

## THE GAME OF FINANCIAL RATIOS

*Professors Pooja Gupta, Madhvi Sethi, and Rick Robertson wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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Priyankar Sarkar was a financial wizard who was adept at doing financial analysis. In late 2014, at a meeting of representatives from leading investment banks with the governor of the Reserve Bank of India, he encountered Rohit Jhunjhunwala. Jhunjhunwala and Sarkar had been rivals since they were contemporaries at a famous business school. They had both been high achievers in their school, and they had always competed against each other—whether in financial analysis quizzes or mergers and acquisitions projects. They had also competed for the same kind of jobs on campus, so it was no surprise to any of their classmates when they both got jobs in top, but rival, investment banks. Over the years, the rivalry between them had increased significantly.

In an arrogant tone, Jhunjhunwala said to Sarkar, “You are wrong about the forecast you made a couple of days back regarding the valuation of the information technology sector. I have done a similar analysis, and unlike you, I feel the sector is overvalued and due for a massive correction in the near future.” Sarkar replied, “Whatever you may feel, I stand by my analysis. Remember last month when you said that the banking sector was overvalued? You were wrong, as the sector has gone from strength to strength since then.”

Jhunjhunwala believed Sarkar was overconfident in his analytical abilities. He pointed out that Sarkar had downgraded the pharmaceutical sector in one of his recent reports, whereas Jhunjhunwala believed that any fresh graduate would have been able to see the growth potential in the sector.

Sudarshan R., a senior investment banker who carried great influence in financial circles, was passing by and commented: “My, my! You both are at it again! The whole financial community is sick and tired of your one-upmanship. Let us once and for all put this to rest and determine who is a better financial analyst.”

Sudarshan drafted a challenge for the two of them. “Why don’t you take up my challenge?” he asked. Neither Jhunjhunwala nor Sarkar could say no.

Sudarshan provided the two men with financial data for 10 anonymous companies (see Exhibit 1). He asked them to match the financial data with specific industries from a list (see Exhibit 2). The challenge was timed, and the winner would be determined on the basis of who came up with the right combinations first.

## EXHIBIT 1: FINANCIAL DATA FROM ANONYMOUS COMPANIES (IN MILLION INR, NON-ANNUALIZED)

	A	B	C	D	E	F	G	H	I	J
Year ended	Dec. 2013	Mar. 2014	Mar. 2014	Mar. 2014	Mar. 2014	Mar. 2014	Mar. 2014	Mar. 2014	Mar. 2013	Mar. 2014
<b>Sales</b>	123,756	410,575	499,185	94,821	271,935	19,295	443,410	17,246	865,789	1,536,362
<b>Total expenses</b>	118,541	394,746	443,101	85,295	255,929	26,137	367,420	16,234	719,517	1,457,915
<b>Raw materials, stores, and spares (included in operating expenses)</b>	20,028	176,382		23,442	184,276		210	3,976	41,961	
<b>Purchase of finished goods (included in operating expenses)</b>	2,329		205	7,734				672	31	
<b>Total operating expenses</b>	108,295	339,964	328,726	78,277	237,881	15,533	323,190	14,839	629,882	1,219,964
<b>Reported profit after tax</b>	10,930	34,608	66,002	13,883	21,091	-5,898	101,941	1,258	209,257	108,912
<b>Net fixed assets</b>	55,040	46,929	398,782	35,242	22,433	16,974	57,320	5,288	799,242	77,165
<b>Inventories</b>	11,215	97,976	11	25,112	6,696	402		324	57,044	
<b>Sundry debtors and bills receivable</b>	7,329	438,029	46,635	19,251	10,008	1,717	112,290	109	104,287	315,492
<b>Cash and bank balances</b>	5,034	118,729	4,953	464	1,175	444	250,770	232	132,186	1,325,496
<b>Short-term loans and advances</b>	12,262	113,321	293,563	23,023	21,318	16,224	26,570	1,299	683,164	12,217,092
<b>Total assets</b>	123,517	845,780	1,120,348	142,730	112,166	69,373	532,110	8,830	2,228,653	17,945,700
<b>Current liabilities and provisions</b>	37,463	487,495	323,624	29,538	53,277	12,828	108,160	2,571	770,541	935,751
<b>Sundry creditors (included in current liabilities)</b>	7,093	94,096	62,663	10,069	22,906	1,967	680	2,204	82,638	
<b>Shareholders' funds</b>	78,248	330,471	664,851	100,826	55,999	26,891	420,920	5,635	1,229,674	1,182,823
<b>Borrowings</b>	350	27,332	103,654	9,163	2,843	26,906		144		1,831,309

Note: INR = Indian rupee = ₹; all currency amounts are in ₹ unless otherwise specified; US\$1.00 = ₹68.76 on November 24, 2016.

Source: Centre for Monitoring Indian Economy Pvt. Ltd. (CMIE), Prowess database, accessed on April, 14, 2014.

**EXHIBIT 2: LIST OF INDUSTRIES AND THEIR RESPECTIVE PRODUCT LINES**

<b>Industry</b>	<b>Products/Services Offered</b>
Cement	clinker, grey cement, ready-mix concrete
Retail food	bakery products, beverages, desserts, dips
Oil and gas	crude oil, natural gas, liquefied petroleum gas, naphtha, kerosene
Hospitality	rooms, restaurants, other facilities
Automobile (two-wheeler)	motorcycles, scooters, spares
Telecommunications	mobile telephone services
Banking	financial services
Information technology	software development services
Pharmaceutical	chemicals, including malts, liquids, injections, tablets, capsules, and creams
Heavy engineering	thermal-, hydro-, and gas-based turnkey power projects; substation projects; rehabilitation projects; transformers; compressors; motors; valves and oil field equipment; electrostatic precipitators; photovoltaic equipment; insulators; heat exchangers; switchgears; castings and forgings

Source: Capitaline Database, accessed on April 14, 2014.