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Interpretation of Financial Statements of Companies in Pune

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Abstract—*The researcher is an undergrad student. This research aims at studying the financial position of few top companies. The method used for analyzing the reports is ratio analysis and its interpretation. The research enquires into whether the company is at sound financial position. If not, what steps could be taken to improve the earnings. The ratios used in the research give the idea if the company has right amount of assets and liabilities and shareholders' funds in order to survive in the competition and maintain the top ranks among huge number of companies.*

1. Introduction

This research paper studies the annual reports of top industries in Pune viz. Tata Consultancy Services, Tech Mahindra, Volkswagen, Bajaj in order to observe the trends in their financial statements by using ratio analysis method. Ratio analysis is a study of relationship among various financial factors in a business. Hence it is utilitarian to study the financial reports of a company.

2. Objectives of the Research

1. To study financial reportsof some of the top industries in Pune.

2. To analyze and interpret the financial report of the same by using ratio analysis method.

3. To find out the required ratios to be an ideal company.

3. Research Methodology

This research is based on librarian data. The data has been calculated by the researcher based on the annual reports downloaded from the respective company's websites. The data has been analyzed by using ratio analysis method.

4. Scope of the Research

1. The research includes official data given by the companies.

2. The research has been done with the help of accurate calculations based on reliable data.

3. The research includes calculations which are carried out individually by the researcher.

5. Limitations of the Research

1. Ratios may not be comparable if companies follow different accounting policies and procedures.

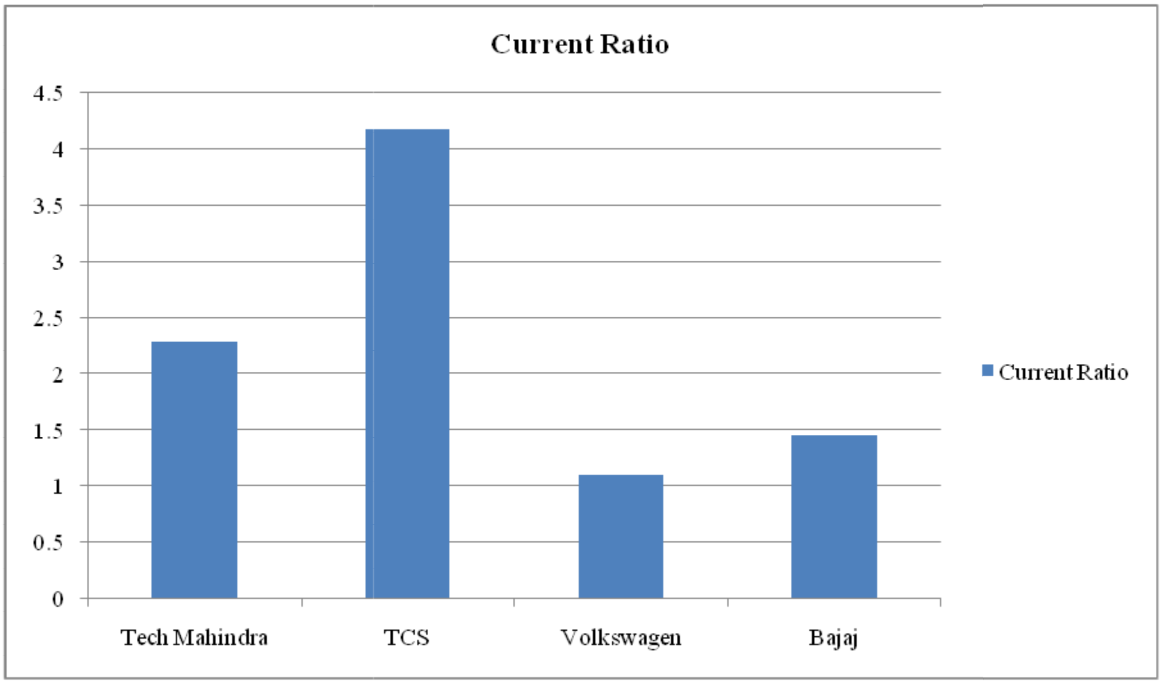
2. The data used in the research is collected from the annual reports of few companies and industries only. Hence the conclusions cannot be generalized.

6. Analysis of the Data

The given data has been analyzed by ratio analysis method. Following are the ratio types which are used to understand the financial stages of the companies- Tech Mahindra, Tata Consultancy Services, Bajaj, Volkswagen.

1. Current Ratio

This ratio indicates the solvency of the business i.e. ability to meet the liabilities of the business as and when fall due.

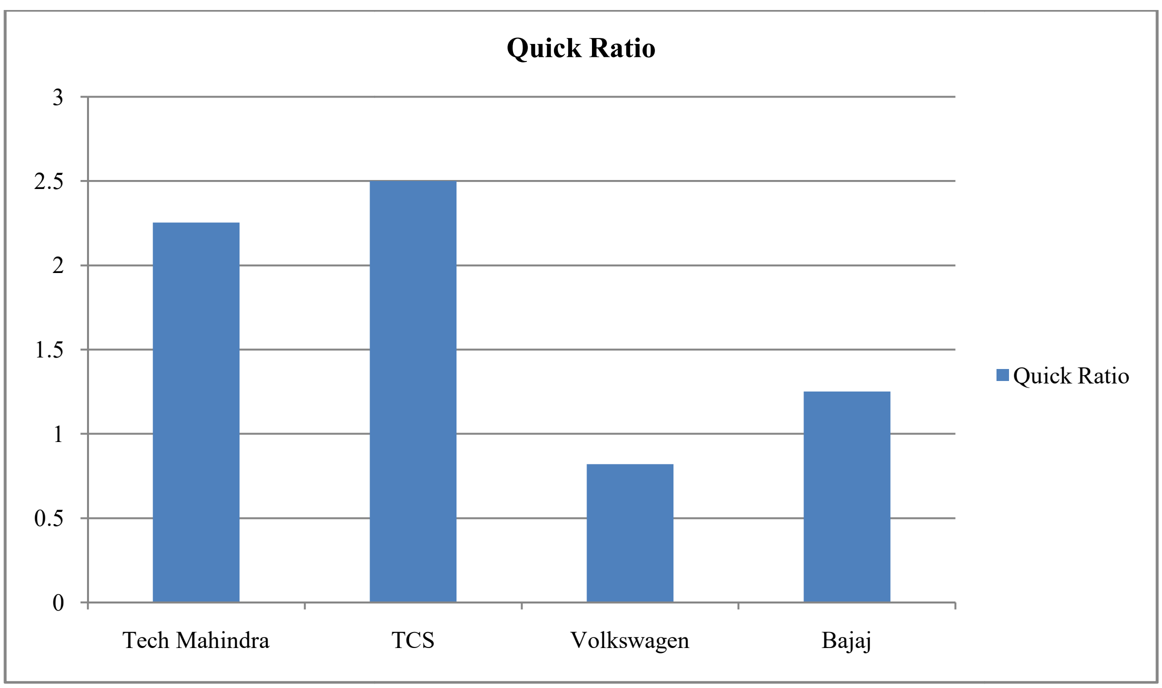


Interpretation

As the current ratio shows the relation between current assets and liabilities, ideal ratio is 2:1. This denotes that TCS has more than sufficient assets as compared to current liabilities, Tech Mahindra has accurate number of assets in order to meet their liabilities whereas Volkswagen company's amount of current assets and liabilities does not have remarkable difference and hence must take efforts to improve the amount of their assets by increasing the investments, by reducing the liabilities, by lowering the overheads.

2. Quick Ratio

This ratio is a fairly stringent measure of liquidity. It is based on current assets which can be converted into cash or cash equivalent quickly.

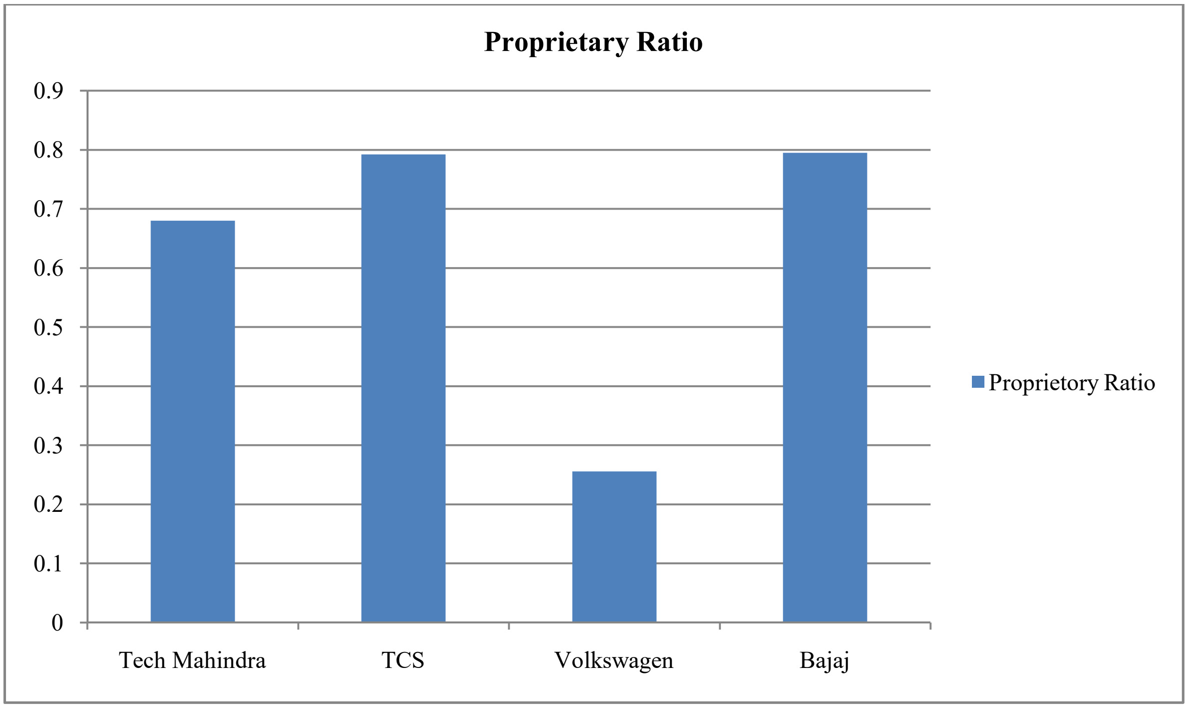


Interpretation

The ideal quick ratio also called as acid test ratio is 1:1. All the companies except Volkswagen have their quick ratio above 1 signifying that the business can meet their current financial needs with the help of quick funds they have in their hand. Ratio Volkswagen being 0.820 indicates that the company relies on inventories and other assets to pay the short term liabilities. It is observed in the financial reports of Volkswagen that trade payables are more than trade receivables caused due to the diesel issue faced during 2015-16 affecting their turnovers of the following years.

3. Proprietary Ratio

It is the ratio between Proprietor's funds and total assets. It indicates the strength of the funding i.e. creditworthiness of the business.

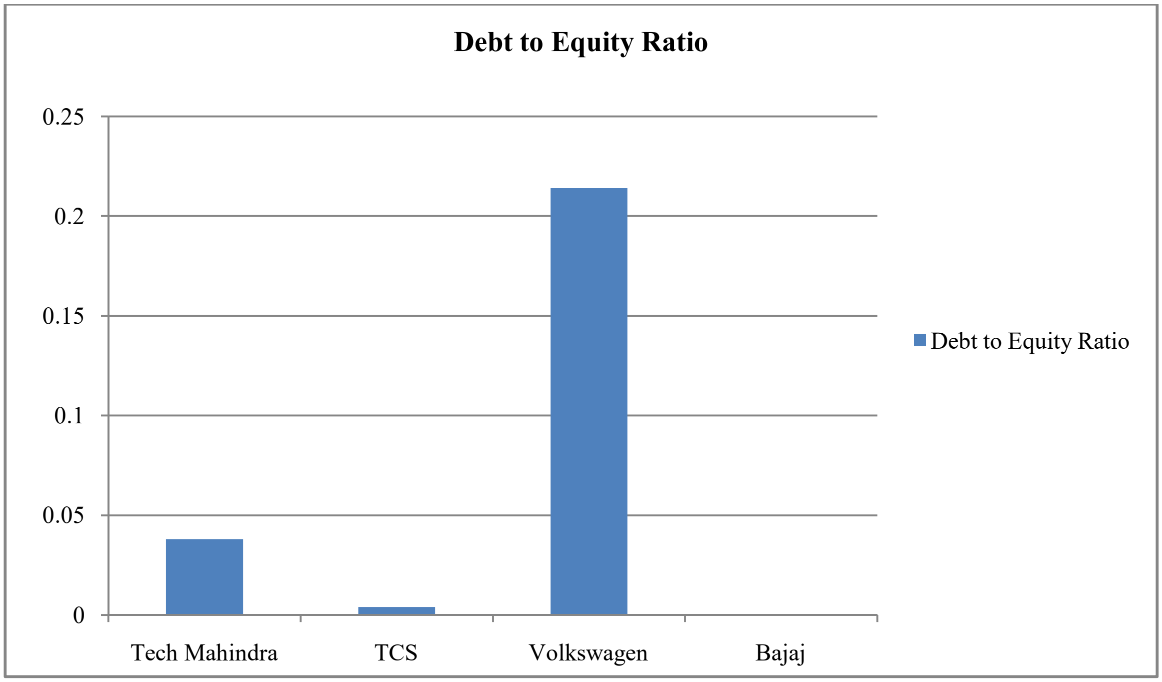


Interpretation

The higher this ratio is, stronger is the financial position of the company. It shows that the contribution of stockholders in TCS, Bajaj capital is greater as they have invested their own amount in the business instead of borrowing the same. In order to gain this ratio, Volkswagen is taking efforts. During the diesel issue, replacing the engines was a part of it.

4. Debt to Equity Ratio

This ratio assess the long term financial position and soundness of enterprise. When this ratio is lower, the degree of protection to the lenders is higher.

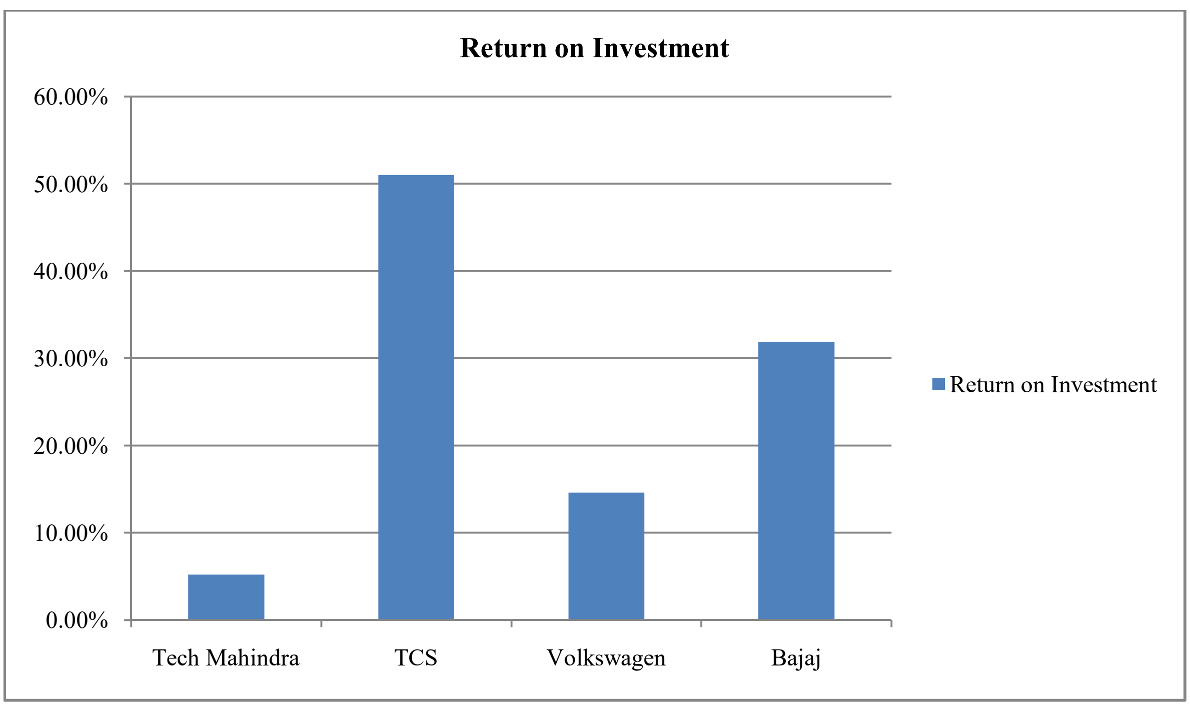


Interpretation

All the above companies have an ideal debt to equity ratio which is 1 or less than one. Bajaj does not have any long term borrowings or long term provisions hence its ratio is 0 whereas Volkswagen has the highest amount of debt as compared to other companies therefore its ratio is higher than that of them.

5. Return on Investment

It assess the overall performance of the company and measures how efficiently the resources entrusted to the business are used.



Interpretation

This ratio evaluates the efficiency of an investment. The above companies have very efficient ROI but Tech Mahindra must gain its ratio as it is significantly lower than the ideal ratio i.e. 15%. Rate of investment ratio can be increased either by reducing the costs or hiking the prices in order to increase the income. However, it should preferably focus on reducing the overheads because reducing the cost leading to cheaper quality and raising the prices both are unfavourable situations and hence will not help to sustain in the competition.

Conclusion

From the interpretation done above by using the ratio analysis method, following conclusion can be drawn in order to survive in the competitive market:

1. A company must focus on increasing its number of investments, debtors, liquid funds and on minimizing the debts as much as possible.
2. A company should not rely too much on inventories and should have certain amount of liquid funds reserved.
3. A company must focus on its goodwill to increase the asset value of a company in the market and also to attract the shareholders, investors to invest in their company.
4. A company must lower down the debts by reducing the overheads which will ultimately reduce the borrowings.
5. One of the most important thing for a company is its image in the market. It affects the number of customers, investors and shareholders as well which indirectly helps in improving its profit and hence the performance.

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I would like to express my gratitude to my professor Dr. Shirish Limaye who gave me this golden opportunity to do this research paper on the topic Corporate Finance, which also helped me in understanding Company Finance better. It also gave me an experience of studying the actual financial reports and also analyzing them. Also, I would like to thank my parents and friends who helped during this research paper.

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