Analysis of Financial Statements of Nifty 50

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1. ABSTRACT:

The main purpose of this study is to analyse and compare different financial-statements, the income statement and the balance sheet of all Nifty 50 stocks from 2013-2022 to draw a conclusion regarding the current financial standing of a corporation. The analysis will help to conclude about important financial indicators such as the liquidity ratios, profitability ratios and the long-term solvency ratios. The application will assist in analysing the financial reports and comparing them in order to choose the best ones based on a variety of factors. Managers, shareholders, investors, and any other parties can use these results to make decisions. The evaluation and comparison of the financial accounts is crucial for potential investors because, predictability is a major factor in the profitability of stock market trading and investment. If the market's trajectory is correctly forecasted, investors may receive superior guidance and earn a profit.

The main purpose of this research is to provide a comprehensive analysis of the financial performance of Nifty 50 stocks over a period of ten years. By analysing and interpreting the income statement and balance sheet of these companies, the study aims to identify trends, patterns, and differences that can reveal each company's financial strengths and weaknesses. The study also examines other ratios such as liquidity ratios, debt-to-equity ratios, and return on assets to provide a more comprehensive analysis.

The annual reports and financial statements of the companies listed on the Nifty 50 are some of the secondary sources that were used to get the data for this study, as well as other publicly available financial databases. The data is then explored, cleaned, manipulated, analysed, and plotted using statistical methods and other relevant techniques to draw inferences about the financial status of these companies.

2. INTRODUCTION:

The Indian stock market has been one of the fastest-growing in the world over the last decade. The Nifty 50 is the main index that represent the performance of the Indian stock market. The Nifty 50 comprises the top 50 companies listed on the National Stock Exchange (NSE). The index is widely used as benchmarks for measuring the overall performance of the Indian stock market. The price movement of 50 equities chosen based on market cap and liquidity is reflected in the Nifty index [1]. Every six months, Nifty is reviewed, and NSE provides the necessary notice before replacing the stocks that make up the index [2].

A financial statement gives a summary of a company's short- and long-term financial situation. All of a commercial enterprise's pertinent financial data is given in a financial statement in an organised and simple to understand format. The process of financial analysis involves making informed judgments and assessments to determine the current and past financial positions of an enterprise, as well as its operating results, in order to infer potential future outcomes and possibilities. Financial analysis' main goal is to provide financial managers and analysts with relevant information, allowing them to make informed decisions about their business's strengths and weaknesses. In order to maximise their return on investment, stock market investors are interested in purchasing securities at a discount and selling them at a premium [1].

The objective of this research paper is to analyse and compare the financial statements of all 50 companies listed on the Nifty index for the period of 2013-2022. The study focuses on two key financial reports – income statement and the balance sheet – to draw inferences about the current financial status of these companies, by calculating working capital, current ratio, return-on-asset (roa) ratio, return-on-equity (roe) ratio, and debt-to-equity ratio. The study is significant because it provides valuable insights into the financial health of companies listed on the Indian stock market. Investors, analysts, and other stakeholders can use the findings to inform their investment decisions in these companies. The study can also help businesses pinpoint areas where their financial management and planning need work.

3. LITERATURE REVIEW:

3.1. A study by Hasan et al. (2018) analysed the financial performance of Nifty 50 companies from 2008 to 2017 [3]. The study used financial ratios, like return on assets (ROA), return on equity (ROE), and debt-to-equity (D/E) ratios, to assess the financial health of these companies. The study found that the average ROA and ROE of Nifty 50 companies were 5.14% and 15.56%, respectively, which indicates a healthy financial performance. However, the D/E ratio was found to be higher than the industry average, indicating that these companies have a higher level of debt.

3.2. Juhi Ahuja (2012) gives an overview of the Indian Capital Market's structure. It was observed that the outlook for the Indian capital market had changed about ten years ago or thereabouts. The Indian capital market has become equivalent to the global capital markets thanks to the adoption of several reforms and upgrades. Currently, the market has a developed administrative structure, a market foundation with advanced features, and developing business sector capitalization, showcasing liquidity, and asset activation [4].

3.3. A study by Damodaran and Sreenivasan (2018) [5] suggests that financial statement analysis can be used to predict future stock returns. They analysed the financial performance of Indian companies listed on the NSE from 2008 to 2017. The study found that financial ratios, such as price-earnings ratio, price-book ratio, and the dividend yield, were significant predictors of future stock returns.

3.4. Pang et al. [6] stated that typical NN algorithms could unintentionally anticipate the stock market, thus it was suggested to utilise the LSTM-NN network with automatic encoder and the deep LSTM with embedded layer (ELSTM) to forecast the stock. With an embedded layer, LSTM-NN achieves better precision. The highest level of accuracy attained is 57.2%.

Numerous studies have examined the financial performance of companies listed on stock markets around the world. A study by Chung and Kim (2001) analysed the financial statements of companies listed on the Korean stock market [7]. Various studies found that financial ratios like liquidity and profitability ratios were significant predictors of stock returns.

4. DESCRIPTION:

4.1. Meaning of Financial Statement Analysis

The process of examining and understanding financial statements is commonly referred to as financial statement analysis, which can also be described as the analysis and interpretation of financial statements. The two financial statements, particularly the income statement and position (balance) sheet, are established in a meaningful way. It identifies the company's financial strengths and shortcomings [8]. Financial statements analysis is thus the methodical numerical computation of the link between one fact and another to evaluate the business's liquidity, profitability, and solvency [8]. The financial accounts of a corporation offer essential financial information on each facet of a business' activities. As a result, their performance in the past, present, and future may all be evaluated [9].

Financial statements are crucial accounting instruments used for compiling, assessing, and displaying economic data. Financial statements' primary goal is to offer information about a company's financial situation and fluctuations, which is essential for making wise managerial decisions [10]. The purpose of financial statements is to offer information that may be used by a range of users to assess the strength, effectiveness, and changes in the financial situation of an institution [11].

The balance sheet, also known as the statement of financial position, lists a company's assets, liabilities, and equity at a specific point in time. The balance sheet gives information about a company's financial situation and can be used to judge whether it will be able to pay its debts in the future.

Through financial analysis, the following objectives are accomplished: analysing the business's potential for growth and its profitability position in relation to other firms, determining the trend of accomplishments, analyse your financial status holistically. check the firm's sustainability [12]. A company's financial performance and position are summarised in its financial statements, which also reflect the effects of management's choices over a specific time period [13].

4.2. Parties Interested in Analysis of Financial Statement

Through official reports, businesses can inform a variety of stakeholders, including managers, investors, lenders, and regulatory bodies, about the results of their business operations. Then, based on the disclosed information, these parties decide on a variety of actions, such as whether to invest in or lend money to the company [14].

The financial accounts of the company are relevant to everyone interested in the state of the firm. The analysis of financial accounts is relevant to the following parties: [8].

- **Management:** The management is interested in learning about the firm's productivity, profitability, and soundness - in order to determine the company's strengths and weaknesses and develop successful business plans [8].

- **Shareholders:** The earning potential of the company and its projected expansion pique the curiosity of shareholders. Although shareholders are not actively involved in the day-to-day operations of the company, they are interested in learning about the true profitability through the financial statements [8].

- **Debenture-holders:** Debenture holders want to know if the company's financial status is stable or not. They also want to know if the company will be able to pay the interest and redeem the debentures when they reach maturity.

- **Credit Institutions:** Banks and institutions are interested in learning whether a company is solvent. They also inquire as to the security of the loaned funds [8].

- **Creditors:** The business's creditors are concerned with both its immediate and long-term financial stability [8]. Anyone who has borrowed money to a business is concerned about how well it will be able to repay the loan, therefore they will pay close attention to different cash flow measurements [15].

- **Taxation Authorities:** In order to collect income tax, tax authorities are curious about how profitable a business is. In the same way, sales tax authorities are curious about the company's sales.

- **Workers:** The employees of a company are concerned about the profitability of the business, as it can serve as a basis for labour unions to negotiate higher wages in cases where profits are deemed sufficient. Additionally, workers may receive bonuses based on productivity and profitability.

- **Country's Administration:** For the purposes of taxation, regulation, and nationalization, many governmental organisations investigate profitability and turnover ratios. Financial statements aid in the creation of national accounts by the government [8].

- **Economist and Researchers:** Economists and researchers are interested in a company's financial activities so they can assess the company's financial standing, examine its rate of financial growth in comparison to that of other companies, and, in the end, recommend practical ways to speed up the growth rate.

- **Society:** In the course of developing, a company becomes a part of society. It must satisfy its responsibilities to the community. The public and society are informed about the means by which a firm has carried out its social responsibility through the analysis of financial accounts [8].

- **Competitors:** In order to create the proper policies, competitors are interested in understanding an enterprise's strategy through financial statement analysis.

- **Investors:** Financial statements are examined by both present and potential investors to determine a company's capacity to continue paying dividends, create cash flow, or expand at its historical rate [15].

4.3. Types of Financial Analysis

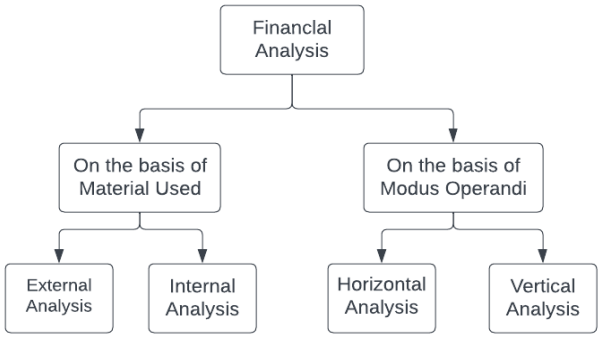

Fig 1: A Family tree of types of Financial Analysis

4.3.1. Based on Material Used

External Analysis – This kind of research is conducted by third parties (investors, credit rating agencies, government institutions) who are unable to access the company's internal records [8]. External analysis involves the use of financial statements and other financial information that is publicly available. This includes analysing a company's financial statements, such as the income statement, balance sheet, and cash flow statement, to evaluate its financial performance and health.

Internal Analysis – This kind of research is done by people who have permission to the company's books of accounts and other data. This analysis is done by the management and employees of the organisation [8]. Internal analysis involves the use of financial information that is not publicly available, such as management accounts and internal reports. Internal analysis can include analysing a company's financial status, budget variances, and other financial metrics to retrieve companies' financial health and performance. It is important for a company to conduct regular internal analysis to ensure that it is meeting its financial goals and objectives.

4.3.2. Based on Modus Operandi

Horizontal Analysis – Comparing financial data over time to find trends and changes is known as horizontal analysis, often referred to as trend analysis. In this kind of study, financial data from the same company is compared over a period of two or more years, typically as percentage changes. The direction and size of changes in a company's financial performance over time are determined via horizontal analysis.

Vertical Analysis – Comparing financial data as a percentage of a single base figure is a component of vertical analysis, sometimes referred to as common-size analysis. This kind of analysis aids in determining the relative significance of various elements on financial statements of a corporation. Vertical analysis is helpful for tracking progress of a company's financial structure over a period of time or comparing the performance of several businesses.

4.4. Financial Statements to Analyse

4.4.1 Income Statement – An income statement, also known as a profit and loss statement, shows a company's income, expenditure, and net income for a specific time period, such as a quarter, half year or a year. Investors, creditors, and other stakeholders use the income statement, to assess the performance and profitability of the business. Operating and non-operating are the two primary divisions of the income statement. The operating part includes the revenues and expenses related to the company's primary business operations, such as sales and cost of goods sold. The non-operating sector consists of revenues and expenses that are not directly related to the company's core business operations. Interest-related expenses and revenue are some examples.

Income – is a measure of the assets produced by business operations [16].

Expenditure – indicate the quantity of resources used in business operations, as well as the flows and commitments made throughout production [10].

4.4.2 Balance Sheet – A company's assets, liabilities, and equity are listed on its balance sheet at a particular point in time, usually the conclusion of a quarter or fiscal year. Investors, creditors, and other stakeholders use the balance sheet, which offers a picture of a company's financial condition, to assess a company's financial stability and liquidity. Therefore, the total assets on the balance sheet must equal the total liabilities and capital [10]. The assets section includes all of the resources owned or controlled by the company, such as cash in hand, accounts receivable, and property. The liabilities & equity section includes all of the company's obligations and sources of financing, such as loans, accounts payable, and shareholder equity.

This equation is used to express this equilibrium. [17]:

$$\text{Assets} = \text{Liabilities} + \text{Capital} \quad [16]$$

4.5. Financial Ratio's to Derive from Analysis

The key measures of financial analysis include the following ratios [13]:

4.5.1 Liquidity Ratios – The ability of a business to settle short-term debt as it becomes due is referred to as liquidity. Liquidity is the ability to convert economic activity into money or to produce income in other ways [18]. We will be calculating two liquidity ratios –

a). Working Capital – Working capital is always among the first factors that creditors take into account. This is due to the fact that the creditor always looks for and reads safety in the financial accounts [16]. Since liquidity "saves" from an unfavourable condition of becoming out of money[19]. The difference between short-term assets and short-term liabilities is used to determine working capital. Working capital that is more than zero is regarded as desirable.

Working Capital is describes as (short term assets – short term liabilities)

b). Current Ratio – The current ratio displays a clear relationship between short-term assets and short-term liabilities. This allows for the evaluation of a company's ability to fulfil short-term obligations by the due date (expiration date of payments) [18]. Positive or good current ratio is defined as one that is greater than 1.

Current ratio is described as (Short term assets / short term liabilities)

4.5.2 Profitability Ratios- Using information at a single point in time, profitability ratios are a class of financial measurements that are used to evaluate a company's capacity to generate profits in relation to its revenue, operating costs, balance sheet assets, or shareholders' equity over time [10]. We will be calculating two profitability ratios-

a). Return on Assets (ROA) – The relationship between net profit and total assets is shown to be direct. The return on total assets measures how effectively total assets is utilised to generate net profit [18]. ROA totally depends on the sector; the company is serving. So, there's no threshold point.

*Return on Assets (ROA) is described as (Net Profit / Total Assets) * 100*

b). Return on Equity (ROE) – It calculates the profit from normal shareholders' investments in the company's assets. Therefore, the rate of return from regular shares that the company's owners have purchased is the rate of return on share capital [10]. ROE greater than 12 is considered a good ROE ratio.

*Return on Equity is described as (Net Profit / Total Shareholders' Equity) * 100*

4.5.3 Long-term Solvency Ratio- Solvency reports measure a company's ability to pay off long-term debt by the due date using the long-term solvency ratio [16]. We will be calculating -

a). Debt on Equity Ratio – It is the proportion of long-term debt to total invested money, total equity, or total share capital. D/E ratio lesser than 2 is considered as a good ratio.

Debt ratio to Equity is described as Total Debt / Share Capital

5. METHOD:

5.1. Type of Financial Analysis

a. Based on Material Used; we have used External Analysis methodology.

b. Based on Modus Operandi; we have used Horizontal Analysis methodology.

5.2. Data Collection

The first step in the research process involved the collection of financial data for all companies in the Nifty 50 stock index. For that, web scraping tools and techniques were used to perform data collection. Python's Beautiful Soup and Requests library were used to scrape the income statement and balance sheet data of all the companies from secondary sources. An algorithm was developed using these libraries to scrape and collect data from any stock. It can be scheduled to run once a year (March-April), to collect the latest available annual financial data. Then, the data collected is then stored in MongoDB as documents in a collection.

5.3. Data Pre-processing

Once the data was collected, it underwent pre-processing to ensure its accuracy and consistency. The data was cleaned to remove any inconsistency, missing values, or outliers. The financial statements were also standardized to ensure that they could be compared across companies.

5.4. Calculation of Financial Ratios

Following data pre-processing, the next step involved calculating different financial ratios that could offer information about the performance and financial health of a company.

- Liquidity Ratios calculated are Working Capital and Current Ratio
- Profitability Ratios calculated are Return on Assets (ROA) and Return on Equity (ROE)
- Long-term solvency Ratio calculated is Debt to Equity Ratio

5.5. Data Analysis

Once the ratios were calculated, they were analysed and compared to evaluate a company's financial status. The calculated ratios were compared with each other to identify which company performed best in terms of each ratio. This allowed for a comprehensive analysis of a company's financial status, taking into account multiple aspects of its financial performance.

5.6. Data Visualization

The calculated ratios and their comparison were visualized using various data visualization techniques such as bar graphs, and line charts. And the data is also displayed in the form of a table, for easy and better comparison. These visualizations were used to represent the data in an easy-to-understand format and help in making data-driven decisions.

5.7. Statistical Analysis

In addition to calculating the financial ratios, statistical analysis techniques such as mean, median, and standard deviation were also used to analyse the data and to get better insights. These techniques were used to identify trends, patterns, and anomalies in the data and draw meaningful conclusions.

6. RESULT:

The analysis of the financial statements of the Nifty 50 companies from 2013-2022 reveals some interesting findings. The average ROA for the Nifty 50 companies is 8.36%, which is higher than the average ROA reported in the study by Hasan et al. (2018) for the period 2008-2017. This suggests that the Nifty 50 companies have performed better in terms of generating profits from their assets during the period under study. Similarly, the average ROE for the Nifty 50 companies is 19.63%, which is also higher than the average ROE reported by Hasan et al. (2018). This indicates that the Nifty 50 companies have been more successful in generating profits for their shareholders during the period under study**. Moreover, the maximum ROE of 75.03% achieved by HUL is an impressive feat and showcases the potential for high returns in some Nifty 50 companies**.

The final outcomes for overall Nifty-50 analysis performed is as follows-

Analyzed Ratio	**Outcomes**
Working Capital – positive & negative count	Positive: 40 & Negative: 10
Current Ratio - good & bad count	Good: 42 & Bad: 08
Return-on-Assets (ROA) – average roa	8.36%
Return-on-Equity (ROE) – average roe	19.63%
Debt-to-Equity (D\E) - positive & negative count	Positive: 46 & Negative: 04

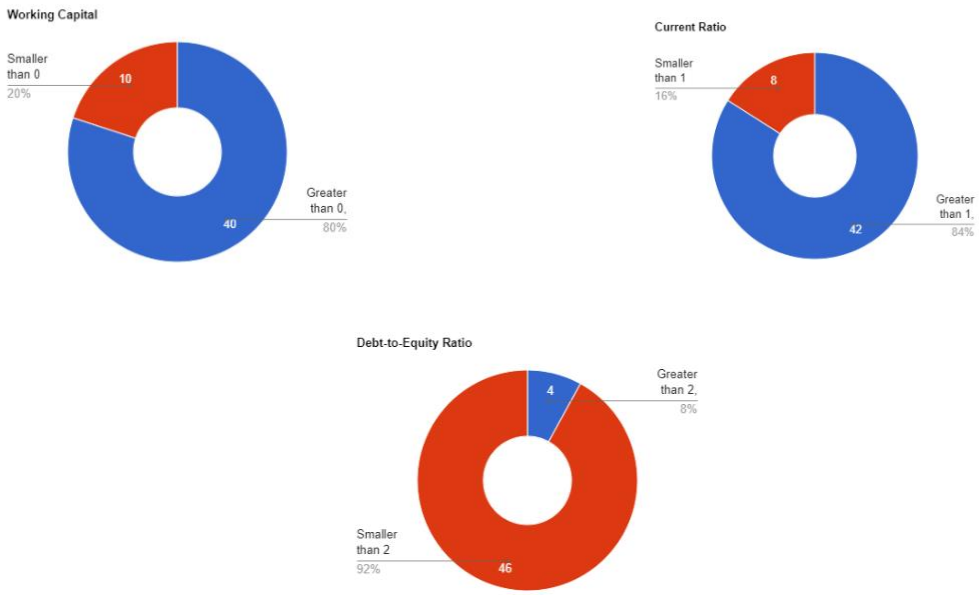

Fig 2: Pie chart WC, CR, and D/E ratio

Overall, the results of the analysis suggest that the Nifty 50 companies have performed well financially during the period under study. The higher ROA and ROE indicate that the companies have been successful in generating

profits for their shareholders, while the good liquidity and long-term solvency ratios suggest that the companies are financially stable and able to meet their obligations. The findings of this study can be useful for investors and stakeholders in making informed decisions related to investment and risk management.

The individual stock analysis was also conducted using various data analysis and visualization techniques such as graphs, and charts including the working capital graph, current ratio graph, ROA graph, ROE graph, and debt-to-equity graph. These charts aided in a more precise and efficient analysis of individual stocks. An analyzed final chart of respective ratios for Maruti Suzuki Ltd. From 2013-2023 is attached below:

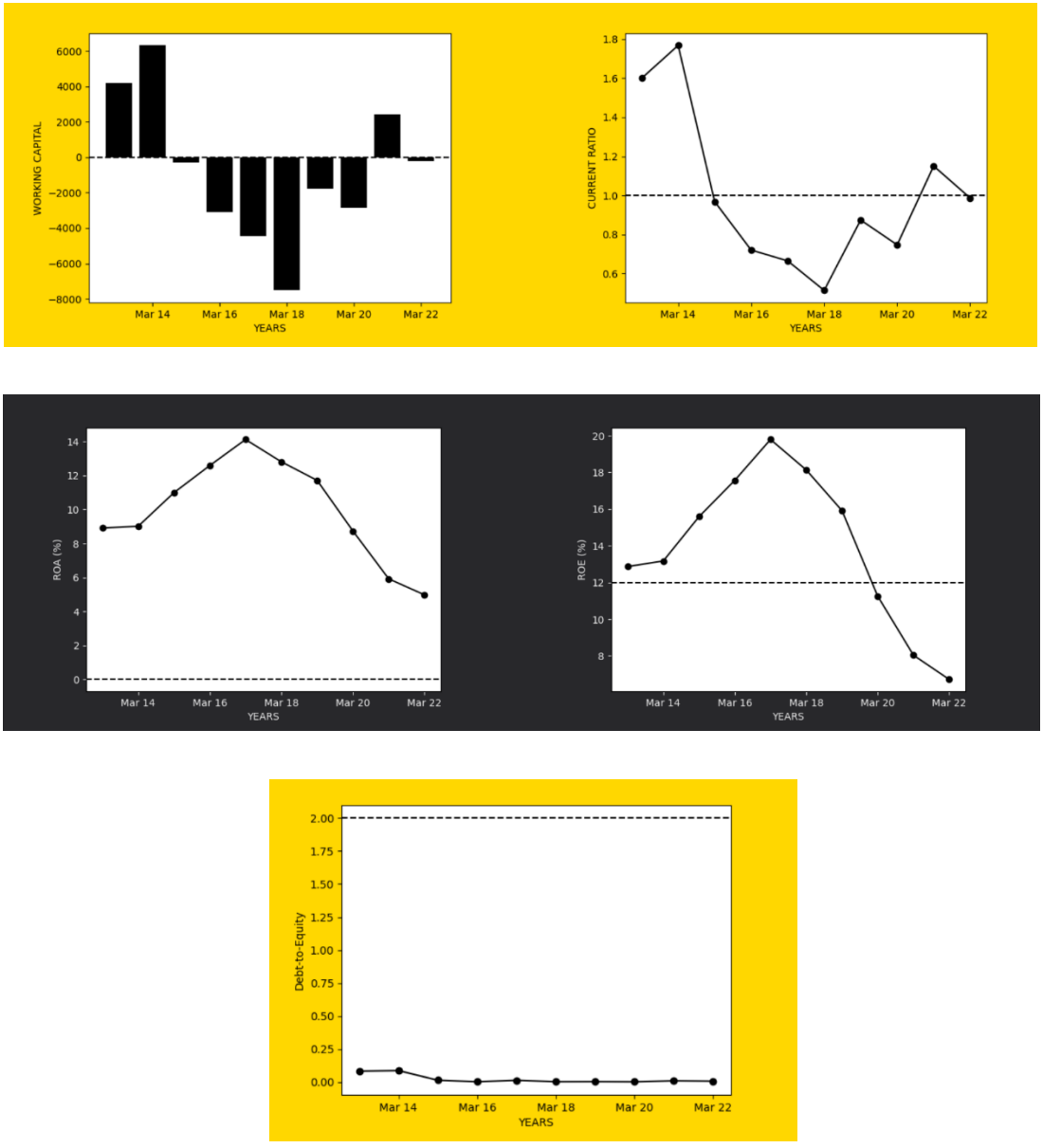

Fig 3: Chart of Maruti Suzuki's performance during 2013-2022

The final analysed data i.e., the mean of current ratio, working capital, return-on-equity, return-on-asset, and debt-to-equity for individual company of Nifty 50 over the period of 2013-2022 is displayed in the table below: -

Stock Name	Working Capital(cr.)	Current Ratio	ROA (%)	ROE (%)	D/E (%)
Adani Enterprises	-3644.25	0.91	1.41	5.460	1.65
Adani Ports	3042.33	1.78	8.5	20.78	1.18
Apollo Hospital	892.83	1.69	3.69	8.35	0.72
Asian Paints	3202.28	1.68	15.53	26.97	0.06
Axis Bank	72636.79	3.36	0.8	8.78	1.84
BPCL	-6568.88	0.89	6.01	21.08	1.18
Bajaj Auto	4012.96	1.94	18.22	24.07	0.00
Bajaj Finance	62186.61	2.41	2.97	16.98	4.25
Bajaj FinServ	60685.61	1.55	2.71	21.77	2.95
Bharti Airtel	-46283.57	0.42	0.01	-1.34	1.63
Britannia	602.03	1.32	20.13	42.4	0.3
Cipla	5927.78	2.56	8.15	11.86	0.2
Coal India	38463.92	2.06	10.9	41.27	0.08
Divis Lab	3446.96	5.25	18.6	22.02	0.01
Dr Reddy’s Lab	4789.90	1.68	8.75	15.49	0.31
Eicher Motors	1658.39	1.7	20.77	31.89	0.01
Grasim	11722.58	1.37	4.3	11.56	0.74
HCL Tech	16013.01	2.25	17.04	25.12	0.05
HDFC	160293.88	1.41	1.85	12.72	3.25
HDFC Bank	6377.89	2.07	3.09	30.91	1.05
HDFC Life	17908.32	10.06	0.99	23.72	0.01
HUL	2349.39	1.26	26.71	75.03	0.01
Hero MotoCorp	3496.60	1.75	18.88	28.51	0.02
Hindalco	17084.38	1.47	2.28	6.61	1.26
ICICI Bank	35680.55	1.5	1.31	13.38	1.96
ITC	18511.51	2.95	19.61	25.63	0.00
IndusInd Bank	34530.97	4.22	1.58	14.46	1.43
Infosys	34255.80	3.23	18.59	24.46	0.00
JSW Steel	-6354.96	0.77	3.96	12.97	1.34
Kotak Mahindra	24306.60	2.4	3.52	24.37	1.26
Larsen & Turbo	31540.74	1.3	3.31	14.34	1.84
M&M	11236.98	1.26	2.81	10.66	1.32
Maruti Suzuki	-729.03	1	9.98	13.9	0.02
NTPC	-1785.95	1.04	4.4	11.69	1.23
Nestle	1340.47	1.76	20.4	62.5	0.06

ONGC	-21083.63	0.85	5.76	11.89	0.37
PowerGrid Corp	-12750.51	0.57	4.03	15.81	2.21
Reliance	-28848.40	0.96	4.52	10.55	0.59
SBI	155770.05	1.49	0.41	7.38	1.66
SBI Life Insurance	45866.72	15.91	0.93	17.56	0.00
Sun Pharma	13955.13	2.21	8.74	14.00	0.17
Tata Consumer Product	2665.63	2.33	4.08	6.32	0.15
TCS	51660.79	3.49	26.65	36.52	0.00
Tata Motors	-6864.56	0.95	0.65	-0.99	1.44
Tata Steel	58.97	1.01	2.22	5.35	1.59
Tech Mahindra	9277.33	2.17	12.47	20.47	0.08
Titan Company	3466.93	1.69	10.81	23.20	0.25
UPL	7074.89	1.65	6.08	21.29	1.19
Ultratech Cement	217.57	1.07	6.33	12.25	0.46
Wipro	27162.21	2.26	12.64	19.64	0.19

7. DISCUSSIONS:

The analysis of financial statements of Nifty 50 companies from 2013 to 2022 provide insights into the financial health of these companies. The liquidity, profitability, and long-term solvency ratios used for assessing the financial performance of 50 companies. The results revealed that the average ROA and ROE were 8.36% and 19.63%, respectively, which indicates a healthy financial performance. The max ROE was 75.03% by HUL, which suggests that this company has a higher return on equity as compared to other companies.

The analysis also showed that 42 stocks out of 50 have above average or a good current ratio, indicating that these companies have the ability to meet their short-term obligations. Additionally, 40 stocks have above average or a good positive working capital, which indicates that these companies have sufficient funds to run their day-to-day operations. Moreover, 40 companies have a less than 2 debt-to-equity ratio, which is considered to be a healthy ratio in the industry. This suggests that these companies have a lower level of debt and are less risky to invest in.

One limitation of this study is that it only evaluates the financial statements of companies and does not take into account other external and internal factors such as market trends, economics, and company-specific events that can impact financial performance of the companies. Therefore, the conclusions drawn from this study should be taken with caution.

Future Scopes:

Future research can consider incorporating other factors such as market trends, economic conditions, and company-specific events to provide a more comprehensive analysis of the financial performance of companies. Additionally, the analysis can be extended to cover companies from other stock indices to provide a comparative description of the financial health of all companies derived from various sectors. The analysis can also be extended to cover a longer time period to assess the financial performance of companies over a longer period of time.

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