PIYANSHU BANSAL
PGDM2024170

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Ratio Analysis (Titan's B/S) & Income Statement

Income Statement

1) Interest Coverage ratio → It is a financial method to check whether the Company Can pay interest on its debts from it's earnings.

Formula → $\frac{EBITDA}{Total\ Int.\ Exp}$

EBITDA → Earnings before Interest, Tax, Depreciation & Amortisation
Interest Exp:→ Total Interest payments obliged to pay on Debt.

According to Attached Document: (in crores)

EBITDA → 5,534
Int. Exp → 480

Int. Coverage ratio → $\frac{5,534}{480}$ = 11.53.1

Ideal ratio could be between 3 & 6 is a healthy & strong capacity to meet interest obligations.

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Data Interpretation: Interest Coverage ratio of 11.53:1 Shows that company can cover Interest expense 11 times, which shows company is in a good financial position. For a Company there are very low chances (negligible) for being a defaulter in obligating to pay debt Interest exp.

2) Gross profit Ratio :- It is a financial method to measure a company's ~~se~~ profitability relative to its revenue from core operations.

Formula → $\frac{\text{Gross profit}}{\text{Sales}} \times 100$

Gross profit → Revenue from core operations − COGS (Cost of Goods Sold)

According to the attached Statement: (In crores)

Gross profit → 47,114 − 36,942
⇒ 10,172

⇒ $\frac{10,172}{47,114} \times 100$ → 21.60 %

Ideal ratio varies acc. to Industry type like
(Above 50%) → Common in luxury goods

(Lower 20%) → Might be accepted at grocery and retail shops.

20% b/w 50% is considered good across many Industries

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Data Interpretation:- A gross profit of 21.6% Indicates that Company has moderate level of profitability and reflects effective management of production cost. If the % will be Increased more than average Industry norms then it will be highly Competitive in Cost Control. 21.60% a healthy profit margin from Core operations.

3) Net profit ratio:- It indicates the total revenue Conversion to Net profit and shows the efficieny of a Company in managing it's expenses in comparison to total Sales.

Formula → $\frac{\text{Net profit}}{\text{Sales + other Income (Total revenue)}} \times 100$

Net profit → Profit remaining after all the expenses Including Interests & Taxes.

Total Revenue :- Revenue from Sales & other Sources

Acc. to Statement attached → (in Crores)

Net profit → 3,544
Total Revenue → 47,624

$\Rightarrow \frac{3,544}{47,624} \times 100 \Rightarrow 7.44\%$

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Ideal ratio:

10% to 20% : This range considered a healthy profit after excluding and managing the expenses relative to its revenue.

Above 20% : It is considered a excellent profit margin from revenue. Mostly in technology & Pharmaceuticals companies should have this range of Margin.

Interpretation.

According to Industry standard average net profit is 5% to 7%.

However, Titan co. has 7.44% of net profit which indicates Titan is performing well then average which is a positive sign for a future growth against it's competition. For continued growth it has potential.

4) Inventory Turnover Ratio: It is a financial metric that shows how many times a company sells and replaces it inventory over a specific period, precisely a year. This ratio helps in assessing company's stock efficiency to get converted into sales.

Formula: $\text{Inventory turnover ratio} \rightarrow \dfrac{\text{COGS}}{\text{Average Inventory}}$

COGS:- Total cost incurred in producing the goods for sales.

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Average Inventory :- $\frac{\text{Opening} + \text{Closing}}{2}$

According to the provided Statement :- (In crores)

CoGS → 36,942

Avg. Inventory → $\frac{12,138 + 14,287}{2}$ → 13,212.5

→ $\frac{36,942}{13,212.5}$ → 2.80 : 1

Ideal ratio & Interpretation

→ The Ideal ratio depends on the nature of the products and Industry standards. Generally, a higher Inventory turnover ratio indicates efficient Inventory management, but too high of a ratio might mean Insufficient stock to meet demand, while too low a ratio Could Suggest over-stocking or Slow moving items.

→ Inventory turnover ratio of 2.80 : 1 suggests that the company cycle through its inventory nearly three times a year. Along with that it needs help for Improvement because for healthy ratio it should lie b/w 3 to 5. So, moving Closer to an ideal ratio would improve liquidity and reduce holding costs, benefiting cash flow and profitability.

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5) Operating Ratio :- It is a financial measure for assessing the Company's revenue has ability to fulfill operating expenses efficiently.

Formula :- $\frac{\text{Operating Expenses}}{\text{Net Sales}} \times 100$

Operating expenses :- Includes core business operations such as Selling, general, administrative expenses and COGS but exclusion of non-operating costs like taxes & Interest.

Net Sales :- Total revenue from sales, minus any returns, allowances or discounts.

According to the Statement provided : (In crores)

Operating expenses :- 42,537

Net Sales :- 47,114

$\Rightarrow \frac{42{,}537}{47{,}114} \times 100 \Rightarrow 90.3\%$

Ideal ratio & Interpretation :

→ A general benchmark is 60% to 80%. Ratios below 80% typically indicate a company is effectively managing it operating costs. It is a useful measure of operational efficiency and profitability, showing how well a company controls its expenses relative to its sales.

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→ For this Company, 90.3% indicates that it's revenue is consumed by operating expenses, leaving only 9.7% as potential operating profit. Like this it may limit its profitability margin which shows it has heavy costs related to production, adm, sales efforts. If ratio goes below 80%, it will be more favourable and there will be a larger portion of profit be left. However, for luxury goods, higher ratios are not uncommon due to significant overhead costs, such as Inventory management staffing & retail operations. Being competitive it should find some other ways to reduce this ratio over time.

BALANCE SHEET
(RATIOS)

1) Current Ratio : It is a liquidity ratio that measures a company's ability to pay off its short term liabilities with its short term assets. It provides insights into the Company's financial health.

Formula: Current Ratio → $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Assets :- It includes Cash, accounts receivables, Inventory and other assets expects to be liquidated within a year.

Current liabilities :- The obligations due to be settled within a year, such as accounts payable short-term debt and other short term expenses.

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According to provided Statement above :- (in crores)

Current assets → 22,693
Current liabilities → 13,362

$$\Rightarrow \frac{22,693}{13,362} \rightarrow 1.7 : 1$$

Ideal ratio & Interpretation:

- An Ideal Current ratio typically falls between 1.5 and 2. This range is considered healthy for most industries, indicating a balanced level of liquidity without excessive idle assets.

- Titan's Current ratio of 1.7 : 1 indicates a strong liquidity position. This suggests that titan has sufficient resources to comfortably meet its short term obligation while maintaining flexibility for operational needs or growth opportunities. Positioned with the ideal range 1.5 to 2, this ratio reflects Titan's efficient management of assets, which is advantangeous in the retail and luxury sector.

2) Debt Equity ratio :- It is a financial leverage ratio that compares a company's total liabilities to it's shareholders's equity. This ratio helps in assess the risk level of company's capital structure and its faith on borrowed funds.

Formula :- $\frac{\text{Total Debt}}{\text{Total Equity}}$

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Total Debt :- It includes all of a company's short-term & Long-term liabilities.

Total Equity :- Represents the total value of shareholder's equity in the company, which includes Common shares, preferred shares, retained Earnings and other equity components.

According to Statement provided → (In crores)

Total Debt → 18,405
Total Equity → 14,457

$$\Rightarrow \frac{18,405}{14,457} \rightarrow 1.27 : 1$$

Ideal Ratio & Interpretation

- The Ideal Debt Equity ratio varies by Industry, but a Common benchmark is b/w 1 & 2. This range suggests a balanced approach to financing, where the company uses both debt & Equity effectively.

- Titan's Debt Equity ratio of 1.27 : 1 indicates that the Company has a moderate level of leverage, relying more on debt financing than equity to fund its operations. Overall, a ratio of 1.27 reflects a balanced approach to financing, positioned Titan to leverage its Capital while still maintaining a manageable risk profile.

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3) Acid Test or Quick Ratio :- It is a liquidity metric that measures a company's ability to meet its short term obligations with its most liquid assets. It provides more accurate assessment of liquidity than the current ratio.

Formula :- $\text{Quick Ratio} = \dfrac{\text{Quick Assets}}{\text{Current Liabilities}}$

Quick Assets :- Current Assets − Inventories − Prepaid Exp.
Current Liabilities → Obligation which comes within one year.

According to statement provided: (In crores)

Quick Assets → 22693 − 16874 − 97 − 79 ⇒ 5643
Current Liabilities → 13,362

$\Rightarrow \dfrac{5643}{13,362} = 0.42 : 1$

Ideal Ratio & Interpretation

- An Ideal Quick ratio lies b/w 1 & 2, depending on the industry. This range suggests a healthy liquidity position. Where, the Company can cover its immediate with its liquid assets.

- Having 0.42 : 1 of Quick ratio is a potential liquidity challenge, as the Company does not have enough readily available assets to meet its short-term obligations. For Titan, this low ratio highlights the need for careful

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Cash flow management ~~&~~ may warrant attention to improving liquidity to ensure financial stability.

4) Fixed Assets Turnover Ratio :- It is a measurable approach for assessing the efficiency of a Company's fixed assets to generate sales.

Formula:- $\frac{\text{Net Sales}}{\text{Fixed Assets}}$

Net Sales is the Total revenue from sales after all the deductions.

Fixed Assets represent the total fixed assets minus accumulated depreciation any any impairment Loss, which shows the Current Value of fixed assets that are still in use and generates revenue.

According to Statement provided: (In crores)

Net Sales → 47,114
Fixed Assets → 2,778

$$\Rightarrow \frac{47114}{2,778} = 16.96:1$$

Ideal ratio & Interpretation

- The ideal ratio b/w 1 & 2 varies by industry Considered healthy. Manufacturing Industry may have lower ratios due to the nature of their fixed asset Investment

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- Titan's FATR of 16.96 : 1 indicates a highly efficient use of it's fixed assets to generate sales. Such a high turnover rate reflects strong operational efficiency and effective asset management, indicating that the Company is maximizing its return on Investments in property, plant and equipment.

5) Debt to Capital Ratio :- This ratio measures the proportion of a company's Total debt relative to its capital employed, providing insights into the company's financial leverage and capital structure.

Formula :- $\frac{\text{Total Debt}}{\text{Capital Employed}}$ = Debt to capital Ratio

Total Debt → It Includes both Short & Long term Liabilities

Capital Employed → Total Assets − Current Liabilities

According to Statement provided as follows :- (In crores)

Total Debt → 18,405
Capital Employed → 19,500

$\Rightarrow \frac{18,405}{19,500} \Rightarrow 0.940 : 1$

Ideal ratio & Interpretation

(a) Below (0.5) → This is generally considered a safe level of leverage.

b) Between (0.5 to 0.7) → It is common in many Industries while, this may Indicate some financial risk, it can also reflect strategic use of leverage to fuel growth.

c) Above (0.7) → It is Considered Very risky, indicating a high reliance on debt.

- Titan's Debt to Capital ratio of 0.94:1 indicates that 94% of its capital is financed through debt suggesting a high reliance on borrowed funds. Although it has growth opportunities through leveraging, it also raises concern about financial stability, especially during economic downturns. Investors see Titan needs to carefully manage its debt levels to maintain financial health & operational flexibility.