MODERN CORPORATE FINANCE

MS4210

MID-TERM PROJECT:

ANALYSING FINANCIAL STATEMENTS OF LAST 3 FY's OF

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INTRODUCTION:

In this comprehensive report, we delve into financial performance of ***Voltas Limited***, a prominent player in the home appliances industry. Our analysis spans the years **2020 to 2023** and takes into account **consolidated statements**, which provides a holistic view of company's operations.
Key Aspects of analysis include: **Profitability, Liquidity, Capitalization, Asset Utilization and Dividend Policy**. For the purpose of analysing above aspects we would be using key ratios. Throughout this report, we will critically analyse each aspect, identify trends and offer actionable insights. By doing so, we aim to provide comprehensive understanding of Voltas's financial health.

Calculated Key Financial Ratio's

Ratio	***FY* 2022-23**	***FY* 2021-22**	***FY* 2020-21**
Net Profit Margin (%)	1.42	6.35	6.95
Return on Equity (%)	2.47	9.14	10.51
PBIT Margin (%)	7.38	10.50	10.53
PBT (%)	4.50	10.17	10.19
Current Ratio	1.40	1.45	1.48
Quick Ratio	1.05	1.04	1.12
Debt to Equity (%)	.11	.06	.05
Return on Assets (%)	1.31	5.17	6.06
Asset Turnover Ratio (%)	.78	.79	.79
Inventory Turnover Ratio (%)	2.25	2.39	1.91
Dividend Payout Ratio (NP) (%)	134.79	32.94	25.20
Equity Dividend Rate (%)	425	550	500

Let’s analyse each aspect one by one

Profitability:

- Net Profit Margin: There has been a significant decline in net profit margin from 6.95% in FY 2020-21 to 1.42% in FY 2022-23. This suggests that the company's profitability has weakened over the years. This decline in profit is due to increased expenses in consumption of material, and employee benefit expenses.
- Return on Equity (ROE): Similarly, the return on equity has also declined from 10.51% in FY 2020-21 to 2.47% in FY 2022-23, indicating a decrease in the company's ability to generate profits from shareholders' equity.

1. Voltas faces challenges in maintaining profitability and maximizing returns for shareholders.
2. The company must prioritize cost control, operational efficiency, and strategic capital allocation.
3. A comprehensive analysis of business operations, industry dynamics, and competitive positioning is essential to reverse these trends.

Liquidity:

- Current Ratio: The current ratio has slightly decreased over the years but remains above 1, indicating that Voltas Limited still has sufficient current assets to cover its short-term liabilities.
- Quick Ratio: The quick ratio has also declined but remains above 1, indicating that the company can meet its short-term obligations without relying heavily on inventory.

1. Voltas’ liquidity position is reasonably stable, but the declining trend warrants attention.
2. The company should continue optimizing working capital, managing inventory efficiently, and ensuring timely payments.
3. While both ratios are favourable, monitoring liquidity closely is crucial for sustained financial health.

Capitalization:

- Voltas maintains a conservative capital structure with consistently low debt levels.
- The D/E ratio remains stable over the years.
- This indicates a healthy balance between debt and equity financing.
- The company relies more on equity than debt for capital, reducing financial risk.

1. Voltas' prudent debt management contributes to its financial stability.
2. The company's cautious approach ensures a favourable D/E ratio.
3. Balancing debt and equity effectively is crucial for sustained growth and risk mitigation.

Utilization of Assets:

- Return on Assets (ROA): There has been a decrease in the return on assets, suggesting that the company is less efficient in generating profits from its assets. ROA decreased from 6.06% in FY 2020-21 to 1.31% in FY 2022-23.
- Asset Turnover Ratio: The asset turnover ratio has remained relatively consistent over the years, indicating that Voltas Limited is efficiently utilizing its assets to generate sales.

1. Voltas needs to address the decline in ROA by enhancing profitability and optimizing asset management.
2. Maintaining stable asset turnover is commendable, but continuous efforts are essential for sustained growth.

Dividend Policy:

- Dividend Payout Ratio (NP): The dividend payout ratio has increased substantially from FY 2020-21 to FY 2022-23, reaching 134.79%. This suggests that a larger portion of the net profit is being distributed as dividends. However, such a high payout ratio may limit the company's ability to reinvest in growth opportunities or retain earnings for future expansion.

1. Voltas should strike a balance between rewarding shareholders and retaining earnings for strategic investments.
2. Consider a sustainable dividend policy that aligns with long-term growth objectives.
3. Communicate transparently with investors about dividend decisions and capital allocation.

Conclusion:

Voltas Limited, a prominent player in the home appliances industry, exhibits stability in liquidity and capitalization. The company maintains a conservative capital structure with low debt levels (as reflected in the debt-to-equity ratio). Liquidity ratios, including the current ratio and quick ratio, remain favourable, indicating that Voltas can meet short-term obligations comfortably. However, the decline in profitability (as seen in net profit margin and return on equity) warrants attention. Efficient asset utilization and a balanced dividend policy are critical for sustained growth. Voltas should focus on optimizing operational efficiency, retaining earnings for reinvestment, and ensuring a prudent dividend strategy.

References:

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