


Welcome to IIM Visakhapatnam

Module 1: Financial Statement  
Analysis 

Dr. Monika Dhochak

# About me:

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Ph.D. – IIT Roorkee, MBA (Finance), B.Com (Hon.)

6+ years (IIM Nagpur, Goa Institute of Management, EDII Ahmedabad)

More than 15 international journals, American Accounting Association; Venture Capital, Multi-criteria Decision Analysis; IIM Indore, IIT Kharagpur; IIT Madras; MDI Gurgaon; Elsevier; Wiley, Emerald

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Preparation

Read?

Expectation:-

Parables to manna?

FSA:-

Useful?

▪ How do I Approach this module?

▪ Is this all about numbers and other fancy accounting jargon?

Investor  
Management  
Employees?  
Stock  
Bankers

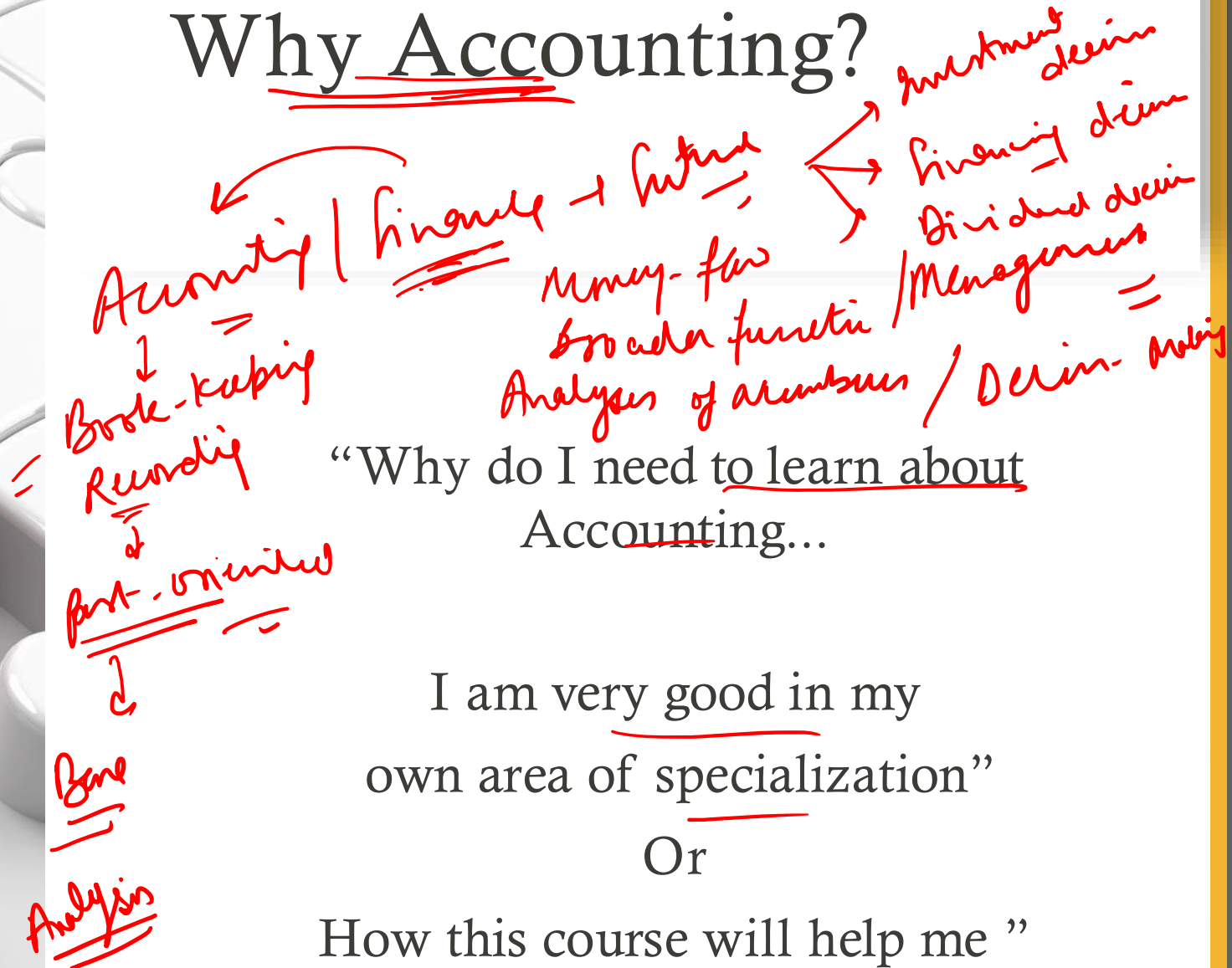
Revenue / Sales / Company  
 ↑ growth → 100 → ? → Valuation → Potential Growth  
Profitable × / Story → Solve Problems  
 Established → loss



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Zones → ? Story ↔ Facts → Numbers → Story  
Storytelling vs Number Cruncher  
Who are You ?

# Why Accounting?



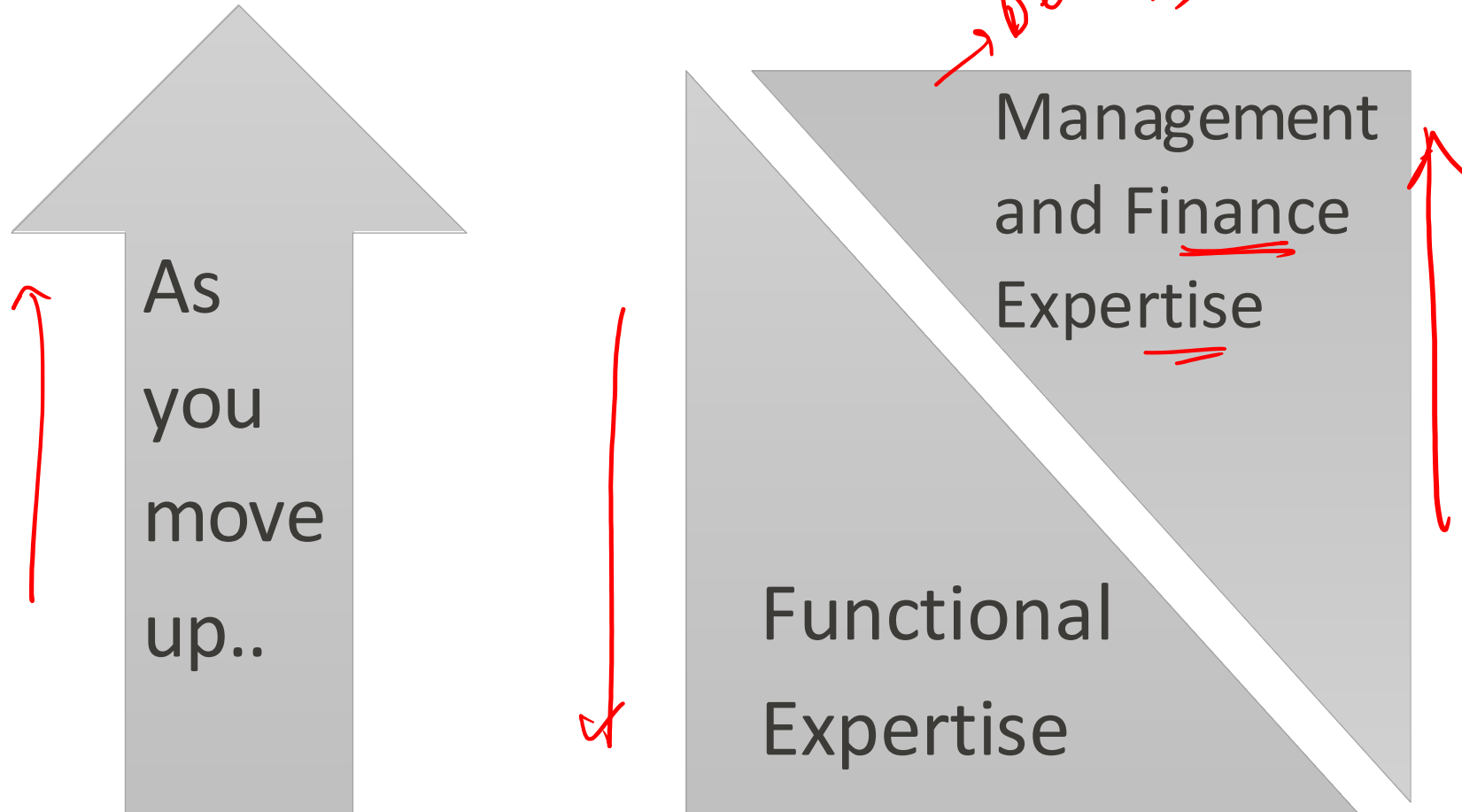
“Why do I need to learn about Accounting...

I am very good in my own area of specialization”

Or

How this course will help me ”

# The Job Content



# Why Accounting is the Backbone of Finance ?



Investors  
Angel Investors  
Vc/PE

→ Stock Market  
A/B/C

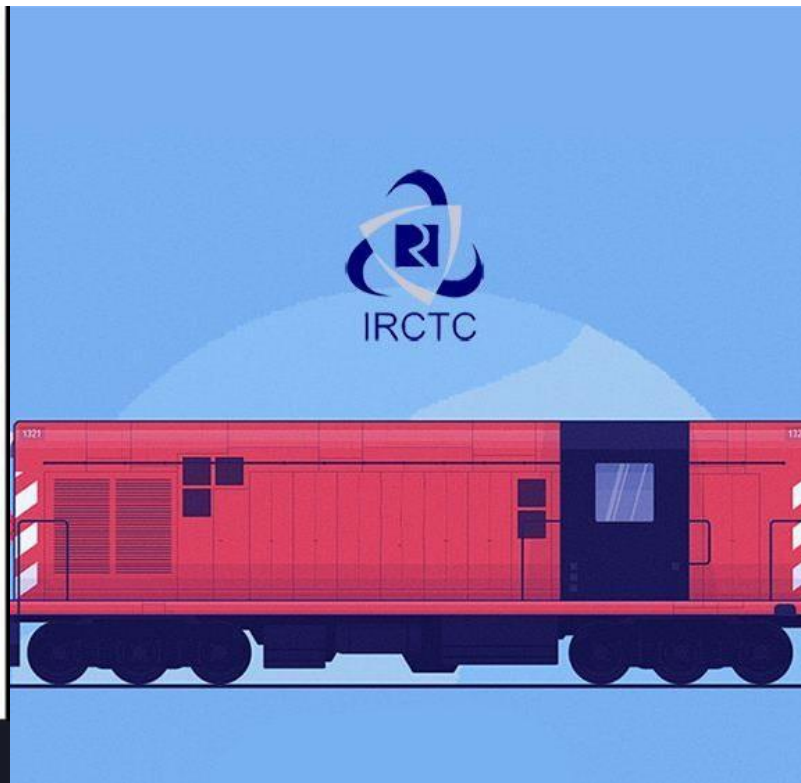
What ties the bustling  
market of Mumbai to the  
IT hubs of Bangalore?

From Startups to  
Unicorns: The role of  
Accounting

# Accounting in Management Program

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- No CA or CMA
- Focus on Decision Making; Not on Mastery of Accounting Techniques
- Real World Application
- Fun



### KEY EVENTS

- Oct 28:** IRCTC informed exchanges Railway Ministry will take 50% of its convenience fee revenue
- Oct 28:** Stock closed at ₹913.75 apiece on Thursday on BSE
- Oct 29:** Share opens at ₹822.40 and tumbles to ₹650.10
- Oct 29 - 11:06 am:** DIPAM
- tweets that the decision is being reversed
- IRCTC's scrip rises to intraday high of ₹906.60
- 2:52 pm:** IRCTC informs the exchanges that Railway Board has accepted its request
- Shares close at ₹845.65/sha

# Remember Irctc Story

<https://finshots.in/archive/the-curious-case-of-irctc/>

2019 → ₹ 3.6k  
 2021 → Commission/Convenience  
 50% → Ministry of Railway → (?)  
 2021 → 4w-5m  
 2021 → 20w-2m  
 2021 → 20w-2m

Institutional Investors  
 Traders  
 Fundamental Analysis

Technical Analysis

Split shares → 1 share → 45w  
 4 shares → 5 shares → 9w → Manipulation

## Internal Risk Factors

1. Our business and revenues are substantially dependent on Indian Railways. Any adverse change in policy of the Ministry of Railways may adversely affect our business and results of operations.

22/6  
Our business and revenues are substantially dependent on the policies of the Ministry of Railways and operations of Indian Railways. As a CPSE wholly owned by the Government of India and under the administrative control of the Ministry of Railways, our scope of services, and the fees we charge, are primarily determined by the Ministry of Railways. At certain times in the past, the Government has made certain decisions that has adversely impacted our results of operations. For example, the Ministry of Railways in 2016 removed the charges we levy on passengers booking railway tickets online as service charge at rates of ₹20 per ticket for non AC classes and ₹40 per ticket for AC classes. This had a material adverse impact on our revenues. Ministry of Finance by separate notification on July 5, 2017 proposed to reimburse ₹800.00 million to us until the Government of India permits us to recover online ticketing cost/levy of commission on passengers utilizing the online ticketing service we provide. The Ministry of Railways reimbursed our Company in the amount of ₹800.00 million and ₹880.00 million for Fiscal 2018 and 2019, respectively for our operations costs. Any similar decisions by the Ministry of Railways in the future could adversely affect our results of operations. More generally, as it is necessary for us to act in accordance with the directives of Government of India, through Ministry of Railways, we cannot assure you that our investments and efforts into our current operation will be profitable. The Government of India may, reasons of public interest, terminate any of its policy directives without due consideration to the performance of our operation. Further, Ministry of Railways issued general guidance on redevelopment of railway stations by Indian Railway Stations Development Corporation Limited

# HYUNDAI MOTOR INDIA IPO

## Offer Period

Opens On  
**15th**  
OCTOBER

Closes On  
**17th**  
OCTOBER

## Financials

(Amount in ₹ Crore)  
30 June, 2024



## Issue Details

Offer-for-sale (OFS) of 142,194,700 equity shares

## Bid Lot

**07** Shares and in multiple thereof

## Price Band

₹1,865-1,960

Basis of allotment

Refund and credit of shares to demat

Listing date

**18th**  
OCTOBER

**21st**  
OCTOBER

**22nd**  
OCTOBER

Over-valued  
IPO  
27,700 Cr.  
↓  
listing gain → IPO  
long-term  
institutional

Traders?  
↓  
Grey

## Points of consideration?

offer for sale → Dividend?  
Issue of shares  
IPO? from issue vs. offer for sale  
+ 10 cr  
2 cr  
6 cr  
10 cr  
4 cr



OEM

Valuation Ratio

### Passenger vehicles: Volume-wise market share in FY24



### Hyundai Motor India: IPO details

Total issue size (₹ cr)	27,870
Fresh issue (₹ cr)	0
OFS (₹ cr)	27,870
IPO open date	October 15, 2024
IPO close date	October 17, 2024
Price band (₹)	1,865-1,960
Minimum investment by retail investors (at upper price band)	13720
Pre-issue shareholding	812,541,100
Post-issue shareholding	812,541,100

## Summary of outstanding litigation

*1. Contingent Liabilities*

A summary of outstanding litigation proceedings involving our Company, our Subsidiaries, Group Companies and Directors as disclosed in this Red Herring Prospectus in accordance with the SEBI ICDR Regulations and as per the Materiality Policy in "Outstanding Litigation and Material Developments" is provided below:

Name	Criminal proceedings	Tax claims	Statutory or regulatory actions	Disciplinary actions by the SEBI or Stock Exchanges against the Promoter	Material pending civil litigation	Aggregate amount involved (in ₹ million) <sup>*#</sup>
<b>Company</b>						
By our Company	5	-	-	NA	-	2.50
Against our Company	4	134 <sup>@</sup>	2	NA	1,048 <sup>^</sup>	62,413.94
<b>Subsidiaries</b>						
By our Subsidiaries	-	-	-	NA	-	-
Against our Subsidiaries	-	2	-	NA	-	10.05
<b>Directors</b>						
By our Directors	-	-	-	NA	-	-
Against our Directors	-	-	-	NA	-	-
<b>Group Companies</b>						
Outstanding litigation which may have a material impact on our Company				Nil		

*Risk Arises*

involve conflicts of interest, which could adversely impact our business" on page 48 below. For further details of the arrangement with Mobis India Limited ("Mobis"), see "Group Companies - Related business transactions within our Group Companies and significance on the financial performance of our Company" on page 259.

3. We depend primarily on our Group Company, Mobis India Limited (being a subsidiary of Hyundai Mobis Co., Ltd. which is specialised in after-sale parts business for HMC Group Companies), to supply spare parts for after sale services to us and our dealers. Further, we also depend on Mobis to supply modular parts to us that we use in the manufacturing process of passenger vehicles and parts and constituted 17.91% of our total parts and materials supplied in the three months ended June 30, 2024. Any failure by Mobis to supply these parts could adversely impact our business. Further, Mobis may engage in transactions with us and other HMC Group Companies that may give rise to conflict situations.

In order to focus on our vehicle manufacturing business, in Fiscal 2008, our Company transferred its after sales services business to Mobis, which focuses on parts manufacturing. Mobis, also one of our Group Companies, is the exclusive supplier and distributor of parts and accessories for the after sales services of our passenger vehicles, and as a result we depend on them to provide parts for after-sale services. Mobis engages and transacts directly

*offer for sale  
litigations*

<sup>\*</sup>To the extent quantifiable.

<sup>#</sup> Includes ₹4,063.34 million and ₹858.36 million paid by our Company to the direct and indirect tax authorities, respectively, in protest.

<sup>^</sup> Given the nature of business of our Company, majority of the legal proceedings initiated against our Company are complaints filed under the Consumer Protection Act, 1982 which are in connection with (i) service related issues, such as defects in certain parts of our products including airbags, engine and other parts or (ii) sales related issues such as delay in delivery or registration. As of the date of this Red Herring Prospectus, there are 1,042 consumer proceedings involving our Company and the aggregate amount involved in such proceedings is ₹1,027.65 million.

<sup>@</sup> Details of outstanding tax claims involving our Company as of the date of this Red Herring Prospectus are disclosed below:

Nature of the claim	Number of claims	Amount involved (₹ million) <sup>*^</sup>
Direct Tax <sup>(1)</sup>	21	14,880.17
Indirect Tax <sup>(2)</sup>	113	39,817.72

<sup>\*</sup>To the extent quantifiable

<sup>^</sup>Includes ₹4,063.34 million and ₹858.36 million paid by our Company to the direct and indirect tax authorities, respectively, in protest.

(1) Includes claims involving income tax matters.

(2) Includes claims related to central excise tax, GST, VAT, service tax and customs tax duties.

# Tata Tech Q4 results: Net profit falls 28% YoY to ₹157 crore, declares dividend

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- The board of Tata Technologies has recommended a final dividend of ₹8.40 and a special dividend of ₹1.65 per equity share of ₹2 each.
- Revenue from operations marginally jumped from ₹1,289.5 crore during the quarter ending December 2023.
- Overall, in fiscal year 2024, Tata Technologies witnessed an 8% jump in its net profit from ₹624 crore in FY23 to ₹679.3 during the period under review.

# What is Accounting?

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“Language of Business”

The purpose of accounting is to:

- 1) identify, record, and communicate the economic events of an
- 2) Organization to
- 3) Interested users

Mu. X  
 Information?  
 ①  
 ②  
 ③  
 ④  
 ⑤

# Accounting Process

4 trucks  
 2 machine  
 1 labors



Identifying

Relevant, Reliable and Monetary Information

Quantified

Recording

Journal

Dr. Cr.

Carls Dr.  
 Machine Cr.  
 Carls Dr.  
 Rent Cr.

Classifying

Ledger

Cash  
 50,000

Sel  
 50,000  
 Cr. Rent

Summarizing

of all A/c

Cash 50,000  
 Machine 1,00,000  
 Rent 50,000

Trial Balance

Communicating

Financial Statements

Publications

Profit & Loss A/c  
 Income Stat  
 Balance Sheet  
 Cash flow Stat

Interested Users

Internal and External



# Financial Statements of a company

Global Grocer		Global Grocer		Global Grocer	
Balance Sheet as of September 30, 2014		Income Statement		Statement of Cash Flows for month ending September 30, 2014	
<b>Assets</b>		<b>Income Statement</b>		<b>Statement of Cash Flows</b>	
<b>Current Assets</b>		Sales.....		<b>Cash Flows From Operating Activities</b>	
Cash.....	\$95,500	Less: Cost of Goods Sold.....		Collections from customers.....	\$ 11,000
Accounts receivable.....	5,000	Gross Margin.....		Inventory purchase.....	(2,500)
Merchandise Inventory.....	19,000	Less: Operating Expenses.....		Salaries paid.....	(3,000)
Prepaid expenses.....	2,000	Operating Income.....		Utilities paid.....	(500)
Total current assets.....	\$121,500	Less: Interest Expense.....		Interest paid.....	(350)
<b>Non-current Assets</b>		Income Before Income Taxes.....		Net cash provided (used) by operating activities.....	\$ 4,650
Land.....	30,000	Less: Tax Expense.....		<b>Cash Flows From Investing Activities</b>	
Warehouse building, at cost.....	\$40,000	Net Income.....		Van purchase.....	(10,000)
Less: Accumulated depreciation.....	300			Net cash provided (used) by investing activities.....	\$ (10,000)
Warehouse building, net.....	39,700			<b>Cash Flows From Financing Activities</b>	
Van, at cost.....	10,000			Mortgage principal payment.....	(150)
Store fixtures, at cost.....	\$5,000			Five-year bank loan.....	30,000
Less: Accumulated depreciation.....	100			Net cash provided (used) by financing activities.....	\$ 29,850
Store fixtures, net.....	4,900			Net increase (decrease) in cash.....	24,500
Franchise fee, net.....	17,250			Beginning cash balance.....	56,000
<b>Total Assets.....</b>	<b>\$223,350</b>			Ending cash balance.....	\$ 80,500

B/S

Assets  
Liabilities  
Equity

5

Income  
Expenses  
Profit

# Elements of Financial Statements

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## Balance Sheet

- Assets
- Liabilities
- Equity

## Income Statement

- Revenue
- Expenses

## Cash Flow Statement

- No other elements



## Global Grocer



### Balance Sheet as of September 30, 2014

#### Assets

##### Current Assets

Cash.....	\$ 95,500
Accounts receivable.....	5,000
Merchandise inventory.....	19,000
Prepaid expenses.....	2,000
Total current assets.....	<u>\$ 121,500</u>

##### Non-current Assets

Land.....	30,000
Warehouse building, at cost	\$ 40,000
Less: Accumulated deprec'n	300
Warehouse building, net.....	39,700
Van, at cost	10,000
Store fixtures, at cost.....	\$ 5,000
Less: Accumulated deprec'n	100
Store fixtures, net.....	4,900
Franchise fee, net.....	17,250
<b>Total Assets</b> .....	<u><u>\$ 223,350</u></u>

#### Liabilities

##### Current Liabilities

Accounts payable.....	\$ 16,000
Taxes payable.....	950
Short-term debt.....	70,000
Total current liabilities.....	<u>\$ 86,950</u>

##### Non-current Liabilities

Mortgage payable.....	24,900
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#### Owners' Equity

Common stock.....	110,000
Retained earnings.....	1,500

##### Total Liabilities and

Owners' Equity .....	<u><u>\$ 223,350</u></u>
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# Income Statement

Income  
- Expenses  
= Profit



Name of Company

Income Statement

During the Period ended .....

Descriptions	Rs.	Rs.
Sales ✓ / Revenue → Core business	*****	10,000 → 10
Sales Return/Discounts/Allowances etc.	(****)	1000 → 1
Net Sales		*****
Cost of Goods/Sales/Services Sold ✓ COGS		(****) (3)
<b>Gross Profit/Loss</b>		***** 7
Commercial Expenses: S, G & A		
Selling Expenses	*****	
Administrative Expenses	*****	(2)
<b>Operating Profit</b>		****
Other Income		****
Other Expenses		(***)
<b>Earnings Before Interest and Taxes (EBIT)</b>		*****
Financial Charges Int		(****)
<b>Earnings Before Tax (EBT)</b>		***** 5
Tax - 30%		(***)
<b>Net Profit</b>		*****
Dividend		*****
Add to Retained Earning		*****

Net Profit 100  
- Dividend 100  
R.O.E 90 → B/P

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares which are reflected in thousands and per share amounts)

	Years ended		
	September 24, 2022	September 25, 2021	September 26, 2020
<b>Net sales:</b>			
Products	\$ 316,199	\$ 297,392	\$ 220,747
Services	78,129	68,425	53,768
Total net sales	394,328	365,817	274,515
<b>Cost of sales:</b>			
Products	201,471	192,266	151,286
Services	22,075	20,715	18,273
Total cost of sales	223,546	212,981	169,559
Gross margin	170,782	152,836	104,956
<b>Operating expenses:</b>			
Research and development	26,251	21,914	18,752
Selling, general and administrative	25,094	21,973	19,916
Total operating expenses	51,345	43,887	38,668
Operating income	119,437	108,949	66,288
Other income/(expense), net	(334)	258	803
Income before provision for income taxes	119,103	109,207	67,091
Provision for income taxes	19,300	14,527	9,680
Net income	\$ 99,803	\$ 94,680	\$ 57,411
<b>Earnings per share:</b>			
Basic	\$ 6.15	\$ 5.67	\$ 3.31
Diluted	\$ 6.11	\$ 5.61	\$ 3.28
<b>Shares used in computing earnings per share:</b>			
Basic	16,215,963	16,701,272	17,352,119
Diluted	16,325,819	16,864,919	17,528,214

Accounting

# The Accounting Equation

**Assets**

Resources

=

**Liabilities**

+

**Owners' Equity**

=

Claims

**Capital**

**R.E.**

Retained Earnings

10 Dividend

90 R.E.

Income

- Expenses

Profit

1000

1000

1000

# Brand/ is it an asset?

Reputation

Negotiable/  
Valuation/ Future Cash flow



Asset  
↓  
B/S-i?

100%

Self Generated  
Goodwill

Goodwill → Acquired/bought  
Goodwill Asset  
4 bn



→ Hedging (-ve Asset/  
Liability)  
NPA

Wal-Mart → Flipkart  
\$20bn → 76% → \$16bn

Employee is s/he an asset? NM GAAP

Human Resource Account

For IT firms?

— X

Quantity

For Pharma (particularly scientists in R&D)?

Or

for any (or all) firms?

# Which is an asset for Reliance Industries



# The Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Owners' Equity}}$$

Resources =

Claims

Lease → Spic-Jet  
Right to Use Asset

**Assets**

Value → future benefits / Right  
 > 1 Year (Non-current Asset)  
 < 1 Year (Current Asset)  
 PPE  
Intangible Assets  
 Copyright / Patent / Trademarks  
 Inventory  
 Receivable  
 Receivable

Bio-Asset

Provide future economic benefits  
Cash, Supplies, Equipment, etc.

# The Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Owners' Equity}}$$

Resources =

Claims

Revenue

**Liabilities**

Loan  
 Cash + 1,00,000  
 Loan - 1,00,000

Present Obligation of the enterprise

Outflow of resources embodying economic benefits

Loans payable, Trade payable, salaries payable etc.

to pay provide the service → Unearned Revenue / Deferred Revenue

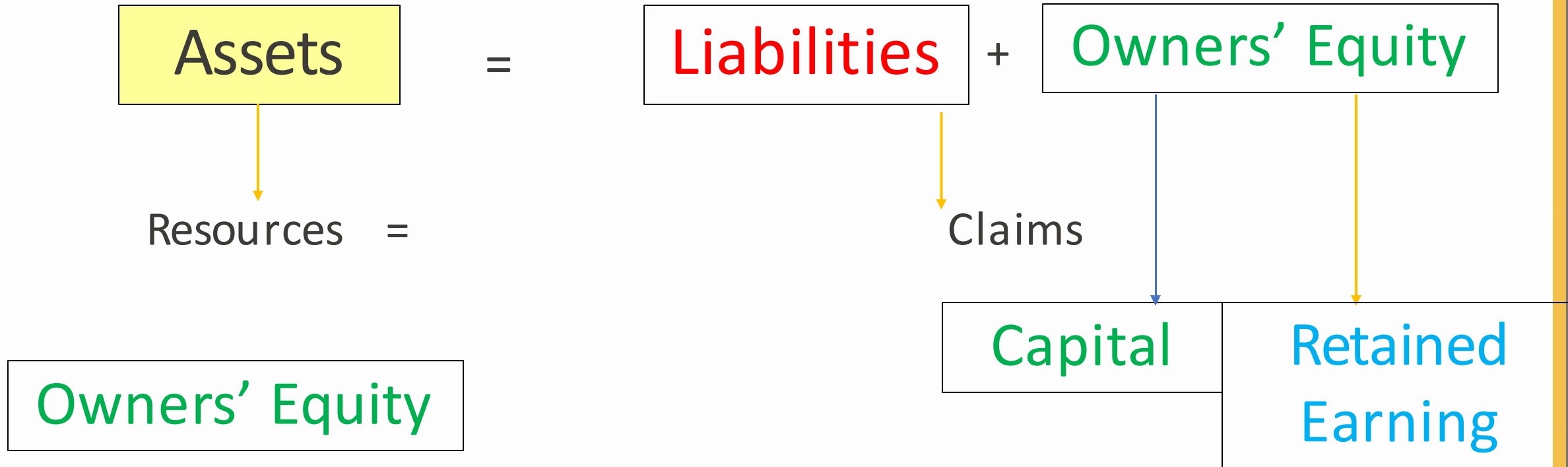
Fee → X Amount

11 M Visakhapatnam → 1,00,000

Cash + } (?)  
Revenue

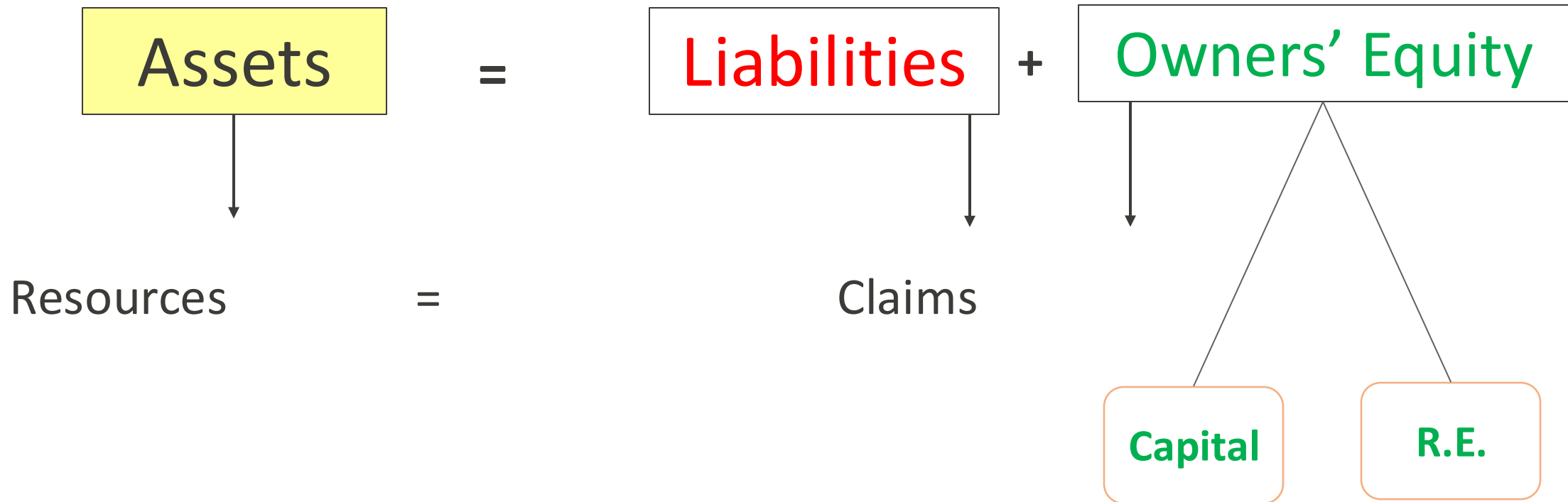
when goods are delivered / services are provided → Revenue? (Fee)

# The Accounting Equation



Residual Interest (shareholders)  
Ownership claim on total assets  
Revenue, Expenses,

# The Accounting Equation



<b>Basic Equation</b>	<b>Assets = Liabilities</b>	<b>+</b>	<b>Owner's Equity</b>		
<b>Expanded Equation</b>	<b>Assets = Liabilities</b>	<b>+</b>	<b>Owner's Capital</b>	<b>- Owner's Drawings</b>	<b>+ Revenues - Expenses</b>