ANANDAM MANUFACTURING COMPANY: ANALYSIS OF FINANCIAL STATEMENTS

- The owner of the Anandam Manufacturing Company had approached its bank in July 2015 for the additional financing so that he could grow the garment manufacturing firm and achieve its objectives.
- The industry was highly competitive, and the competition was also growing but he believed that his company was performing strongly against the competitive industry. The loan officer has been now asked to process the loan and make a final decision as soon as possible.
- The objective of our analysis is to conduct a detailed financial statement analysis for Anandam Manufacturing Company to ensure that the company is financing sound, and it has the borrowing capacity and capability to repay the loans.

- A cash flow statement is a part of the financial statement which lets the user of the financial statement know about the movement of the cash.
- A cash flow statement also lets the investor know about the solid financial condition of a company.
- Observations:

1. A positive increase in cash is shown from the operating activities.
2. The inventory has increased, thus decreasing the operating cash flow and this shows that Anandam has adopted a more conservative working capital strategy for increasing the level of the inventory on the balance sheet.
3. The cash flow from investing activities shows that in the last few years less cash has been invested for buying new assets and this has a positive impact on cash.
4. Finally, the net cash flow from financing activities shows a positive trend, especially in the last one year. The equity issue and the debt issue for the company has increased and this is from where the financing has been generated by the company. The share issue has increased the cash balance by 400 thousand in each of the two years.
5. If we sum up all the above analysis, then we can conclude that the cash position of the company is quite strong at present, and it has enough cash to cover its obligations.

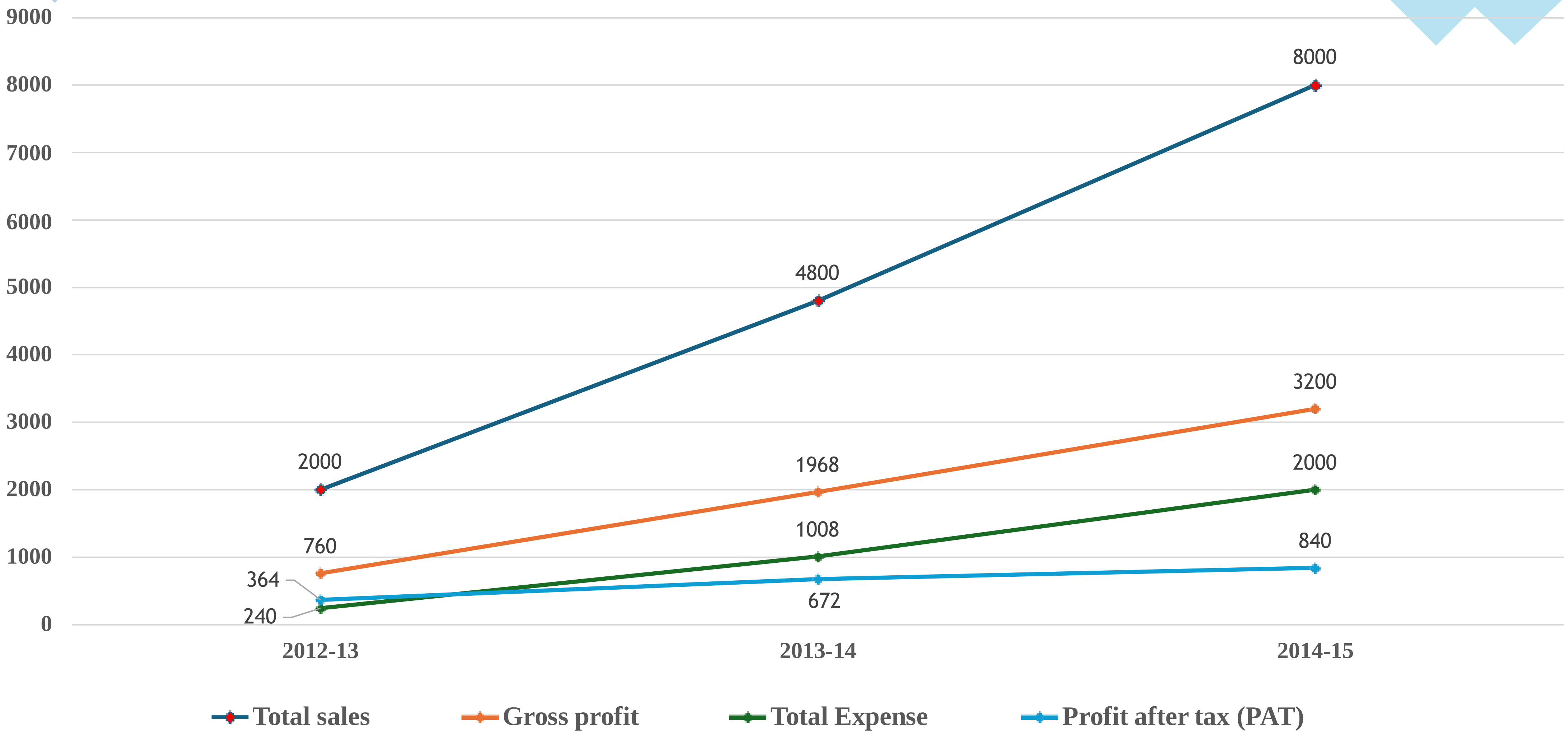
Cashflow Statement (IN ₹ THOUSANDS)		
Particulars	**2013-14**	**2014-15**
	Amount	**Amount**
A) Cashflows from operating activities		
Revenue	4800	8000
COGS	-2832	-4800
Increase in current Liabilities	1468	1052
Increase in Inventory	-1180	-750
Increase in Accounts Receivable	-1200	-600
Operating Expenses - Depriciation	-608	-1340
Tax Expenses	-288	-360
Net Cashflow provided by operating activities	**160**	**1202**
B) Cashflows from investing activities		
Fixed Assets	-2500	-4700
Depreciation	-400	-660
Fixed assets end of 2012-13	1900	2500
Purchased fixed assets	-1000	-2860
Net Cashflow used by investing activities	**-1000**	**-2860**
C) Cashflows from financing activities		
Issue of shares	400	400
Loan borrowed	500	1264
Net Cashflow provided by financing activities	**900**	**1664**
Net increase in cash and cash equivalence	**60**	**6**
Cash and Cash equivalence, beginning of period	**40**	**100**
Cash and Cash equivalence, end of period	**100**	**106**

- Income Statement shown in percentage terms of a base amount for that accounting period. It is useful to compare the expenses, sales, etc., of one year to another year in percentage terms.
- <u>Observation</u>:

1. Majority of the sales, around 90% are derived through credit sales.
2. COGS as percentage of sales declined for the company however, all the operating expenses such as interest expense, selling, general and admin expense have all increased for the firm.
3. The operating and net profit percentage of the total sales is also following a negative trend

Income Statement (IN ₹ THOUSANDS)						
	2012-13	**2013-14**	**2014-15**	**2012-13**	**2013-14**	**2014-15**
				Percentage of Revenue		
Cash Sales	200	480	800	10%	10%	10%
Credit Sales	1800	4320	7200	90%	90%	90%
Total sales	2000	4800	8000	100%	100%	100%
Cost of goods sold	1240	2832	4800	62%	59%	60%
Gross profit	760	1968	3200	38%	41%	40%
Operating expenses:						
General, administration, and selling expenses	80	450	1000	4%	9%	13%
Depreciation	100	400	660	5%	8%	8%
Interest expenses (on borrowings) **Profit before tax (PBT)**	60	158	340	3%	3%	4%
Profit before tax (PBT)	520	960	1200	26%	20%	15%
Tax @ 30%	156	288	360	8%	6%	5%
Profit after tax (PAT)	364	672	840	18%	14%	11%

Trend Analysis of Income Statement



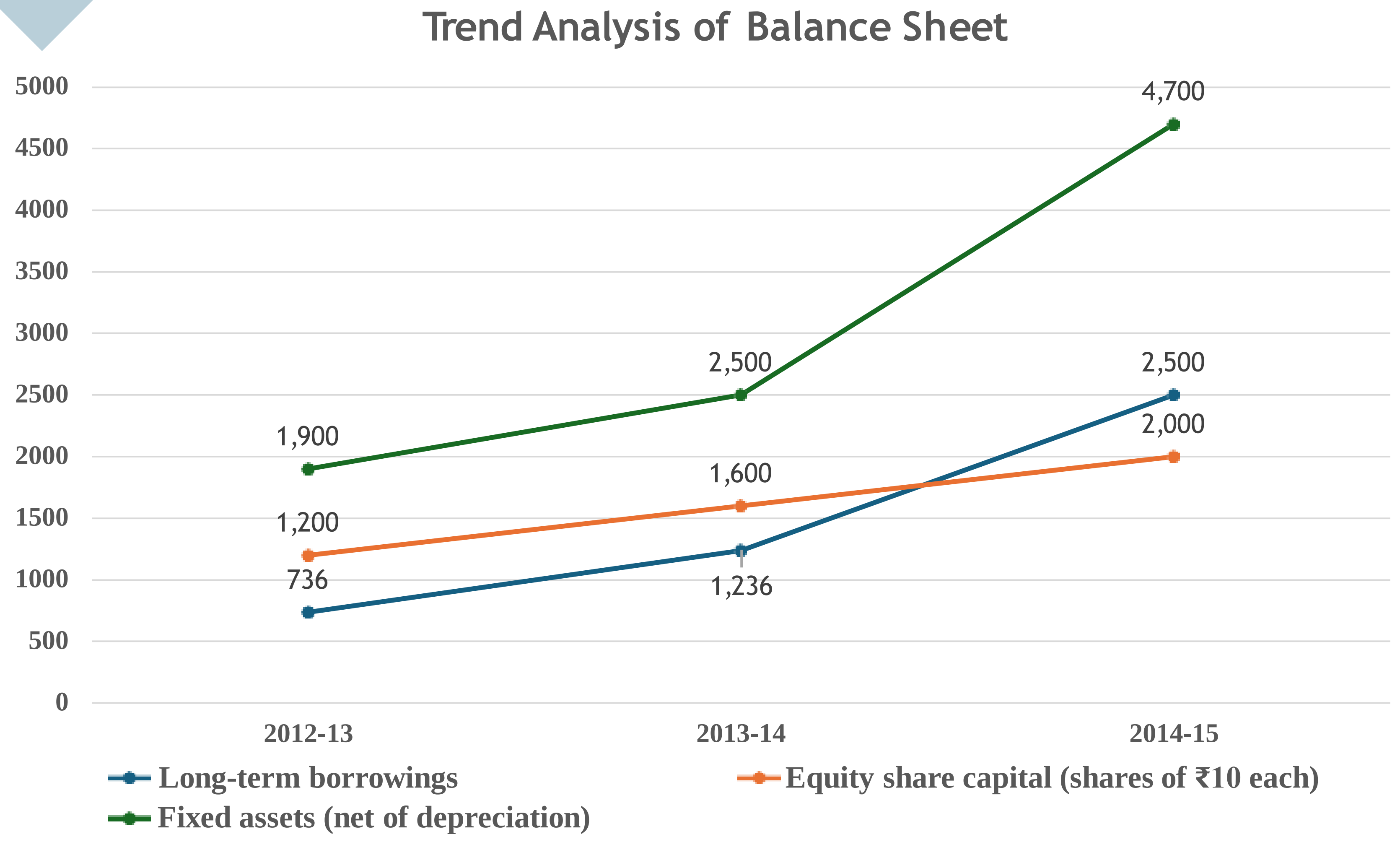
THE VERTICAL BALANCE SHEET SHOWS THAT CASH AS A PERCENTAGE OF THE TOTAL ASSETS HAS DECREASED AND SIMILAR IS THE SITUATION WITH ACCOUNTS RECEIVABLES.

ACCOUNTS RECEIVABLES IS A POSITIVE TREND FOR THE COMPANY.

THE INVENTORIES ARE ALSO DECREASING AS A PERCENTAGE OF TOTAL ASSETS, AND THIS SUGGESTS THAT THE CONSERVATIVE WORKING CAPITAL POLICY IS WORKING IN THE FAVOR OF THE COMPANY.

ON THE OTHER HAND, THE LONG-TERM DEBT HAS INCREASED AS A PERCENTAGE OF TOTAL ASSETS FOR THE COMPANY AND THE CURRENT LIABILITIES HAVE SLIGHTLY DECREASED.

Balance Sheet (IN ₹ THOUSANDS)						
	2012-13	**2013-14**	**2014-15**	**2012-13**	**2013-14**	**2014-15**
Assets				**Percentage**		
Fixed assets (net of depreciation)	1,900	2,500	4,700	74%	45%	51%
Cash and cash equivalents	40	100	106	2%	2%	1%
Accounts receivable	300	1,500	2,100	12%	27%	23%
Inventories	320	1,500	2,250	13%	27%	25%
Total	**2,560**	**5,600**	**9,156**	**100%**	**100%**	**100%**
Equity & Liabilities						
Equity share capital (shares of ₹10 each)	1,200	1,600	2,000	47%	29%	22%
Reserve & surplus	364	1,036	1,876	14%	19%	20%
Long-term borrowings	736	1,236	2,500	29%	22%	27%
Current liabilities	260	1,728	2,780	10%	31%	30%
Total	**2,560**	**5,600**	**9,156**	**100%**	**100%**	**100%**



- The company has taken debt to increase its scalability and because of that each year more amount of money is required to ensure smooth scalability and hence the amount of debt has increased by 167.93% in 2013-14 and by 202.27% in 2014-15.
- The company is not only borrowing money as debt but also raising more money through equity share capital which has shown a growth of 133.33% in 2013-14 and 125% in 2014-15.

Indicates that Anandam Manufacturing company has a lower level of liquidity as compared to the industry average

Indicates that Anandam Manufacturing company has a lower level of collecting cash as compared to the industry average

Indicates that Anandam Manufacturing company has a lower level of converting its inventory into sales as compared to the industry average.

Indicates that the investor are getting greater return as compared to the other investor in the same industry.

Ratio Analysis	**Sector Average**	**Anandam Firm**	**Remark**
Current ratio	2.30:1	1.60	Unfavourable
Acid test ratio (quick ratio)	1.20:1	0.79	Unfavourable
Receivable turnover ratio	7 times	3.43	Favourable
Receivable days	52 days	106	Unfavourable
Inventory turnover ratio	4.85 times	3.54	Unfavourable
Inventory days	75 days	171	Unfavourable
Long-term debt to total debt	24%	64%	Unfavourable
Debt-to-equity ratio	35%	64%	Unfavourable
Gross profit ratio	40%	40%	Favourable
Net profit ratio	18%	11%	Unfavourable
Return on equity	22%	22%	Favourable
Return on total assets	10%	17%	Favourable
Total asset turnover ratio	1.1	1.08	Unfavourable
Fixed asset turnover ratio	2	2.22	Favourable
Current asset turnover ratio	3	1.80	Unfavourable
Interest coverage ratio (times interest earned)	10	4.53	Unfavourable
Working capital turnover ratio	8	2.86	Unfavourable
Return on fixed assets	24%	26%	Favourable

Conclusion

- In the current situation, the profitability of Anandam is rising at a greater speed.
- Although the gross profit of the company is much higher than the industry but still at the end the Net profit or the actual profit that is left with the company is only 15% whereas in the industry the net profit is around 18%. And most of the ratios calculated above are not in favour of the company.
- Hence, by looking at the above ratios and its comparison with the industry the Anandam Manufacturing company is not as profitable as its competitors and hence the loan should not be granted.