

## Analysis of Common Size Balance Sheet

Common size statement of Hindalco Industries Limited for the financial years 2019 to 2023. A common size statement expresses each line item in a financial statement as a percentage of a base figure. This allows for easier comparison of financial statements across different companies or industries.

In the case of a common size balance sheet, the base size is typically total assets. Here, some of the key observations from Hindalco Industries common size balance sheet are:

- **Equity** :The increase in Hindalco Industries' total equity from 59.58% of total assets in March 2019 to 60.35% in March 2023 indicates a strengthening of the company's financial position over this period. A higher percentage of total assets financed by equity suggests reduced reliance on debt, which can enhance financial stability and flexibility. This increase in equity could result from various factors, such as retained earnings, capital injections, or favorable valuation of assets. Overall, it signifies positive growth and improved financial health for Hindalco Industries during the 2019-2023 .
- **Non-Current Liabilities**: The decrease in non-current liabilities from 23.24% to 18.63% of total assets between March 2019 and March 2023 shows Hindalco Industries' reduced long-term debt burden. This decline

signals improved financial stability and decreased risk, reflecting positively on the company's financial management and potential for future growth.

- **Current Liabilities:** Current liabilities have increased from 17.19% of total assets in

March 2019 to 21.03% in March 2023. This means that the company has more short term obligations relative to its total assets.

- **Assets:** Hindalco Industries' total assets have grown from ₹81,502.3 crore in March 2019 to ₹96,922 crore in March 2023. This reflects overall growth in the company.

- **Non-Current Assets:** Non-current assets have decreased from 71.12% of total assets in March 2019 to 63.83% in March 2023. This indicates that the company is investing more in current assets, such as inventory and receivables, which may be needed to support future sales growth.

- **Current Assets:** Current assets have increased from 28.88% of total assets in March 2019 to 36.17% in March 2023. This suggests that Hindalco Industries is becoming more liquid, which could be a sign that the company is planning for future growth or is facing short-term financial challenges.

It is important to note that this is a limited analysis based on a single company and a single financial statement. A more comprehensive analysis would consider trends over a longer period of time, as well as ratios and other financial metrics.

# ANALYSIS OF "TREND ANALYSIS STATEMENT (Balance Sheet)

Here are some observations based on the data in the balance sheet for Hindalco Industries Standalone:

	Mar 19	Mar 23	%inc
<b>Total Equity</b>	100	120.45	20.45
<b>Total Non-Current Liabilities</b>	100	95.32	-4.68
<b>Total Current Liabilities</b>	100	145.50	45.50
<b>Total Capital And Liabilities</b>	100	118.92	18.92
<b>Total Non-Current Assets</b>	100	106.72	6.72
<b>Total Current Assets</b>	100	148.96	48.96
<b>Total Assets</b>	100	118.92	18.92

**Total Equity:** Between March 2019 and March 2023, Hindalco Industries' total equity increased significantly by 20.45%. This substantial increase in the share of assets attributable to shareholders' ownership may be explained by the company's ability to retain earnings, by capital infusions, or by a favorable market assessment of its assets, all of which indicate improved financial health and may boost investor confidence.

**Total Non-Current Liabilities :** During the same time period, non-current liabilities fell by 4.68%, suggesting a decline in long-term debt or commitments in comparison to total assets. The observed fall may indicate the company's endeavors to reduce the leverage on its balance sheet, either by means of debt repayments or refinancing tactics, which would ultimately result in enhanced financial stability and reduced risk exposure.

**Total Current Liabilities:** Between March 2019 and March 2023, there was a noteworthy growth of 45.50% in current liabilities, indicating a considerable rise in short-term debt or commitments. This increase could be the result of expanding operations, a need for more working capital, or adjustments to

finance plans to support the business's operations. Greater current liabilities can give the company more flexibility in how it manages ongoing costs, but in order to minimize possible liquidity issues, the organization must make sure that management is doing a good job.

**Total Capital and Liabilities:** Over the course of the analysis period, there was a minor decline of -5.08% in total capital and liabilities, notwithstanding variations in individual components. This implies changes in the makeup of obligations, which could be brought about by adjustments to capital structure or debt levels. Nonetheless, the company's general financial structure stayed largely steady, suggesting that financing and investment decisions were made with balance.

**Total Non-Current Assets:** The rise of 6.72% in non-current assets over the period suggests an increase in long-term investments or assets. Capital expenditures, acquisitions, or investments in strategic initiatives targeted at promoting future growth and profitability could all lead to this expansion. A larger percentage of non-current assets in comparison to total assets could improve the company's ability to produce earnings in the future and build long-term value for shareholders.

**Total Current Assets:** Between March 2019 and March 2023, current assets increased significantly by 48.96%. This increase points to increased short-term liquidity and possibly better operational effectiveness. The augmentation of current assets, including cash, inventory, and accounts receivable, could potentially facilitate the company's ability to fulfill its immediate financial responsibilities and seize expansion prospects as they present themselves.

**Total Assets:** The total assets decreased by -5.08%, but remained generally constant despite variations in individual asset categories. This shows that despite shifts in the assets' makeup, the company's asset base's total size was stable during the course of the analysis, indicating a prudent approach to asset management and investment choices.

It is important to note that this is a limited analysis based on a single company and a single financial statement. A more comprehensive analysis would consider trends

over a longer period of time, as well as ratios and other financial metrics

## Ratio Analysis

### Formula Used:

- Current Ratio = Current Assets / Current Liabilities
- Quick Ratio = (Current Assets - Inventory) / Current Liabilities
- Debt-to-Equity Ratio = Total Liabilities / Total Equity
- Debt-to-Capital Ratio = Total Liabilities / (Total Liabilities + Total Equity)
- Equity Ratio: Shareholder's Equity / (Current Assets – Current Liabilities)
- Debt Ratio : Total Liabilities / (Current Assets – Current Liabilities)

	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23
<b>Liquidity Ratio</b>					
<b>Current Ratio</b>	1.68	1.58	1.48	1.37	1.72
<b>Quick Ratio</b>	0.87	0.85	0.64	0.63	0.73
	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23
<b>Solvency Ratios</b>					
<b>Debt-to-Equity</b>	0.68	0.76	0.76	0.82	0.66
<b>Debt-to-capital</b>	0.40	0.43	0.43	0.45	0.40
	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23
<b>Capital Structure Ratios</b>					
<b>Equity Ratio</b>	5.10	5.10	5.48	5.14	3.98
<b>Debt Ratio</b>	3.46	3.87	4.15	4.21	2.62

## ANALYSIS OF "RATIO ANALYSIS STATEMENT"

This statement provides a detailed breakdown of the company's liquidity and solvency over the past five years (March 2019 to March 2023) using various ratios. Here's an analysis of each section:

## Liquidity Ratios:

	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23
<b>Liquidity Ratio</b>					
<b>Current Ratio</b>	1.68	1.58	1.48	1.37	1.72
<b>Quick Ratio</b>	0.87	0.85	0.64	0.63	0.73

- **Current Ratio:** The current ratio is a liquidity ratio that measures a company's ability to cover its short-term liabilities with its short-term assets. It is calculated by dividing current assets by current liabilities. A higher current ratio indicates a more liquid company, as it suggests that the company has more assets readily available to cover its short-term obligations.
- **Quick Ratio:** The quick ratio, also known as the acid-test ratio, is a liquidity ratio that measures a company's ability to meet its short-term obligations with its most liquid assets. It is calculated by subtracting inventories from current assets and then dividing by current liabilities. The quick ratio provides a more stringent measure of liquidity compared to the current ratio because it excludes inventory, which may not be easily convertible into cash in the short term.

## Trend:

### 1. Current Ratio Trend:

- Mar 19 to Mar 20: The current ratio decreased from 1.68 to 1.58, indicating a slight reduction in liquidity as current liabilities may have increased relative to current assets.
- Mar 20 to Mar 21: The ratio continued to decrease to 1.48, suggesting a further decline in liquidity. This could indicate a continued increase in

current liabilities or a decrease in current assets.

- Mar 21 to Mar 22: There was another decrease in the ratio to 1.37, indicating a significant reduction in liquidity. This trend may raise concerns about the company's ability to cover its short-term obligations.
- Mar 22 to Mar 23: The ratio increased to 1.72, signaling a reversal of the declining trend and indicating improved liquidity. This could be due to an increase in current assets or a decrease in current liabilities.

## **2. Quick Ratio Trend:**

- Mar 19 to Mar 20: The quick ratio decreased from 0.87 to 0.85, indicating a slight reduction in liquidity when considering only the most liquid assets.
- Mar 20 to Mar 21: The ratio declined further to 0.64, signaling a significant decrease in liquidity. This suggests that the company may have difficulty meeting its short-term obligations without relying on inventory.
- Mar 21 to Mar 22: There was a slight decrease in the ratio to 0.63, indicating continued challenges in liquidity. This could raise concerns about the company's ability to cover its short-term liabilities using only its most liquid assets.
- Mar 22 to Mar 23: The ratio increased to 0.73, signaling an improvement in liquidity. This suggests that the company's ability to meet short-term obligations with its most liquid assets improved, potentially due to changes in inventory levels or other factors.

## **Interpretation:**

- The decreasing trend in both the current ratio and quick ratio from Mar 19 to Mar 22 suggests a decline in liquidity, potentially indicating challenges in meeting short-term obligations.
- However, the increase in both ratios from Mar 22 to Mar 23 indicates a reversal of this trend and improved liquidity. This could be a positive development, suggesting better management of current assets and liabilities or improved operational efficiency.

- Overall, while the company experienced fluctuations in liquidity, the upward trend in the ratios towards the end of the period suggests a positive shift, potentially contributing to improved financial stability and solvency.

## Solvency Ratio

	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23
<b>Solvency Ratios</b>					
<b>Debt-to-Equity</b>	0.68	0.76	0.76	0.82	0.66
<b>Debt-to-capital</b>	0.40	0.43	0.43	0.45	0.40

- **Debt-to-Equity Ratio:** This ratio indicates how much of a company's funding is provided by debt as opposed to equity. By dividing total debt by total equity, it is computed. A greater ratio denotes greater financial leverage, which increases the reliance of the business on debt funding. A lower ratio, on the other hand, indicates a stronger equity position and less reliance on debt.
- **Debt-to-Capital Ratio:** The debt-to-capital ratio calculates the percentage of debt in a company's capital structure relative to total capital. Total debt is determined by dividing total debt by the total of all debt and equity. A greater ratio indicates a larger amount of debt in the capital structure and gives insight into the percentage of a company's capital that is financed by debt.

## Trend

### 1. Debt-to-Equity Ratio Trend:

- Mar 19 to Mar 20: The debt-to-equity ratio increased from 0.68 to 0.76, indicating a higher reliance on debt financing compared to equity financing.
- Mar 20 to Mar 21: The ratio remained unchanged at 0.76, suggesting a sustained level of reliance on debt financing.
- Mar 21 to Mar 22: There was a further increase in the ratio to 0.82, indicating a continued trend of higher reliance on debt financing.



- Mar 22 to Mar 23: The ratio decreased to 0.66, signaling a decrease in reliance on debt financing and a stronger equity position.

## 2. Debt-to-Capital Ratio Trend:

- Mar 19 to Mar 20: The debt-to-capital ratio increased from 0.40 to 0.43, indicating a higher proportion of debt in the company's capital structure.
- Mar 20 to Mar 21: The ratio remained unchanged at 0.43, suggesting a sustained level of debt in the capital structure.
- Mar 21 to Mar 22: There was a further increase in the ratio to 0.45, indicating an ongoing trend of a higher proportion of debt in the capital structure.
- Mar 22 to Mar 23: The ratio decreased to 0.40, signaling a decrease in the proportion of debt in the capital structure and potentially lower financial risk.

## Interpretation

- The increasing trend in both ratios from Mar 19 to Mar 22 suggests a growing reliance on debt financing, potentially increasing financial risk and impacting the company's solvency.
- However, the decrease in both ratios from Mar 22 to Mar 23 indicates a reversal of this trend, potentially signaling a reduction in financial risk and a stronger solvency position.
- Overall, fluctuations in the solvency ratios reflect changes in the company's financing mix and their potential implications for financial risk and solvency.

## Capital Structure ratios

	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23
<b>Capital Structure Ratios</b>					
<b>Equity Ratio</b>	5.10	5.10	5.48	5.14	3.98
<b>Debt Ratio</b>	3.46	3.87	4.15	4.21	2.62

- **Equity Ratio:** The equity ratio is a financial ratio that measures the proportion of a company's total assets that are financed by equity. It is calculated by dividing total equity by total assets. This ratio provides insight into the extent to which a company's assets are funded by shareholders' equity.
- **Debt Ratio:** The debt ratio is a financial ratio that measures the proportion of a company's total assets that are financed by debt. It is calculated by dividing total debt by total assets. This ratio provides insight into the extent to which a company's assets are funded by debt financing.

## **Trend:**

### **1. Equity Ratio Trend:**

- Mar 19 to Mar 20: The equity ratio remained constant at 5.10, indicating a stable proportion of equity in the company's capital structure.
- Mar 20 to Mar 21: There was an increase in the ratio to 5.48, suggesting a higher proportion of equity in the capital structure. This may indicate either an increase in equity or a decrease in total capital.
- Mar 21 to Mar 22: The ratio decreased to 5.14, indicating a reduction in the proportion of equity in the capital structure compared to the previous period.
- Mar 22 to Mar 23: Another decrease to 3.98 suggests a significant reduction in the proportion of equity in the capital structure, potentially indicating changes in financing or capitalization.

### **2. Debt Ratio Trend:**

- Mar 19 to Mar 20: The debt ratio increased from 3.46 to 3.87, indicating a higher proportion of debt in the company's capital structure.
- Mar 20 to Mar 21: There was a further increase to 4.15, suggesting a continued rise in the proportion of debt in the capital structure.
- Mar 21 to Mar 22: Another increase to 4.21 indicates a further rise in the proportion of debt in the capital structure, potentially increasing financial risk.

- Mar 22 to Mar 23: The ratio decreased to 2.62, signaling a significant reduction in the proportion of debt in the capital structure. This could indicate debt repayment or other changes in the company's financing strategy.

## **Interpretation**

- The equity ratio remained relatively stable initially but then fluctuated, indicating changes in the proportion of equity in the capital structure.
- The debt ratio showed a consistent increasing trend, suggesting a rise in the proportion of debt in the capital structure, potentially increasing financial risk.
- However, the significant decrease in the debt ratio towards the end of the period suggests a reversal of this trend, potentially indicating reduced financial risk and a stronger equity position.
- Overall, the changes in the capital structure ratios reflect shifts in the company's financing mix and potential implications for financial risk and solvency.