the company has a cash crunch, as it cannot meet its debt obligations.

Question: If the mobile shop showed its revenue in the P&L statement as Rs.500,000/-, does it indicate how much cash the company actually has?

Answer: No, the P&L statement would show the total revenue of Rs.500,000/-, but it wouldn't specify that out of this, only Rs.375,000/- is present in the company's bank account.

Question: What problem does a company face if it shows high revenues in its P&L but has less cash in its bank account?

Answer: The company can face a cash crunch, meaning it might not be able to meet its immediate financial obligations such as repaying a loan.

Question: What does the cash flow statement capture that the P&L doesn't?

Answer: The cash flow statement captures the actual cash position of the company, while the P&L shows revenues and expenses.

Question: Why is evaluating the cash flow statement critical for a company?

Answer: Evaluation of the cash flow statement is highly critical as it reveals the true cash position of the company, which is vital for understanding liquidity and meeting financial obligations.

Question: Is a company's financial performance solely dependent on the profits earned?

Answer: No, a company's financial performance is not just dependent on the profits earned, but more realistically on its liquidity or cash flows.

Question: What is the significance of understanding a company's activities before delving into its cash flow statement?

Answer: Before understanding the cash flow statement, it is important to comprehend 'the activities' of a company. Recognizing the different business activities of a company gives a clear insight into where the company is investing its money, how it is raising funds, and the operational tasks it is performing on a day-to-day basis.

Question: How can a company's activities be classified?

Answer: A company's activities can be classified under one of the three standard baskets.

Question: If we consider a fitness centre with a sound corporate structure, like Talwalkars or Gold's Gym, what are some of its typical business activities?

Answer: The typical business activities of a well-established fitness centre include:

- Displaying advertisements to attract new customers.
- Hiring fitness instructors to assist clients in their workouts.
- Purchasing new fitness equipment to replace older ones.
- Seeking short-term loans from bankers.
- Issuing certificates of deposit for raising funds.
- Issuing new shares to known acquaintances to raise capital for expansion, often termed as preferential allotment.
- Investing in startups focusing on innovative fitness routines.
- Parking surplus funds in fixed deposits.
- Investing in new buildings or spaces to expand or open new fitness centres in the future.
- Upgrading internal amenities, like the sound system, for a better workout experience for clients.

Question: What is a preferential allotment in terms of business activities?

Answer: Preferential allotment refers to the issuance of new shares to a select group of people, often known friends or acquaintances, with the intention of raising fresh capital for expansion or other business needs.

Question: How might a fitness centre utilize its excess funds?

Answer: A fitness centre may park its excess money in fixed deposits or invest in opportunities like new buildings in the vicinity with plans to open a new centre in the future.

Question: Why might a fitness centre consider upgrading its sound system?

Answer: Upgrading the sound system can enhance the workout experience for clients, providing a more motivating and enjoyable environment.

Question: What are the different types of business activities?

Answer: The different types of business activities mentioned are Operational activities, Investing activities, and Financing activities.

Question: How can Operational activities (OA) be defined?

Answer: Operational activities (OA) are related to the daily core business operations. Typical operating activities include sales, marketing, manufacturing, technology upgrade, resource hiring, etc.

Question: What encompasses Investing activities (IA)?

Answer: Investing activities (IA) pertain to investments that the company makes intending to reap benefits at a later stage. Examples include parking money in interest-bearing instruments, investing in equity shares, investing in land, property, plant and equipment, intangibles, and other non-current assets.

Question: What do Financing activities (FA) involve?

Answer: Financing activities (FA) relate to all financial transactions of the company. This includes distributing dividends, paying interest to service debt, raising fresh debt, and issuing corporate bonds.

Question: Can any business activity performed by a legitimate company fall outside of the three categories mentioned?

Answer: No, all activities a legitimate company performs can be classified under one of the three mentioned categories: Operational, Investing, and Financing activities.

Question: How are the activities classified?

Answer: The activities are classified into three categories or baskets: OA, FA, and IA.

Question: What does "OA" stand for in the classification of activities?

Answer: "OA" stands for Operational Activities.

Question: Which activities are classified under Operational Activities (OA)?

Answer: The activities classified under Operational Activities (OA) are:

- Display advertisements to attract new customers.
- Hire fitness instructors to help customers with their fitness workout.
- Buy new fitness equipment to replace worn-out equipment.
- Upgrade the sound system for better workout experience.

Question: What is the significance of "FA" in the activity classification?

Answer: "FA" denotes Financial Activities.

Question: Which activities are categorized as Financial Activities (FA)?

Answer: The activities categorized as Financial Activities (FA) are:

- Seek a short term loan from bankers.
- Issue a certificate of deposit (CD) for raising funds.

- Issue new shares to few known friends to raise fresh capital for expansion (also called preferential allotment).

Question: What activities are classified under the category "IA"?

Answer: "IA" stands for Investment Activities. The activities under this category are:

- Invest in a startup company working towards innovative fitness regimes.
- Park excess money (if any) in fixed deposit.
- Invest in a building coming up in the neighbourhood for opening a new fitness centre sometime in the future.

Question: How does upgrading the sound system impact the company's cash balance?

Answer: Upgrading the sound system means the company has to pay money towards purchasing a new sound system. Hence, the cash balance decreases.

Displaying advertisements to attract new customers.	**Operational activities (OA)**
Hiring fitness instructors to assist clients in their workouts.	Operational activities (OA)
Purchasing new fitness equipment to replace older ones.	Operational activities (OA)
Seeking short-term loans from bankers.	Financing activities (FA)
Issuing certificates of deposit for raising funds.	Financing activities (FA)
Issuing new shares to known acquaintances to raise capital for expansion, often termed as preferential allotment.	Financing activities (FA)
Investing in startups focusing on innovative fitness routines.	Investing activities (IA)
Parking surplus funds in fixed deposits.	Investing activities (IA)
Investing in new buildings or spaces to expand or open new fitness centres in the future.	Investing activities (IA)
Upgrading internal amenities, like the sound system, for a better workout experience for clients.	Operational activities (OA)

Question: How is the new sound system treated in terms of the company's assets?

Answer: The new sound system will be treated as a company asset.

Question: How does expenditure on advertisement impact the cash balance and the balance sheet?

Answer: The cash balance decreases and it's treated as an asset on the balance sheet because it increases the brand value.

Activity	Activity Type	Cash Balance	On Balance Sheet
Displaying advertisements to attract new customers.	**Operational activities (OA)**	**Decreases**	**Asset**
Hiring fitness instructors to assist clients in their workouts.	Operational activities (OA)	Decreases	Asset
Purchasing new fitness equipment to replace older ones.	Operational activities (OA)	Decreases	Asset
Seeking short-term loans from bankers.	Financing activities (FA)	Increases	Liability
Issuing certificates of deposit for raising funds.	Financing activities (FA)	Increases	Liability
Issuing new shares to known acquaintances to raise capital for expansion, often termed as preferential allotment.	Financing activities (FA)	Increases	Liability
Investing in startups focusing on innovative fitness routines.	Investing activities (IA)	Decreases	Asset
Parking surplus funds in fixed deposits.	Investing activities (IA)	Decreases	Asset
Investing in new buildings or spaces to expand or open new fitness centres in the future.	Investing activities (IA)	Decreases	Asset
Upgrading internal amenities, like the sound system, for a better workout experience for clients.	Operational activities (OA)	Decreases	Asset

Question: What is the financial implication of spending on recruits?

Answer: The cash balance decreases. On the balance sheet, it's treated as an asset as it increases the company’s intellectual capital.

Question: How does buying new equipment affect our financials?

Answer: The cash balance decreases. On the balance sheet, it's treated as an asset.

Question: What is the effect on cash balance and balance sheet when a loan is taken?

Answer: The cash balance increases and the loan is treated as a liability on the balance sheet.

Question: How do deposits via CD influence our cash position and balance sheet standing?

Answer: The cash balance increases. On the balance sheet, the CD is considered a liability.

Question: What is the financial impact of issuing fresh capital?

Answer: The cash balance increases. On the balance sheet, it's treated as a liability as share capital increases.

Question: How does investing in a startup impact the cash balance and the balance sheet?

Answer: The cash balance decreases and the investment is considered an asset on the balance sheet.

Question: What happens financially when money is parked in an FD?

Answer: The cash balance decreases. On the balance sheet, it is equivalent to cash and hence considered an asset.

Question: How does an investment in a building affect the company's cash and assets?

Answer: The cash balance decreases. On the balance sheet, the building is part of the gross block and considered an asset.

Question: How does expenditure towards a sound system impact our financials?

Answer: The cash balance decreases. On the balance sheet, it's treated as an asset.

Question: What happens to the cash balance when the liabilities of the company increase?

Answer: Whenever the liabilities of the company increases, the cash balance also increases.

Question: What can be inferred about the cash balance when the liabilities of the company decrease?

Answer: If the liabilities decrease, the cash balance also decreases.

Question: How does an increase in the assets of the company affect the cash balance?

Answer: Whenever the asset of the company increases, the cash balance decreases.

Question: What is the impact on the cash balance when the assets of the company decrease?

Answer: If the assets decrease, the cash balance increases.

Question: What is the key concept derived from observing the correlation between 'Cash Balance' and 'Asset/Liability'?

Answer: The key concept derived is that the correlation between 'Cash Balance' and 'Asset/Liability' plays a significant role while constructing a cash flow statement.

Question: What are the three types of activities every company engages in with respect to cash?

Answer: Each company’s activity is its operating activity, financing activity, or investing activity.

Question: How do these activities affect the company's cash balance?

Answer: These activities either produce cash (net increase in cash) or reduce (net decrease in cash) the cash for the company.

Question: How is the total cash flow for the company calculated?

Answer: Cash Flow of the company = Net cash flow from operating activities + Net Cash flow from investing activities + Net cash flow from financing activities.

Question: What is the significance of the cash flow statement?

Answer: The cash flow statement provides insight into a company's cash perspective, revealing how much cash the company has generated or used across various business activities.

Question: How do companies typically present their cash flow statements?

Answer: Companies typically split their cash flow statement into three segments to explicitly show how much cash has been generated or used across three primary business activities.

Question: What does a positive cash flow from operating activities indicate?

Answer: A company with a positive cash flow from operating activities is often a sign of financial well-being, indicating that the company is generating more cash than it's spending in its regular operations.

Particulars	Year ended March 31, 2014		Year ended March 31, 2013	
I. CASH FLOW FROM OPERATING ACTIVITIES				
Profit before tax from continuing operations		5,366.70		4,218.17
Add/(Less): Adjustments for				
a. Depreciation	636.69		577.20	
b. Amortisation	11.04		8.20	
c. Impairment loss	-		75.52	
d. Net income on sale of tangible fixed assets	(2.26)		(0.04)	
e. Tangible fixed assets written off	24.90		44.27	
f. Donation of tangible fixed asset	0.03		-	
g. Interest paid on working capital facilities	0.03		0.11	
h. Provisions and credit balances written back	(3.90)		(6.44)	
i. Bad debts written off	32.33		4.84	
j. Provision for doubtful trade receivables and advances (net)	(30.50)		(38.69)	
k. Exchange gain on restatement - other than borrowings (net)	(33.81)		(13.18)	
l. Provision for leave encashment	14.83		33.43	
m. Provision for gratuity	6.75		8.74	
n. Provision for warranty	(40.22)		156.14	
o. Dividend received	(144.19)		(145.27)	
p. Interest received on bank and other deposits	(137.94)		(112.29)	
q. Interest on income tax	6.70		2.03	
r. Provision for wealth tax	2.00	342.48	1.83	596.40
Operating profit before working capital changes		5,709.18		4,814.57
Add/(Less): Adjustments for working capital changes				
a. Increase in inventories	(421.50)		(262.41)	
b. Increase in trade receivables	(711.71)		(571.57)	
c. Increase in loans and advances	(445.72)		(421.49)	
d. Increase/(decrease) in trade payables	(77.73)		490.32	
e. Increase in other current liabilities	341.23	(1,315.43)	671.36	(93.79)
Cash generated from operations		4,393.75		4,720.78
Less: a. Income tax	1,604.42		1,365.95	
b. Wealth tax	1.83	1,606.25	0.18	1,366.13
Net cash from operating activities - A		2,787.50		3,354.65

Question: In the example of Amara Raja Batteries Limited (ARBL), how much cash was generated from operating activities?

Answer: ARBL generated Rs.278.7 Crs from its operating activities.

Question: How much cash did ARBL consume in its investing activities?

Answer: ARBL consumed Rs.344.8 Crs in its investing activities.

II. CASH FLOW FROM INVESTING ACTIVITIES				
a. Purchase of tangible fixed assets		(3,303.66)		(724.78)
b. Purchase of intangible fixed assets		(10.30)		(20.97)
c. Increase in capital work-in-progress		(423.26)		(718.50)
d. Decrease/(increase) in intangible assets under development		1.69		(0.25)
e. Sale of tangible fixed assets		4.98		1.80
g. Interest received on bank and other deposits		137.94		112.29
h. Dividend received		144.19		145.27
Net cash from investing activities - B		(3,448.42)		(1,205.14)

Question: Why is it intuitive that investing activities consume cash?

Answer: It is intuitive as investing activities typically involve expenditure such as buying assets or making long-term investments, which tend to use up cash.

Question: What do healthy investing activities indicate to an investor?

Answer: Healthy investing activities suggest to the investor that the company is committed to its business expansion and growth.

Question: How much cash did ARBL consume from financing activities?

Answer: ARBL consumed Rs.53.1 Crs through its financing activities.

Particulars	Year ended March 31, 2014		Year ended March 31, 2013	
III. CASH FLOW FROM FINANCING ACTIVITIES				
a. Short term borrowings from banks availed / repaid		(13.70)		42.59
b. Interest free sales tax deferment repaid		(13.67)		(16.92)
c. Interest paid on working capital facilities		(0.03)		(0.11)
d. Dividend paid		(430.45)		(322.84)
e. Dividend tax paid		(73.15)		(52.37)
Net cash from financing activities - C		(531.00)		(349.65)

Question: What was a significant use of the money in ARBL's financing activities?

Answer: A significant use of the money in ARBL's financing activities was for paying dividends.

Question: If ARBL takes on new debt in the future, how would it affect the cash balance?

Answer: If ARBL takes on new debt in the future, it would increase the cash balance because an increase in liabilities (like taking on new debt) leads to an influx of cash.

Question: Did ARBL undertake any new debt as per the balance sheet?

Answer: No, according to the balance sheet, ARBL did not undertake any new debt.

Question: What was the cash flow from operating activities in the financial year 2013-14?

Answer: The cash flow from operating activities in the financial year 2013-14 was Rs. 278.7 Crores.

Question: How much cash was used in investing activities during the financial year 2013-14?

Answer: Rs. 344.8 Crores were used in investing activities during the financial year 2013-14.

Question: What was the cash flow from financing activities in the year 2012-13?

Answer: The cash flow from financing activities in the year 2012-13 was Rs. (34.96) Crores.

Question: What was the total cash flow for the company in the financial year 2013-2014?

Answer: The company consumed a total cash of Rs.119.19 Crs for the financial year 2013-2014.

Cash Flow from	Rupees Crores (2013-14)	Rupees Crores (2012-13)
Operating Activities	278.7	335.4
Investing Activities	-344.8	-120.05
Financing Activities	-53.1	-34.96
Total	**-119.19**	**179.986**

Question: How much total cash did the company generate through all its activities in the financial year 2012-13?

Answer: The company generated Rs.179.986 Crs through all its activities in the financial year 2012-13.

Question: What was the opening balance of cash for the year 2013-14?

Answer: The opening balance for the year 2013-14 was Rs.409.46 Crs.

Opening cash and cash equivalents	4,094.68	2,283.19
Add: Net increase/(decrease) in cash and cash equivalents	(1,191.92)	1,799.86
Add: Effect of foreign exchange differences on restatement of cash and cash equivalents	25.87	11.63
Closing cash and cash equivalents	2,928.63	4,094.68

Question: How is the opening balance for the year 2013-14 determined?

Answer: The opening balance for the year 2013-14 happens to be the closing balance for the previous year.

Question: How was the company's total cash position for the year 2013-14 calculated?

Answer: The company's total cash position for the year 2013-14 was calculated by adding the opening balance to the current year's cash equivalents (Rs.119.19 Crs) along with a minor forex exchange difference of Rs.2.58 Crs, resulting in a total of Rs.292.86 Crs.

Question: What will be the opening balance for the financial year 2014-15?

Answer: The closing balance of 2013-14 will now be the opening balance for the FY 2014-15.

Question: When can we expect ARBL to provide its cash flow numbers for the year ended 31st March 2015?

Answer: You can watch out for this information when ARBL provides its cash flow numbers for the year ended 31st March 2015.

Question: What does Rs.292.86 Crs actually state?

Answer: This literally shows how much cash ARBL has in its various bank accounts.

Question: What is cash?

Answer: Cash comprises cash on hand and demand deposits. Obviously, this is a liquid asset of the company.

Question: What are liquid assets?

Answer: Liquid assets are assets that can be easily converted to cash or cash equivalents.

Question: Are liquid assets similar to 'current items' that we looked at in the Balance sheet?

Answer: Yes, you can think of it that way.

Question: If cash is current and cash is an asset, shouldn't it reflect under the Balance sheet's current asset?

Answer: Exactly and here it is. Look at the balance sheet extract below.

	Note				
ASSETS					
Non-current assets					
Fixed assets	10				
Tangible assets		6,198.94		3,554.97	
Intangible assets		32.96		33.69	
Capital work-in-progress		1,443.60		1,024.97	
Intangible assets under development		3.14		4.84	
		7,678.64		4,618.47	
Non-current investments	11	160.76		160.76	
Long-term loans and advances	12	567.69		353.52	
Other non-current assets	13	1.22		3.43	
			8,408.31		5,136.18
Current assets					
Inventories	14	3,350.08		2,928.58	
Trade receivables	15	4,527.89		3,806.77	
Cash and bank balances	16	2,945.67		4,107.90	
Short-term loans and advances	12	2,119.30		1,656.78	
Other current assets	13	43.16		68.49	
			12,986.10		12,568.52
Total			21,394.41		17,704.70

Question: How do the cash flow statement and the balance sheet relate to each other?

Answer: We can infer that the cash flow statement and the balance sheet interact with each other. This means that all the three financial statements are interconnected.

Question: What are the three important financial statements discussed?

Answer: The three important financial statements discussed are the P&L statement, the Balance Sheet, and the Cash Flow statement.

Question: How are the Cash Flow and P&L statements prepared in terms of representation?

Answer: The Cash Flow and P&L statements are prepared on a standalone basis, representing the given year's financial position.

Question: How is the Balance Sheet prepared in terms of its basis?

Answer: The Balance Sheet is prepared on a flow basis.

Question: What does the P&L statement indicate?

Answer: The P&L statement discusses how much the company earned as revenues versus how much the company expended in terms of expenses. It also incorporates the depreciation number, which is carried forward to the balance sheet.

Question: Where are the company's retained earnings or surplus carried forward to?

Answer: The company's retained earnings, also called the surplus of the company, are carried forward to the balance sheet.

Question: What details does the Balance Sheet provide?

Answer: The Balance Sheet details the company's assets and liabilities. It represents the shareholders' funds on the liabilities side, and it should always have assets equal to liabilities for it to be balanced. One key detail is the cash and cash equivalents, which shows how much money the company has in its bank account.

Question: What does the cash flow statement provide information about?

Answer: The cash flow statement provides information about the entity's ability to generate cash and cash equivalents. It indicates the cash needs of a company and classifies cash flows into operating, financing, and investing activities. The final number tells how much money the company has in its bank account.

Question: Have the discussions so far included how to analyze the numbers in the financial statements?

Answer: No, we have looked into how to read the financial statements and what to expect from each of them, but have not ventured into how to analyze these numbers yet.

Question: What is one of the methods to analyze the financial numbers?

Answer: One of the ways to analyze the financial numbers is by calculating a few important financial ratios.

Question: What does the Cash flow statement indicate about a company?

Answer: The Cash flow statement gives us a picture of the true cash position of the company.

Question: What are the three main activities of a legitimate company?

Answer: A legitimate company has three main activities – operating activities, investing activities, and the financing activities.

Question: How do these activities impact a company's money?

Answer: Each activity either generates or drains money for the company.

Question: How is the company's net cash flow determined?

Answer: The company's net cash flow is the sum of operating activities, investing activities, and financing activities.

Question: Which part of the Cash flow statement should investors focus on?

Answer: Investors should specifically look at the cash flow from operating activities of the company.

Question: How does an increase in liabilities affect the cash level of a company?

Answer: When the liabilities increase, cash level increases and vice versa.

Question: What happens to the cash level when assets increase?

Answer: When the assets increase, cash level decreases and vice versa.

Question: Is the net cash flow number reflected anywhere else apart from the Cash flow statement?

Answer: The net cash flow number for the year is also reflected in the balance sheet.

Question: Why is the Statement of Cash flow significant to a company's financial statements?

Answer: The Statement of Cash flow is a useful addition to a company's financial statements because it indicates the company's performance.

Chapter-9: The Financial Ratio Analysis.

Question: What are we focusing on after understanding how to read financial statements?

Answer: We are focusing on analyzing these financial statements using 'Financial Ratios'.

Question: Who made the theory of financial ratios popular?

Answer: The theory of financial ratios was made popular by Benjamin Graham.

Question: Who is Benjamin Graham known as in the realm of financial analysis?

Answer: Benjamin Graham is popularly known as the fundamental analysis father.

Question: How does a typical financial ratio get its value?

Answer: A typical financial ratio utilizes data from the financial statement to compute its value.

Question: Does a financial ratio of a company on its own convey a lot of information?

Answer: On its own merit, the financial ratio of a company conveys very little information.

Question: If Ultratech Cements Limited has a profit margin of 15%, is that information enough to gauge its performance?

Answer: No, the 15% profit margin on its own isn't enough. It becomes more meaningful when compared to similar companies, like ACC Cement's profit margin of 12%.

Question: Why is it important to compare financial ratios?

Answer: Financial Ratios often make sense only when compared with another company of a similar size or when analyzed against the financial ratio trend.

Question: What should we do once the ratio is computed?

Answer: Once the ratio is computed, it must be analyzed either by comparison or tracking the ratio's historical trend to derive the best possible inference.

Question: What is a potential challenge while computing ratios among different companies or years?

Answer: Accounting policies may vary across companies and different financial years. A fundamental analyst should be aware of this and adjust the data accordingly before computing the financial ratio.

Question: What are the broad categories into which financial ratios can be classified?

Answer: Financial ratios can be 'somewhat loosely' classified into different categories: Profitability Ratios, Leverage Ratios, Valuation Ratios, and Operating Ratios.

Question: What do Profitability Ratios indicate?

Answer: The Profitability ratios help the analyst measure the profitability of the company. They convey how well the company can perform in terms of generating profits. The profitability of a company also signals the competitiveness of the management. Profits are needed for business expansion and to pay dividends to its shareholders, making a company's profitability an important consideration.

Question: How are Leverage Ratios also known?

Answer: The Leverage ratios are also referred to as solvency ratios or gearing ratios.

Question: What do Leverage Ratios measure?

Answer: Leverage ratios measure the company's ability (in the long term) to sustain its day-to-day operations. They assess the extent to which the company uses debt to finance growth. These ratios help us understand the company's long-term sustainability by keeping its obligations in perspective.

Question: What information do Valuation Ratios provide?

Answer: The Valuation ratios compare the company's stock price with either the profitability of the company or the company's overall value. This gives a sense of how cheap or expensive the stock is trading. In essence, the valuation ratio helps analyze whether the company's current share price is perceived as high or low.

Question: How do Valuation Ratios help in understanding the stock's value?

Answer: The valuation ratio compares the cost of security with the perks of owning the stock, helping investors determine if the stock is priced high or low.

Question: What do Operating Ratios measure?

Answer: The Operating Ratios, also called the 'Activity Ratios', measure the efficiency at which a business can convert its assets (both current and noncurrent) into revenues. This ratio helps us understand the efficiency of the company's management. That's why Operating Ratios are sometimes termed as the 'Management Ratios'.

Question: Why is it challenging to strictly classify financial ratios?

Answer: Strictly speaking, ratios, irrespective of the category they belong to, convey a particular message, usually related to the company's financial position. For example, the 'Profitability Ratio' can convey the company's efficiency, typically measured by the 'Operating Ratio'. Due to such overlaps, it becomes difficult to classify these ratios, leading to their 'somewhat loosely' classification.

Question: What are the Profitability Ratios?

Answer: The Profitability Ratios refer to a set of ratios that include EBITDA Margin, EBITDA Growth, PAT Margin, PAT Growth, Return on Equity, Return on Asset, and Return on Capital Employed.

Question: What does the EBITDA Margin represent?

Answer: EBITDA Margin, also known as Operating Profit Margin, represents a company's operating profit as a percentage of its total revenue.

Question: What is meant by EBITDA Growth?

Answer: EBITDA Growth denotes the Compound Annual Growth Rate (CAGR) of a company's EBITDA over a specific period.

Question: What is PAT Margin?

Answer: PAT Margin stands for Profit After Tax Margin. It is the ratio that shows a company's net profit as a percentage of its total revenue.

Question: How is PAT Growth defined?

Answer: PAT Growth refers to the Compound Annual Growth Rate (CAGR) of a company's Profit After Tax over a specific duration.

Question: Can you explain Return on Equity (ROE)?

Answer: Return on Equity (ROE) is a measure of profitability that calculates how many dollars of profit a company generates with each dollar of shareholders' equity.

Question: What does Return on Asset (ROA) indicate?

Answer: Return on Asset (ROA) measures a company's ability to generate earnings from its assets. It is calculated as the net income produced by total assets during the period.

Question: What is the significance of Return on Capital Employed (ROCE)?

Answer: Return on Capital Employed (ROCE) is a profitability ratio that determines the efficiency with which a company can generate profits from its capital employed. It provides a measure of how effectively a company uses its capital to generate returns.

Question: What does EBITDA Margin indicate about a company?

Answer: The Earnings before Interest Tax Depreciation & Amortization (EBITDA) margin indicates the efficiency of the management. It tells us how efficient the company's operating model is. EBITDA Margin reveals how profitable (in percentage terms) the company is at an operating level.

Question: Why is it useful to compare a company's EBITDA margin with its competitor's?

Answer: Comparing the company's EBITDA margin versus its competitor gives a sense of the management's efficiency in terms of managing their expenses.

Question: How is EBITDA calculated?

Answer: EBITDA is calculated using the formula:

EBITDA = [Operating Revenues –(minus) Operating Expense].

Where Operating Revenues = [Total Revenue – (minus) Other Income]

and Operating Expense = [Total Expense – (minus) Finance Cost –(minus) Depreciation & Amortization].

Question: How is the EBITDA Margin derived?

Answer: The EBITDA Margin is derived using the formula: EBIDTA Margin = EBITDA / [Total Revenue – Other Income].

Question: Why should "Other Income" be excluded from Total Revenues in the calculation of EBITDA?

Answer: Other income is income under investments and other non-operational activity. Including other income in EBITDA calculation would skew the data. Hence, we exclude Other Income from Total Revenues to get an accurate representation of the company's operational profitability.

Question: How was the EBITDA Margin for Amara Raja Batteries Limited for FY14 calculated?

Answer: For Amara Raja Batteries Limited, the EBITDA for FY14 was calculated using:

[Total Revenue – (minus) Other Income] –(minus) [Total Expense –(minus) Finance Cost –(minus) Depreciation & Amortization],

which equated to 560 Crores. The EBITDA Margin was then derived by dividing this EBITDA (560 Crores) by the operating revenue (3436 Crores), resulting in 16.3%.

Question: What does an EBITDA of Rs.560 Crs mean for a company?

Answer: An EBITDA of Rs.560 Crs means that the company has retained Rs.560 Crs from its operating revenue of Rs.3436 Crs. This means out of Rs.3436 Crs, the company spent Rs.2876 Crs on its expenses.

Question: How can one interpret an EBITDA margin of 16.3%?

Answer: An EBITDA margin of 16.3% indicates that the company retained 16.3% of its revenue at the operating level. In percentage terms, the company spent 83.7% of its revenue on expenses and retained the remaining 16.3% for its operations.

Question: What implications does an EBITDA of Rs.560 Crs and an EBITDA margin of 16.3% hold for a company's operations?

Answer: An EBITDA of Rs.560 Crs means that out of its operating revenue, the company managed to retain this amount after covering its operating expenses. The EBITDA margin of 16.3% indicates that the company retained 16.3% of its revenue at the operating level, implying that it spent 83.7% of its revenue on its expenses.

Question: Why does a standalone financial ratio like the EBITDA margin convey very little information?

Answer: A financial ratio on its own conveys very little information. To truly understand its significance, one should either observe its trend over time or compare it with its peers.

Question: How can one make sense of a company's EBITDA margin?

Answer: To make sense of the EBITDA margin, one should look at its trend over the years or compare it with competitors in the same industry.

Question: How has Amara Raja's EBITDA margin trended over the last 4 years?

Year	Operating Revenues	Operating Expense	EBITDA	EBITDA Margin
2011	1761	1504	257	14.60%
2012	2364	2025	340	14.40%
2013	2959	2508	451	15.20%
2014	3437	2876	560	16.30%

Answer: Amara Raja's EBITDA margin showed the following trend over the last 4 years:

- 2011: 14.6%

- 2012: 14.4%

- 2013: 15.2%

- 2014: 16.3%

This suggests that ARBL has not only maintained its EBITDA margin at an average of 15% but has also seen an increasing trend.

Question: What does an increasing EBITDA margin indicate about a company?

Answer: An increasing EBITDA margin indicates consistency and efficiency in the management's operational capabilities.

Question: How has the EBITDA amount changed for ARBL from 2011 to 2014?

Answer: In 2011, the EBITDA was Rs.257 Crs, while in 2014, it increased to Rs.560 Crs.

Question: What is the 4-year EBITDA CAGR growth for ARBL based on the data provided?

Answer: The 4-year EBITDA CAGR growth for ARBL is 21%.

Question: Why is it essential to compare a company's financial ratios with its competitors?

Answer: Comparing a company's financial ratios with its competitors provides context and helps determine its position and performance within the industry. It aids in understanding if the company's performance is impressive relative to others in the same sector.

Question: Who is the primary competitor of Amara Raja Batteries Limited?

Answer: The primary competitor of Amara Raja Batteries Limited is Exide Batteries Limited.

Question: How can one determine if ARBL's EBITDA margin and growth are among the best in its industry?

Answer: To determine if ARBL's EBITDA margin and growth are among the best, one needs to compare these numbers with its competitors, such as Exide Batteries Limited.

Question: What does the PAT margin represent?

Answer: The Profit After Tax (PAT) margin represents the company's profitability at the final level after all expenses, including operating expenses, depreciation, finance costs, and taxes, have been deducted from the company's Total Revenues.

Question: How does the PAT margin differ from the EBITDA margin?

Answer: While the EBITDA margin is calculated at the operating level considering only the operating expenses, the PAT margin is calculated at the final profitability level. In EBITDA margin, other expenses such as depreciation and finance costs are not considered. In contrast, the PAT margin considers all expenses, including operating expenses, depreciation, finance costs, and tax expenses.

Question: How is the PAT margin calculated?

Answer: The PAT margin is calculated using the formula: PAT Margin = [PAT/Total Revenues].

Question: What sources can be referred to find the PAT of a company?

Answer: The PAT (Profit After Tax) is explicitly stated in the company's Annual Report.

Question: What was ARBL's PAT for FY14 and how was its PAT margin calculated?

Answer: ARBL's PAT for the FY14 is Rs.367 Crs on the overall revenue of Rs.3482 Crs (including other income). The PAT margin was calculated using the formula: 367 / 3482, resulting in a PAT margin of 10.5%.

Question: What does a PAT margin of 10.5% signify?

Answer: A PAT margin of 10.5% signifies that after deducting all expenses, including taxes, ARBL retained 10.5% of its Total Revenues as profit for the FY14.

Question: How has the PAT trended for ARBL over the years?

Year	PAT (in INR Crs)	PAT Margin
2011	148	8.40%
2012	215	8.90%
2013	287	9.60%
2014	367	10.50%

Answer: The PAT for ARBL over the years is as follows:

- 2011: INR 148 Crs
- 2012: INR 215 Crs
- 2013: INR 287 Crs
- 2014: INR 367 Crs

Question: How has the PAT margin for ARBL changed from 2011 to 2014?

Answer: The PAT margin for ARBL has shown the following trend over the years:

- 2011: 8.4%
- 2012: 8.9%
- 2013: 9.6%
- 2014: 10.5%

Question: What does the increasing trend in PAT margin suggest about ARBL's financial performance?

Answer: The increasing trend in PAT margin suggests that ARBL has been improving its profitability consistently over the years. It indicates that the company has been effective in managing its expenses and enhancing its net profit margins.

Question: What is the 4-year CAGR growth of PAT for ARBL based on the data provided?

Answer: The 4-year CAGR growth of PAT for ARBL is 25.48%.

Question: Why is it important to compare a company's PAT margin with its competitors?

Answer: Comparing a company's PAT margin with its competitors provides insight into its financial performance relative to others in the same sector. It helps stakeholders understand where the company stands in the industry and whether its profitability is in line with, above, or below industry standards.

Question: What was the EBITDA for ARBL in 2011 and 2014?

Answer: In 2011, the EBITDA for ARBL was Rs.257 Crs, and in 2014, it was Rs.560 Crs.

Question: How is the 4-year CAGR growth for ARBL's EBITDA calculated?

Answer: The 4-year EBITDA CAGR growth for ARBL is calculated as 21%.

Question: Why is it necessary to compare the EBITDA margin and growth of a company with its competitors?

Answer: Comparing the EBITDA margin and growth with competitors provides a contextual understanding of the company's performance. It helps in determining whether the company is outperforming, underperforming, or performing at par with industry standards.

Question: Who is the primary competitor of ARBL in the context of the EBITDA comparison?

Answer: The primary competitor of ARBL in this context is Exide Batteries Limited.

Question: What is the recommendation for someone trying to analyze ARBL's performance further?

Answer: It is recommended to examine the EBITDA margin and growth of Exide Batteries Limited and compare it with ARBL's figures to gain a comprehensive understanding of ARBL's standing in the industry.

Question: What is the PAT margin?

Answer: The Profit After Tax (PAT) margin is a measure that reflects the profitability of a company at the final level. It is the percentage of the company's Total Revenues that remains as profit after all expenses, including operating expenses, depreciation, finance costs, and taxes, have been deducted.

Question: How does the EBITDA margin differ from the PAT margin?

Answer: The EBITDA margin is calculated at the operating level and considers only the operating expenses. It does not account for other expenses such as depreciation, finance costs, and taxes. On

the other hand, the PAT margin is calculated at the final profitability level, considering all expenses, including those not factored into the EBITDA margin.

Question: How is the PAT margin formula derived?

Answer: The PAT margin is calculated using the formula: PAT Margin = [PAT/Total Revenues].

Question: Where can one find the PAT of a company?

Answer: The PAT (Profit After Tax) is explicitly stated in the company's Annual Report.

Question: What was ARBL's PAT and its corresponding PAT margin for FY14?

Answer: ARBL's PAT for the FY14 was Rs.367 Crs on an overall revenue of Rs.3482 Crs (including other income). The calculated PAT margin for this period was 10.5%.

Question: What does a PAT margin of 10.5% imply about ARBL's profitability in FY14?

Answer: A PAT margin of 10.5% implies that ARBL retained 10.5% of its Total Revenues as profit after deducting all expenses for FY14.

Question: How has ARBL's PAT changed over the years from 2011 to 2014?

Year	PAT (in INR Crs)	PAT Margin
2011	148	8.40%
2012	215	8.90%
2013	287	9.60%
2014	367	10.50%

Answer: ARBL's PAT has shown the following progression over the years:

- 2011: INR 148 Crs

- 2012: INR 215 Crs

- 2013: INR 287 Crs

- 2014: INR 367 Crs

Question: How has the PAT margin for ARBL trended from 2011 to 2014?

Answer: The PAT margin for ARBL has demonstrated the following trend over the years:

- 2011: 8.4%

- 2012: 8.9%

- 2013: 9.6%

- 2014: 10.5%

Question: What can be inferred from the trend in ARBL's PAT and PAT margin over the mentioned years?

Answer: The consistent increase in both PAT and PAT margin over the years indicates that ARBL has been successfully improving its profitability. The expansion in the PAT margin suggests enhanced efficiency in managing expenses relative to revenues.

Question: How has ARBL's PAT grown over the 4-year period?

Answer: The 4-year CAGR growth for ARBL's PAT stands at 25.48%, showcasing a strong and consistent growth in profitability.

Question: Why is it essential to compare a company's financial ratios with those of its competitors?

Answer: Comparing a company's financial ratios with its competitors gives a relative perspective on its performance. It helps stakeholders determine how well the company is doing in comparison to industry standards and peers, ensuring a more comprehensive and contextual understanding of its financial health and operational efficiency.

Question: What is the significance of Return on Equity (RoE)?

Answer: Return on Equity (RoE) is a vital financial ratio that measures a company's ability to generate profits from its shareholders' investments. It helps investors gauge the return earned for every unit of capital invested, thereby reflecting the efficiency of a company in generating returns for its shareholders.

Question: How does RoE benefit the shareholders?

Answer: A higher RoE indicates that the company is efficiently using shareholders' equity to produce profits. The greater the RoE, the better it is for shareholders, as it suggests that the company provides a higher return on the capital they have invested.

Question: How do investors typically use the RoE ratio?

Answer: Investors use the RoE ratio to identify investable attributes of a company. By comparing the RoE of a company with industry averages and competitors, investors can assess the company's relative efficiency in utilizing shareholder equity to generate profits.

Question: What is a typical average RoE for top Indian companies?

Answer: The average RoE of top Indian companies typically varies between 14 – 16%. However, some investors prefer companies with an RoE of 18% or higher.

Question: How is RoE calculated?

Answer: RoE is calculated using the formula: [Net Profit / Shareholders Equity* 100].

Question: Does a higher RoE have implications on a company's need for external funds?

Answer: Yes, if the RoE is high, the company is generating a substantial amount of cash, reducing its reliance on external funding sources. A higher RoE generally indicates superior management performance and efficiency in generating shareholder returns.

Question: Can you explain RoE with an example?

Answer: Sure. Consider Vishal's Tea store. If Vishal procures an oven for Rs.10,000/- from his funds (implying no external debt), the shareholder equity in his balance sheet would be Rs.10,000. If he makes a profit of Rs.2500 in the first year, the RoE would be calculated as:

RoE = (2500/10000)*100 = 25.0%. This means Vishal made a 25% return on his equity investment in the first year.

Question: Are there any limitations or drawbacks of the RoE ratio?

Answer: Yes, like many financial ratios, RoE also has certain drawbacks. For instance, it may not always provide a full picture of a company's financial health or performance, especially if there are significant changes in shareholder equity or if a company heavily relies on debt financing.

Question: How much money did Vishal originally have?

Answer: Vishal originally had Rs.8000/-.

Question: How much money did Vishal borrow from his father to buy the oven?

Answer: Vishal borrowed Rs.2000 from his father to buy the oven.

Question: What is the total value of the oven Vishal wanted to purchase?

Answer: The oven Vishal wanted to purchase is worth Rs.10,000/-.

Question: After borrowing, how is Vishal's liability distributed between Shareholder Equity and Debt in the first scenario?

Answer: In the first scenario, Vishal's Shareholder Equity is Rs.8000 and his Debt is Rs.2000, making his total liability Rs. 10,000.

Question: What is the value of the asset on Vishal's balance sheet after purchasing the oven?

Answer: After purchasing the oven, the value of the asset on Vishal's balance sheet is Rs.10,000.

Question: How is RoE calculated in the first scenario?

Answer: In the first scenario, RoE is calculated as (2500 / 8000)*100 which equals 31.25%.

Question: In the second scenario, how much money did Vishal have and how much did he borrow from his father?

Answer: In the second scenario, Vishal had Rs.5000 and he borrowed an additional Rs.5000 from his father.

Question: How is RoE calculated in the second scenario?

Answer: In the second scenario, RoE is calculated as (2500 / 5000)*100 which equals 50.0%.

Question: Does higher debt influence RoE?

Answer: Yes, the higher the debt Vishal seeks to finance his asset, the higher is the RoE.

Question: Why is it risky for a business to have a high amount of debt?

Answer: With a high amount of debt, running the business becomes very risky because the finance cost increases drastically.

Question: What is the importance of inspecting the RoE?

Answer: Inspecting the RoE closely is extremely important to understand the business's risk and performance, especially in the context of the debt it has.

Question: What technique can be used to closely inspect the RoE?

Answer: One technique to inspect the RoE closely is the 'DuPont Model' also known as DuPont Identity.

Question: What is the origin of the DuPont Model?

Answer: This model was developed in the 1920s by the DuPont Corporation.

Question: What are the main components that the DuPont Model breaks the RoE formula into?

Answer: The DuPont Model breaks up the RoE formula into three components, representing a certain aspect of the business.

Question: Does the DuPont analysis rely solely on the P&L statement for computation?

Answer: No, the DuPont analysis uses both the P&L statement and the Balance sheet for the computation.

Question: What happens when you notice the components of the RoE formula in the DuPont model?

Answer: If you notice the formula, the denominator and the numerator cancel out with one another, eventually leaving us with the original RoE formula which is: RoE = Net Profit / Shareholder Equity 100.

Question: What is the Net Profit Margin as per the DuPont Model?

Answer: Net Profit Margin = Net Profits/ Net Sales100. This expresses the company's ability to generate profits, and is equivalent to the PAT margin discussed in earlier chapters. A low Net profit margin can indicate higher costs and increased competition.

Question: How is the Asset Turnover defined in the DuPont Model?

Answer: Asset Turnover = Net Sales / Average Total asset. It is an efficiency ratio that indicates how efficiently the company is using its assets to generate revenue. The resulting figure is expressed as several times per year.

Question: What does a higher Asset Turnover ratio signify?

Answer: A higher Asset Turnover ratio means the company is using its assets more efficiently. On the other hand, a lower ratio might indicate management or production problems.

Question: How is Financial Leverage defined in the context of the DuPont Model?

Answer: Financial Leverage = Average Total Assets / Shareholders Equity. It helps determine the number of assets the company has for every unit of shareholders equity.

Question: If the financial leverage is 4, what does it indicate?

Answer: If the financial leverage is 4, for every Rs.1 of equity, the company supports Rs.4 worth of assets.

Question: What caution should an investor exercise regarding Financial Leverage?

Answer: Higher financial leverage, along with increased amounts of debt, indicates the company is highly leveraged. Therefore, investors should exercise caution.

Question: What insights does the DuPont model provide on the RoE formula?

Answer: The DuPont model breaks up the RoE formula into three distinct components, with each component giving an insight into the company's operating and financial capabilities.

Question: What is the RoE as per the DuPont model?

		Net Profit		Net Sales		Avg Total Assets
Return on Equity	=	---------------	X	---------------	X	---------------
		Net Sales		Avg Total Assets		Shareholder Equity

Answer: The RoE as per DuPont model can be calculated using a specific formula. However, when simplified, it is represented as RoE = Net Profit / Shareholder Equity 100.

Question: What insights do we gain by decomposing the RoE formula?

Answer: In decomposing the RoE formula, we gain insights into three distinct aspects of the business. These components of the DuPont model provide an understanding of the company's operating and financial capabilities.

Question: What is the Net Profit Margin in the DuPont Model?

Answer: Net Profit Margin is calculated as Net Profits/ Net Sales100. It expresses the company's ability to generate profits. A low Net profit margin indicates higher costs and increased competition.

Question: How is Asset Turnover defined?

Answer: Asset Turnover is defined as Net Sales / Average Total asset. It's an efficiency ratio that shows how efficiently the company uses its assets to generate revenue. A higher ratio means the company is using its assets more efficiently, while a lower ratio could indicate management or production problems.

Question: What is Financial Leverage and what does it help understand?

Answer: Financial Leverage is calculated as Average Total Assets / Shareholders Equity. It helps answer the question, 'For every unit of shareholders equity, how many units of assets does the company have'. Higher financial leverage, along with more debt, indicates the company is highly leveraged and investors should be cautious.

Question: How does the DuPont model break up the RoE formula?

Answer: The DuPont model breaks up the RoE formula into three distinct components: Net Profit Margin, Asset Turnover, and Financial Leverage. Each component provides an insight into the company's operating and financial capabilities.

Question: How can the DuPont Model be implemented for a specific company's RoE calculation?

Answer: To implement the DuPont Model to calculate a company's RoE, one needs to calculate the values of the individual components, such as Net Profit Margin, Asset Turnover, and Financial Leverage, using data from the company's financial statements.

Question: What does the term 'Average' mean in the context of 'Average Total Assets'?

Answer: The term 'Average' in 'Average Total Assets' refers to the average value of assets the company has over a specific period, often a year. The company starts the financial year with assets

carried forward from the previous year and acquires more assets during the financial year. The 'Average' value represents the average of the starting and ending values of assets during that period.

Question: Which asset value should be considered for the denominator when calculating the asset turnover ratio?

Answer: To avoid confusion, the practice is to take an average of the two financial years' asset values.

Question: What technique of line item calculation is often used across other ratios?

Answer: The technique of averaging line items.

Question: What was the Net Sales for ARBL in FY14?

Answer: The Net Sales in FY14 for ARBL was Rs.3437Cr.

Question: How do you calculate the Average Assets for a company?

Answer: Average Assets can be calculated as the sum of the asset values of two financial years divided by 2. For example, Average Assets = (Total Assets in FY13 + Total Assets in FY14) / 2.

Question: What does an Asset Turnover of 1.75 times indicate for ARBL?

Answer: It means for every Rs.1 of asset deployed, the company is generating Rs.1.75 in revenues.

Question: How is Financial Leverage calculated?

Answer: Financial Leverage is calculated as Average Total Assets divided by Average Shareholders Equity.

Question: Why would one consider "Average Shareholder equity" instead of just the current year's shareholder equity?

Answer: For reasons similar to taking the "Average Assets", it's more representative than just considering the current year's value.

Question: What is the significance of a Financial Leverage of 1.61 for ARBL?

Answer: A Financial Leverage of 1.61 indicates that for every Rs.1 of Equity, ARBL supports Rs.1.61 of assets.

Question: How can one calculate RoE for a company like ARBL?

Answer: RoE can be calculated using the formula: RoE = Net Profit Margin X Asset Turnover X Financial Leverage.

Question: What insights can the DuPont model provide when calculating RoE?

Answer: The DuPont model not only answers what the return is but also sheds light on the quality of the return.

Question: Is there a quicker way to calculate RoE?

Answer: Yes, for a quick RoE calculation, you can use the formula: RoE = Net Profits / Avg shareholders Equity.

Question: What was the PAT for ARBL in FY14 as per the annual report?

Answer: The PAT for ARBL in FY14 was Rs.367 Cr.

Question: What is Return on Assets (RoA)?

Answer: Return on Assets (RoA) evaluates the effectiveness of an entity's ability to use the assets to create profits. It is an indicator of the management's efficiency at deploying its assets.

Question: What does a high RoA signify?

Answer: A higher RoA indicates that the entity is more efficient at using its assets to generate profits. The higher the ROA, the better it is.

Question: How is RoA calculated?

Answer: RoA is calculated as [Net income + interest(1-tax rate)] / Total Average Assets.

Question: How is the net income for FY 14 represented in the Annual Report?

Answer: The net income for FY 14 is Rs.367.4 Crs.

Question: What is the value of the Total average assets (FY13 and FY14) as per the Dupont Model?

Answer: The Total average assets (FY13 and FY14) are Rs.1955 Cr.

Question: Why is interest multiplied by (1- tax rate) when calculating RoA?

Answer: The loan taken by the company is used to finance the assets, which in turn generate profits. The debtholders, or entities who have given a loan to the company, are also considered part of the company. From this perspective, the interest paid also belongs to a stakeholder of the company. The company benefits by paying lesser taxes when interest is paid out, which is termed as a 'tax shield'. Hence, we account for the tax shield when calculating the ROA by adding interest multiplied by (1-tax rate).

Question: What is the value of the Interest amount (finance cost) and how is the tax shield calculated?

Answer: The Interest amount (finance cost) is Rs.7 Crs. Accounting for the tax shield, it would be 7X (1 – (minus) 32%), which is 4.76 Cr. The average tax rate used for this calculation is 32%.

Question: How is the ROA derived based on the given values?

Answer: The ROA would be calculated as [367.4 + 4.76] / 1955 which equals approximately 19.03%.

Question: What does Return on Capital Employed (ROCE) indicate?

Answer: The Return on Capital Employed (ROCE) indicates the company's profitability, taking into consideration the overall capital it employs.

Question: What is included in the overall capital of a company?

Answer: Overall capital includes both equity and debt (both long term and short term).

Question: How is ROCE calculated?

Answer: ROCE = [Profit before Interest & Taxes / Overall Capital Employed].

Question: How is Overall Capital Employed calculated?

Answer: Overall Capital Employed = Short term Debt + Long term Debt + Equity.

Question: What was the Profit before Interest & Taxes as per ARBL's Annual Report?

Answer: Profit before Interest & Taxes was Rs.537.7 Crs.

Question: What was the Short term debt mentioned in ARBL's Annual Report?

Answer: The Short term debt as per ARBL's Annual Report was Rs.8.3 Cr.

Question: How much was the Long term borrowing in ARBL's Annual Report?

Answer: The Long term borrowing in ARBL's Annual Report was Rs.75.9 Cr.

Question: What was the Shareholders equity as mentioned in ARBL's Annual Report?

Answer: The Shareholders equity as per ARBL's Annual Report was Rs.1362 Cr.

Question: What is the total Overall Capital Employed for ARBL according to the given data?

Answer: The total Overall Capital Employed for ARBL was 1446.2 Crs.

Question: What was the calculated ROCE for ARBL based on the given information?

Answer: The calculated ROCE for ARBL based on the given information was 37.18%.

Question: What is a financial ratio?

Answer: A financial ratio is a useful financial metric of a company. On its own merit, the ratio conveys very little information.

Question: How should one develop an opinion based on a financial ratio?

Answer: It is best to study the ratio's recent trend or compare it with the company's peers to develop an opinion.

Question: Into which categories can financial ratios be classified?

Answer: Financial ratios can be categorized into 'Profitability', 'Leverage', 'Valuation', and 'Operating' ratios. Each of these categories gives the analyst a certain view on the company's business.

Question: What does EBITDA represent?

Answer: EBITDA is the amount of money the company makes after subtracting the operational expenses of the company from its operating revenue.

Question: What is the significance of the EBITDA margin?

Answer: EBITDA margin indicates the percentage profitability of the company at the operating level.

Question: What information does PAT margin provide?

Answer: PAT margin gives the overall profitability of the firm.

Question: What is Return on Equity (ROE) and its importance?

Answer: Return on Equity (ROE) is a precious ratio. It indicates how much return the shareholders are making over their initial investment in the company.

Question: Is a combination of high ROE and high debt good for a company?

Answer: A high ROE and high debt is not a great sign.

Question: What is the DuPont Model's role in financial analysis?

Answer: DuPont Model helps in decomposing the ROE into different parts, with each part throwing light on different aspects of the business.

Question: How is the DuPont method regarded in relation to calculating ROE?

Answer: DuPont method is probably the best way to calculate the ROE of a firm.

Question: What does Return on Assets indicate?

Answer: Return on Assets is an indicator of how efficiently the company is utilizing its assets.

Question: What is the significance of Return on Capital Employed?

Answer: Return on Capital employed indicates the overall return the company generates considering both the equity and debt.

Question: How should financial ratios be analyzed to be considered useful?

Answer: For the ratios to be useful, it should be analyzed compared to other companies in the same industry. Also, ratios should be analyzed both at a single point in time and as an indicator of broader trends over time.

Question: What are profitability ratios?

Answer: Profitability ratios measure how efficiently a company can generate profit from its operations. They show how much profit a company makes compared to its sales or investments.

Question: Can you give an example of a profitability ratio?

Answer: Sure! One common profitability ratio is the "Net Profit Margin." It calculates how much of every dollar earned in sales is kept as profit after all expenses are deducted.

Question: Why are profitability ratios important?

Answer: They help investors and managers understand how well a company is performing. If profitability is low, the company might need to find ways to reduce costs or boost sales.

Question: What are leverage ratios?

Answer: Leverage ratios measure how much debt a company has compared to its assets or equity. In other words, it shows how much the company relies on borrowed money.

Question: Why should a company be concerned about its leverage ratios?

Answer: High leverage can mean high risk. If a company has too much debt and can't pay it back, it might face financial trouble. However, using debt wisely can also amplify returns for shareholders.

Question: Can you mention a popular leverage ratio?

Answer: Sure! The "Debt to Equity Ratio" is one. It compares a company's total debt to its total equity, helping to gauge financial risk.

Question: What are valuation ratios?

Answer: Valuation ratios show how much investors are willing to pay for a company's stock relative to its earnings, book value, or other financial metrics. They help determine if a stock is overvalued or undervalued.

Question: Can you provide an example of a valuation ratio?

Answer: Certainly! The "Price-to-Earnings Ratio (P/E)" is a common one. It compares a company's stock price to its earnings per share. A high P/E might suggest that a stock is overvalued, while a low P/E could indicate it's undervalued.

Question: Why are valuation ratios important for investors?

Answer: They help investors decide whether a stock is a good buy at its current price. If a stock seems too expensive based on its valuation ratios, an investor might wait for a better opportunity.

Question: What are operating ratios?

Answer: Operating ratios measure a company's operational efficiency. They show how well a company is managing its assets, liabilities, and day-to-day operations to generate profit.

Question: Can you mention an example of an operating ratio?

Answer: Sure! The "Inventory Turnover Ratio" is one. It shows how often a company sells and replaces its inventory in a given period. A high ratio suggests that a company is selling products quickly, while a low ratio might indicate slow-moving inventory.

Question: Why are operating ratios useful?

Answer: They help business owners and managers pinpoint areas of inefficiency in their operations. For example, if a company's inventory turnover is low, they might need to reassess their product offerings or marketing strategies.

Question: What is TechGlow's net profit margin?

Answer: Let's say TechGlow earned $1 million in sales and had expenses of $800,000. Their net profit would be $200,000. Their Net Profit Margin = (Net Profit / Sales) = ($200,000 / $1,000,000) = 0.2 or 20%. This means TechGlow keeps 20 cents as profit for every dollar of sales.

Question: How leveraged is TechGlow?

Answer: Suppose TechGlow has $500,000 in debt and $1,000,000 in equity. The Debt to Equity Ratio = (Total Debt / Total Equity) = ($500,000 / $1,000,000) = 0.5. This means for every dollar of equity, TechGlow has 50 cents in debt.

Question: What is TechGlow's Price-to-Earnings Ratio?

Answer: If TechGlow's stock is trading at $50 per share and its earnings per share (EPS) over the last year is $5, then the P/E ratio = (Price per Share / EPS) = ($50 / $5) = 10. This means investors are willing to pay $10 for every $1 of earnings TechGlow produces.

Question: How quickly does TechGlow sell its inventory?

Answer: Let's say TechGlow had an average inventory worth $200,000 this year and its cost of goods sold (the direct costs of producing the products it sells) was $800,000. The Inventory Turnover Ratio = (Cost of Goods Sold / Average Inventory) = ($800,000 / $200,000) = 4. This suggests TechGlow sells and replaces its inventory 4 times a year.

Question: What is EBITDA Margin?

Answer: EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization. The EBITDA Margin is a measure of a company's profitability. It shows how much of the revenue (sales) is turned into EBITDA. It's often expressed as a percentage.

Question: Why is EBITDA Margin important?

Answer: It helps investors and analysts understand how efficient a company is at generating profit from its operations before considering other costs like interest and taxes.

Question: What does EBITDA Growth or CAGR mean?

Answer: CAGR stands for Compound Annual Growth Rate. When we talk about EBITDA Growth (CAGR), it means how much the EBITDA is growing each year on average over a period of time.

Question: Why should I care about EBITDA Growth?

Answer: A positive EBITDA Growth suggests the company is increasing its operating profits over time, which could indicate the business is doing well.

Question: What is PAT Margin?

Answer: PAT stands for Profit After Tax. PAT Margin tells us what percentage of the company's sales or revenue is left as profit after all expenses, including taxes, are deducted.

Question: Why is PAT Margin useful?

Answer: It helps to understand how efficient a company is at converting its sales into net profit.

Question: What is meant by PAT Growth (CAGR)?

Answer: It indicates the average annual growth rate of a company's Profit After Tax over a certain period.

Question: Why is it important?

Answer: It shows if the company's net profit is growing, staying the same, or declining over time.

Question: What is ROE?

Answer: Return on Equity measures how much profit a company generates from its shareholders' equity (owners' investment).

Question: Why do investors look at ROE?

Answer: It gives an idea of how effectively the company is using shareholders' money to generate profits.

Question: What is ROA?

Answer: Return on Assets tells us how much profit a company makes for every dollar of its assets.

Question: Why is ROA significant?

Answer: It helps determine how efficiently a company is using its assets to produce profit.

Question: What is ROCE?

Answer: ROCE measures the return that a company produces from the capital (both equity and debt) employed in its operations.

Question: Why is ROCE important?

Answer: It helps investors understand how well a company is using its total capital to generate returns. A higher ROCE can indicate efficient use of capital.

Example: Let's use a hypothetical company, "TechStar Ltd." as an example to illustrate these financial metrics:

TechStar Ltd. Financials:

- Revenue (Sales): $1,000,000
- EBITDA: $200,000
- Profit After Tax (PAT): $100,000
- Total Equity: $500,000
- Total Assets: $750,000
- Total Capital Employed (Equity + Debt): $700,000

Question: What is TechStar's EBITDA Margin?

Answer: EBITDA Margin = (EBITDA / Revenue) x 100 = (200,000 / 1,000,000) x 100 = 20%. This means that for every dollar TechStar earns, it makes 20 cents as operating profit before considering interest, taxes, depreciation, and amortization.

EBITDA Growth (CAGR)

(For the purpose of this example, let's assume TechStar had an EBITDA of $150,000 the previous year.)

Question: What is TechStar's EBITDA Growth?

Answer: EBITDA Growth (CAGR) = [(Current Year EBITDA / Previous Year EBITDA) ^ (1/number of years) - 1] x 100 = [(200,000 / 150,000) ^ (1/1) - 1] x 100 = 33.33%. TechStar's operating profit grew by 33.33% compared to last year.

Question: What is TechStar's PAT Margin?

Answer: PAT Margin = (PAT / Revenue) x 100 = (100,000 / 1,000,000) x 100 = 10%. For every dollar TechStar earns, 10 cents is net profit after all expenses including taxes.

PAT Growth (CAGR)

(Assuming TechStar had a PAT of $80,000 the previous year.)

Question: What is TechStar's PAT Growth?

Answer: PAT Growth (CAGR) = [(Current PAT / Previous PAT) ^ (1/number of years) - 1] x 100 = [(100,000 / 80,000) ^ (1/1) - 1] x 100 = 25%. TechStar's net profit grew by 25% compared to the previous year.

Question: What is TechStar's ROE?

Answer: ROE = (PAT / Total Equity) x 100 = (100,000 / 500,000) x 100 = 20%. This means TechStar generated a 20% return on the equity invested by its shareholders.

Question: What is TechStar's ROA?

Answer: ROA = (PAT / Total Assets) x 100 = (100,000 / 750,000) x 100 = 13.33%. For every dollar of assets TechStar has, it earned about 13.33 cents in net profit.

Question: What is TechStar's ROCE?

Answer: ROCE = EBITDA / Total Capital Employed x 100 = (200,000 / 700,000) x 100 = 28.57%. TechStar generated a 28.57% return on all the capital it employed (including debt).

Chapter-10: The Financial Ratio Analysis.

Question: What is financial leverage?

Answer: Financial leverage refers to the use of debt by a company to finance its assets. It's like a double-edged sword, as it can increase the return on equity if used judiciously but can eat into profit share if a company takes on too much debt.

Question: What is the importance of debt for well-managed companies?

Answer: Well-managed companies seek debt if they foresee a situation where they can deploy the debt funds in an environment which generates a higher return in contrast to the interest payments the company has to make to service its debt. A judicious use of debt can also increase the return on equity.

Question: What are the drawbacks of taking on too much debt?

Answer: If a company takes on too much debt, the interest paid to service the debt can eat into the profit share of the shareholders. Hence, it's essential to strike a balance to separate good from bad debt.

Question: What do leverage ratios indicate?

Answer: Leverage ratios deal with the overall extent of a company's debt and help us understand the company's financial leverage better.

Question: Which leverage ratios will be discussed?

Answer: We will be looking into the following leverage ratios:

- Interest Coverage Ratio
- Debt to Equity Ratio
- Debt to Asset Ratio
- Financial Leverage Ratio

Question: Which company has been previously used as an example in discussions?

Answer: So far, we have been using Amara Raja Batteries Limited (ARBL) as an example.

Question: Which company will be used as an example to understand leverage ratios?

Answer: To understand leverage ratios, we will look into Jain Irrigation Systems Limited (JISL) due to its sizable debt on its balance sheet. However, readers are encouraged to calculate the ratios for a company of their choice.

Question: What is the Interest Coverage Ratio commonly referred to as?

Answer: The interest coverage ratio is also referred to as debt service ratio or the debt service coverage ratio.

Question: What is the purpose of the Interest Coverage Ratio?

Answer: The interest coverage ratio helps us understand how much the company is earning relative to the interest burden of the company. It helps us interpret how easily a company can pay its interest payments.

Question: If a company has an interest burden of Rs.100 and an income of Rs.400, can the company service its debt?

Answer: Yes, if the company has an interest burden of Rs.100 versus an income of Rs.400, then the company has sufficient funds to service its debt.

Question: What could a low Interest Coverage Ratio indicate?

Answer: A low interest coverage ratio could mean a higher debt burden and a greater possibility of bankruptcy or default.

Question: How is the Interest Coverage Ratio calculated?

Answer: The interest coverage ratio is calculated using the formula: [Earnings before Interest and Tax / Interest Payment].

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31-MARCH-2014

₹ in Million

	Note No.	2013-2014	2012-2013
Revenue from operations	22	59,859.48	51,334.07
Less: Excise duty		(1,578.17)	(1,116.91)
Revenue from operations (net)		58,281.31	50,217.16
Other income	23	462.99	667.78
Total revenue		**58,744.30**	**50,884.94**
Expenses			
Cost of materials consumed	24	33,910.43	27,938.45
Changes in inventories of finished goods and work in progress	25	(501.88)	285.83
Employee benefit expenses	26	6,141.30	5,018.79
Finance costs	27	4,676.45	4,855.21
Depreciation and amortisation expense	13	2,045.40	1,695.59
Other expenses	28	11,404.66	9,921.82
Cost of self-generated capital equipment		(372.87)	(201.13)
Total expenses		**57,303.49**	**49,514.56**
Profit/(Loss) before exceptional and extraordinary items and tax		**1,440.81**	**1,370.38**
Exceptional items		2,300.37	1,245.09
Profit/(Loss) before tax		**(859.56)**	**125.29**
Tax expense			
- Current tax	29	233.03	175.08
- Deferred tax		(694.67)	(94.96)
Prior period expense		-	-
Profit/(Loss) for the year before minority interest		(397.92)	45.17
Share of loss in associate		-	(6.53)
Minority interest		(0.28)	(7.84)
Profit/(Loss) for the year		**(398.20)**	**30.80**
Earnings per share: (Face value ₹ 2 per share)	30		
Basic		**(0.87)**	**0.07**
Diluted		**(0.87)**	**0.07**

Question: How is 'Earnings before Interest and Tax' (EBIT) defined?

Answer: EBIT is defined as EBITDA minus Depreciation & Amortization.

Question: What is EBITDA and how is it calculated?

Answer: EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization. It is calculated using the formula EBITDA = [Revenue – Expenses]. To calculate the expenses, specific items like Finance cost and Depreciation & Amortization cost are excluded from the total expenses.

Question: How was the EBITDA for Jain Irrigation Limited derived for FY 14?

Answer: For Jain Irrigation Limited's FY 14, the expenses were calculated by excluding the Finance cost (Rs.467.64Crs) and Depreciation & Amortization cost (Rs.204.54) from the total expenses of Rs.5730.34 Crs. Thus, EBITDA was calculated as Rs.5828.13 minus 5058.15 Crs, resulting in EBITDA = Rs. 769.98 Crs.

Question: What is EBIT and how is it derived from EBITDA?

Answer: EBIT stands for Earnings Before Interest and Taxes. It is derived from EBITDA by subtracting Depreciation & Amortization costs. EBIT = EBITDA – [Depreciation & Amortization].

Question: How was the EBIT for Jain Irrigation Limited determined?

Answer: EBIT for Jain Irrigation Limited was derived by subtracting the Depreciation & Amortization cost (Rs.204.54) from the EBITDA (Rs.769.98 Crs). This resulted in EBIT = Rs. 565.44 Crs.

Question: What does the Finance Cost value represent in the provided data?

Answer: The Finance Cost value represents the interest and other costs associated with the company's borrowings. For Jain Irrigation Limited, the Finance Cost for FY 14 was Rs.467.64 Crs.

Question: How is the Interest Coverage ratio calculated?

Answer: The Interest Coverage ratio is calculated by dividing EBIT by the Finance Cost. In mathematical terms, Interest Coverage = EBIT/Finance Cost.

Question: What does an Interest Coverage ratio of 1.209x indicate for Jain Irrigation Limited?

Answer: An Interest Coverage ratio of 1.209x suggests that for every Rupee of interest payment due, Jain Irrigation Limited is generating an EBIT of 1.209 times. The 'x' in the number represents a multiple, so 1.209x should be read as 1.209 'times'.

CONSOLIDATED BALANCE SHEET AS AT 31-MARCH-2014

₹ in Million

	Note No.	31-Mar-2014	31-Mar-2013
EQUITY AND LIABILITIES			
Shareholders' Funds			
Share capital	2	924.83	909.83
Reserves and surplus	3	20,830.66	20,607.97
Money received against share warrants	4	-	161.81
		21,755.49	21,679.61
Minority Interest		204.77	-
Non-current liabilities			
Long term borrowings	5	14,976.63	14,329.38
Deferred tax liabilities (net)	6	1,411.72	1,841.30
Other long term liabilities	7	177.85	75.12
Long term provisions	8	64.30	49.14
		16,630.50	16,294.94
Current liabilities			
Short term borrowings	9	21,889.15	19,840.56

Question: What is the Debt to Equity Ratio?

Answer: The Debt to Equity Ratio measures the amount of the total debt capital with respect to the total equity capital. It's a way to understand the financial leverage of a company. A value of 1 on this ratio indicates an equal amount of debt and equity capital.

Question: Where can the variables required for computing Debt to Equity Ratio be found?

Answer: Both the variables required for this computation can be found in the Balance Sheet.

Question: What does a Debt to Equity Ratio value of 1 signify?

Answer: A value of 1 on the Debt to Equity Ratio indicates an equal amount of debt and equity capital.

Question: What does a higher Debt to Equity Ratio (more than 1) suggest?

Answer: A higher debt to equity ratio (more than 1) indicates higher leverage. Therefore, one needs to be careful as it might signify more risk.

Question: What does a Debt to Equity Ratio less than 1 suggest?

Answer: A Debt to Equity Ratio less than 1 indicates a relatively bigger equity base with respect to the debt. This typically signifies less risk compared to having more debt.

Question: How is the Debt to Equity Ratio calculated?

Answer: The formula to calculate Debt to Equity ratio is: [Total Debt/Total Equity].

Question: What does the total debt include in the Debt to Equity Ratio formula?

Answer: The total debt includes both the short term debt and the long term debt.

Question: Based on JSIL's Balance Sheet, how is the total debt derived?

Answer: The total debt is derived by adding long term borrowings and short term borrowings. For instance, in the given example, total debt = 1497.663 + 2188.915, which equals Rs.3686.578Crs.

Question: How is the Debt to Equity Ratio computed for JSIL's Balance Sheet data?

Answer: Based on the data provided, the Debt to Equity ratio for JSIL is computed as: 3686.578 / 2175.549, which gives a result of 1.69.

ASSETS			
Non-current assets			
Fixed assets			
Goodwill on consolidation		2,192.12	1,759.49
Tangible assets	13[A]	25,003.91	23,772.59
Intangible assets	13[B]	575.41	554.00
Capital work-in-progress	13[C]	806.88	748.95
		28,578.32	26,835.03
Non-current investments	14	14.16	38.38
Deferred tax assets (net)	6	1,194.25	929.16
Long term loans and advances	15	3,260.87	2,264.10
Other non-current assets	16	1,050.66	1,694.75
Current assets			
Inventories17	18,363.88	17,230.64	
Trade receivables	18	17,994.04	19,546.59
Cash and bank balances	19	1,968.15	2,358.86
Short term loans and advances	20	5,557.59	3,543.74
Other current assets	21	4,062.55	3,766.59
		47,946.21	46,446.42
	TOTAL	**82,044.47**	**78,207.84**

Question: What does the Debt to Asset Ratio signify?

Answer: The Debt to Asset Ratio helps us understand the asset financing pattern of the company. It conveys how much of the total assets are financed through debt capital.

Question: How is the Debt to Asset Ratio calculated?

Answer: The formula to calculate the Debt to Asset Ratio is: Total Debt / Total Assets.

Question: What is the total debt for JSIL?

Answer: The total debt for JSIL is Rs.3686.578Crs.

Question: What are the total assets for JSIL as mentioned in the Balance Sheet?

Answer: The total assets for JSIL, as per the Balance Sheet, are Rs.8204.447 Crs.

Question: How do you compute the Debt to Asset Ratio for JSIL?

Answer: For JSIL, the Debt to Asset ratio is calculated as 3686.578 divided by 8204.44, which equals 0.449 or approximately 45%.

Question: What does a Debt to Asset Ratio of 45% indicate for JSIL?

Answer: A Debt to Asset Ratio of 45% indicates that roughly about 45% of the assets held by JSIL is financed through debt capital or creditors. Consequently, 55% is financed by the owners.

Question: Is a higher Debt to Asset Ratio concerning for an investor?

Answer: Yes, a higher percentage in the Debt to Asset Ratio can be a concern for an investor as it indicates higher leverage and risk.

Question: What is the financial leverage ratio?

Answer: The financial leverage ratio gives us an indication of the extent to which the assets are supported by equity.

Question: Where was the financial leverage ratio previously discussed?

Answer: We briefly looked at the financial leverage ratio in the previous chapter when we discussed Return on Equity.

Question: How do you calculate the Financial Leverage Ratio?

Answer: The formula to calculate the Financial Leverage Ratio is: Average Total Asset / Average Total Equity.

Question: What were the average total assets and average total equity for JSIL's FY14 balance sheet?

Answer: From JSIL's FY14 balance sheet, the average total assets is Rs.8012.615 and the average total equity is Rs.2171.755.

Question: How do you calculate the leverage ratio for JSIL using the given data?

Answer: To calculate the leverage ratio for JSIL, you divide the average total assets by the average total equity. Using the provided data, it's calculated as 8012.615 / 2171.755, which equals 3.68.

Question: What does a leverage ratio of 3.68 for JSIL imply?

Answer: A leverage ratio of 3.68 for JSIL means that JSIL supports Rs.3.68 units of assets for every unit of equity.

Question: What should one infer from a higher leverage ratio number?

Answer: Do remember that the higher the number, the higher is the company's leverage.

Question: What are Operating Ratios?

Answer: Operating Ratios, also known as 'Activity ratios' or the 'Management ratios', indicate the efficiency of the company's operational activity. They reveal, to some degree, the management's efficiency as well. These ratios are also referred to as Asset Management Ratios since they showcase the efficiency with which the company's assets are utilized.

Question: Why are Operating Ratios sometimes referred to as Asset Management Ratios?

Answer: Operating Ratios are sometimes referred to as Asset Management Ratios because these ratios indicate the efficiency with which the assets of the company are utilized.

Question: What are some of the popular Operating Ratios?

Answer: Some of the popular Operating Ratios include Fixed Assets Turnover Ratio, Working Capital Turnover Ratio, Total Assets Turnover Ratio, Inventory Turnover Ratio, Inventory Number of Days, Receivable Turnover Ratio, and Days Sales Outstanding (DSO).

Question: Which financial statements are the data for these ratios derived from?

Answer: The data for these Operating Ratios is combined from both the P&L statement and Balance sheet.

Question: How will we understand these ratios in context?

Answer: We will understand these ratios by calculating them for Amara Raja Batteries Limited.

Question: Why is it essential to compare a company's operating ratios?

Answer: To get a true sense of how good or bad the operating ratios of a company are, one must compare the ratios with the company's peers or competitors. Alternatively, these ratios should be compared over the years for the same company.

ASSETS				
Non-current assets				
Fixed assets	10			
Tangible assets		6,198.94		3,554.97
Intangible assets		32.96		33.69
Capital work-in-progress		1,443.60		1,024.97
Intangible assets under development		3.14		4.84
		7,678.64		4,618.47

Question: What is the Fixed Assets Turnover ratio?

Answer: The Fixed Assets Turnover ratio measures the extent of the revenue generated in comparison to its investment in fixed assets. It indicates how effectively the company uses its plant and equipment.

Question: What do fixed assets include?

Answer: Fixed assets include the property, plant, and equipment.

Question: How is the efficiency of a company's management of its fixed assets interpreted from the ratio?

Answer: Higher the ratio, it means the company is effectively and efficiently managing its fixed assets.

Question: How is the Fixed Assets Turnover ratio calculated?

Answer: Fixed Assets Turnover = Operating Revenues / Total Average Asset.

Question: What should be considered while calculating the fixed assets turnover?

Answer: The assets considered should be net of accumulated depreciation, which is the net block of the company. It should also include the capital work in progress. Additionally, we take the average assets for reasons discussed in previous chapters.

Question: Why do we consider the net block of the company for the calculation?

Answer: The net block of the company is essentially the assets net of accumulated depreciation.

Question: How should the stage of the company be considered when evaluating this ratio?

Answer: While evaluating the ratio, one should keep in mind the stage the company is in. For a well-established company, the firm may not be using its cash to invest in fixed assets. However, for a growing company, there might be investments in fixed assets leading to an increase in the fixed assets value year on year.

Question: How did the fixed assets value of ARBL change from FY13 to FY14?

Answer: For the FY13, the Fixed assets value of ARBL was Rs.461.8 Crs, and for FY14, the fixed asset value was at Rs.767.8 Crs.

Question: In which industries is this ratio mostly used?

Answer: This ratio is mostly used by capital-intensive industries to analyze how effectively the fixed assets of the company are used.

Current liabilities					
Short-term borrowings	7	83.83		98.63	
Trade payables	8	1,277.79		1,362.84	
Other current liabilities	9	2,156.68		1,807.26	
Short-term provisions	6	2,818.73		2,493.20	
			6,337.03		5,761.93
Total			21,394.41		17,704.70
ASSETS					
Non-current assets					
Fixed assets	10				
Tangible assets		6,198.94		3,554.97	
Intangible assets		32.96		33.69	
Capital work-in-progress		1,443.60		1,024.97	
Intangible assets under development		3.14		4.84	
		7,678.64		4,618.47	
Non-current investments	11	160.76		160.76	
Long-term loans and advances	12	567.69		353.52	
Other non-current assets	13	1.22		3.43	
			8,408.31		5,136.18
Current assets					
Inventories	14	3,350.08		2,928.58	
Trade receivables	15	4,527.89		3,806.77	
Cash and bank balances	16	2,945.67		4,107.90	
Short-term loans and advances	12	2,119.30		1,656.78	
Other current assets	13	43.16		68.49	
			12,986.10		12,568.52

Question: What is working capital?

Answer: Working capital refers to the capital required by the firm to run its day-to-day operations. It's typically composed of assets such as inventories, receivables, and cash, which are current assets. A well-managed company finances these current assets with current liabilities.

Question: How is working capital calculated?

Answer: Working Capital = Current Assets – Current Liabilities.

Question: What does a positive working capital indicate?

Answer: If the working capital is a positive number, it implies that the company has a working capital surplus and can easily manage its day-to-day operations.

Question: What does a negative working capital indicate?

Answer: If the working capital is negative, it means the company has a working capital deficit. In such cases, they usually seek a working capital loan from their bankers.

Question: What is included in 'Working Capital Management'?

Answer: 'Working Capital Management' is a significant topic in Corporate Finance that encompasses inventory management, cash management, and debtor’s management. It pertains to how a company's Chief Financial Officer (CFO) manages the working capital efficiently.

Question: What is the working capital turnover ratio?

Answer: The working capital turnover ratio, also known as Net sales to working capital, indicates how much revenue the company generates for every unit of working capital. If the ratio is 4, for example, it signifies that the company produces Rs.4 in revenue for every Rs.1 of working capital.

Question: Why is it important to compare the working capital turnover ratio with peers and the company's past performance?

Answer: Comparing the ratio with its competitors in the same industry and with the company's past and planned ratios offers a deeper insight into its performance, allowing stakeholders to gauge its efficiency.

Question: How is the Working Capital Turnover ratio calculated?

Answer: Working Capital Turnover = [Revenue / Average Working Capital].

Question: How did Amara Raja Batteries Limited fare in terms of its working capital turnover ratio?

Answer: For Amara Raja Batteries Limited, based on the provided data, the working capital turnover ratio was 5.11 times. This indicates that for every Rs.1 of working capital, the company is generating Rs.5.11 in terms of revenue.

Question: Why is a higher working capital turnover ratio considered better?

Answer: A higher working capital turnover ratio is viewed as better because it signifies that the company is generating better sales in comparison with the money it utilizes to fund those sales.

Question: What is the Total Assets Turnover ratio?

Answer: The Total Assets Turnover ratio is a measure that indicates the company's capability to generate revenues with the given amount of assets. This includes both fixed assets and current assets.

Question: What does a higher Total Asset Turnover ratio compared to historical and competitor data suggest about the company?

Answer: A higher total asset turnover ratio compared to its historical data and competitor data means the company is using its assets well to generate more sales.

Question: How is the Total Asset Turnover ratio calculated?

Answer: The Total Asset Turnover ratio is calculated by dividing Operating Revenue by Average Total Assets. The formula is: Total Asset Turnover = Operating Revenue / Average Total Assets.

Question: What were the total assets for ARBL in FY 13 and FY 14?

Answer: The total assets for ARBL in FY 13 were Rs.1770.5 Crs and for FY 14 were Rs.2139.4 Crs.

Question: How is the average total assets for ARBL determined?

Answer: The average total assets for ARBL is determined by taking the average of the total assets for FY 13 and FY 14. In this case, the average assets would be Rs. 1954.95 Crs.

Question: What was the operating revenue for ARBL in FY 14?

Answer: The operating revenue for ARBL in FY 14 was Rs. 3437 Crs.

Question: How do you determine the Total Asset Turnover for ARBL based on the given data?

Answer: To determine the Total Asset Turnover for ARBL, you divide the operating revenue for FY 14 by the average total assets. Using the given data, Total Asset Turnover is: 3437 divided by 1954.95 which equals 1.75 times.

Question: What is inventory in the context of a company?

Answer: Inventory refers to the finished goods that a company maintains in its store or showroom with an expectation of selling the finished goods to prospective clients.

Question: Where does a company typically keep its finished goods other than in the store or showroom?

Answer: Besides keeping the goods in the store, a company would also keep some additional units of finished goods in its warehouse.

Question: What is meant by 'Inventory turnover'?

Answer: Inventory turnover refers to how often the goods in the inventory get cleared and replenished. If a company sells popular products, its inventory gets cleared rapidly, requiring frequent replenishment. This frequency is termed as the 'Inventory turnover'.

Question: How can a bakery's daily bread sales illustrate the concept of inventory turnover?

Answer: If a popular bakery sells, for example, 200 pounds of bread daily, the baker has to maintain an inventory of 200 pounds of bread every day. So, in this case, the rate of replenishing the inventory and the inventory turnover is quite high.

Question: Is the rate of inventory turnover the same for all businesses?

Answer: No, the rate of inventory turnover varies depending on the nature of the business. For instance, while a bakery might have a high turnover due to daily sales of bread, a car manufacturer might take 3 months to sell their inventory of 50 cars, turning over their inventory only 4 times a year.

Question: What does a high 'Inventory Turnover Ratio' indicate?

Answer: If the product is really popular, the inventory turnover would be high. Hence, a high 'Inventory Turnover Ratio' indicates the popularity of a product.

Question: How is the 'Inventory Turnover Ratio' calculated?

Answer: The formula to calculate the ratio is: Inventory Turnover = [Cost of Goods Sold / Average Inventory].

Question: What does "Cost of Goods Sold" represent and where can it be found?

Answer: Cost of goods sold is the cost involved in making the finished good. This can be found in the P&L Statement of the company.

Question: What is meant by "Average Inventory" in the context of the formula?

Answer: Average Inventory typically refers to the average amount of inventory a company holds over a specific period of time, considering both its beginning and ending balances.

Question: What company is mentioned in the text as an example for implementing the 'Inventory Turnover Ratio'?

Answer: ARBL is mentioned as the company for which the 'Inventory Turnover Ratio' can be implemented.

EXPENSES			
Cost of materials consumed	19	21,011.95	17,603.12
Purchases of stock-in-trade	20	2,113.69	2,632.54
Changes in inventories of finished goods, work-in-process and stock-in-trade	20	(292.10)	(320.89)
Employee benefits expense	21	1,583.16	1,262.30
Finance costs	22	7.18	2.69
Depreciation and amortisation expense [includes impairment loss of ₹Nil (PY ₹75.52 million)]	23	645.71	660.92
Other expenses	24	4,346.60	3,904.24

NOTE 24: OTHER EXPENSES

₹ million

Particulars	Year ended March 31, 2014		Year ended March 31, 2013	
A. Manufacturing expenses				
a. Stores and spares consumed (including packing material)		449.41		378.41
b. Power and fuel		922.56		978.14
c. Insurance		8.49		7.29
d. Repairs and maintenance to				
i) Machinery	44.46		55.79	
ii) Buildings	18.72	63.18	14.28	70.07
Total (A)		**1,443.64**		**1,433.91**
B. Selling expenses				
a. Advertisement and promotion		275.85		154.41
b. Freight outward		595.20		553.25
c. Commission on sales		8.40		10.13
d. Service expenses		219.36		94.16
e. Warehousing and secondary freight		250.50		223.43
f. Other sales expenses		242.15		155.81
g. Royalty on sales		-		0.05
h. Product warranties		383.15		494.62
Total (B)		**1,974.61**		**1,685.86**

Question: What items in the expense are directly related to the cost of goods sold?

Answer: The items directly related to the cost of goods sold are the "Cost of materials consumed" and "Purchases of stock-in-trade."

Question: In addition to the above-mentioned items, which other expenses should be inspected to identify costs related to the cost of goods sold?

Answer: One should inspect ‘Other Expenses’, specifically looking for expenses that are directly related to manufacturing.

Question: From the 'Other Expenses', which ones are directly related to manufacturing?

Answer: From the ‘Other Expenses’, the ones directly related to manufacturing are "Stores & spares consumed" and the "Power & Fuel" cost.

Question: How is the Cost of Goods Sold (COGS) calculated?

Answer: The COGS is calculated by adding the "Cost of materials consumed", "Purchase of stock in trade", "Stores & spares consumed", and "Power & Fuel". In this case, COGS = Rs.2449.74 Crs.

Question: How do you determine the average inventory?

Answer: The average inventory is determined by taking the average of the inventory values from two consecutive financial years. In this context, it's the average of inventory for FY13 and FY14.

Question: What is the inventory turnover ratio for Amara Raja Batteries Limited?

Answer: The Inventory turnover ratio for Amara Raja Batteries Limited is approximately 8.0 times a year, which means the company turns over its inventory 8 times in a year or once in every 1.5 months.

Question: Why is it essential to compare the inventory turnover ratio with competitor's numbers?

Answer: To get a true sense of how good or bad the inventory turnover ratio is for a company, it's crucial to compare it with its competitor's numbers. This provides a better perspective on the company's efficiency and market position.

Question: What does the Inventory turnover ratio indicate about a company?

Answer: The Inventory turnover ratio gives a sense of how many times the company 'replenishes' their inventory.

Question: What does the 'Inventory number of Days' signify for a company?

Answer: The 'Inventory number of Days' gives a sense of how much time the company takes to convert its inventory into cash. A shorter inventory number of days implies that the company's products are fast-moving.

Question: How do you calculate the Inventory Number of Days?

Answer: Inventory Number of Days can be calculated using the formula: Inventory Number of Days = 365 / Inventory Turnover.

Question: Why is 365 used in the formula for calculating the Inventory Number of Days?

Answer: The inventory number of days is usually calculated on a yearly basis. Hence, 365 indicates the number of days in a year.

Question: What does it mean if ARBL has an Inventory Number of Days of 47?

Answer: This means ARBL roughly takes about 47 days to convert its inventory into cash.

Question: How should a company's inventory number of days be analyzed?

Answer: The inventory number of days of a company should be compared with its competitors to get a sense of how the company's products are moving.

Question: What might it suggest if a company has a high inventory turnover ratio and a low number of inventory days?

Answer: A high inventory turnover ratio signifies that the company is replenishing its inventory quickly, which is good. Along with a high inventory turnover, a low inventory number of days indicates that the company can convert its goods into cash quickly. This generally points to effective inventory management.

Question: How can a high inventory turnover and low inventory days be misleading in certain situations?

Answer: If a company has a great product that sells quickly but a low production capacity, the inventory turnover will be high, and inventory days will be low. However, a low production capacity can raise concerns about the company's production capabilities and underlying challenges, such as sourcing raw materials or fund shortages.

Question: What are some concerns when a company has low production capacity?

Answer: Concerns include the company's inability to increase production, shortage of funds, inability to secure bank loans, poor management track record, difficulty in sourcing raw materials, and the possibility that the business is not scalable.

Question: What should be done when you encounter impressive inventory numbers in a company's report?

Answer: Always ensure to double-check the production details. It's also advisable to read through the annual report, especially the management discussion & analysis report, to understand any production issues in-depth.

Question: What is the Accounts Receivable Turnover Ratio?

Answer: The Accounts Receivable Turnover Ratio indicates how many times in a given period a company receives money or cash from its debtors and customers. A high number suggests that the company collects cash more frequently.

Question: How do you calculate the Accounts Receivable Turnover Ratio?

Answer: The formula to calculate the Accounts Receivable Turnover Ratio is:

Accounts Receivable Turnover Ratio = Revenue / Average Receivables.

Question: What does a high receivable turnover ratio indicate?

Answer: A high receivable turnover ratio indicates that the company collects cash more frequently from its debtors and customers.

Question: How do you determine the Average Receivables?

Answer: The Average Receivables can be derived from the balance sheet. For instance, from the given text, the Average Receivable for the FY13 was Rs.416.72 Crs.

Question: What were the Trade Receivables for the FY13 and FY14?

Answer: The Trade Receivable for the FY13 was Rs.380.67 Crs, and for the FY14, it was Rs. 452.78 Crs.

Question: What was the Operating Revenue for the FY14?

Answer: The Operating Revenue for the FY14 was Rs.3437 Crs.

Question: How many times does ARBL receive cash from its customers in a year based on the given data?

Answer: Based on the given data, ARBL receives cash from its customers about 8.24 times a year or roughly once every month and a half.

Question: What does the Days Sales Outstanding (DSO) ratio indicate?

Answer: The days sales outstanding ratio illustrates the average cash collection period, which is the time lag between billing and collection. This calculation shows the efficiency of the company's collection department.

Question: Why is the DSO important to a company?

Answer: The DSO is important because the quicker/faster the cash is collected from the creditors, the faster the cash can be used for other activities.

Question: How do you calculate the Days Sales Outstanding?

Answer: The formula to calculate Days Sales Outstanding is:

Days Sales Outstanding = 365 / Receivable Turnover Ratio.

Question: What was the calculated DSO for ARBL?

Answer: For ARBL, the calculated DSO was 44.29 days. This means ARBL takes about 45 days from the time it raises an invoice to the time it can collect its money against the invoice.

Question: What do the Receivables Turnover and DSO indicate about a firm?

Answer: Both Receivables Turnover and the DSO indicate the credit policy of the firm.

Question: What should an efficiently run company aim for regarding its credit policy and its relationship with customers?

Answer: An efficiently run company should strike the right balance between the credit policy and the credit it extends to its customers.

Question: What are the different types of Leverage ratios?

Answer: Leverage ratios include Interest Coverage, Debt to Equity, Debt to Assets, and the Financial Leverage ratios.

Question: What do Leverage ratios mainly study?

Answer: The Leverage ratios mainly study the company's debt with respect to the company's ability to service the long term debt.

Question: What does the Interest coverage ratio examine?

Answer: Interest coverage ratio inspects the company's earnings ability (at the EBIT level) as a multiple of its finance costs.

Question: How is the Debt to equity ratio defined?

Answer: Debt to equity ratio measures the amount of equity capital with respect to the debt capital. A Debt to equity of 1 implies an equal amount of debt and equity.

Question: What does the Debt to Asset ratio indicate?

Answer: Debt to Asset ratio helps us understand the asset financing structure of the company, especially with respect to the debt.

Question: What is the purpose of the Financial Leverage ratio?

Answer: The Financial Leverage ratio helps us understand the extent to which the assets are financed by the owner's equity.

Question: Which ratios are categorized under Operating Ratios?

Answer: The Operating Ratios, also referred to as the Activity ratios, include Fixed Assets Turnover, Working Capital turnover, Total Assets turnover, Inventory turnover, Inventory number of days, Receivable turnover, and Day Sales Outstanding ratios.

Question: What does the Fixed asset turnover ratio measure?

Answer: The Fixed asset turnover ratio measures the extent of the revenue generated in comparison to its investment in fixed assets.

Question: How does the Working capital turnover ratio benefit a company?

Answer: Working capital turnover ratio indicates how much revenue the company generates for every unit of working capital.

Question: What is represented by the Total assets turnover?

Answer: Total assets turnover indicates the company's ability to generate revenues with the given amount of assets.

Question: How does the Inventory turnover ratio assist in understanding a company's operations?

Answer: Inventory turnover ratio indicates how many times the company replenishes its inventory during the year.

Question: What does the Inventory number of days represent?

Answer: Inventory number of days represents the number of days the company takes to convert its inventory to cash.

Question: Why is a high inventory turnover and a low inventory number of days seen as a good combination?

Answer: A high inventory turnover and therefore a low inventory number of days is a great combination. However, it's essential to ensure this does not come at the cost of low production capacity.

Question: What does the Receivable turnover ratio showcase?

Answer: The Receivable turnover ratio indicates how many times in a given period the company receives money from its debtors and customers.

Question: How is the Days sales outstanding (DSO) ratio beneficial to a company?

Answer: The Days sales outstanding (DSO) ratio indicates the Average cash collection period, i.e., the time lag between the Billing and Collection.

Chapter-11: Ratio Analysis

Question: What is the general purpose of Valuation Ratios?

Answer: The general purpose of valuation ratios is to provide an estimate of the 'worth' of a stock. These ratios help investors and analysts develop a sense of how the market is valuing a particular stock, enabling them to gauge the attractiveness of the stock price from an investment perspective.

Question: What are the three important valuation ratios mentioned?

Answer: The three important valuation ratios mentioned are the Price to Sales (P divide by S) Ratio, Price to Book Value (P divide by BV) Ratio, and the Price to Earnings (P divide by E) Ratio.

Question: How should valuation ratios be evaluated?

Answer: Valuation ratios should be evaluated alongside a company's competitors to get a contextual understanding of the stock's worth. Comparing the ratios to those of competitors provides insights into the relative attractiveness of the stock.

Question: What is the relevance of the stock price in calculating valuation ratios?

Answer: The stock price is a vital input for calculating valuation ratios. It forms the numerator in these ratios, and its level relative to financial metrics like sales, book value, or earnings helps determine whether the stock is undervalued or overvalued.

Question: What is the importance of knowing the total number of shares outstanding for calculating valuation ratios?

Answer: Knowing the total number of shares outstanding is essential for calculating various financial metrics that might be used in the denominator of valuation ratios. It also helps in understanding the market capitalization of the company, which is a critical aspect of its valuation.

Question: As of October 28, 2014, what is the stock price of Amara Raja Batteries Limited (ARBL)?

Answer: As of October 28, 2014, the stock price of Amara Raja Batteries Limited (ARBL) trades at Rs.661 per share.

Question: How many shares are outstanding for Amara Raja Batteries Limited?

Answer: The total number of shares outstanding for Amara Raja Batteries Limited is 17,08,12,500 or 17.081 Crores.

Question: What should an investor consider when making an investment decision in a company?

Answer: When making an investment decision, an investor should consider not just the business's attractiveness but also its valuation. The valuation dictates the price one pays to acquire a share of the business, and sometimes, a mediocre business at a cheap valuation may be a better investment than an exciting business at a high valuation.

Question: How can valuation ratios be misleading if not compared with industry competitors?

Answer: If valuation ratios are not compared with industry competitors, they may be misleading as they won't provide a contextual understanding of a stock's value. A stock may seem undervalued or overvalued based on its ratios, but that impression might change when the ratios are compared to those of industry peers.

Question: What do valuation ratios usually compare?

Answer: Valuation ratios usually compare the price of a stock to some aspect of the company’s financial performance, such as sales, book value, or earnings. This helps to assess whether the stock is cheap or expensive relative to its financial metrics.

Question: What is the Price to Sales (P by S) Ratio?

Answer: The Price to Sales (P/S) Ratio is a valuation ratio that compares the stock price of a company with its sales per share. It is often used when earnings figures may not provide a clear picture of a company's value, such as when the company is going through a cyclical low in earnings or has accounting write-offs that impact its reported earnings.

Question: Why might investors use the P/S ratio instead of the P/E ratio?

Answer: Investors might use the P/S ratio instead of the P/E ratio because earnings can be affected by accounting rules or cyclical lows in the earning cycle. In such cases, sales provide a more stable and straightforward measure for valuation.

Question: What is the formula for calculating the Price to Sales (P/S) Ratio?

Answer: The formula to calculate the P/S ratio is: Price to Sales Ratio = Current Share Price /(divide by) Sales per Share.

Question: How do you calculate Sales per Share?

Answer: Sales per Share is calculated by dividing the total revenues by the total number of shares outstanding. The formula is: Sales per Share = Total Revenues / Total number of shares.

Question: What does a P/S ratio of 3.24 times mean in the context of ARBL?

Answer: A P/S ratio of 3.24 times for ARBL indicates that for every Rs.1 of sales, the stock is valued Rs.3.24 times higher. The higher the P/S ratio, the higher the valuation of the firm.

Question: How should the P/S ratio be compared for evaluating a stock's valuation?

Answer: To evaluate a stock's valuation using the P/S ratio, one should compare the ratio with its competitors. This comparison provides a sense of how expensive or cheap the stock is relative to its peers.

Question: Can two companies with the same revenue have different valuations based on the P/S ratio? Why?

Answer: Yes, two companies with the same revenue can have different valuations based on the P/S ratio due to their different profit margins. Higher profit margins make sales more valuable, potentially justifying a higher P/S ratio.

Question: What should you check if a company appears to have a high valuation based on its P/S ratio?

Answer: If a company appears to be trading at a high valuation based on its P/S ratio, it's important to check the company's profit margin for additional context. Higher profit margins can justify a higher P/S ratio as each rupee of sales will yield higher retained profits.

Question: What is the significance of profit margins in the context of the P/S ratio?

Answer: Profit margins are important in the context of the P/S ratio because they indicate how much profit is retained for each rupee of sales. A company with higher profit margins will naturally retain more profit, making each rupee of its sales more valuable and potentially justifying a higher P/S ratio.

Question: What was the P/S ratio for ARBL based on the example provided?

Answer: Based on the example provided, the P/S ratio for ARBL was 3.24 times, calculated using a share price of Rs.661 and Sales per Share of Rs.203.86.

Question: How is Sales per Share calculated for ARBL?

Answer: Sales per Share is calculated by dividing the total revenues by the total number of shares outstanding. For ARBL, the total revenue was Rs.3482 Crore and the total number of shares was 17.081 Crore. Sales per Share would then be 3482 divides by 17.081 (3482/17.081), which equals Rs. 203.86.

Question: What does a Sales per Share of Rs. 203.86 mean for ARBL?

Answer: A Sales per Share of Rs. 203.86 means that for every share outstanding, ARBL generates Rs.203.86 worth of sales.

Question: How is the Price to Sales Ratio calculated for ARBL?

Answer: The Price to Sales Ratio for ARBL is calculated by dividing the current share price by the Sales per Share. In this case, the share price was Rs.661 and the Sales per Share was Rs.203.86. Therefore, the P/S ratio is 661 / 203.86, which equals 3.24 times.

Question: What does a Price to Sales Ratio of 3.24 times indicate for ARBL?

Answer: A P/S ratio of 3.24 times indicates that for every Rs.1 of sales, the stock is valued Rs.3.24 times higher. The ratio suggests a relatively high valuation, implying that investors are willing to pay Rs.3.24 for every Rs.1 of sales generated by ARBL.

Question: How should one interpret a high P/S ratio like 3.24 times?

Answer: A high P/S ratio like 3.24 times may indicate that the stock is expensive compared to its sales. However, to get a fuller picture, it's important to compare this ratio with those of the company's competitors as well as to consider other factors like profitability, growth rates, and market conditions.

Question: What steps should be taken to fully understand the significance of a P/S ratio like 3.24 times?

Answer: To understand the significance of a P/S ratio like 3.24 times, one should compare it with the P/S ratios of competitor companies in the same industry. Additionally, it may be helpful to look at other financial metrics such as profit margins to evaluate whether the high ratio is justified by high profitability.

Question: Why is it important to compare the P/S ratio with that of competitors?

Answer: Comparing the P/S ratio with that of competitors gives a more nuanced view of whether a stock is overvalued or undervalued. A high P/S ratio in isolation doesn't provide enough context, but when compared with industry peers, it can give valuable insights into a company's relative valuation.

Question: What is the concept of "Book Value" in the context of a company?

Answer: The "Book Value" of a company refers to the net asset value left after the company has paid off all its obligations. Essentially, it is the minimum amount the company can expect to receive if it liquidates all its assets and settles its debts. It's considered the **salvage value** of the company.

Question: How is the Book Value typically expressed?

Answer: The Book Value is usually expressed on a per-share basis. For example, if the Book Value of a company is Rs.200 Crs and it has 10 million shares, the Book Value per share would be Rs.20. This is the amount a shareholder can expect to receive per share if the company liquidates.

Question: What is the Price to Book Value (P/BV) ratio?

Answer: The Price to Book Value (P/BV) ratio is a financial metric that compares a company's current market value, as reflected by its stock price, with its Book Value per share. It helps investors understand how much they are paying for each unit of Book Value.

Question: How can the P/BV ratio be used in investment analysis?

Answer: The P/BV ratio is often used to assess whether a stock is overvalued or undervalued. A lower P/BV ratio could indicate that the stock is undervalued, whereas a higher P/BV ratio might suggest overvaluation. However, like other financial metrics, it is important to compare the P/BV ratio of a company with its peers in the same industry to get a better understanding of its valuation.

Question: What could a high P/BV ratio indicate?

Answer: A high P/BV ratio could indicate that the stock is expensive relative to its Book Value. This could mean that investors have high expectations for the company's future performance, or it could be a sign that the stock is overvalued.

Question: Why is it important to understand the Book Value of a company?

Answer: Understanding the Book Value of a company is crucial as it serves as a baseline for what a shareholder could expect to receive in case of liquidation. It provides a conservative valuation of the company's worth, helping investors to make more informed decisions.

Question: How does the Book Value differ from Market Value?

Answer: The Book Value represents the net asset value of a company after all debts and obligations are paid off, essentially the **salvage value**. Market Value, on the other hand, is what investors are willing to pay for a share of the company on the stock market, reflecting factors like future growth prospects, earnings potential, and market sentiment.

Question: How is the Book Value (BV) of a company calculated?

Answer: The Book Value (BV) of a company can be calculated using the formula:

BV =

(Share Capital + Reserves - Revaluation Reserves) / Total Number of Shares.

Question: What are the components required to calculate the Book Value?

Answer: The components required to calculate the Book Value are Share Capital, Reserves (excluding revaluation reserves), and the Total Number of Shares outstanding.

Question: What is Revaluation Reserve and how does it affect Book Value?

Answer: Revaluation reserves are reserves created when a company revalues its assets at a higher value compared to their original cost. These reserves are excluded when calculating the Book Value.

Question: Can you explain the calculation of ARBL's Book Value per share?

Answer: Sure, from ARBL's balance sheet we know that the Share Capital is Rs.17.1 Crs, the Reserves are Rs.1345.6 Crs, and Revaluation Reserves are 0. The total number of shares is 17.081 Crs. Therefore, the Book Value per share for ARBL is calculated as follows:

BV = (17.1 + 1345.6 - 0)/17.081 .

BV = Rs. 79.8 per share.

Question: What does a Book Value per share of Rs. 79.8 mean for ARBL?

Answer: A Book Value per share of Rs. 79.8 for ARBL means that if the company were to liquidate all its assets and pay off all its debts today, each share would be worth Rs. 79.8.

Question: How does the Book Value per share affect investment decisions?

Answer: The Book Value per share provides a baseline for what an investor can expect to receive in case the company is liquidated. It helps in assessing whether the stock is overvalued or undervalued when compared to its market price. It serves as a useful metric for investment analysis, especially when compared with the company's current share price and the Book Values of competitors in the same industry.

Question: What is the Price to Book Value (P/BV) Ratio?

Answer: The Price to Book Value (P/BV) Ratio is a financial metric that compares a company's current market price per share to its book value per share. The formula for calculating P/BV is:

P/BV = Current Market Price Per Share/Book Value Per Share.

Question: How is the P/BV ratio calculated for ARBL?

Answer: The stock price of ARBL is Rs.661 per share, and the Book Value (BV) per share is Rs.79.8. Using the formula, the P/BV ratio for ARBL would be:

P/BV = 661/79.8 .

P/BV = 8.3

Question: What does a P/BV ratio of 8.3x indicate for ARBL?

Answer: A P/BV ratio of 8.3x indicates that ARBL's stock is trading at 8.3 times its book value. This could mean that the market values the company much higher than what its book value suggests.

Question: Is a high P/BV ratio always a sign of an overvalued company?

Answer: A high P/BV ratio could indicate that the company is overvalued relative to its book value. However, a high P/BV ratio isn't always a bad thing; it could also indicate that the market expects the company to generate more value in the future. It's important to compare the P/BV ratio with competitors and the industry average to get a more complete picture.

Question: What does a low P/BV ratio indicate?

Answer: A low P/BV ratio could indicate that a company is undervalued relative to its book value. This could present an investment opportunity, but it's essential to understand why the ratio is low. It could be because of poor future prospects, inefficiency, or market underestimation of the company's value.

Question: How can the P/BV ratio be used for investment decisions?

Answer: The P/BV ratio can help investors determine whether a stock is overvalued or undervalued. By comparing a company's P/BV ratio to those of its competitors or the industry average, investors can gauge the relative attractiveness of a stock. Keep in mind that the P/BV ratio is just one tool among many and should not be used in isolation for making investment decisions.

Question: What is the Price to Earnings (P/E) Ratio?

Answer: The Price to Earnings (P/E) Ratio is a financial metric that measures the valuation of a company's stock. It is calculated by dividing the current stock price by the Earnings Per Share (EPS). The P/E ratio is often considered a 'financial ratio superstar' due to its widespread use and popularity in assessing a stock's value.

Question: How is Earnings Per Share (EPS) calculated?

Answer: Earnings Per Share (EPS) measures a company's profitability on a per-share basis. The formula to calculate EPS is:

EPS =Net Profit (or bottom line) /Total Number of Shares Outstanding.

For example, if a company has a net profit of Rs.200,000 and 1,000 shares outstanding, the EPS would be Rs.200 per share.

Question: What does the P/E ratio indicate?

Answer: The P/E ratio indicates how much investors are willing to pay for a company's earnings. A higher P/E ratio could signify that the market has high expectations for a company's future earnings growth. Conversely, a lower P/E ratio may indicate that the market has lower expectations for a company's earnings potential or considers the stock to be undervalued.

Question: How is the P/E ratio calculated?

Answer: The P/E ratio is calculated using the formula:

P/E Ratio = Current Stock Price/Earnings Per Share (EPS)

You divide the current stock price by the company's EPS to get the P/E ratio.

Question: Why is the P/E ratio so popular?

Answer: The P/E ratio is popular because it provides a quick and simple way to compare the relative value of stocks. It's a single number that gives investors a sense of whether a stock is "expensive" or "cheap" based on its earnings.

Question: Does a higher EPS always mean the company is doing well?

Answer: A higher EPS generally indicates better financial performance and profitability. However, it's important to note that EPS can be manipulated through accounting techniques or affected by one-time events. Therefore, while a higher EPS is usually a good sign, it should not be the sole factor considered when evaluating a company's financial health.

Question: How should one use the P/E ratio for investment decisions?

Answer: The P/E ratio can be a useful tool for comparing the relative value of different stocks or for assessing whether a stock is generally overvalued or undervalued. However, like any financial metric, it shouldn't be used in isolation. It's important to consider other financial ratios and qualitative factors when making investment decisions.

Question: What does the P/E ratio measure?

Answer: The Price to Earnings (P/E) ratio measures the market participants' willingness to pay for a stock in relation to its earnings. Essentially, it indicates how much investors are willing to pay for every unit of profit that the company generates.

Question: How do you interpret a P/E ratio?

Answer: A higher P/E ratio suggests that investors are willing to pay more for a stock based on its earnings, usually implying higher expectations for the company's future performance. Conversely, a lower P/E ratio could mean the stock is considered less expensive relative to its earnings, which may imply lower expectations for future growth. It's essential to compare a company's P/E ratio with its competitors and industry averages for a more nuanced understanding.

Question: How is the P/E ratio calculated for ARBL?

Answer: The P/E ratio for ARBL is calculated as follows:

1. Calculate the Earnings Per Share (EPS):
   EPS = PAT/{Total Number of shares = 367 Crore / 17.081 Crore = Rs.21.49
2. Divide the current market price by the EPS:
   P/E Ratio = Current Market Price/EPS =661/21.49 = 30.76 times.

Question: What does a P/E ratio of 30.76 times mean for ARBL?

Answer: A P/E ratio of 30.76 times means that for every unit of profit generated by ARBL, market participants are willing to pay Rs.30.76 to acquire a share. This could be interpreted as the market having high expectations for ARBL's future earnings growth.

Question: How should the P/E ratio be used alongside other valuation ratios?

Answer: The P/E ratio is just one of several valuation ratios that investors should consider. Other ratios like Price to Sales (P/S) and Price to Book Value (P/BV) should also be looked at for a more comprehensive view of a company's valuation. Additionally, it is advisable to compare these ratios against those of competitors and the industry average to get a more accurate picture of the stock's valuation.

Question: Can the P/E ratio alone determine if a stock is a good investment?

Answer: No, the P/E ratio should not be used in isolation to determine the attractiveness of a stock. It is one among various metrics and should be part of a broader investment analysis that includes other financial ratios, market conditions, the company's business model, competitive landscape, and future growth prospects.

Question: How does the P/E ratio relate to a company's earnings?

Answer: The P/E ratio directly relates to a company's Earnings Per Share (EPS). A higher EPS usually leads to a higher P/E ratio if the market price remains constant, reflecting better profitability. However, a high P/E ratio doesn't necessarily mean high earnings; it could also mean that investors have high expectations for future earnings growth.

Question: What do you mean by p/E expansion and how someone can identify?

Answer: P/E expansion refers to an increase in the Price-to-Earnings (P/E) ratio of a stock over a specific period. When the P/E ratio expands, it means that investors are willing to pay more for each

unit of earnings, often because they have a more favorable view of the company's future prospects. This could be due to various factors such as better-than-expected earnings, positive industry trends, or strong macroeconomic indicators that make the company's future earnings appear more secure or promising.

How to Identify P/E Expansion:

- **Historical Analysis**: One straightforward way to identify P/E expansion is to track the P/E ratio over a specific period. If you see that it is consistently rising, that's a sign of P/E expansion.
- **Compare with Industry Peers**: Look at the P/E ratios of other companies in the same industry. If a specific company's P/E ratio is rising faster than its peers, it may be experiencing P/E expansion.
- **Check Earnings Reports**: If the company is consistently beating earnings expectations but the share price is increasing at an even faster rate, the P/E ratio will expand.
- **External Factors**: Positive news about a company or its industry can also trigger P/E expansion. This might be regulatory changes, a strong economic outlook, or any other factors that could lead to expected growth in earnings.
- **Investor Sentiment**: If the market is bullish on a particular sector or stock, you may find that the stock's P/E ratio will expand as investors are willing to pay more for the anticipated future earnings.
- **Macro Factors**: Sometimes the entire market or specific sectors see P/E expansion due to macroeconomic factors, like lower interest rates, which can make stocks more attractive compared to other assets.
- **Dividend and Buyback Policies**: Sometimes changes in these policies can impact investor sentiment positively, leading to a higher willingness to pay a premium for the stock, and therefore a P/E expansion.
- **Technical Indicators**: Though not a direct measure of P/E, various technical indicators like moving averages or trendlines can indicate shifts in investor sentiment that might be associated with P/E expansion.
- **Professional Analysis**: Financial analysts often publish their insights about certain stocks and may comment on or predict P/E expansion. However, these should be taken as opinions and not as facts.

Identifying P/E expansion can be a useful tool for investors as it may indicate favorable market sentiment and the potential for future stock price appreciation. However, it's also essential to consider that a continually expanding P/E could indicate an overvalued stock, which carries its own set of risks.

Question: What is the P/E ratio of a stock or index?

Answer: The P/E ratio, or Price-to-Earnings ratio, is a financial metric that measures the valuation of a stock or an index. It is calculated by dividing the current share price by its earnings per share (EPS). Contrary to popular belief, the P/E ratio is the independent factor while the stock price is actually the dependent factor.

Question: What is considered a good P/E ratio for a stock?

Answer: There is no straightforward answer to what constitutes a "good" P/E ratio for a stock. A P/E ratio's significance is relative and depends on a variety of fundamental quantitative and qualitative factors, such as growth rates, margins, industry trends, and market conditions.

Question: Why might a stock have a high P/E ratio?

Answer: A stock might have a high P/E ratio due to high growth expectations. Markets generally prefer companies that can grow their revenue and profits at a rapid pace. Investors are willing to pay a premium for stocks that have shown consistent growth over time.

Question: Is a high P/E ratio good or bad for stock valuations?

Answer: A high P/E ratio is not inherently good or bad. While a high P/E ratio may indicate that the stock is overvalued, it can also mean that the market has high growth expectations for the company. Ultimately, the appropriateness of a P/E ratio should be considered in the context of other factors like growth rates, profitability, and industry comparatives.

Question: How has the P/E ratio of the Sensex changed over the years?

Answer: The P/E ratio of the Sensex has seen significant fluctuations over the last 20 years, ranging from as low as 15X earnings to as high as 25X earnings. There have been periods of greater volatility, like March 2003 and March 2009, where the index was valued at 11-12 times P/E, or January 2000 and January 2008, when it was close to 28 times P/E.

Question: Should I consider the country-level indexes' P/E ratios when investing?

Answer: Looking at the country-level indexes' P/E ratios can provide valuable context for your investment decisions. These ratios give you a macroeconomic perspective on market valuations and can help you assess whether the broader market is overvalued or undervalued. Understanding the P/E ratios at the country level can serve as a useful backdrop against which to evaluate individual stocks or sectors. However, it shouldn't be the sole factor guiding your investment decisions. Individual stocks can outperform or underperform the broader market, and sector-specific trends can also play a significant role. Therefore, while country-level P/E ratios can offer valuable insights, they should be used in conjunction with other metrics and analyses.

Question: How do growth in earnings and sales affect the P/E ratio?

Answer: Growth in earnings and sales is one of the primary factors driving the P/E ratios of stocks. Companies that can grow their top-line and bottom-line consistently are often rewarded with higher P/E ratios as they are considered more attractive to investors.

Question: What is the role of operating profit margins and net margins in determining the P/E ratio?

Answer: Operating profit margins (OPM) and net margins (NPM) play a significant role in determining a stock's P/E ratio. Companies that can consistently expand their OPM and NPM over time tend to receive better valuations in the market. These companies are seen as more efficient in converting sales growth into profits, which is often reflected in a higher P/E ratio.

Question: What matters more, growth projections or past performance?

Answer: While growth projections are important, what has been delivered consistently in terms of earnings and sales growth tends to hold more weight. A track record of consistent growth often justifies a higher P/E ratio for a stock.

Question: Why is OPM given more importance than NPM?

Answer: Operating Profit Margin (OPM) is often given greater importance than Net Profit Margin (NPM) because OPM focuses on the core operations of the business and its ability to convert sales into profits. It provides a clearer picture of how efficiently the business is running, independent of financial considerations like interest payments and taxes.

Question: How does Return on Equity (ROE) and Return on Capital Employed (ROCE) affect a stock's P/E ratio?

Answer: ROE and ROCE are key indicators of a company's ability to generate returns on shareholder equity and total capital employed, respectively. Companies that generate higher returns on capital are usually able to command higher P/E ratios as investors are willing to pay more for better returns. Conversely, companies with a large debt component or a large equity base typically have lower ROEs and, therefore, lower P/E ratios.

Question: How do macroeconomic conditions impact a stock's P/E ratio?

Answer: Macroeconomic conditions have a varying impact on the P/E ratios of different sectors. These are mainly anticipatory in nature. For instance, when rural incomes are expected to rise, the P/E ratios of sectors like two-wheelers, tractors, and FMCG often expand. Similarly, when interest rates are trending lower, rate-sensitive sectors like banks, real estate, and NBFCs usually get better P/E valuations.

Question: What is the importance of the stage of the commodity cycle on the P/E ratio?

Answer: For companies in the commodities sector, the stage of the commodity cycle can significantly affect their P/E ratios. These companies usually have lower P/E ratios compared to other sectors because they have fewer differentiating factors, relying mostly on price. However, their P/E ratios can increase when there is clear evidence of a rising global commodity cycle.

Question: How do intangibles like brands and distribution networks affect a stock's P/E ratio?

Answer: Intangible factors like brands and distribution networks, often referred to as a company's 'moat,' can also play a significant role in determining a stock's P/E ratio. Companies with strong brands or distribution networks are often able to command higher P/E ratios because these intangibles add value and create an edge over competitors.

Question: What is the relationship between a company's debt level and its P/E ratio?

Answer: Companies that carry high levels of debt are generally perceived as riskier investments, which can lead to lower P/E ratios. Higher debt levels mean greater financial risk and lower coverage ratios. On the other hand, companies with lower debt levels, such as Eicher Motors, often enjoy better valuations and higher P/E ratios due to their reduced financial risk.

Question: What does it mean for a company to have a low equity base and how does it affect the P/E ratio?

Answer: A low equity base usually means that a company is less reliant on equity financing, which can make it less risky from a financial standpoint. Companies with a low equity base are often able to command higher P/E ratios because they are perceived as less financially risky and are capable of generating better returns on equity.

Question: How do different sectors typically compare in terms of P/E ratios?

Answer: Different sectors often have differing average P/E ratios due to the nature of their business, growth prospects, and risk profiles. For example, sectors like IT, FMCG, and pharma often have higher P/E ratios compared to commodity sectors like steel and oil, which usually have lower P/E ratios.

Question: Should price targets be the focal point during the stock research process?

Answer: Price targets are common on Wall Street but should not be the sole focal point during the stock research process. They can serve as guidelines but are often speculative and subject to various external influences, such as economic data and market conditions.

Question: What role does a stock's P/E ratio play in projecting a potential price target?

Answer: According to research, the P/E ratio can be useful for projecting a stock's price target, particularly when a stock is breaking out from an early-stage base. The P/E ratio at the breakout point can be expanded by an average of 130% (or multiplied by 2.3) during the stock's run. This expanded P/E ratio, when multiplied by the next year's consensus annual earnings estimate, gives a projected price target.

Question: What does "breaking out of a base formation" mean in stock trading?

Answer: In stock trading, "breaking out of a base formation" refers to a scenario where a stock price moves above a certain resistance level after a period of sideways or downward movement. This "base" is a range within which the stock has been trading for some time. A breakout is seen as a bullish signal that the stock may be starting a new upward trend.

The term "break out of a base formation" is often used in **technical analysis** to describe a scenario where a stock price moves above a certain resistance level after spending some time moving sideways or downward. This "base" is essentially a period of consolidation for the stock price, and it can take various shapes like a flat base, cup-with-handle, or double-bottom, among others.

Question: Can you please give example of "breaking out of a base formation" mean in stock trading?

Answer: Here's a simplified example to illustrate:

- Imagine a stock that has been trading between $40 and $45 for several weeks. This range of $40-$45 would be considered the "base."
- Investors and traders would be watching this range closely for any signs of a "breakout," which is a movement above the upper limit of this base, i.e., above $45 in this example.
- If the stock suddenly starts trading at $46 or higher on significantly higher volume, it is said to have "broken out" of its base formation.
- The breakout is often taken as a bullish signal, indicating that the stock may be starting a new upward trend. Investors might use this as a buying opportunity, expecting further gains.

It's worth noting that successful breakouts are often accompanied by higher trading volumes and can also be influenced by positive news or strong fundamentals, although this is not a strict requirement.

Question: How is a projected price target calculated?

Answer: The first step in calculating a projected price target is to multiply the stock's P/E ratio at the buy point by 2.3 (to account for the 130% average expansion). This gives an expanded P/E ratio. The

next step is to multiply this expanded P/E ratio by the next year's consensus annual earnings estimate. This final number gives you the projected price target.

Question: Does the stage of the bull market affect the projected price target?

Answer: Yes, the stage of the bull market can affect a stock's projected price target. A stock breaking out in the later stages of a bull market might not show as much power as a stock breaking out in the early stages. Therefore, the 130% P/E multiplier might not always be applicable, and investors should use discretion based on market conditions.

Question: What historical examples exist for successful application of P/E ratio in projecting price targets?

Answer: One example is Syntex in the 1960s. Its P/E ratio was 45 when it cleared a base in July 1963. Using the formula, 45 multiplied by 2.3 gave an expanded P/E of 103.50. This, when multiplied by its annual earnings estimate of $1.67, gave a target of 172.85, which Syntex hit in January 1964.

Another example is Meta Platforms, formerly known as Facebook. Its P/E ratio at entry was 49, and using the 130% expansion gave an expanded P/E of 113. This, when multiplied by the expected earnings of 91 cents a share for 2014, gave a target of 102.83.

Question: Is it always advisable to stick to the 130% P/E multiplier?

Answer: No, the 130% P/E multiplier is a guideline and may not be applicable in all market conditions. Investors should consider other factors, like the stage of the bull market, before using this multiplier for calculating a projected price target.

Question: How is the new P/E ratio calculated when ARBL's price jumps to Rs.750 and the EPS remains at Rs.21.49?

Answer: The new P/E ratio would be calculated as 750 divided by 21.49, which equals 34.9 times.

Question: Why did the stock's P/E ratio jump even though the EPS remained the same?

Answer: The P/E ratio jumped because the stock price increased. The stock price increases when market expectations from the company rise.

Question: What does the P/E ratio indicate about a stock?

Answer: The P/E ratio indicates how expensive or cheap the stock is trading at. A higher P/E ratio suggests the stock is more expensive, while a lower P/E ratio suggests it is cheaper.

Question: What is the personal preference for P/E ratios when considering buying a stock?

Answer: Personally, it is not advisable to buy stocks trading at high valuations. A P/E ratio beyond 25 or at most 30 times its earnings is generally considered high, irrespective of the company and the sector it belongs to.

Question: What is the denominator in the P/E ratio?

Answer: The denominator in the P/E ratio is the 'Earnings' per share (EPS).

Question: Can earnings, which are used in the P/E ratio calculation, be manipulated?

Answer: Yes, earnings can be manipulated. Companies might change accounting policies or treat depreciation in a certain way to manipulate their earnings.

Question: What should one pay attention to when it comes to a company's accounting policies?

Answer: It's important to make sure that the company is not changing its accounting policies too often, as this could be a way to manipulate earnings.

Question: How can the treatment of depreciation affect a company's earnings?

Answer: Provision for lesser depreciation can boost a company's reported earnings, thus affecting the P/E ratio.

Question: What could be a red flag when a company's earnings are increasing?

Answer: If the company's earnings are increasing but its cash flows and sales are not, it could be a sign that something is not right with the company's financial health.

Question: How are stock market indices like the BSE Sensex and CNX Nifty 50 valued?

Answer: Stock market indices like the BSE Sensex and the CNX Nifty 50 are valued using metrics such as the P/E, P/B, and Dividend Yield ratios.

Question: Do stock exchanges publish Index valuations regularly?

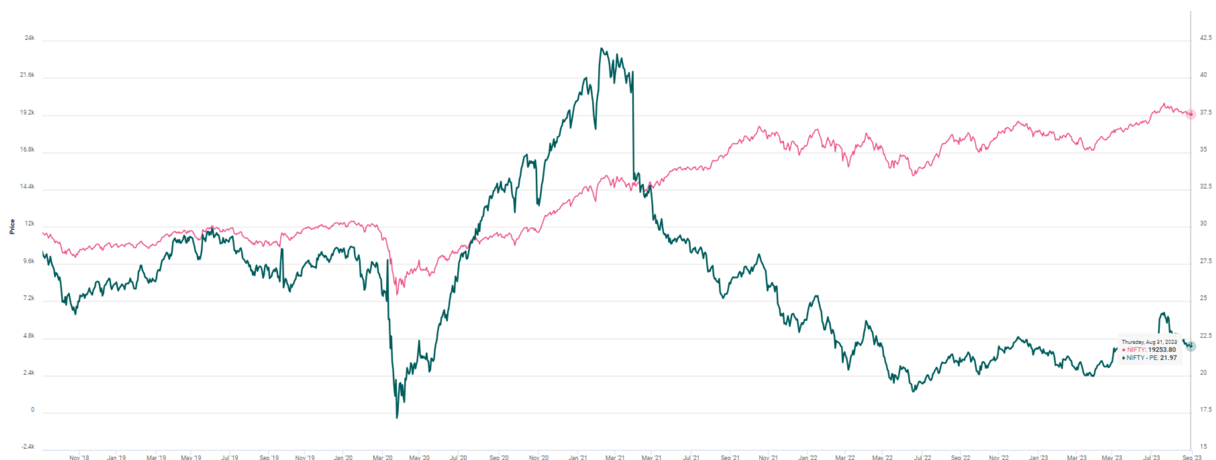
Answer: Yes, stock exchanges usually publish the Index valuation on a daily basis.

Question: What does the Index valuation indicate?

Answer: The Index valuation gives us a sense of how cheap or expensive the overall market is trading at.

Question: How is the CNX Nifty 50 P/E ratio calculated?

Answer: To calculate the CNX Nifty 50 P/E ratio, the National Stock Exchange combines the market capitalization of all the 50 stocks in the index and divides that amount by the combined earnings for all these 50 stocks. As of 1st Sep-2023 below is the graph of last 5 years P/E of NiFTY-50.



Question: What is the significance of tracking the Index P/E ratio?

Answer: Tracking the Index P/E ratio provides a sense of the market's current state as perceived by market participants. It can serve as a broad indicator of market sentiment.

Question: What was the peak Index valuation before the 2008 crash in the Indian markets?

Answer: The peak Index valuation was 28x in early 2008, and it was followed by a major crash in the Indian markets.

Question: How low did the valuation drop during the 2008-2009 market crash in India?

Answer: The valuation dropped to almost 11x during late 2008 and early 2009. This was the lowest valuation the Indian market had witnessed in the past.

Question: What is the usual range for the Indian Indices P/E ratio?

Answer: The usual range for the Indian Indices P/E ratio is between 16x to 20x, with an average of 18x.

Question: What was the trading level of the Indian market's P/E ratio as of 2014?

Answer: As of 2014, the market was trading around a P/E ratio of 22x, which is above the average.

Question: What caution should be exercised when the market's P/E valuations are above 22x?

Answer: One should be cautious while investing in stocks when the market's P/E valuations are above 22x, as it indicates that the market is trading at a higher valuation and could be at risk for a correction.

Question: When is historically the best time to invest in the Indian markets based on P/E valuations?

Answer: Historically, the best time to invest in the markets is when the valuations are around 16x or below. This is considered a more favorable valuation level for entering the market.

Question: What is valuation in general terms?

Answer: Valuation is the estimate of the 'worth' of something.

Question: What financial statements are typically used in valuation ratios?

Answer: Valuation ratios involve inputs from both the Profit and Loss (P&L) statement and the Balance Sheet.

Question: What does the Price to Sales ratio signify?

Answer: The Price to Sales ratio compares the company's stock price with the company's sales per share.

Question: How is sales per share calculated?

Answer: Sales per share is simply the Sales divided by the Number of shares.

Question: Do profit margins affect the value of sales in a company?

Answer: Yes, sales of a company with a higher profit margin are more valuable than the sales of a company with lower profit margins.

Question: What is the 'Book Value' of a firm when it is going bankrupt?

Answer: If a company is going bankrupt, the 'Book Value' of a firm is simply the amount of money left on the table after the company pays off its obligations.

Question: Is book value expressed in terms of shares?

Answer: Yes, book value is usually expressed on a per-share basis.

Question: What does the Price/BV ratio indicate?

Answer: The Price/BV indicates how many times the stock price is trading over and above the firm's book value.

Question: What does EPS measure?

Answer: EPS (Earnings Per Share) measures the profitability of a company on a per-share basis.

Question: What does the P/E ratio represent?

Answer: The P/E (Price-to-Earnings) ratio indicates market participants' willingness to pay for a stock, keeping the company's earnings in perspective.

Question: What caution should be exercised while evaluating the P/E ratio?

Answer: One has to be cautious about earning manipulation while evaluating the P/E ratio.

Question: Can indices have a valuation?

Answer: Yes, the Indices have a valuation which can be measured by the P/E, P/B or Dividend Yield ratio.

Question: At what valuation is it advisable to exercise caution when an index is trading?

Answer: It is advisable to exercise caution when the Index is trading at a valuation of 22x or above.

Question: What makes a valuation attractive for trading an index?

Answer: A valuation gets attractive when the index is trading at 16x or below.

Question: Where can one find information on index valuations?

Answer: NSE (National Stock Exchange) publishes the index valuations on their website daily.

Chapter-12: Investment Due Diligence and Moat.

Question: What is the final objective of understanding how to read financial statements and calculate financial ratios?

Answer: The final objective is to use fundamental analysis to identify stocks to invest in.

Question: What are investable grade attributes?

Answer: Investable grade attributes define a company's prerequisites that need to be validated before making an investment decision. Think of it as a checklist based on the fundamentals of the company.

Question: Is a company that satisfies most of the items in the investable grade attributes checklist considered investment-worthy?

Answer: Yes, a company that satisfies most of the items in the checklist is considered investment-worthy.

Question: Are investable grade attributes the same for every investor?

Answer: No, what one investor considers as an investable grade attribute may not be important to another. Each investor has their own set of criteria based on their investment experience.

Question: Can corporate governance be considered an investable grade attribute?

Answer: It can be, depending on the investor. Some investors may pay a lot of attention to corporate governance, while others may not consider it as crucial.

Question: Is there a universal checklist for investable grade attributes?

Answer: No, there is no prescribed checklist. Each investor has to build their own checklist based on their investment experience.

Question: What should be ensured while building one's own checklist for investable grade attributes?

Answer: One has to ensure that each item on the checklist is qualified based on sound logic.

Question: Is it advisable to take pointers from pre-existing checklists if you're a beginner in investing?

Answer: Yes, if you are starting fresh, you could take pointers from a well-curated checklist as a guideline.

Question: What is the importance of having a checklist based on the fundamentals of the company?

Answer: The checklist serves as a guideline for validating various aspects of a company's performance and management to determine if it is worthy of investment.

Question: Can personal opinions about a company influence whether it passes the investable grade attributes?

Answer: Yes, personal opinions and priorities can influence the criteria in one's checklist for investable grade attributes.

Question: Is it okay to invest in a company if "the numbers add up" but there are concerns about corporate governance?

Answer: This is subjective and depends on the individual investor's priorities. Some might be fine with investing as long as the financials are strong, while others might give weight to aspects like corporate governance.

Question: What role does investment experience play in shaping one's checklist for investable grade attributes?

Answer: Investment experience helps in fine-tuning the checklist based on what has worked in the past and what factors are truly important for assessing a company's worth.

Question: Can the checklist for investable grade attributes be considered a static document?

Answer: No, the checklist is likely to evolve over time as the investor gains more experience and knowledge.

Question: What is the first step in the process of investing in a stock?

Answer: The first step in the process of investing in a stock is to select a stock that looks interesting. Once a stock has been selected, it should be subjected to a checklist to determine if it meets certain criteria. If it passes, then one can proceed to invest in it.

Question: How can one select a stock that looks interesting enough to invest in?

Answer: There are several methods to select a stock that looks interesting for further investigation. Two such methods are General Observation and using a Stock Screener.

Question: What is the General Observation method for generating a stock idea?

Answer: The General Observation method involves keeping an eye on economic activities and market trends around you. You observe what people are buying and selling, see what products are being consumed, and keep an eye on the neighborhood to understand what people are talking about. This method is advocated by Wall Street investor Peter Lynch in his book "One Up on Wall Street."

Question: Can you give examples of stocks picked using the General Observation method?

Answer: Yes, some examples of stocks picked using the General Observation method include PVR Cinemas Ltd (noticed due to the growth of PVR multiplexes in the city), Cummins India Limited (noted because many buildings had a Cummins diesel generator), and Info Edge Limited (known for owning naukri.com, a popular job portal).

Question: What is a Stock Screener, and how does it help in stock selection?

Answer: A Stock Screener is a tool that allows you to screen for stocks based on parameters you define, such as Return on Equity (ROE) and Profit After Tax (PAT) margins. It helps investors perform quality stock analysis and is especially useful for narrowing down a large list of potential investments to a more manageable handful.

Question: What happens after a stock passes the checklist criteria?

Answer: After a stock passes all the checklist criteria, the next step is to invest in that stock. If it doesn't meet the criteria, then one should look for other investment opportunities.

Question: What is the role of a checklist in the stock investing process?

Answer: A checklist serves as a set of criteria that a stock must meet before it is considered for investment. It helps to systematize the process of stock selection and ensures that only quality stocks that meet certain benchmarks are selected for investment.

Question: Who is Peter Lynch and what does he advocate regarding stock selection?

Answer: Peter Lynch is an illustrious Wall Street investor and author of the book "One Up on Wall Street." He advocates the General Observation method as an effective way to generate stock ideas by paying attention to economic activity and trends around you.

Question: Can I use both General Observation and Stock Screener methods together?

Answer: Yes, you can use both General Observation and Stock Screener methods together to generate a more comprehensive list of stocks that look interesting for further investigation. Each method has its own advantages and can complement the other.

Question: What is the significance of macroeconomic trends in stock investing?

Answer: Keeping a general tab on macroeconomic trends is a good way to identify stocks with strong potential. For example, if there is a push for infrastructure projects in a country like India, the cement companies operating in that region are likely to benefit. By understanding these macro trends, an investor can sift through companies in the relevant sector to find well-positioned stocks.

Question: What are sectoral trends and how can they influence stock selection?

Answer: Sectoral trends are specific trends within individual industries or sectors. By keeping an eye on these, investors can identify emerging trends and the companies poised to benefit from them. For example, if there is a shift in consumer taste towards energy drinks in the non-alcoholic beverage sector, companies best positioned to capitalize on this trend may be good investment options.

Question: What is a special situation in stock investing?

Answer: A special situation refers to a unique set of circumstances affecting a specific company, often revealed through company-related news or events. These situations can offer investment opportunities if properly analyzed. For instance, if a respected business professional joins a company's advisory board, it may signal positive future prospects for the company. In the example given, an investment in Cox & Kings Limited after Mr. Keki Mistry joined its board led to a 200% gain.

Question: How can an individual leverage their "Circle of Competence" for stock investing?

Answer: The Circle of Competence method involves leveraging your professional skills and knowledge to identify investment opportunities within your area of expertise. For example, a medical professional might be better equipped to evaluate stocks in the healthcare industry compared to someone from a different field. By focusing on industries you understand well, you can make more informed investment decisions.

Question: What is the checklist mentioned in the context of macro trends?

Answer: One could apply a set of criteria or a checklist to identify which companies are best positioned to leverage a macroeconomic trend. This checklist might include factors like company fundamentals, growth prospects, and market positioning.

Question: How did the advisory board change at Cox & Kings impact its stock value?

Answer: In the example provided, the addition of Mr. Keki Mistry, a highly respected business professional, to the advisory board of Cox & Kings acted as a trigger for investment. A colleague of the writer was convinced that the company would significantly benefit from Mr. Mistry's expertise, and upon further research, decided to invest. This investment resulted in a 200% gain.

Question: How can a newbie investor approach stock investing?

Answer: For a newbie investor, it is highly recommended to use the Circle of Competence method. This approach involves identifying and investing in companies within your professional domain, as you're more likely to understand the nuances and trends in that particular sector.

Question: What types of products are traditionally sold in the non-alcoholic beverages market?

Answer: Traditionally, the non-alcoholic beverages market primarily focuses on three kinds of products: coffee, tea, and packaged water. Most companies in this sector manufacture and sell these products.

Question: What example is provided for identifying stocks based on macro trends?

Answer: The example provided for identifying stocks based on macro trends is the infrastructure push in India. Cement companies operating in India are seen as potential beneficiaries of this trend.

Question: Why is it beneficial to invest in sectors that you understand well?

Answer: Investing in sectors that you understand well allows you to leverage your professional expertise and knowledge to make more informed investment decisions. It gives you an edge in evaluating the company's prospects and risks, making it more likely that you'll pick successful investments.

Question: What is a 'watch list' in the context of stock investing?

Answer: A 'watch list' is a list of stocks that an investor finds interesting and potentially worth investing in the future. The idea is to monitor these stocks closely for changes that might make them a good investment opportunity.

Question: Why is it important to add interesting stocks to your watch list?

Answer: Adding interesting stocks to your watch list allows you to keep an eye on them over time. Even if they don't meet all the criteria in your checklist at the moment, business dynamics may change, making them viable investment opportunities later.

Question: How often should one evaluate the stocks in their watch list?

Answer: It's important to evaluate the stocks in your watch list from time to time, though it doesn't specify a frequency. The key is to monitor changes in business dynamics that might make a stock meet your investment criteria.

Question: What role does a checklist play in stock selection?

Answer: A checklist serves as a set of criteria or guidelines that helps you identify whether a stock is well-positioned for investment. This checklist might include aspects like company fundamentals, growth prospects, and sector trends. While a stock may not meet these criteria initially, it might become a suitable investment as circumstances change.

Question: What triggers one to investigate a particular stock?

Answer: The trigger to investigate a stock can come from various sources such as macroeconomic trends, sector-specific changes, special situations involving the company, or even your professional expertise in a given field. The point is to be open to triggers from any source.

Question: Why is it important to reevaluate stocks on your watch list periodically?

Answer: Reevaluating stocks on your watch list periodically is crucial because business dynamics change. A stock that did not meet your checklist criteria earlier might become a good investment option due to changes in the market, sector trends, or company fundamentals.

Question: Can a stock that initially doesn't meet your criteria later become a good investment?

Answer: Yes, a stock that initially doesn't meet your checklist criteria can later become a good investment. Business dynamics and market conditions change, and these changes might make the stock a viable investment option in the future.

Question: What is the significance of being open to triggers from various sources?

Answer: Being open to triggers from various sources broadens your investment horizon. Whether it's a macro trend, a sector-specific update, or news related to a specific company, each can provide valuable insights and potentially lucrative investment opportunities.

Question: How does a watch list help in dynamic business environments?

Answer: A watch list allows you to keep track of stocks that have caught your interest, enabling you to quickly act when they meet your investment criteria. Given that business environments are dynamic and conditions can change, a watch list helps you remain adaptable and poised to seize investment opportunities as they arise.

Question: What is "Investment due diligence" in the context of stock investing?

Answer: Investment due diligence is the thorough investigation and evaluation process one undertakes after selecting a stock of interest. This involves running a checklist to scrutinize various aspects of the stock. Maximum attention is paid to every element of this exercise to ensure a sound investment decision.

Question: What does the term 'Moat' or 'Economic Moat' signify?

Answer: Popularized by Warren Buffet, the term 'Moat' or 'Economic Moat' refers to a company's competitive advantage over its competitors. A strong moat safeguards the company's long-term profits and ensures sustainability over an extended period.

Question: Why is a sustainable moat important?

Answer: A sustainable moat is important because it not only protects the company's current profits but also ensures the company's long-term viability. Companies with a wider moat, such as better brand name, pricing power, and market share, are generally more resilient against competitors eating away their market share.

Question: Can you provide an example to explain the concept of a 'Moat'?

Answer: Eicher Motors Limited serves as an example to illustrate the concept of a 'Moat.' The company manufactures Royal Enfield bikes that enjoy a massive brand following and cater to a rapidly growing niche segment. This brand loyalty and unique market positioning act as Eicher Motors' moat, making it challenging for competitors to displace them.

Question: How does a moat relate to long-term wealth creation?

Answer: Companies with a sustainable moat are often the ones that create true long-term wealth. The underlying factor of their success often lies in their ability to maintain a competitive advantage, thereby protecting their market share and profits over the long term.

Question: What are some examples of different types of moats?

Answer: Examples of different types of moats include labor arbitrage between countries, as seen with Infosys; manufacturing and distribution licenses, like that of Page Industries with Jockey innerwear; niche product manufacturing, such as Prestige Industries with pressure cookers; and

unique credit offerings, like Gruh Finance Limited's small ticket size credits to a specific market segment.

Question: What should an investor consider when looking at a company's moat?

Answer: When evaluating a company's moat, an investor should consider whether the competitive advantage is sustainable over a long period. Factors such as brand name, pricing power, and market share can indicate the width and sustainability of a company's economic moat.

Question: Why should an investor focus on companies with wider economic moats?

Answer: Focusing on companies with wider economic moats is advisable because such companies are more likely to sustain their competitive advantages, making them more resilient to market changes and competitor actions. This, in turn, can result in more reliable and potentially greater returns on investment.

Question: Is a moat always related to a company's product or service?

Answer: No, a moat is not always related to a company's product or service. It can be any unique competitive advantage that the company has, including things like supply chain efficiency, intellectual property, or even geographical advantages.

Question: How do changes in a company's moat affect its stock value?

Answer: Changes in a company's moat can significantly impact its stock value. Strengthening of the moat can make the stock more attractive, leading to higher stock prices. Conversely, if a company's moat weakens, its long-term profits could be at risk, potentially leading to a decline in stock value.

Question: What are the key stages involved in the equity research due diligence process?

Answer: The key stages in the equity research due diligence process are understanding the business, which often involves reading the annual reports; applying a checklist to evaluate various aspects of the company; and finally, valuation to estimate the intrinsic value of the business.

Question: How should one go about understanding the business in stage 1 of due diligence?

Answer: In stage 1, the focus is on understanding the business deeply. One should start by posing a fundamental question about the company, such as, "What business is the company involved in?" The information should ideally be sourced from the company's latest Annual Report or their website to get the company's perspective on itself.

Question: Why should you avoid Google when initially researching a company's business?

Answer: It's preferable to start with the company's Annual Report or official website to understand what the company has to say about itself. Google searches might provide third-party opinions or outdated information, which may not be as reliable as the information directly from the company.

Question: What kind of companies does we prefer to invest in?

Answer: We prefers to invest in companies where there is less competition and minimal government intervention. An example given is PVR Cinemas, where there were only three listed players in the sector, thus making it a less competitive space.

Question: How does the competition landscape influence investment thesis?

Answer: The investment decisions are influenced by the level of competition in the sector. The example of PVR Cinemas indicates that a change in the competitive landscape, such as new players entering the market, may prompt the investor to re-evaluate their investment thesis.

Question: What happens in stage 2 of the due diligence process?

Answer: In stage 2, the focus shifts to applying a checklist to evaluate various performance-related aspects of the company. This can include metrics like revenue growth, profitability, market share, and other key performance indicators that would provide insights into the health and potential of the company.

Question: What is the purpose of a checklist in the due diligence process?

Answer: The checklist serves as a structured guide to evaluating the multiple aspects of a company's business. It helps to ensure that nothing significant is overlooked and allows for a more systematic assessment of the investment opportunity.

Question: Why is it important to re-evaluate your investment thesis periodically?

Answer: It is important to re-evaluate your investment thesis periodically because business conditions and competitive landscapes can change. As in the example of PVR Cinemas, the entry of new players in the market signaled a need for re-evaluation of the initial investment thesis.

Question: What should one do after being comfortable with understanding the business?

Answer: After gaining a comfortable understanding of the business, the next step is to move to stage 2, which involves applying a checklist to assess various performance-related aspects of the company. This helps to evaluate how well the company is doing and if it meets the investor's criteria for investment.

Question: Is the due diligence process a one-time activity?

Answer: No, the due diligence process is not a one-time activity. It requires periodic reviews to take into account any changes in the business landscape, competition, government policies, or other factors that could impact the investment.

Question: What does the Gross Profit Margin (GPM) signify in the checklist?

Answer: In the checklist, Gross Profit Margin (GPM) greater than 20% signifies that there is higher evidence of a sustainable moat or competitive advantage for the company.

Question: Why should Revenue Growth be in line with gross profit growth?

Answer: Revenue growth should be in line with gross profit growth to indicate that the company's profitability is growing proportionately with its revenue. This helps to assess the quality of the revenue being generated.

Question: What does a consistent EPS with Net Profits signify?

Answer: A consistent EPS (Earnings Per Share) with Net Profits signifies that the company is not diluting its equity, which would otherwise be detrimental for its shareholders.

Question: What should be considered regarding the Debt Level of a company?

Answer: The Debt Level in the checklist suggests that the company should not be highly leveraged. High debt levels indicate that the company is operating on high leverage, and the finance cost can eat away at the earnings.

Question: Why is Inventory an important variable for manufacturing companies?

Answer: For manufacturing companies, inventory is an important metric. A growing inventory along with a growing PAT (Profit After Tax) margin is considered a good sign. It's also important to check the number of days the inventory is held.

Question: What does Sales vs Receivables signify in the checklist?

Answer: Sales backed by receivables is not a great sign as per the checklist. This could mean that the company is merely pushing its products into the market to show revenue growth, which may not be sustainable.

Question: Why is positive Cash Flow from Operations important?

Answer: Having a positive Cash Flow from Operations indicates that the company is generating cash from its primary business activities, which is a sign of operational health.

Question: What does a high Return on Equity (ROE) signify?

Answer: A high ROE, especially greater than 25%, is better for the investor as it signifies that the company is generating a high return on the equity invested. However, this should be checked alongside debt levels.

Question: What is meant by Business Diversity in the checklist?

Answer: Business Diversity refers to the number of business lines or sectors in which a company operates. The checklist advises sticking to companies that operate in 1 or 2 simple business lines to minimize complexity and risk.

Question: What should one consider when looking at the number of subsidiaries a company has?

Answer: The checklist advises caution when a company has many subsidiaries. A high number of subsidiaries could signify that the company may be siphoning off money, which is a red flag for investors.

Question: Why is it important to consider the stock price even if the company satisfies all the checklist points?

Answer: Even if a company satisfies all the criteria in the checklist, if it is not trading at the right price in the market, then it may not be a good investment. The "right price" means a price that is justified based on the company's intrinsic value.

Question: What is Stage 3 in the due diligence process?

Answer: Stage 3 of the due diligence process involves running a valuation exercise on the stock to determine its intrinsic value. One of the most popular methods for this is the Discounted Cash Flow (DCF) Analysis.

Question: What is Discounted Cash Flow (DCF) Analysis?

Answer: Discounted Cash Flow (DCF) Analysis is a financial valuation method that estimates the value of an investment based on its expected future cash flows, discounted back to their present value. This method is widely used to estimate the intrinsic value of a stock.

Question: What is the focus of "Equity Research"?

Answer: The focus of "Equity Research" will largely be on Stage 2, which is applying the checklist for performance-related answers, and Stage 3, which is valuation. Stage 1, which involves understanding the business by reading the annual report in detail, is considered a given.

Question: What is considered the "right price" for a stock?

Answer: The "right price" for a stock is considered to be its intrinsic value, which is estimated through financial valuation methods like the Discounted Cash Flow (DCF) Analysis. Buying a stock at a price close to or less than its intrinsic value is generally considered a good investment.

Question: Why is reading the annual report important in Stage 1 of due diligence?

Answer: Reading the annual report in Stage 1 helps investors to understand the business from the company's perspective. It provides critical information on the company's financials, operations, and strategic directions, thereby forming the foundation for the subsequent stages of equity research.

Question: Where can a stock idea come from?

Answer: A stock idea can come from various sources including macroeconomic trends, sector-specific trends, special situations, or even your own circle of competence. It may also come from general observations or news events related to a particular company or industry.

Question: What is the "circle of competence" and how can it help in identifying stock ideas?

Answer: The "circle of competence" refers to the areas or sectors where you have professional skills or deep understanding. Leveraging your expertise in your circle of competence can help you identify stocks within that domain that may be good investment opportunities.

Question: What is the purpose of having a "watch list"?

Answer: A "watch list" is a list of stocks that seem interesting based on your research or observations. Over time, this list serves as a ready reference for potential investment opportunities. It is advisable to periodically evaluate the stocks in your watch list as business dynamics change.

Question: What is meant by "sustainable moats" and why are they important?

Answer: Sustainable moats refer to long-lasting competitive advantages that a company has over its competitors. A company with a sustainable moat is generally better positioned for long-term profitability, making it a potentially good investment.

Question: What are the key stages of the due diligence process?

Answer: The key stages of the due diligence process are understanding the business, applying a checklist to gauge its financial performance, and conducting a valuation exercise to determine its intrinsic value.

Question: What should an investor focus on when trying to understand a business?

Answer: When understanding a business, an investor should be thoroughly familiar with the company's operations, financials, market positioning, and strategic direction. This usually involves reading the annual reports and other publicly available materials.

Question: Should the checklist for due diligence remain static?

Answer: No, the checklist should be improvised and updated as the investor gains more experience and as market conditions evolve. A dynamic checklist allows for a more nuanced approach to evaluating potential investments.

Question: What is the DCF method and why is it considered one of the best techniques for valuation?

Answer: The Discounted Cash Flow (DCF) method is a financial valuation technique that estimates the intrinsic value of an investment based on its expected future cash flows, discounted back to their present value. It is considered one of the best techniques because it takes into account the time value of money and provides a comprehensive view of the financial viability of an investment.

Chapter-13: Make your own research.

Question: What is the focus of the 'limited resource' equity research methodology?

Answer: The focus of the 'limited resource' equity research methodology is to guide retail investors on how to understand a company and its business with the limited resources they have at hand, such as the internet, company annual reports, and MS Excel.

Question: What resources do institutional investors have that retail investors typically do not?

Answer: Institutional investors have access to a wider range of resources, including human analysts, direct access to company management, financial databases like Bloomberg, Reuters, Factset, and various industry reports.

Question: What are the three main stages of the equity research process according to this methodology?

Answer: The three main stages are:

- Understanding the Business.
- Application of the checklist.
- Intrinsic Value estimation (Valuation) to understand the fair price of the stock.

Question: Is it possible to take shortcuts in any of these equity research stages?

Answer: No, it is strongly advised not to take shortcuts in any of these stages. Each stage has its own set of steps that are crucial for making an informed investment decision.

Question: What is the end objective of this 'limited resource' equity research methodology?

Answer: The end objective of this methodology is to help retail investors decide whether to buy or not to buy a particular stock, based on a structured research process.

Question: What is the importance of each stage in the equity research process?

Answer: Each stage serves a critical purpose: 'Understanding the Business' helps you know what you are investing in; 'Application of the checklist' assists in evaluating the financial health and competitive positioning of the company; and 'Intrinsic Value estimation (Valuation)' helps in understanding whether the stock is priced fairly in the market.

Question: Can the 'limited resource' equity research methodology be effective despite its limitations?

Answer: Yes, despite having fewer resources compared to institutional investors, the 'limited resource' methodology can still be effective in guiding retail investors toward making informed investment decisions, as long as no stage or step is compromised.

Question: What is the first step when researching a company for investment purposes?

Answer: The first step when researching a company for investment purposes is to understand the business as much as possible.

Question: Why do some people skip understanding the business and jump directly into stock price analysis?

Answer: Some people skip understanding the business and jump directly into stock price analysis because they are focused on short-term gains rather than long-term investments.

Question: Why is it important to understand a company's business for long-term investment?

Answer: Understanding the company's business for long-term investment is important because it helps you build conviction to stay put with the investment, especially during bear markets. The more you know about the company, the easier it is to understand why it makes sense to stay invested even when the market disagrees.

Question: What happens to stock prices during bear markets?

Answer: During bear markets, stock prices often react and fall, but this is not necessarily reflective of the business fundamentals of the company.

Question: Why should you consider buying a stock during bear markets if you have a high conviction on the company?

Answer: If you have a high conviction about the company's business fundamentals, bear markets create an opportunity to buy the stock at lower prices. This is because prices react during bear markets, not the business fundamentals. So, if you believe in the long-term potential of the company, it makes sense to buy into the stock during bear markets rather than selling it.

Question: What is counter-intuitive about buying stocks during bear markets?

Answer: Buying stocks during bear markets is counter-intuitive because the natural instinct is to sell when prices are falling. However, if you have a high conviction in the company's business fundamentals, bear markets offer a good opportunity for long-term investors to buy stocks at lower prices.

Question: What are some good sources to get information about a company's business?

Answer: The best sources to get information about a company's business are the company's website and its annual report.

Question: How many years of annual reports should you ideally study to understand how a company is evolving across business cycles?

Answer: It is recommended to study at least the last 5-year annual reports to understand how the company is evolving across business cycles.

Question: What is the first thing to do towards understanding a business for investment?

Answer: The first thing to do towards understanding a business for investment is to make a list of questions that you need to find answers to. The answers can usually be found in the company's annual report and website.

Question: Why is it important to know what the company does?

Answer: Knowing what the company does gives you a basic understanding of the business, which is essential for making informed investment decisions.

Question: Why should you inquire about the backgrounds of the company's promoters?

Answer: Inquiring about the backgrounds of the company's promoters helps you understand who is behind the business. It serves as a sanity check to eliminate companies with promoters who have criminal backgrounds, intense political affiliations, or other potential red flags.

Question: What information does knowing about a manufacturing company's products provide?

Answer: Knowing about a manufacturing company's products helps you understand the product's demand-supply dynamics, which is crucial for assessing the company's potential growth and stability.

Question: Why is the location and number of plants important?

Answer: Knowing the location and number of plants gives you a sense of the company's geographic presence. Sometimes, the location could be so prime that its value is off-balance sheet, making the company highly undervalued.

Question: Why should you find out if the company's plant is running at full capacity?

Answer: Finding out if the plant is running at full capacity gives you an idea of their operational abilities, the demand for their products, and whether they are well-positioned for future demand.

Question: Why is understanding the type of raw material required important?

Answer: Understanding the type of raw material required helps you gauge the company's dependency on external factors. For example, the raw material might be government-regulated or need to be imported, either of which warrants further investigation.

Question: How does knowing the company's clients or end-users help?

Answer: Knowing the company's clients or end-users helps you understand the sales cycle and the efforts required to sell the company's products, which is important for assessing the company's market positioning.

Question: What is the significance of knowing the competitors of the company?

Answer: Knowing the competitors helps you understand the market dynamics. Too many competitors often mean margin pressure, making innovation essential for standing out. Higher margins are usually found in markets with limited competition like monopolies, duopolies, or oligopolies.

Question: Why is it important to know the major shareholders of the company?

Answer: Knowing who the major shareholders are, aside from the promoter and promoter group, provides additional insight. If a highly successful investor holds shares in the company, it may indicate that the company is a good investment opportunity.

Question: Why should you find out if the company plans to launch new products?

Answer: Knowing whether the company plans to launch new products gives you a sense of its ambition and innovation. However, if a company is launching products outside their domain, it may be a red flag indicating a loss of focus.

Question: What does knowing the company's revenue mix reveal?

Answer: Knowing the company's revenue mix helps you understand which product or segment is contributing most to the revenue, which in turn helps you predict future revenue growth drivers.

Question: Why is it important to know if the company operates under heavy regulation?

Answer: Knowing if the company operates under heavy regulation is a double-edged sword. While it can act as a barrier to new competition, it can also limit the company's ability to be innovative in the industry.

Question: Why should you know who the company's bankers and auditors are?

Answer: Knowing who the company's bankers and auditors are can help rule out the possibility of the company being associated with scandalous agencies.

Question: What can the number of employees and potential labor issues tell you about a company?

Answer: The number of employees and any labor issues can give you a sense of how labor-intensive the company's operations are. If the company requires a specialized workforce, it could be another red flag to consider.

Question: Why is understanding entry barriers crucial?

Answer: Understanding entry barriers helps you gauge how easy or difficult it is for new companies to enter the market, which can impact the existing company's margins.

Question: Why should you be cautious if the company manufactures products that can be easily replicated in countries with cheap labor?

Answer: If the company manufactures products that can be easily replicated in countries with cheap labor, they may be at risk from competitors in those countries, thereby threatening their market position.

Question: What should you consider if the company has many subsidiaries?

Answer: If the company has many subsidiaries, you should question why. Multiple subsidiaries can sometimes be a way for the company to siphon off funds, which would be a red flag for potential investors.

Question: What is the next step after thoroughly understanding the company in the equity research process?

Answer: The next step after "Understanding the Company" is the "Application of Checklist" stage. This involves applying a predefined checklist to evaluate various aspects of the company further.

Question: How long does the 'Understanding the Company' stage usually take?

Answer: Based on experience, the 'Understanding the Company' stage takes about 15 hours.

Question: What should you do if you find any red flags during the 'Understanding the Company' stage?

Answer: If you encounter any red flags or concerning information about the company, it is advisable to halt any further research irrespective of how attractive the business otherwise appears.

Question: How should you summarize your findings from the first stage of equity research?

Answer: After going through the first stage, it's good to summarize your thoughts on a single sheet of paper. This summary should encapsulate all the critical information you have learned about the company and be crisp and to the point.

Question: What should you conclude if you cannot summarize your thoughts clearly?

Answer: If you can't summarize your thoughts in a crisp and clear manner, it likely means that you do not yet have a comprehensive understanding of the company.

Question: Are the stages of equity research sequential?

Answer: Yes, the stages of equity research are sequential and should be followed in the same order.

Question: Can the equity research framework be applied to different companies?

Answer: Yes, the equity research framework remains the same regardless of the company being researched. The idea is not to focus on how good or bad a particular company is but to apply a consistent research approach.

Question: What is the main focus as you move forward in equity research, specifically for stage 2?

Answer: The main focus for stage 2, "Application of Checklist," is to apply a predefined checklist that evaluates various aspects of the company further, including its business model, governance, financials, and market potential, among others.

Question: Why is the Q&A framework effective for understanding a company?

Answer: The Q&A framework is effective because it prompts you to read and dig out extensive information about the company. This deep dive into the company enables you to get a greater understanding of its business, operations, and potential for long-term success.

Question: What is the purpose of discussing a specific company like Amara Raja Batteries Limited (ARBL) in the module?

Answer: Discussing a specific company like ARBL is not to showcase how good or bad the company is but to illustrate a framework for what is perceived as a 'fairly adequate' equity research process.

Question: What caution should be exercised as you proceed to discuss a specific company in stage 2?

Answer: As you proceed to discuss a specific company like ARBL in stage 2, the caution to be exercised is that the focus is to understand the company better through the application of the checklist rather than making a judgment about its quality.

Question: What is the objective of the 2nd stage of equity research?

Answer: The objective of the 2nd stage of equity research is to comprehend the company's financial numbers and evaluate if the nature of the business and its financial performance complement each other. If they don't, the company will not qualify as an investible grade.

Question: What does Net Profit Growth indicate?

Answer: Net Profit Growth should be in line with gross profit growth. If revenue growth is not aligned with profit growth, it may be a warning sign.

Question: What does EPS (Earnings Per Share) signify?

Answer: EPS should be consistent with Net Profits. If a company is diluting its equity, it is not a good sign for shareholders, as their ownership percentage decreases.

Question: Why is Gross Profit Margin (GPM) important?

Answer: A Gross Profit Margin higher than 20% indicates the presence of a sustainable moat or competitive advantage. Higher margins allow the company greater flexibility and can be a sign of a strong business model.

Question: What is the significance of Debt Level?

Answer: The Debt Level should not be high, as a highly leveraged company risks financial distress. High debt also means that finance costs will eat away at the earnings.

Question: What does Inventory indicate for manufacturing companies?

Answer: Inventory levels are particularly important for manufacturing companies. A growing inventory, along with a growing Profit After Tax (PAT) margin, is a positive sign. However, one should also check the number of days inventory is held.

Question: What does the Sales vs Receivables ratio signify?

Answer: Sales backed by receivables are not a great sign as it indicates that the company might be pushing its products to show revenue growth, which may not be sustainable in the long term.

Question: Why is Cash flow from operations important?

Answer: Cash flow from operations has to be positive. If a company is not generating cash from its operations, it indicates that the company is under operating stress, which is a red flag.

Question: What does Return on Equity (ROE) indicate?

Answer: A Return on Equity higher than 25% is generally a positive indicator for investors. However, this should be checked alongside the company's debt levels to ensure that the high ROE is not being fueled by excessive leverage.

Question: What should you conclude if the business fundamentals do not align with the financials?

Answer: If the business fundamentals do not align with the financials, the company should not be considered of investible grade. Both aspects need to complement each other for the company to be a viable investment opportunity.

Question: Is the checklist discussed in stage 2 the same as the one presented in the previous chapter?

Answer: Yes, the checklist discussed in the 2nd stage of equity research is the same as the one presented in the previous chapter for quick reference.

Question: What is the key P&L items to look into for evaluating Amara Raja Batteries?

Answer: The key Profit and Loss (P&L) items to consider when evaluating Amara Raja Batteries are Gross Profit, Net Profit, and Earnings Per Share (EPS).

Question: What are the indicators of an investable grade company?

Answer: The indicators for determining if a company is of investable grade include its rate of growth, particularly its Revenue and Profit After Tax (PAT) growth. The evaluation is done from two perspectives: Year on Year growth and Compounded Annual Growth Rate (CAGR).

Question: What is Year on Year growth and how is it useful?

Answer: Year on Year growth gives a sense of the progress the company makes each year. It helps to understand whether the company is growing, stagnating, or declining over a one-year period. This metric is useful even when industries go through cyclical shifts.

Question: How do cyclical shifts in the industry affect Year on Year growth?

Answer: Industries often go through cyclical shifts that can affect a company's Year on Year growth. A flat growth rate during such times could be considered acceptable, provided the flat growth is an industry-wide phenomenon and not just specific to the company being evaluated.

Question: What is CAGR and why is it important?

Answer: Compounded Annual Growth Rate (CAGR) offers a sense of how the company is growing and evolving across business cycles. A company with a healthy CAGR is often the first to overcome shifts in business cycles, making it an attractive investment.

Question: What is the preferred rate of growth in Revenue and PAT for an investable grade company?

Answer: The preferred rate of growth in Revenue and PAT for an investable grade company is over and above 15% on a CAGR basis.

Question: How has Amara Raja Batteries performed in terms of Revenue and PAT Growth?

Answer: For Amara Raja Batteries, the 5-year CAGR revenue growth is 18.6% and the 5-year CAGR PAT growth is 17.01%.

Question: Do these growth rates qualify as healthy according to the evaluation checklist?

Answer: Yes, the 5-year CAGR revenue growth of 18.6% and the 5-year CAGR PAT growth of 17.01% for Amara Raja Batteries are considered healthy growth rates and qualify as interesting and healthy set of numbers according to the evaluation checklist.

Question: What are the next steps after evaluating the Revenue and PAT growth rates?

Answer: After evaluating the Revenue and PAT growth rates, it is essential to evaluate other numbers and metrics on the checklist to gain a comprehensive understanding of the company's financial health and potential for investment.

Question: What is Earnings Per Share (EPS) and why is it important?

Answer: Earnings Per Share (EPS) is a financial metric that represents the profitability of a company on a per-share basis. It is important because it provides an indication of the company's profitability distributed among each outstanding share of common stock. A growing EPS usually suggests increasing profitability and is a metric closely watched by investors.

Question: How does EPS relate to Profit After Tax (PAT)?

Answer: If EPS and PAT are growing at a similar rate, it usually indicates that the company is not diluting its earnings by issuing new shares. This is generally a positive sign for existing shareholders and reflects well on the company's management capabilities.

Question: What does a change in EPS indicate about a company's management?

Answer: A change in EPS can be reflective of a company's management capabilities. If the EPS is growing at a similar rate to PAT, it suggests that the management is effectively maintaining or increasing profitability without diluting shareholder value through the issuance of new shares.

Question: What was the 5-year EPS CAGR for Amara Raja Batteries for the fiscal year ending in 2014?

Answer: The 5-year EPS CAGR for Amara Raja Batteries for the fiscal year ending in 2014 stands at 1.90%.

Question: How does the 5-year EPS CAGR compare to the Revenue and PAT growth rates?

Answer: The 5-year EPS CAGR of 1.90% is considerably lower than the 5-year CAGR for Revenue and PAT growth, which were 18.6% and 17.01%, respectively. This suggests that the growth in EPS has not kept pace with the growth in Revenue and PAT.

Question: Is the 5-year EPS CAGR of 1.90% a healthy rate?

Answer: A 5-year EPS CAGR of 1.90% may not be considered a healthy growth rate, especially when compared to the robust growth in Revenue and PAT. This could be an area for further investigation to understand why EPS growth has not kept pace with Revenue and PAT growth.

Question: What does the share capital data tell us about the company's EPS?

Answer: The share capital remaining constant at 17.08 INR Crs from FY 09-10 to FY 13-14 suggests that the company has not issued new shares during this period. This is a positive indicator for existing shareholders as it means the company has not diluted earnings.

Question: What are the implications of EPS growth rates fluctuating considerably over the years?

Answer: Fluctuating EPS growth rates can indicate variability in the company's profitability or may suggest that the company is going through significant changes, either operationally or strategically. This inconsistency might be a point for investors to investigate further.