BITS Pilani, Hyderabad Campus

Department of Economics and Finance

FINANCIAL REPORT

Group Number: 15

Course Name: Fundamentals of Financial Accounting

Course Number: ECON F212

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Group Number: 15

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Allotted Company Names

1. **STEELXIND (STEEL EXCHANGE INDIA LIMITED)**

2. **STEL(STEL HOLDINGS LIMITED)**
   Changed To,
   QUESS (QUESS CORPORATION LTD)
   Due To Lack Of Financial Data

3. **STERTOOLS (STERLING TOOLS LIMITED INDIA)**

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PART-1 (Accounting)

PART-2 (FINANCE)

<u>COMPANY 1</u>

STEEL EXCHANGE INDIA LIMITED

[STEELXIND]

1. Introduction

1.1 Nature of the Business:

Steel Exchange India Limited is focused in the manufacturing sector, which include operations in various divisions that are involved in steel production, trading, and software development.

1.2 Public or Private Ownership:

Steel Exchange India Limited is a publicly-owned company, listed on the National stock exchange Of India.

1.3 Company's Start and Circumstances:

Steel Exchange India Limited (SEIL) was established in 1999 as a 100% subsidiary of Pyxis Technology Solutions Limited (PTSL). The formation of SEIL happened under the process of diversification by the help of the Vizag Profiles Group, whose promoters had a background in trading steel and allied products.

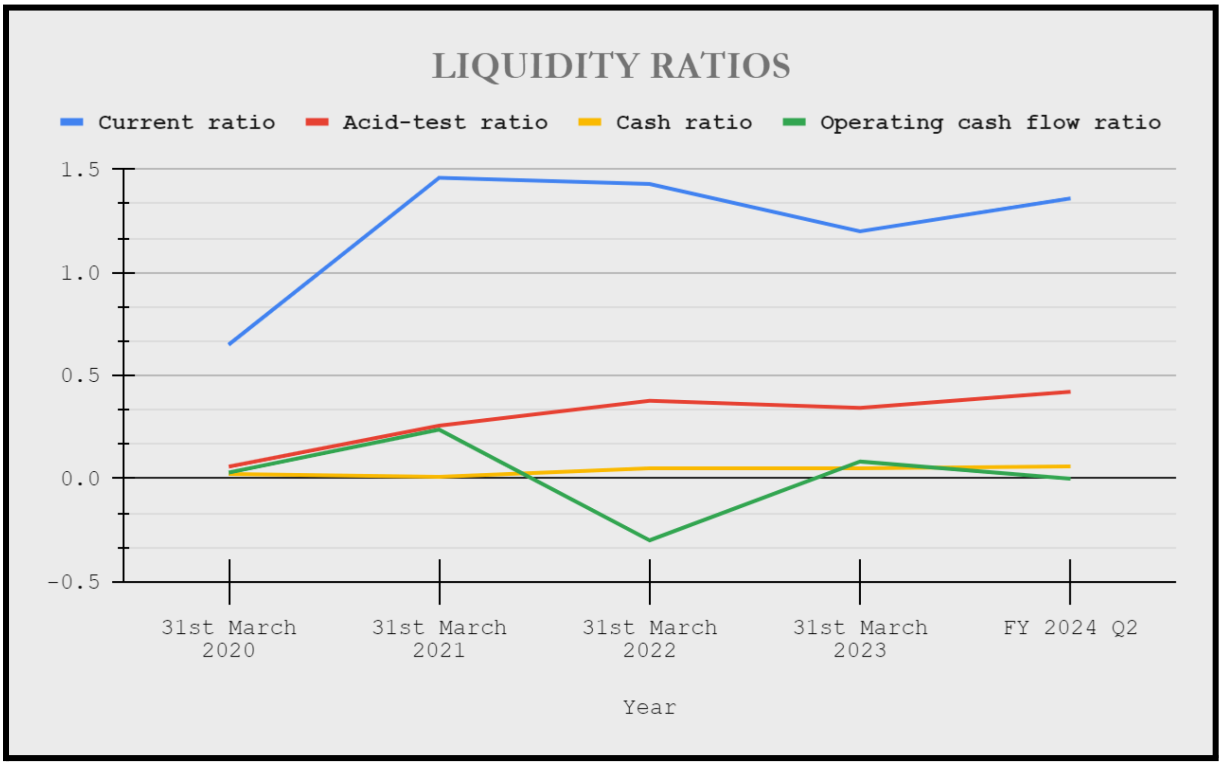
1.4 Overall Greatness of the Company:

Steel Exchange India Limited has been a key player in the steel industry, making notable contributions. With strategic moves like acquiring and merging companies, and establishing diverse divisions, the company has strengthened its position in the market and enhanced its operational capabilities. Furthermore, its focus on software development adds a touch of innovation to its business approach.

TABLE

Year	Liquidity Ratios			
	Current ratio	**Acid-test ratio**	**Cash ratio**	**Operating cash flow ratio**
31st March 2020	0.65	0.058	0.023	0.030
31st March 2021	1.46	0.257	0.009	0.238
31st March 2022	1.43	0.378	0.050	-0.299
31st March 2023	1.2	0.343	0.050	0.083
31st March 2024	1.36	0.422	0.059	-
Average	1.22	0.2916	0.0382	0.0104
Max	1.46	0.422	0.059	0.238
Min	0.65	0.058	0.009	-0.299

GRAPH



ECONOMIC INFERENCES

3.1 CURRENT RATIO:

calculated as - Current Assets by Current Liabilities. Measures company's ability to pay off short term obligations (maturity<1 year). The average current ratio of 1.22 suggests that STEELXIND has enough assets to cover off its liabilities. Current ratio decreases from 2021 to 2023 with some growth in Q2 2024

3.2 ACID TEST RATIO:

It Determines whether a company has enough liquidity to meet its immediate liabilities.Acid test ratio for STEELXIND is consistently less than 1 which suggest that the company does not have sufficient short term assets to payoff it's immediate liabilities.It follows an increasing trend with slight fall in FY 2022-23

3.3 CASH RATIO:

It Measures companies ability to pay off it's short term obligations using only cash or cash equivalents.Average Cash ratio of tools is less than 1 which indicates company does not have sufficient cash in hand to pay off short term debt.There is a significant improvement in cash ratio from 2021 to Q2 2024(Shift in strategy leading to more cash in hand)

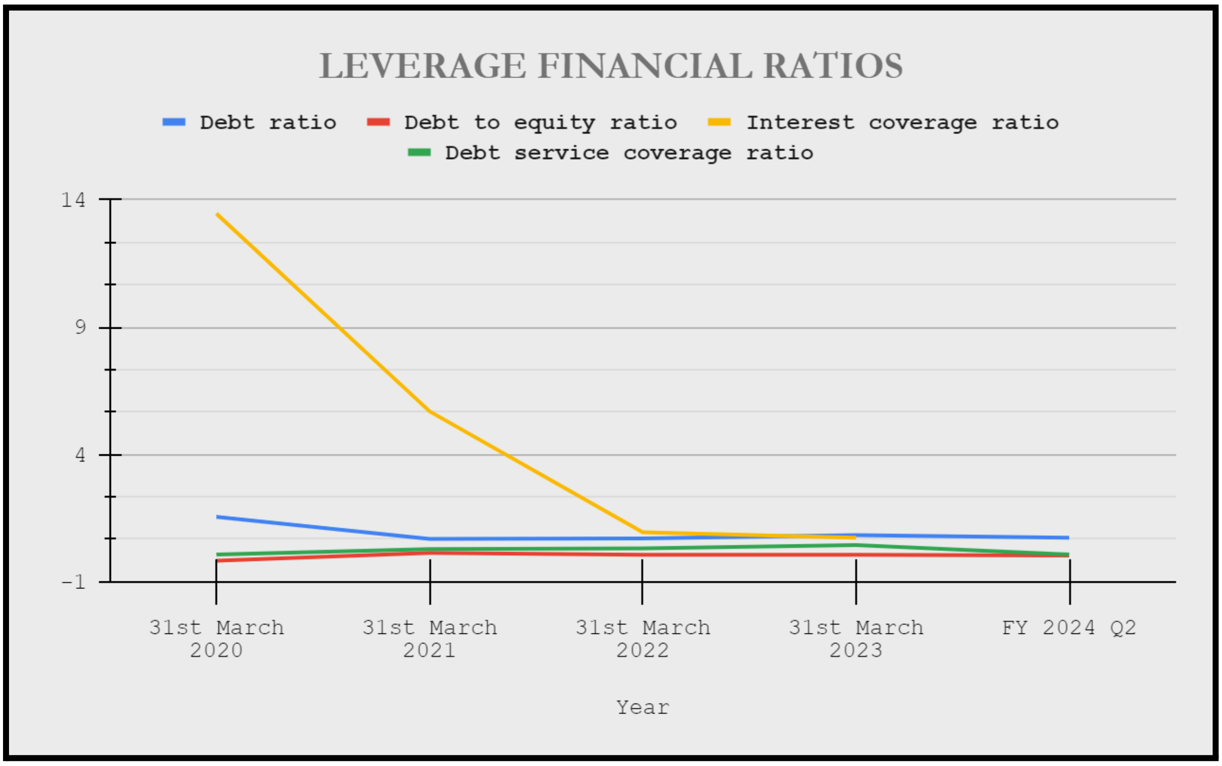
3.4 OPERATING CASH FLOW RATIO:

It is calculated as cash from operations divided by current liabilities. STEELXIND has average Operating cash flow ratio less than 1 which indicates company has short term cash flow problems. The ratio greater than 1 generally means company has sufficient cash flow to cover it's short term obligations. In FY 2021-22 operating cash flow ratio is negative which means the company is not generating adequate revenues from its core operations(This is probably due to pandemic)

TABLE

Year	LEVERAGE FINANCIAL RATIOS			
	Debt ratio	**Debt to equity ratio**	**Interest coverage ratio**	**Debt service coverage ratio**
31st March 2020	1.546	-0.170	13.460	0.072
31st March 2021	0.685	0.133	5.689	0.281
31st March 2022	0.700	0.059	0.941	0.312
31st March 2023	0.835	0.061	0.730	0.440
FY 2024 Q2	0.73308	0.034	-	0.0727
Average	0.900	0.023	5.205	0.236
Max	1.546	0.133	13.460	0.440
Min	0.685	-0.170	0.730	0.072

GRAPH



ECONOMIC INFERENCES

3.1 DEBT RATIO:

The term debt ratio measures the extent of a company's leverage. The debt ratio is total debt by total assets. The average debt ratio of STEELXIND is less than 1 which is an ideal situation it indicates that company's value of assets are more than the total the total debt the company has acquired.Company had a high debt ratio in FY 2018-19 D/E ratio reached a negative value. Since then D/E ratio remained between 0 to 1

3.2 DEBT TO EQUITY RATIO:

The debt-to-equity (D/E) ratio is used to evaluate financial leverage of a company and calculation is done as total liabilities of the company by its shareholders equity. STEELXIND has an average debt to equity ratio of 0.023 which indicates less risky operations. Ratio is negative for FY 2019-20 indicating high levels of leveraging (more liabilities than equities)

3.3 INTEREST COVERAGE RATIO:

The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes(EBIT) by its interest expense during a given period.The average interest coverage ratio of STEELXIND is 5.205 which is a good sign it means that the company makes a lot more money than it owes in interest payments. But there is a sharp decline through the years falling below 1 in FY 2021-22 and FY 2022-23 which means company is not generating sufficient cash from its EBIT

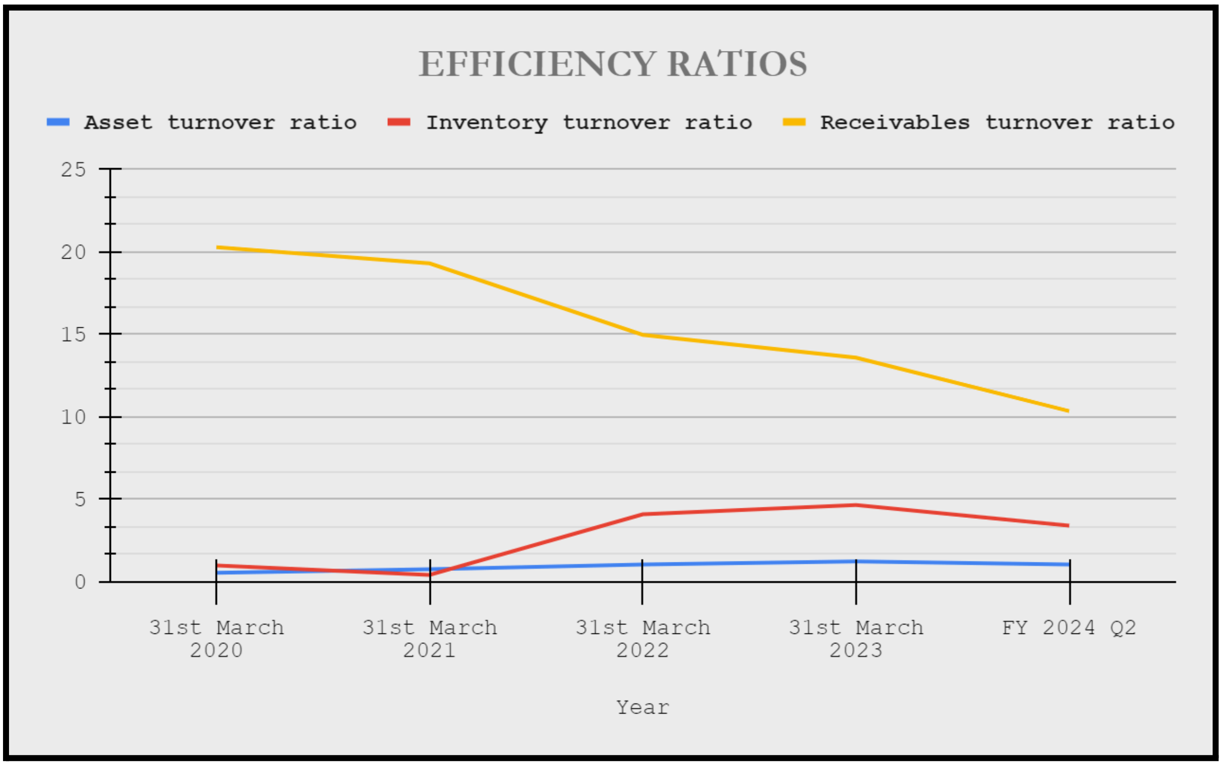
3.4 DEBT SERVICE COVERAGE RATIO:

The debt-service coverage ratio (DSCR) takes into account a firm's readily available cash flow to pay current debt obligations.For STEELXIND average DSCR<1 signifies cash flows is insufficient to meet debt obligations.Suffered a sharp decline in Q2 2024 almost equalling its low value of FY 2019-20

TABLE

Year*	EFFICIENCY RATIOS			
	Asset turnover ratio	Inventory turnover ratio	Receivables turnover ratio	Days sales in inventory ratio
31st March 2020	0.55	0.99	20.283	-
31st March 2021	0.76	0.42	19.305	-
31st March 2022	1.05	4.09	14.970	-
31st March 2023	1.23	4.65	13.586	-
FY 2024 Q2	1.04	3.40	10.351	-
Average	0.926	2.71	15.699	-
Max	1.23	4.65	20.283	-
Min	0.55	0.42	10.351	-

GRAPH



ECONOMIC INFERENCES

3.1 ASSET TURNOVER RATIO:

It measures the value of a company's sales or revenues divided by the value of its assets.Average Asset turnover ratio of STEELXIND is 0.926 which signifies company’s total assets are just short of generating revenue at the end of the financial year.Company has had a good performance since FY 2019-20 with a slight dip in Q2 2024

3.2 INVENTORY TURNOVER RATIO:

It is a financial ratio showing number of times a company turned over its inventory relative to its cost of goods sold (COGS).We divide inventory turnover ratio to number of days in a year to find out average number of days goods are kept in the inventory in a given period average inventory ratio of 2.71 represents strong sales or alternatively it can also represent insufficient inventory. Inventory decreased in 2020 and 2021 probably due to the pandemic, since then it has been increasing with a slight dip in Q2 2024

3.3 ACCOUNTS RECEIVABLE TURNOVER RATIO:

Net credit sales divided by average accounts receivable average value = 15.699 means average accounts receivable takes 23.25 days(=365/15.699). The ratio has been decreasing continuously with a low in Q2 2024. The higher the ratio the better it is for the company because it implies that customers are paying on time and the company is good at collecting

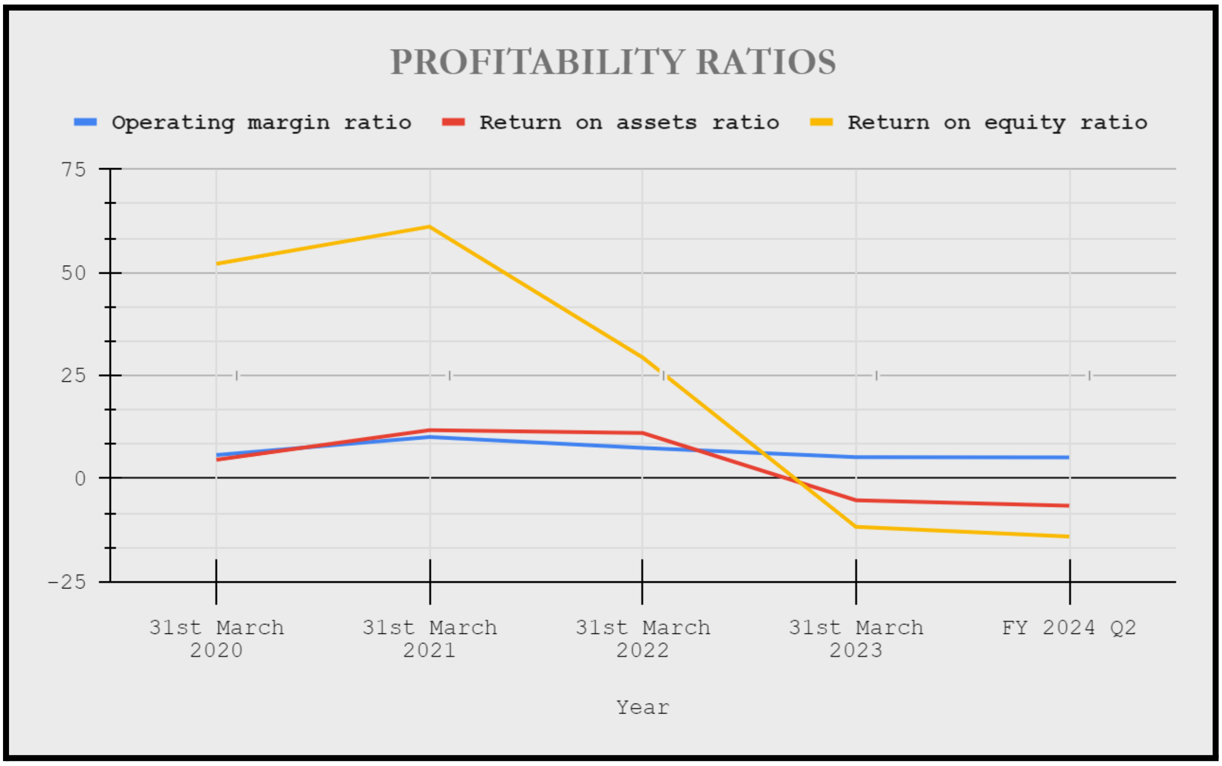
3.4 DAYS SALES IN INVENTORY RATIO:

It is the amount of time a company needs(in days) to convert its inventory to sales. There is no data available for this ratio

TABLE

Year*	PROFITABILITY RATIOS			
	Gross margin ratio	**Operating margin ratio**	**Return on assets ratio**	**Return on equity ratio**
31st March 2020	-	5.72	4.57	52.1
31st March 2021	-	10.13	11.78	61.13
31st March 2022	-	7.48	11.06	29.36
31st March 2023	-	5.21	-5.23	-11.67
FY 2024 Q2	-	5.16	-6.58	-14.01
Average	-	7.135	3.12	32.73
Max	-	10.13	11.78	61.13
Min	-	5.16	-6.5	-14.67

GRAPH



ECONOMIC INFERENCES

3.1 GROSS MARGIN RATIO:

It measures how much money a company retains per rupee of sales after covering the manufacturing cost of the product(i.e labour cost, raw material cost etc.)

3.2 OPERATING MARGIN RATIO:

Operating margin ratio measures amount of profit a company makes per rupee of sales after covering all it's business expenses and average operating margin ratio is 7.135 signifies company generates 7.135 rupees in profit per 1 rupee sale of its goods. Ratio has been decreasing since FY 2020-21

3.3 RETURN ON ASSETS RATIO:

It Measures how efficiently a company utilises its assets to generate profits. Average return on asset = 3.12 signifies efficient use of assets to generate profits for FY 2022-23 and Q2 2024 ROA is negative which implies that the company is focused towards having more invested capital or less earning profits in the last 2 years. It also implies that for the last 2 years company is not able to manage its assets efficiently

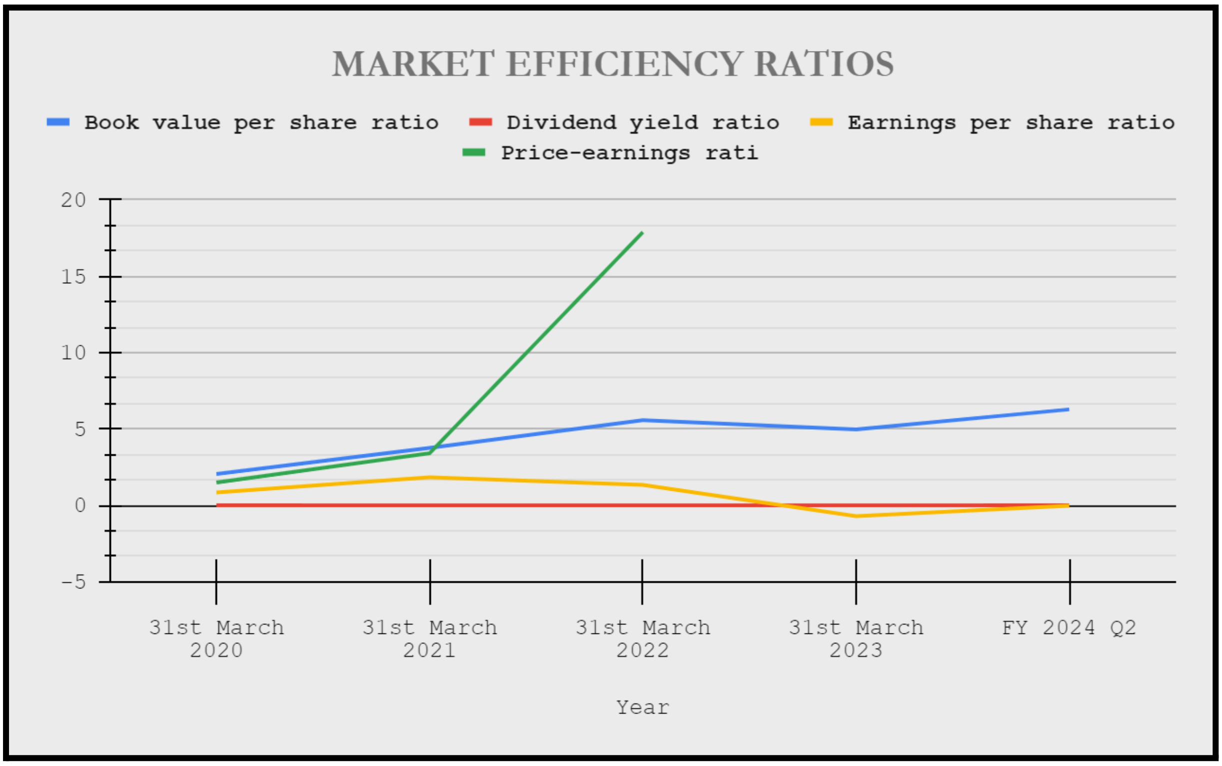
3.4 RETURN ON EQUITY RATIO:

It indicates how profitable a company is with respect to money invested by shareholders. Average ROE of STEELXIND is 32.73 which signifies company is good at generating returns for its shareholders factors contributing to good ROE include strong profitability. But for FY 2022-23 and Q2 2024 ROE is negative which implies that either the business is in loss or it has more liabilities than assets

TABLE

Year*	Market Value Ratios			
	Book value per share ratio	**Dividend yield ratio**	**Earnings per share ratio**	**Price-earnings ratio**
31st March 2020	2.05	0	0.84	1.49
31st March 2021	3.76	0	1.83	3.41
31st March 2022	5.58	0	1.34	17.88
31st March 2023	4.97	0	-0.71	-
FY 2024 Q2	6.28	0	-0.03	-
Average	4.528	0	0.654	7.593333333
Max	6.28	0	1.83	17.88
Min	2.05	0	-0.71	1.49

GRAPH



ECONOMIC INFERENCES

3.1 Book value per share(BVPS):

It indicates theoretical value of a company's common stock per share based on its accounting records. Average BVPS of Rs 4.528 indicates that on the basis of STEELXIND accounting records theoretical value of its shares should be Rs.4.528/share.Also it is continuously increasing through the years except a drop in FY 2022-23

3.2 Dividend yield ratio:

It measures a company's annual dividend payment per share as a percentage of its current market price per share. Dividend yield is 0 since the company doesn't pay out any dividend to its shareholders

3.3 Earnings per share ratio(EPS ratio):

It Measures how much profit a company generates for each share of its common stock outstanding. Average EPS ratio is 0.654 which means for every one rupee of company's common stock it generates profits equal to Rs.0.654. For FY 2022-23 and Q2 2024 EPS is negative which implies the stockholders are losing money on the stocks they own

3.4 Price earning ratio:

It Measures company's stock price relative to EPS calculated as (Share price)/EPS.Average price earning ratio = 27.5933 means that the stocks are priced relatively higher as compared to its current earnings.We don't have data for 2023 and Q2 2024 but it should be negative since EPS for the corresponding period is negative

COMPANY 2**

QUESS CORPORATION LTD

[QUESS]

1. Introduction

1.1 Nature of the Business:

Quess Corp Limited, founded in 2007, is an Indian business services provider headquartered in Bengaluru. With over 110,000 employees, it operates in nine countries, offering technology-enabled employment and managed outsourcing services. The company's diverse segments include Global Technology Solutions, Industrial Asset Management, Facility Management, People Services, and Internet Business.

1.2 Public or Private Ownership:

Quess Corp Limited is publicly traded on the Bombay Stock Exchange (BSE) and is subject to regulatory oversight from entities like the Securities and Exchange Board of India (SEBI), the company, registered with the Registrar of Companies in Bangalore, operates as a non-government corporation.

1.3 When did these companies start & under what circumstances?

Originally incorporated as IRIS Human Capital Solutions Private Limited in 2007. It became a public limited company in 2013 under the name IKYA Human Capital Solutions Limited. The final change occurred in 2015 when it adopted the current name, Quess Corp Limited.

1.4 Overall Greatness of the Company:

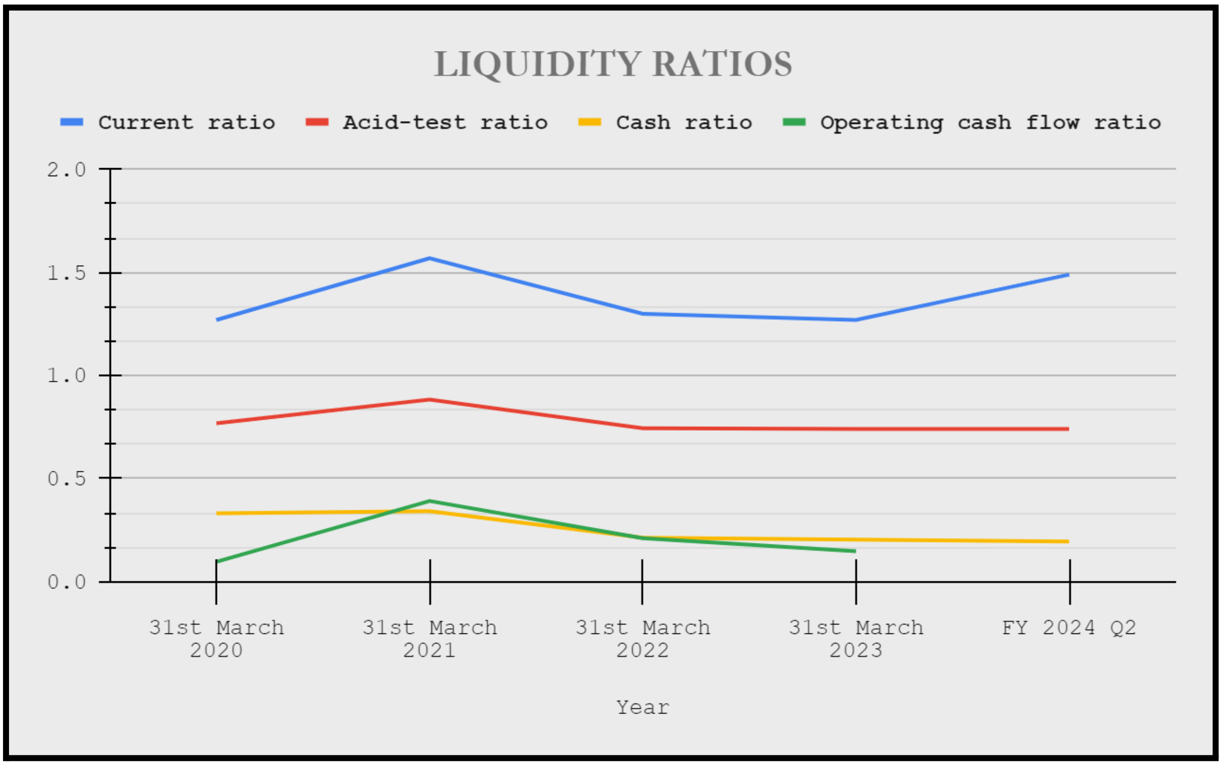
Quess Corp Limited stands as the largest private sector employer in India. Boasting a workforce exceeding 500,000 in nine countries, the company serves over 3,000 clients. Notable achievements include a consistent 85.3% dividend pay-out ratio, a median sales growth of 28.9% over a decade, and a substantial reduction in working capital requirements from 22.6 to 16.9 days.

Company Changed From,STEL(STEL HOLDINGS LIMITED)** Due To Lack Of Financial Data

TABLES

Year*	Liquidity Ratios			
	Current ratio	**Acid-test ratio**	**Cash ratio**	**Operating cash flow ratio**
31st March 2020	1.27	0.769	0.332	0.097
31st March 2021	1.57	0.883	0.341	0.391
31st March 2022	1.30	0.744	0.213	0.211
31st March 2023	1.27	0.741	0.204	0.147
FY 2024 Q2	1.49	0.740	0.195	-
Average	1.38	0.78	0.26	0.21
Max	1.57	0.88	0.34	0.39
Min	1.27	0.74	0.20	0.10

GRAPH



ECONOMIC INFERENCES

3.1 CURRENT RATIO:

It is a ratio used to asses a company's ability to meet the obligations with the assets., its formula is current assets/current liabilities Quess Corp Ltd consistently maintains a current ratio above 1,signalling a ability to fulfill short-term debts and a low risk of default.

3.2 ACID TEST RATIO:

It evaluates short-term solvency using the company's convertible assets. Quess consistently maintains a ratio above 0.5, indicating strength in meeting immediate financial obligations without relying heavily on inventory sales.

3.3 CASH RATIO:

Similar to current and acid test ratios, gauges a company's capacity to settle obligations using cash or cash equivalents. Quess generally performs well in this aspect, with an average ratio of 0.34. However,recently like in 2022, 2023, and 2024 Q2, it show a deviation, suggesting an increased risk of default in those periods.

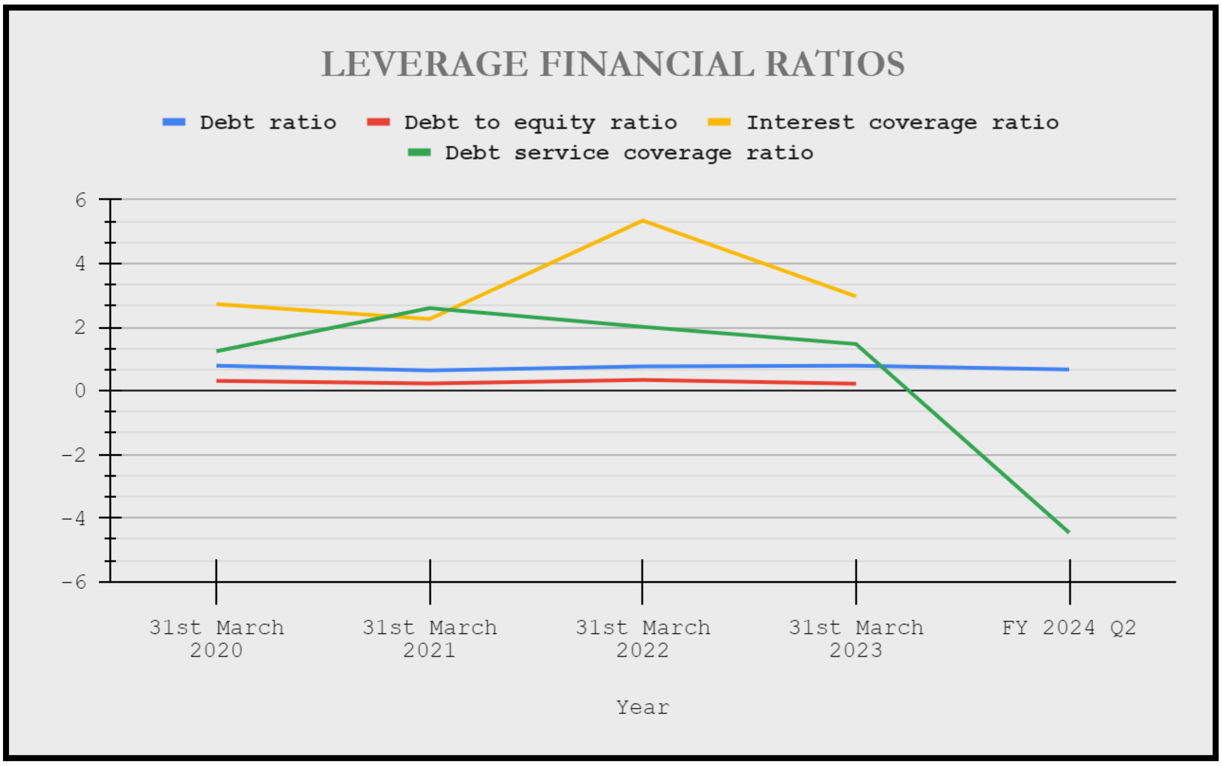
3.4 OPERATING CASH FLOW RATIO:

It assesses a company's ability to address short-term requirements using its operating cash flow.Operating cash flow ratio less than 1 which indicates company has short term cash flow problems.

TABLE

Year*	LEVERAGE FINANCIAL RATIOS			
	Debt ratio	**Debt to equity ratio**	**Interest coverage ratio**	**Debt service coverage ratio**
31st March 2020	0.790	0.31	2.721	1.241
31st March 2021	0.638	0.23	2.252	2.593
31st March 2022	0.766	0.34	5.348	2.005
31st March 2023	0.788	0.22	2.964	1.469
FY 2024 Q2	0.669	-	-	-4.458
Average	0.73	0.275	3.32	0.57
Max	0.79	0.34	5.35	2.59
Min	0.64	0.22	2.25	-4.46

GRAPH



ECONOMIC INFERENCES

3.1 DEBT RATIO:

Indicating a company's borrowings relative to its assets, has been consistently lower to moderate for QUESS between 2020 and 2024 Q2, suggesting a reduced reliance on borrowing and a low likelihood of default.

3.2 DEBT-EQUITY RATIO:

Used in quantifying the use of borrowing for expansion, remains low to moderate, indicating strong fundamentals and prudent management of debt for growth. This has contributed positively to the company's expansion without entering a debt crisis.

3.3 INTEREST COVERAGE RATIO:

Used in helping of assessing bankruptcy risk, shows that Quess consistently maintaining a favourable ratio between 2020 and 2024 Q2.,which shows results in increased income and lower interest rates.

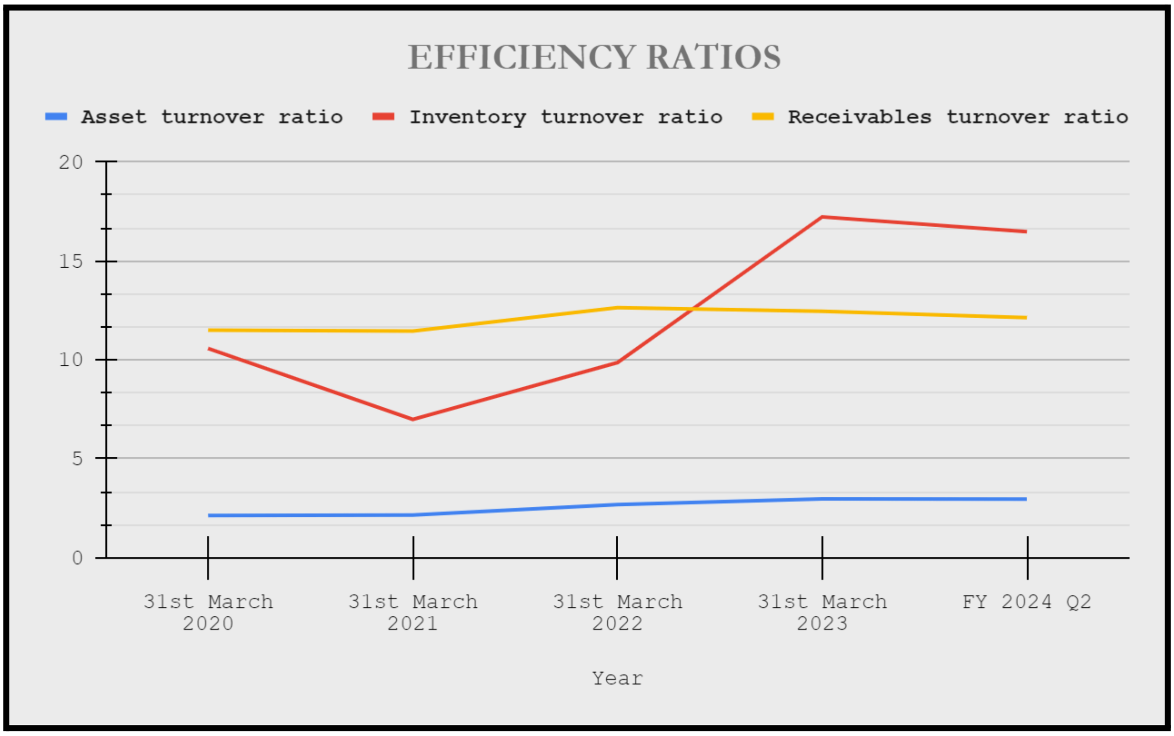
3.4 DEBT SERVICE COVERAGE RATIO:

Used to fulfill debt service commitments,From 2020 to 2022, there was a positive ratio, indicating an improvement in the company's ability to cover debt obligations with operating income. However, in 2024, with a negative ratio suggesting financial distress and an inability to cover debt payments with operating income, possibly due to significant losses or high debt levels.

TABLE

Year*	EFFICIENCY RATIOS			
	Asset turnover ratio	**Inventory turnover ratio**	**Receivables turnover ratio**	**Days sales in inventory ratio**
31st March 2020	2.13	10.58	11.507	
31st March 2021	2.16	6.99	11.454	-
31st March 2022	2.69	9.86	12.642	-
31st March 2023	2.97	17.23	12.453	-
FY 2024 Q2	2.96	16.48	12.135	-
Average	2.58	12.23	12.04	-
Max	2.97	17.23	12.64	-
Min	2.13	6.99	11.45	-

GRAPH



ECONOMIC INFERENCES

3.1 ASSET TURNOVER RATIO:

Used for Quess between 2020 and 2024 Q2 consistently stayed positive, ranging from 2.13 to 2.96. This indicates the company's effective utilization of assets to generate sales.

3.2 INVENTORY TURNOVER RATIO:

Used in reflecting the speed of selling and restocking inventory, showed a favourable range of 2020 to 2024. While a decline occurred in 2021 due to the COVID-19 impact,but there was a significant recovery in subsequent years

3.3 RECEIVABLES TURNOVER RATIO:

Used in assessing the conversion of receivables into cash, consistently maintained a highly favourable value according to Quess's provided data, indicating strong profitability.

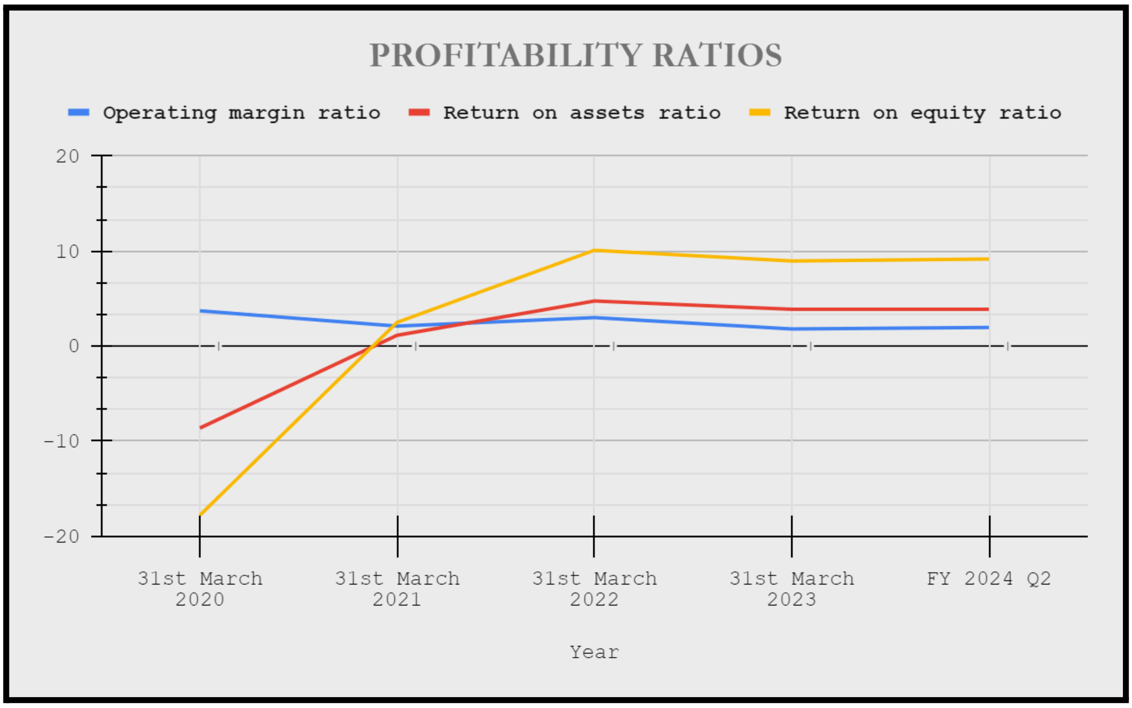
3.4 DAY SALES IN INVENTORY SALES:

Quess does not publish this metric, making it challenging to provide insights into the company's capacity to fulfill debt service commitments.

TABLE

Year*	PROFITABILITY RATIOS			
	Gross margin ratio	**Operating margin ratio**	**Return on assets ratio**	**Return on equity ratio**
31st March 2020	-	3.72	-8.61	-17.78
31st March 2021	-	2.12	1.15	2.51
31st March 2022	-	3.01	4.75	10.09
31st March 2023	-	1.81	3.88	8.97
FY 2024 Q2	-	1.98	3.89	9.17
Average	-	2.53	1.01	2.59
Max	-	3.72	4.75	10.09
Min	-	1.81	-8.61	-17.78

GRAPH



ECONOMIC INFERENCES

3.1 GROSS MARGIN RATIO:

This ratio is used to check a company's profitability and efficiency in producing goods in the market,Quess has not given data regarding its gross margin ratio.

3.2 OPERATING MARGIN RATIO:

Quess had a stable trend from 2020 to 2022, followed by a moderate decline in of 2023 from 3.01 to 1.81 which lasted till end of Q2 in 2024

3.3 RETURN ON ASSET RATIO:

Due to the impact of the COVID-19 pandemic from the end of 2019, Quess had the ratio at -8.61 in FY 2020,However, it in the next couple of years it was able to bring it back to 3.89, indicating taht there were financial gains,from 2021 to 2024.

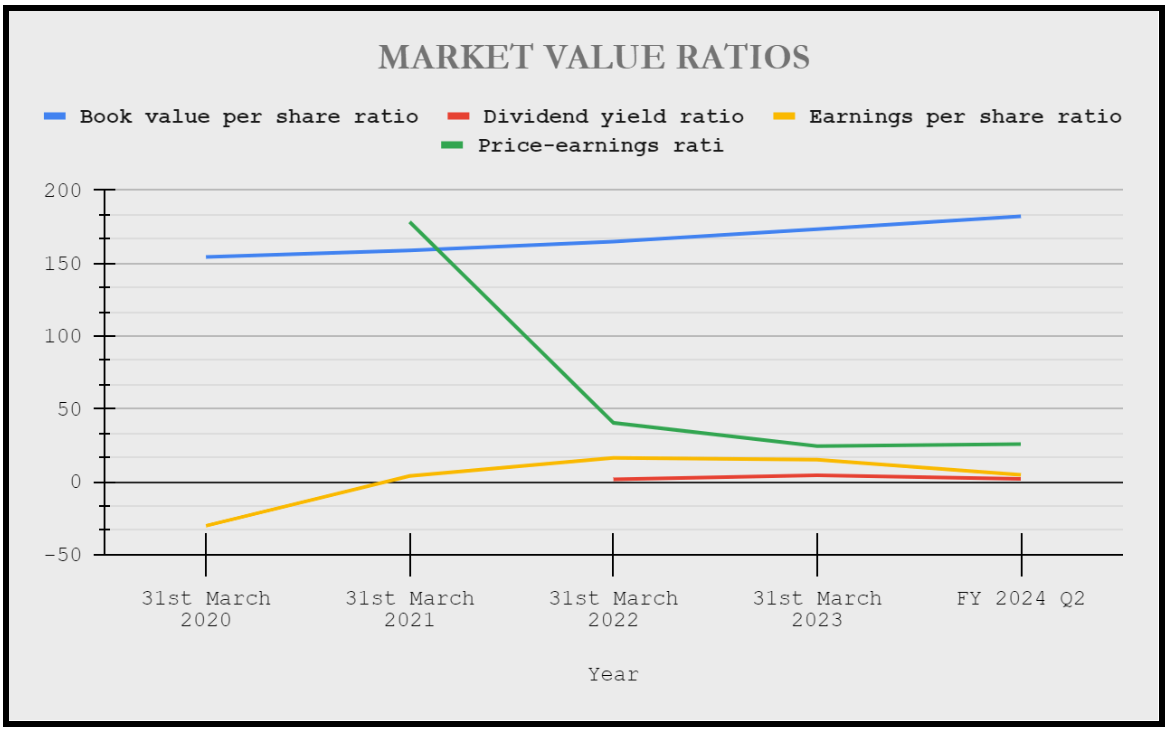
3.4 RETURN ON EQUITY RATIO:

This ratio shows Quess's profitability in the market by dividig net income by shareholder's equity,Due to the impact of the COVID-19 pandemic, Quess had the ratio at -17.78 in FY 2020,However, it was able to bring it back to 9.17,in the time period of 2022 to 2024.

TABLE

Year*	Market Value Ratios			
	Book value per share ratio	**Dividend yield ratio**	**Earnings per share ratio**	**Price-earnings ratio**
31st March 2020	154.29	-	-30.28	-
31st March 2021	158.66	-	3.92	178.27
31st March 2022	164.72	1.67	16.32	40.38
31st March 2023	173.30	4.33	15.16	24.38
FY 2024 Q2	182.14	1.91	4.78	25.83
Average	166.62	2.64	1.98	67.21
Max	182.14	4.33	16.32	178.27
Min	154.29	1.67	-30.28	24.38

GRAPH



ECONOMIC INFERENCES

3.1 BOOK VALUE PER SHARE:

Quess Shows an Positive trend from 2020 to 2024, where the values are ranging between 154.29 and 182.14. This reflects the increasing proportion of equity that can be given to common shareholders.

3.2 DIVIDEND YIELD RATIO:

Quess historically did not issue dividends, but in the last three years, they have started paying dividends, with a yield of 1.67% and 4.33% respectively. This is higher than the industry average.

3.3 EARNINGS PER SHARE:

Due to the impact of the COVID-19 pandemic, Quess had the ratio at -30.28 in FY 2020,However, it was able to rebound to 15.16, showcasing companies ability in increasing profitability,from 2021 to 2024 Q2.

3.4 PRICE EARNINGS RATIO:

This ratio provides insights into the relative valuation of the company, indicating fluctuations in perceived overpricing or undervaluation,After 2021 Quess had a massive decline in its subsequent years

COMPANY 3

STERLING TOOLS LIMITED INDIA

[STERTOOLS]

1. INTRODUCTION

1.1 Nature of the Business:

Sterling Tools Limited (STL) is a company based in India that operates in the manufacturing sector, It specializes in the production and sale of high tensile (HT) cold forged fasteners primarily meant for automobiles manufacturing.

1.2 Public or Private Ownership:

STL is a publicly-owned company, listed on the National Stock Exchange of India Limited. It made its debut in the public market in April 1995.

1.3 Company's Start and Circumstances:

Established on June 7, 1979, Sterling Tools Limited initiated its commercial endeavors in 1981. Through a series of expansion projects, notably in 1995-96 and 2000-01,When Sterling Tools started its one-man operation in Hubli 1988 with job work in the form of press tools and dies development, the local industry quickly recognized the company's potential

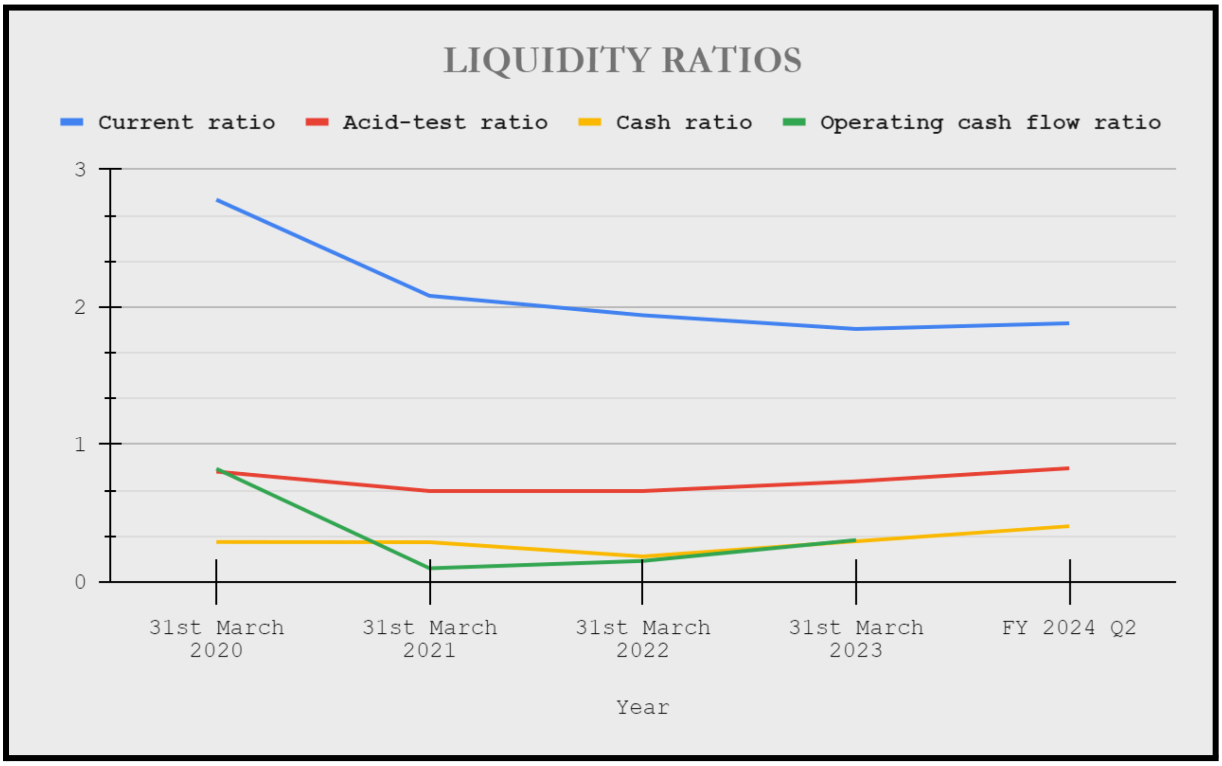
1.4 Overall Greatness of the Company:

Sterling Tools Limited has established itself as a prominent supplier of HT fasteners to various segments within the automobile industry, including two- and four-wheeler passenger transport, goods transport, tractors, and farm equipment. Its client base includes major automobile OEMs such as Eicher, Escorts, Bajaj Auto, Maruti Udyog, Hero Honda, and TELCO. The company's wide product range and indigenous development of technical skills have contributed to its recognition as a reliable supplier to industry leaders.

TABLES

Year*	Liquidity Ratios			
	Current ratio	**Acid-test ratio**	**Cash ratio**	**Operating cash flow ratio**
31st March 2020	2.78	0.802	0.290	0.822
31st March 2021	2.08	0.660	0.288	0.098
31st March 2022	1.94	0.660	0.184	0.152
31st March 2023	1.84	0.731	0.294	0.303
FY 2024 Q2	1.88	0.825	0.404	-
Average	2.104	0.7356	0.292	0.34375
Max	2.78	0.825	0.404	0.822
Min	1.84	0.66	0.184	0.098

GRAPH



ECONOMIC INFERENCES

3.1 CURRENT RATIOS:

calculated as - Current Assets by Current Liabilities. Measures company's ability to pay off short term obligations (maturity<1 year). The average current ratio suggest that Sterling tools has enough assets to cover off its liabilities. Current ratio is decreasing over the years which implies decreasing current assets(lower sales etc) or increasing current liabilities(probably due to COVID 19)

3.2 ACID-TEST RATIO:

Determines whether a company has enough liquidity to meet its immediate liabilities.Acid test ratio for Sterling tools is consistently less than 1 which suggest that the company does not have sufficient short term assets to payoff it's immediate liabilities From 2020-2022 there is a decreasing trend but since 2022 there has been a positive change(increasing trend). Also probably because of COVID 19 pandemic

3.3 CASH RATIO:

Measures companies ability to pay off it's short term obligations using only cash or cash equivalents.Average Cash ratio of tools is less than 1 which indicates company does not have sufficient cash in hand to pay off short term debt.There is a significant improvement in cash ratio in FY 2023-24 (Shift in strategy leading to more cash in hand for FY 2023-24)

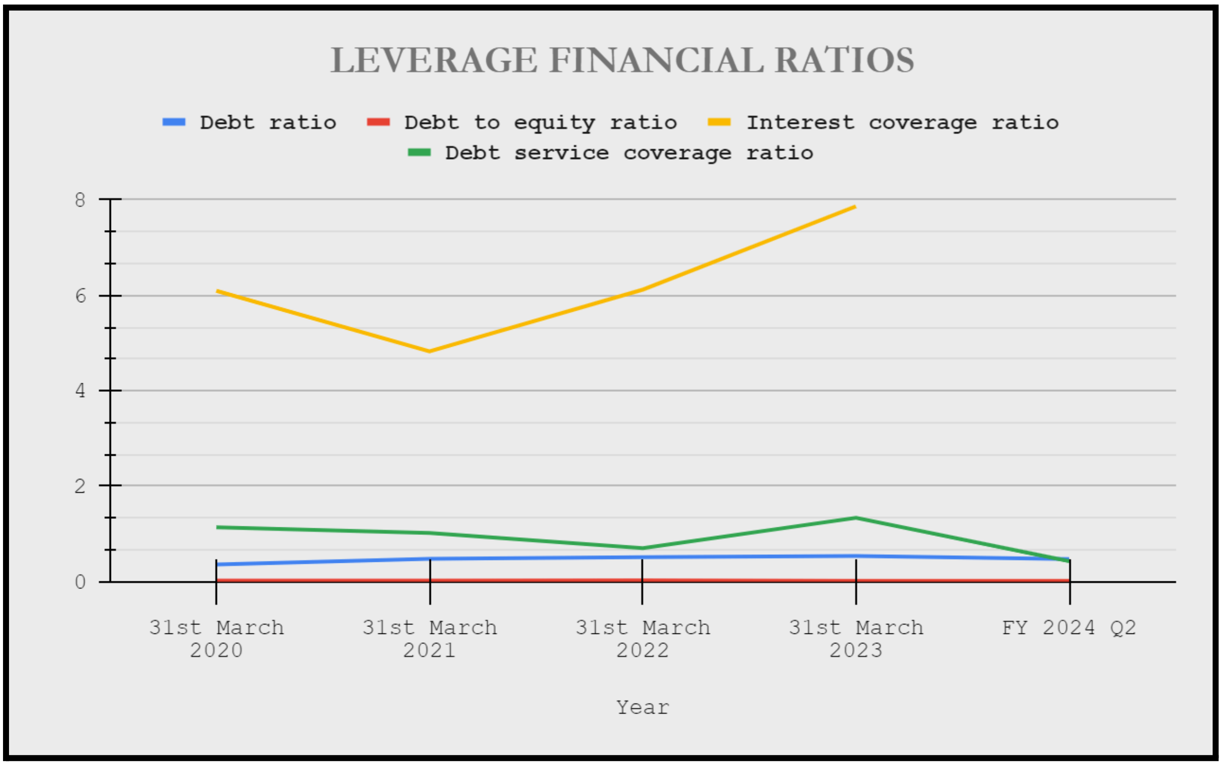
3.4 OPERATING CASH FLOW RATIO:

It is calculated as cash from operations divided by current liabilities. Sterling tools has average Operating cash flow ratio less than 1 which indicates company has short term cash flow problems. The ratio greater than 1 generally means company has sufficient cash flow to cover it's short term obligations. It was a disaster from 2021 to 2022 but the company has been improving its operating cash flow ratio since then

TABLES

Year*	LEVERAGE FINANCIAL RATIOS			
	Debt ratio	**Debt to equity ratio**	**Interest coverage ratio**	**Debt service coverage ratio**
31st March 2020	0.359	0.025	6.094	1.139
31st March 2021	0.480	0.026	4.825	1.023
31st March 2022	0.516	0.028	6.118	0.704
31st March 2023	0.542	0.021	7.863	1.337
FY 2024 Q2	0.477	0.019	-	0.432
Average	0.4748	0.024	6.225	0.927
Max	0.542	0.028	7.863	1.337
Min	0.359	0.0193	4.825	0.432

GRAPH



ECONOMIC INFERENCES

3.1 DEBT RATIO:

The term debt ratio measures the extent of a company's leverage. The debt ratio is total debt by total assets. The average debt ratio of sterling tools is less than 1 which is an ideal situation it indicates that company's value of assets are more than the total the total debt the company has acquired.Company follows a mildly increasing trend in Debt ratio except 2024

3.2 DEBT-TO-EQUITY RATIO:

is used to evaluate a company's financial leverage and calculations is done as total liability of the company by its shareholder equity. Sterling tools has an average debt to equity ratio of 0.024 which indicates less risky operations. The ratio increased slightly due to COVID 19 pandemic from 2020-2022, then reduced in 2023

3.3 INTEREST COVERAGE RATIO:

The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes(EBIT) by its interest expense during a given period.The average interest coverage ratio of Sterling tools is 6.22 which is a good sign it means that the company makes a lot more money than it owes in interest payments. It has been fairly consistent with a slight decline in 2021

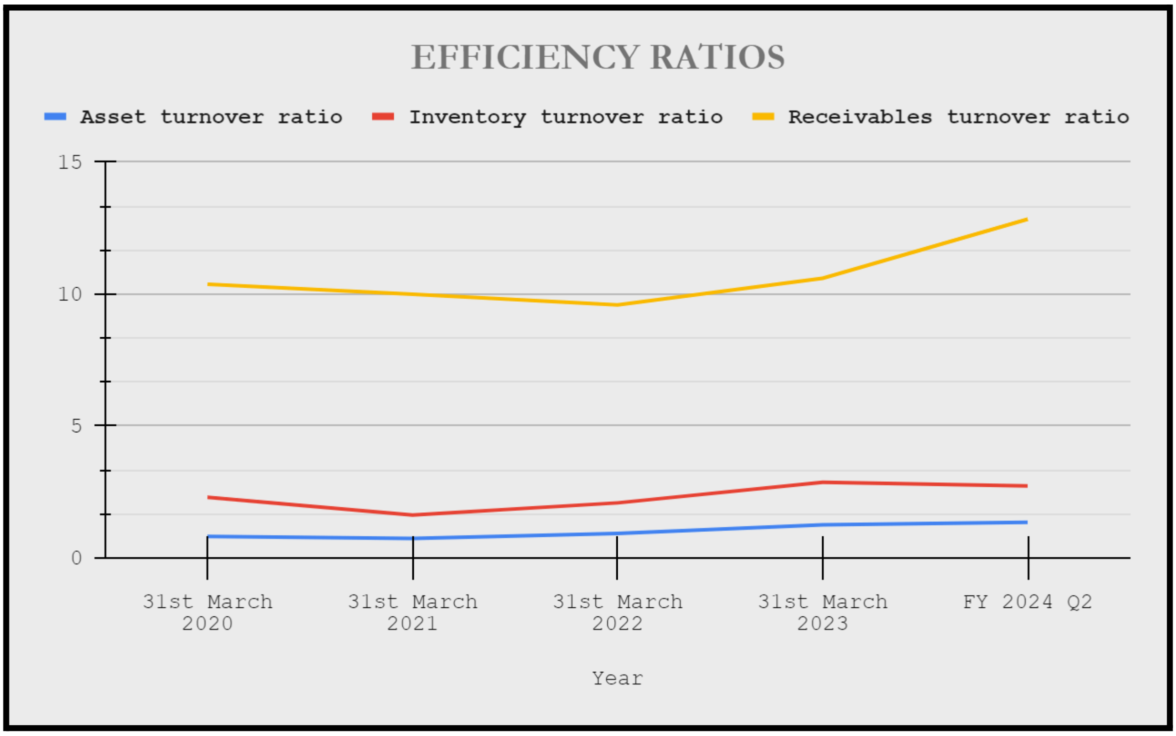
3.4 DEBT SERVICE COVERAGE RATIO:

The debt-service coverage ratio (DSCR) takes into account a firm's readily available cash flow to pay current debt obligations.For Sterling tools average DSCR<1 signifies cash flows is insufficient to meet debt obligations.Suffered a sharp decline in Q2 2024

TABLE

Year*	EFFICIENCY RATIOS			
	Asset turnover ratio	**Inventory turnover ratio**	**Receivables turnover ratio**	**Days sales in inventory ratio**
31st March 2020	0.81	2.29	10.373	-
31st March 2021	0.73	1.62	9.990	-
31st March 2022	0.92	2.08	9.587	-
31st March 2023	1.25	2.86	10.593	-
FY 2024 Q2	1.34	2.72	12.836	-
Average	1.01	2.314	10.675	-
Max	1.34	2.86	12.836	-
Min	0.73	1.62	9.587	-

GRAPH



ECONOMIC INFERENCES

3.1 ASSET TURNOVER RATIO:

measures the value of a company's sales or revenues divided by the value of its assets.Average Asset turnover ratio of Sterling tools is 1.01 which signifies company's total assets are just enough generating revenue at the end of the financial year.Company has had a good performance since 2022

3.2 INVENTORY TURNOVER RATIO:

is a financial ratio showing number of times a company turned over its inventory relative to its cost of goods sold (COGS).We divide inventory turnover ratio to number of days in a year to find out average number of days goods are kept in the inventory in a given period average inventory ratio of 2.314 represents strong sales or alternatively it can also represent insufficient inventory. Inventory decreased in 2021 probably due to the pandemic, since then it has been increasing

3.3 RECEIVABLES TURNOVER RATIO:

Net credit sales divided by average accounts receivable average value = 10.675 means average accounts receivable takes 34.2 days(=365/10.675). The ratio decreased in 2021-2022 but increased again. The higher the ratio the better it is for the company because it implies that customers are paying on time and the company is good at collecting

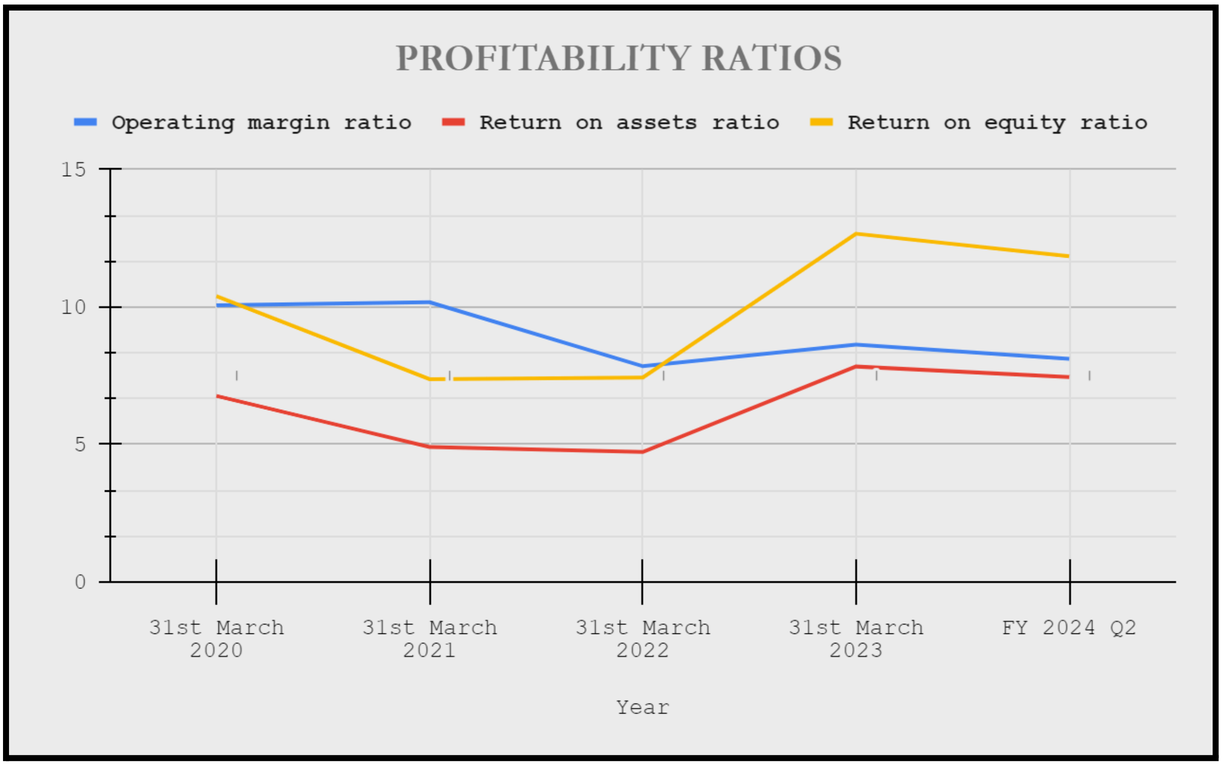
3.4 DAY SALES IN INVENTORY RATIO:

amount of time a company needs(in days) to convert its inventory to sales. Sterling tools did not publish any data regarding this ratio

TABLE

Year*	PROFITABILITY RATIOS			
	Gross margin ratio	**Operating margin ratio**	**Return on assets ratio**	**Return on equity ratio**
31st March 2020	-	10.06	6.76	10.39
31st March 2021	-	10.17	4.9	7.37
31st March 2022	-	7.84	4.72	7.43
31st March 2023	-	8.63	7.83	12.66
FY 2024 Q2	-	8.11	7.45	11.84
Average	-	8.962	6.332	9.938
Max	-	10.17	7.83	12.66
Min	-	7.84	4.72	7.37

GRAPH



ECONOMIC INFERENCES

3.1 GROSS MARGIN RATIO:

measures how much money a company retains per rupee of sales after covering the manufacturing cost of the product(i.e labour cost, raw material cost etc.)

3.2 OPERATING MARGIN RATIO:

measures amount of profit a company makes per rupee of sales after covering all it's business expenses and average operating margin ratio is 8.962 signifies some level of profits

3.3 RETURN ON ASSET RATIO:

Measures how efficiently a company utilises its assets to generate profits. Average return on asset = 6.332 signifies efficient use of assets to generate profits (Higher ROA signifies better efficiency in converting assets to profits).There is a sharp decline in 2021 compared to 2020

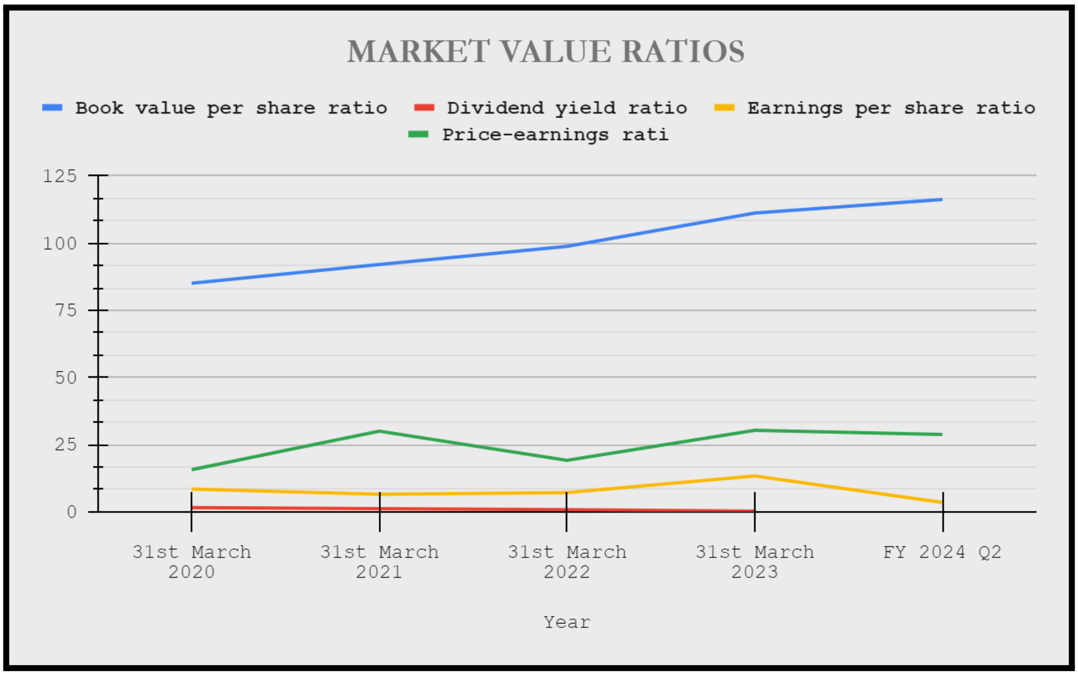
3.4 RETURN ON EQUITY RATIO:

indicates how profitable a company is with respect to money invested by shareholders. Average ROE of Sterling tools is 9.938 which signifies company is good at generating returns for its shareholders factors contributing to good ROE include strong profitability, efficient management, or leveraging debt strategically.There is a decline in ROE in the year 2021 and 2022 probably due to COVID 19 the company reported above average ROE after 2022

TABLE

Year*	Market Value Ratios			
	Book value per share ratio	**Dividend yield ratio**	**Earnings per share ratio**	**Price-earnings ratio**
31st March 2020	85.07	1.51	8.47	15.63
31st March 2021	92.01	1.12	6.53	29.96
31st March 2022	98.76	0.74	7.09	19.13
31st March 2023	111.16	0.25	13.29	30.29
FY 2024 Q2	116.24	-	3.46	28.75
Average	100.648	0.905	7.768	24.752
Max	116.24	1.51	13.29	30.29
Min	85.07	0.25	3.46	15.63

GRAPH



ECONOMIC INFERENCES

3.1 BOOK VALUE PER SHARE (BVPS):

indicates theoretical value of a company's common stock per share based on its accounting records. Average BVPS of Rs 100.648 indicates that on the basis of Sterling tools accounting records theoretical value of its shares should be Rs.100.648/share.Also it is continuously increasing through the years

3.2 DIVIDEND YIELD RATIO:

measures company's annual dividend payment per share as a percentage of its current market price per share. Average Dividend yield ratio of 0.905 means through the years on an average company pays 0.905*100 = 9.05% of its current stock price annually in dividends

3.3 EARNINGS PER SHARE RATIO:

Measures how much profit a company generates for each share of its common stock outstanding. Average EPS ratio is 7.768 which means for every one rupee of company's common stock it generates profits equal to Rs. 7.768.EPS declined in 2021 and 2022 also we see a sharp decline in Q2 2024

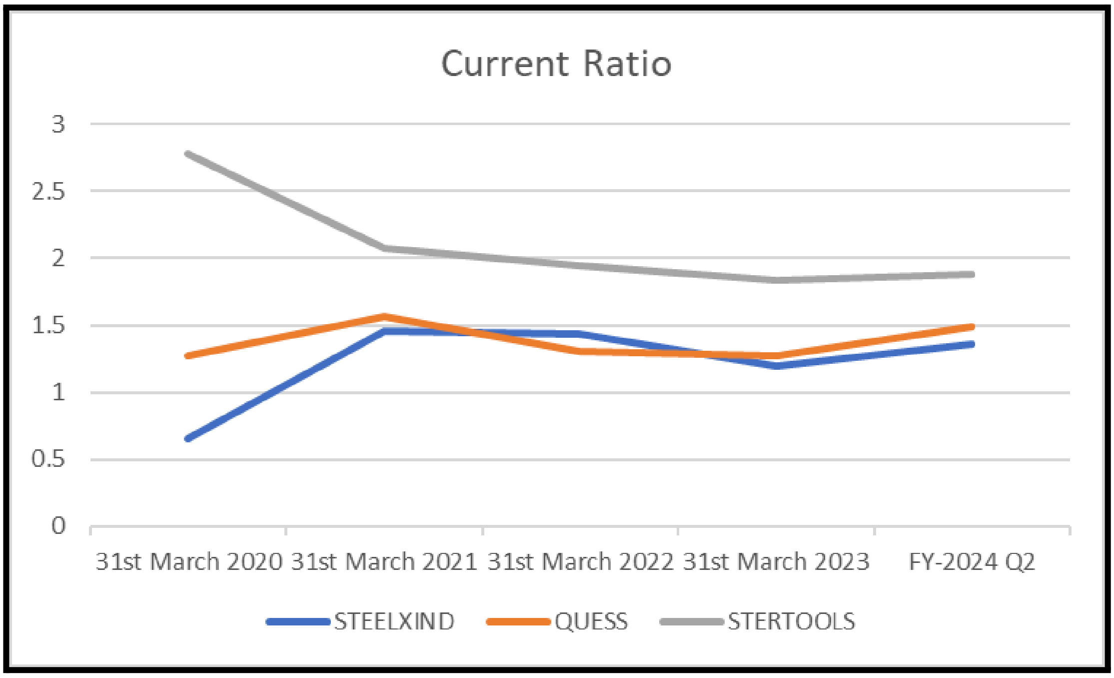
3.4 PRICE EARNING RATIO:

Measures company's stock price relative to EPS calculated as (Share price)/EPS.Average price earning ratio = 24.752 means that the stocks are priced relatively higher as compared to its current earnings.

COMPARATIVE ANALYSIS OF COMPANIES

1. LIQUIDITY RATIOS

1.1 CURRENT RATIO

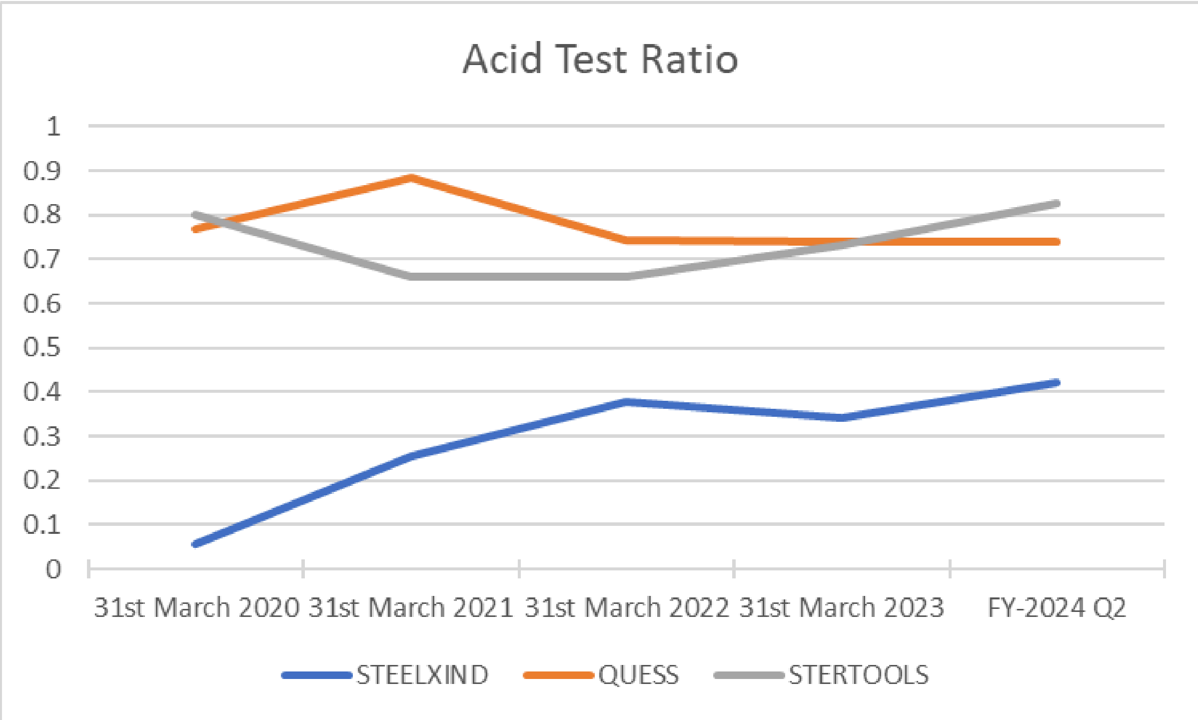


The current ratio can be influenced due to factors such as changes in working capital overall financial management strategies and debt levels.

We can see that Both STEELXIND and QUESS show stable Current Ratios which indicates that there is short-term liquidity present in the company.

STERTOOLS shows a slight fluctuation beyond 31st March 2021 where we can observe a declining trend and due to recent years it is observed that the current Ratios have decreased

1.2 ACID TEST RATIO

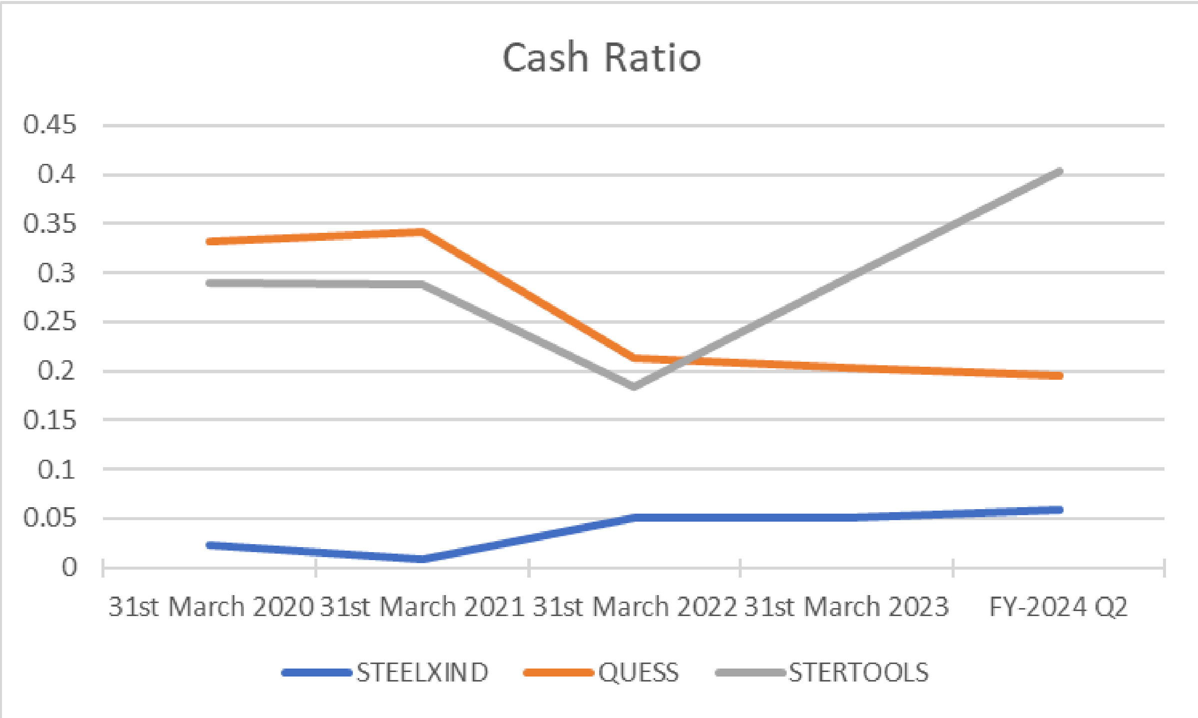


In the process of analysing the Acid Test Ratios of the provided companies, notable trends emerge, which reflect short-term liquidity positions.

STEELXIND since the beginning of 31st March 2020 it can be see that there is a very high volatility suggesting possible fluctuations in the short-term liquidity and hence a increase in ratios can be seen

QUESS and STERTOOLS demonstrate stability with consistently favourable ratios, indicating a strong liquidity position

1.3 CASH RATIO

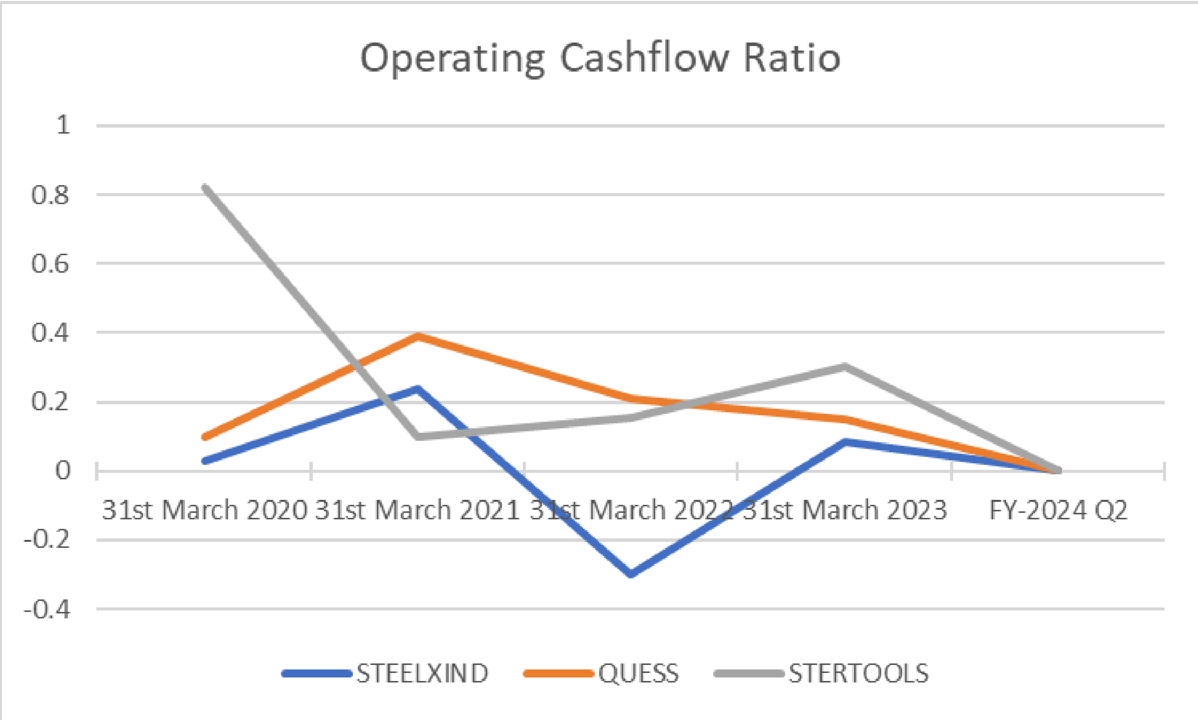


The Cash Ratio provides information about the immediate liquidity and ability of a company to cover its short-term obligations using its liquid assets

STEELXIND has consistently maintained a very low Cash Ratio indicating that a large portion of its current assets consists of less than liquid components.

Similar Pattern can be seen QUESS and STERTOOLS which maintain a pretty stable Cash ratio until 31st March 2022 but later a fluctuation can be seen indicating a change in the liquidity position and its solvency

1.4 OPERATING CASH FLOW RATIO



The comparative analysis of Operating Cash Flow Ratios across the specified companies indicates distinctive trends and performances and the overall cash dynamics in the operational department

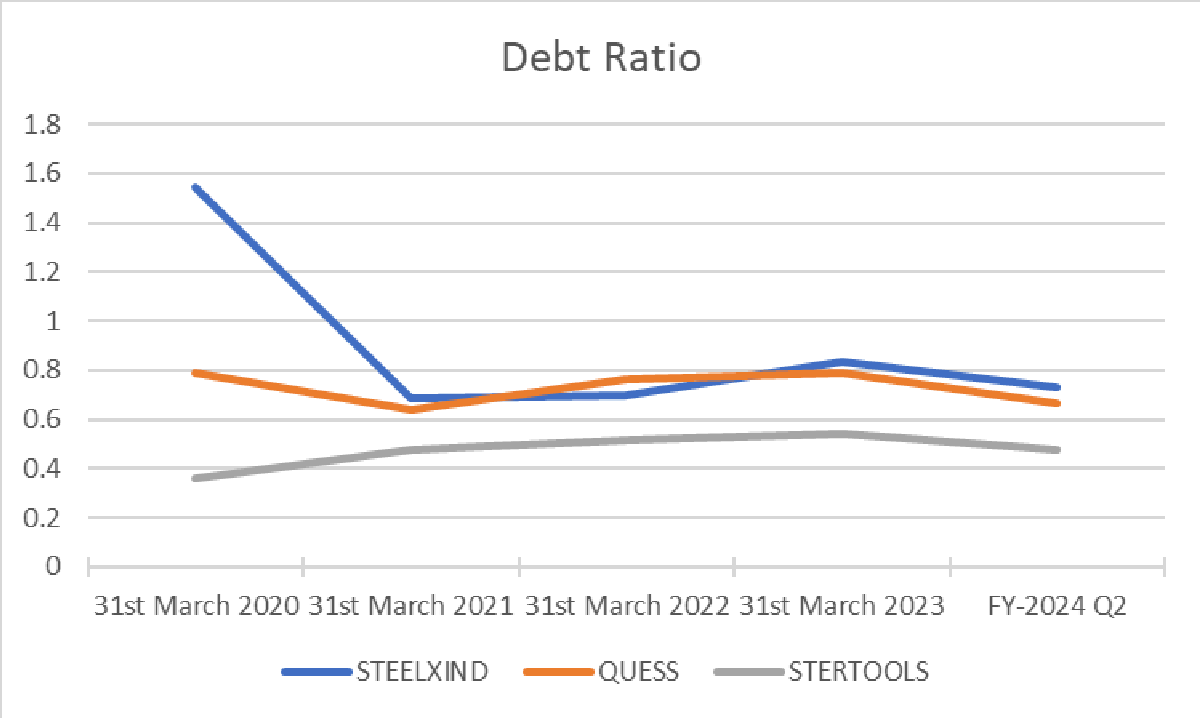
STEELXIND shows a mixed pattern with occasional spikes and dips during e1st march 2022 and 31st march 2023 period, reflecting potential variations in operational liquidity.

STERTOOLS starts with a relatively high ratio, But starts to see a decline towards FY-2024 Q2

QUESS maintains a pretty stable ratio suggesting steady operational cash dynamics within the company

2 LEVERAGE FINANCIAL RATIOS

2.1 DEBT RATIO

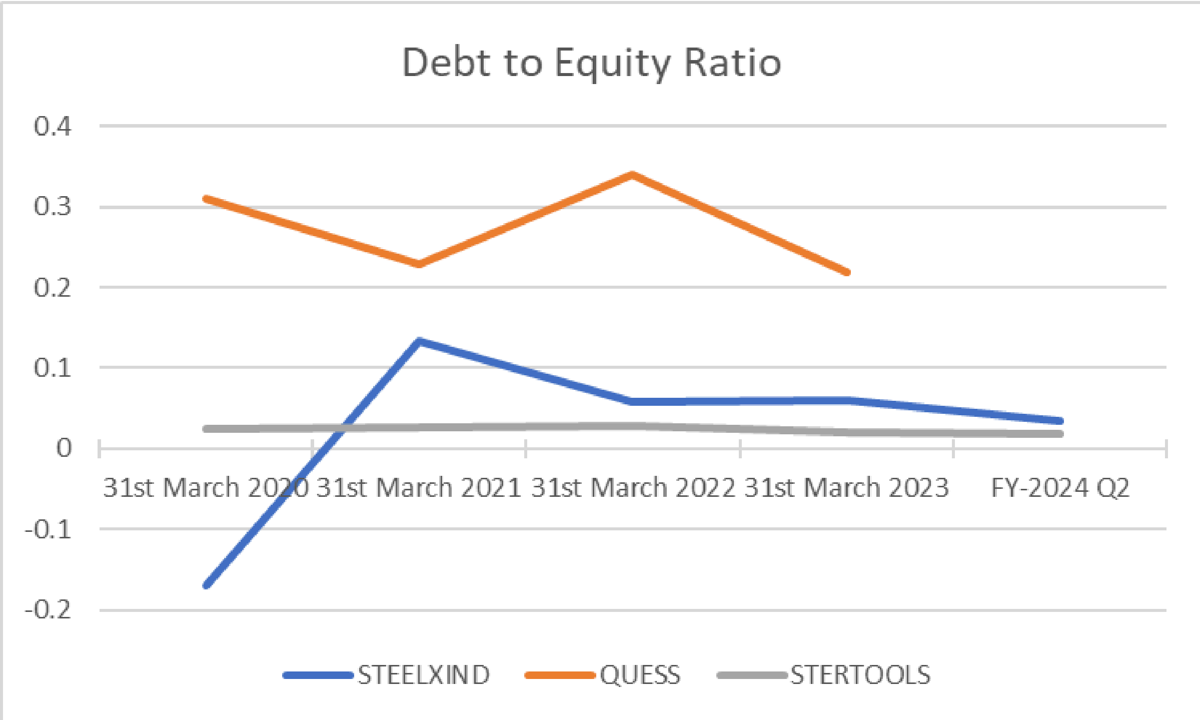


The term debt ratio measures the extent of a company's leverage. The debt ratio is calculated as the ratio of total debt to total assets

STEELXIND before 31st March 2021 had a pretty high debt ratio indicating some dependency on its debts but they have brought down the ratio in the subsequent years

Both Quess and STERTOOLS have very low Debt Ratio which indicates that company's value of assets are more than the total the total debt the company has acquired.

2.2 DEBT TO EQUITY RATIO



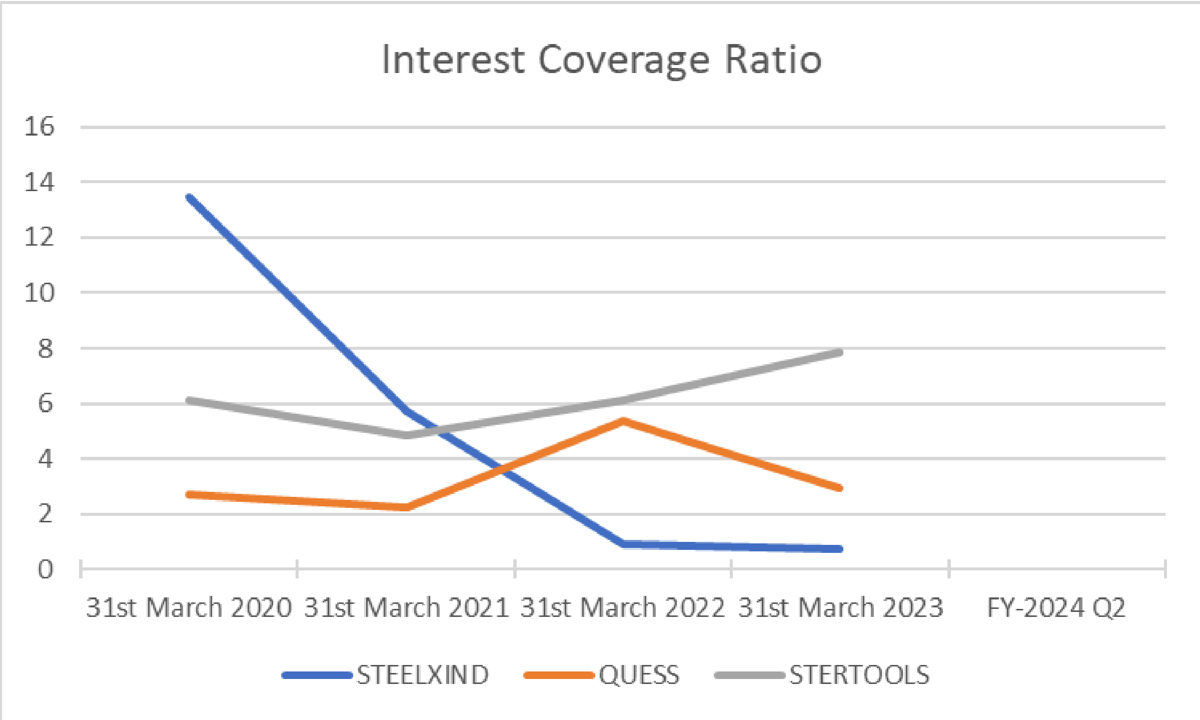
The debt-to-equity (D/E) ratio is used to evaluate a company's financial leverage

STEELXIND has an a very low debt to equity ratio which indicates less risky operations. Ratio is negative for FY 2020 indicating high levels of leveraging

QUESS's high DEBT to equity ratio suggest that it may have some levels of risky operations which may have a negative use for expansion borrowing

STERTOOLS had a very low D/E ratio which indicates less risky operations. The ratio increased slightly due to COVID 19 pandemic from 2020-2022, then reduced in 2023

2.3 INTEREST COVERAGE RATIO



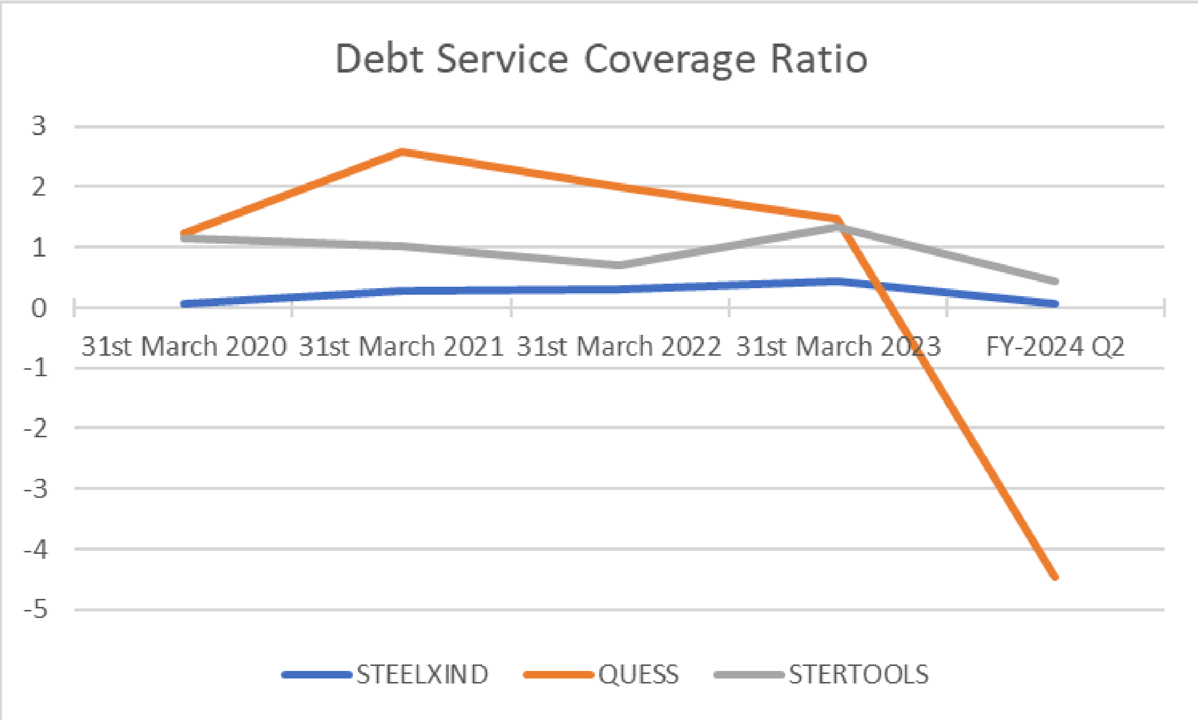
Used in helping of assessing bankruptcy risk

For STEELXIND in 2020 and 2021 the ratio was high which meant the company made a lot more money than it owes in interest payments. But there is a sharp decline through the yearswhich means company is not generating sufficient cash from its EBIT

For QUESS it is consistently maintaining a favourable ratio between 2020 and 2024 Q2.,which shows results in increased income and lower interest rates.

For STERTOOLS it shows a good sign as it means that the company makes a lot more money than it owes in interest payments. It has been fairly consistent with a slight decline in 2021

2.4 DEBT SERVICE COVERAGE RATIO



The debt-service coverage ratio (DSCR) takes into account a firm's readily available cash flow to pay current debt obligations.

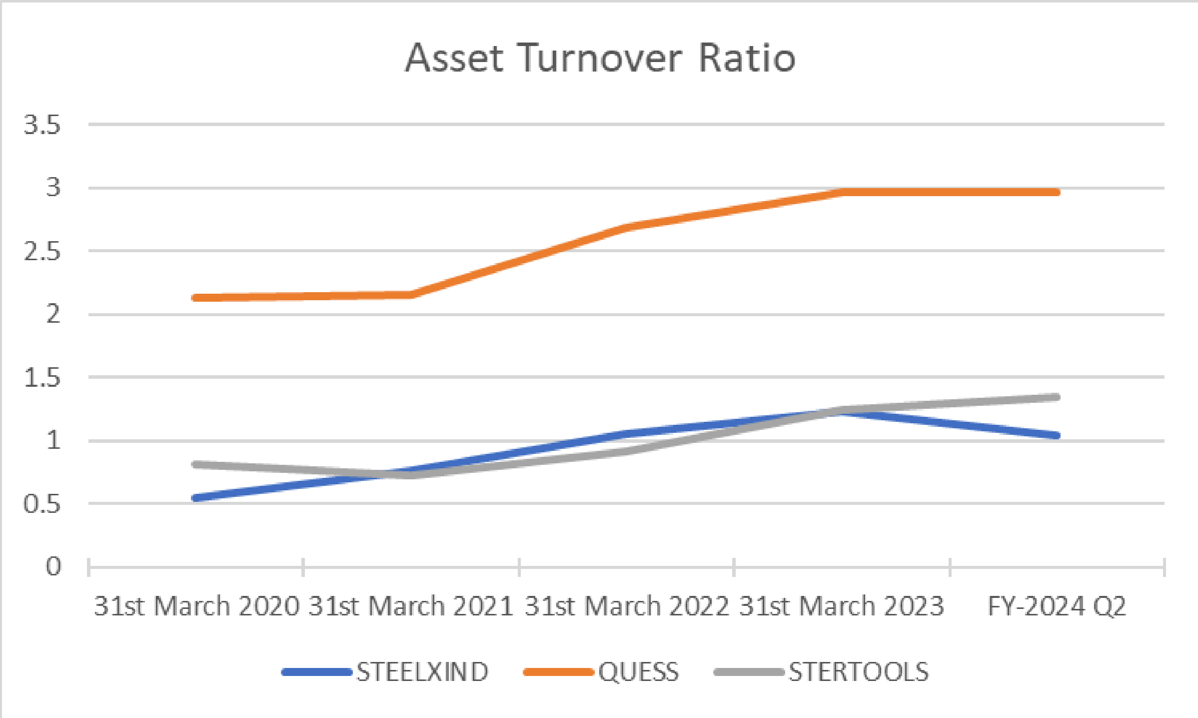
STEELXIND has on average a very low Debt Service Coverage Ratio which signifies cash flows is insufficient to meet debt obligations.

For QUESS From 2020 to 2022, there was a positive ratio, indicating an improvement in the company's ability to cover debt obligations with operating income. However, in 2024, with a negative ratio suggesting financial distress and an inability to cover debt payments with operating income, possibly due to significant losses or high debt levels.

For STERTOOLS a low Debt Service Coverage Ratio signifies cash flows is insufficient to meet debt obligations.Suffered a sharp decline in Q2 2024

3. EFFICIENCY RATIOS

3.1 ASSET TURNOVER RATIO



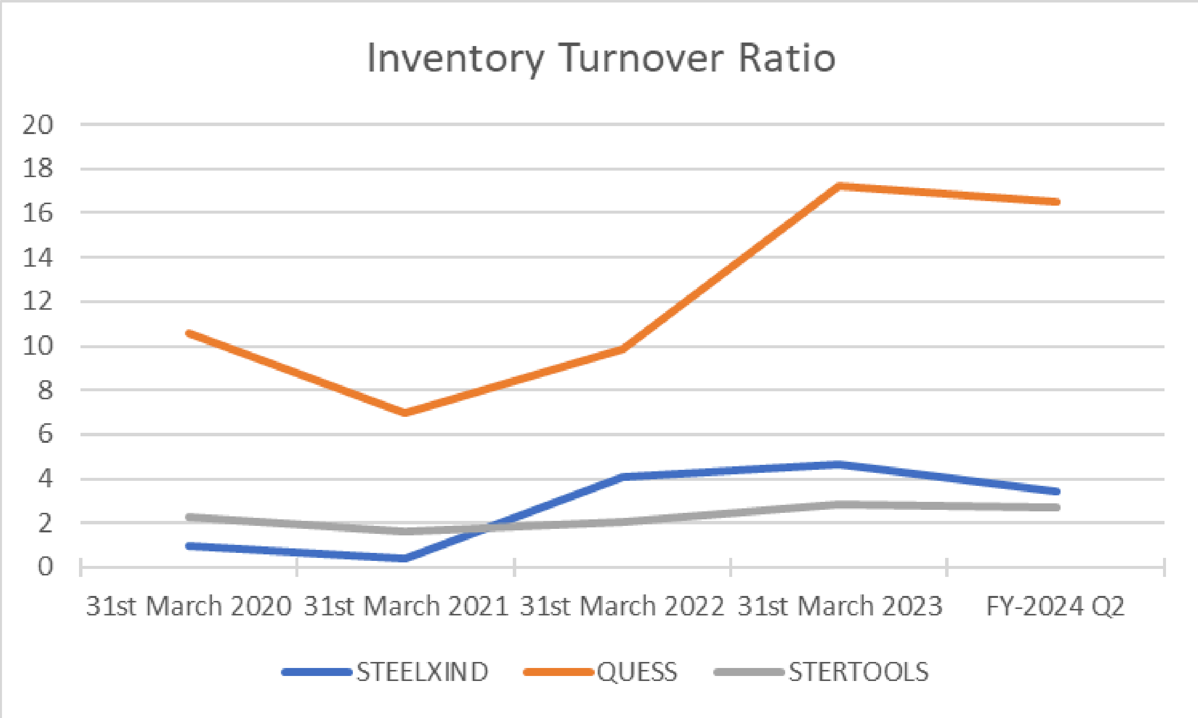
It measures the value of a company's sales or revenues divided by the value of its assets.

Asset turnover ratio of STEELXIND is low which signifies company's total assets are just short of generating revenue at the end of the financial year.Company has had a good performance since FY 2020

For QUESS between 2020 and 2024 Q2 consistently stayed positive, ranging from 2.13 to 2.96. This indicates the company's effective utilisation of assets to generate sales.

For STERTOOLS we can see that company's total assets are just enough generating revenue at the end of the financial year.Company has had a good performance since 2022

3.2 INVENTORY TURNOVER RATIO



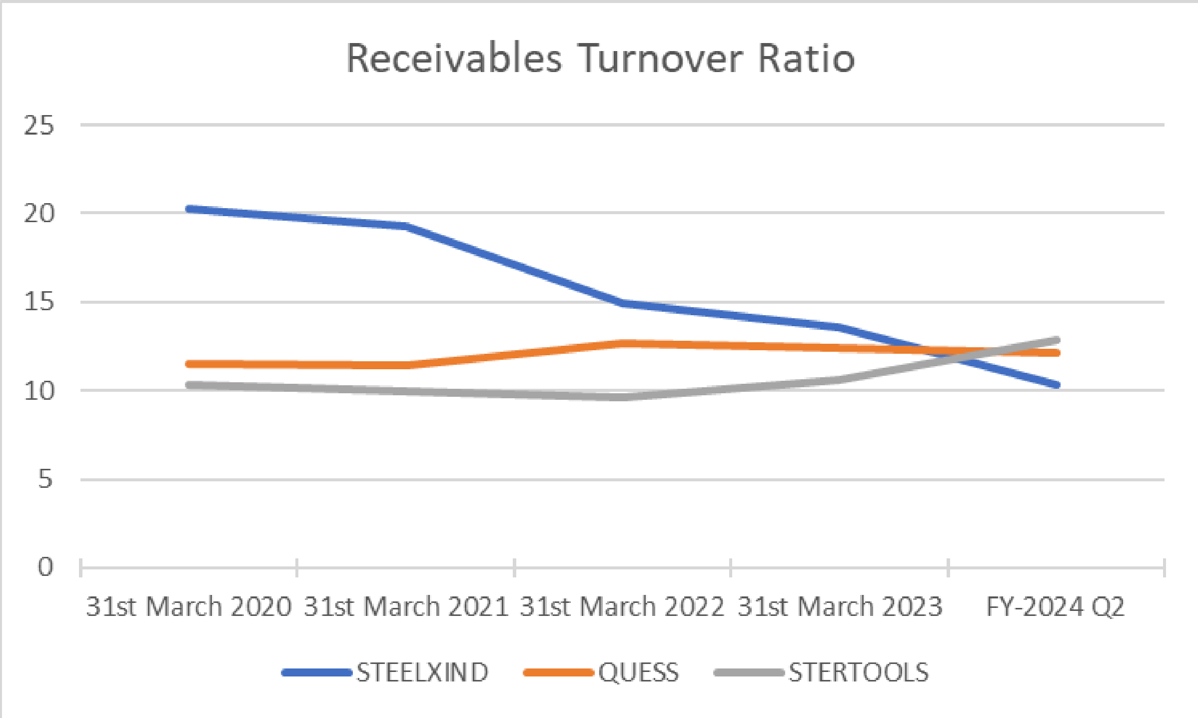
It is a financial ratio showing number of times a company turned over its inventory relative to its cost of goods sold (COGS).

For STEELXIND the Inventory decreased in 2020 and 2021 probably due to the pandemic, since then it has been increasing with a slight dip in Q2 2024

For QUESS it showed a favourable range of 2020 to 2024. While a decline occurred in 2021 due to the COVID-19 impact,but there was a significant recovery in subsequent years

For STERTOOLS we can see that the ratio represents strong sales or alternatively it can also represent insufficient inventory. Inventory decreased in 2021 probably due to the pandemic, since then it has been increasing

3.3 RECEIVABLES TURNOVER RATIO



The higher the ratio the better it is for the company because it implies that customers are paying on time and the company is good at collecting

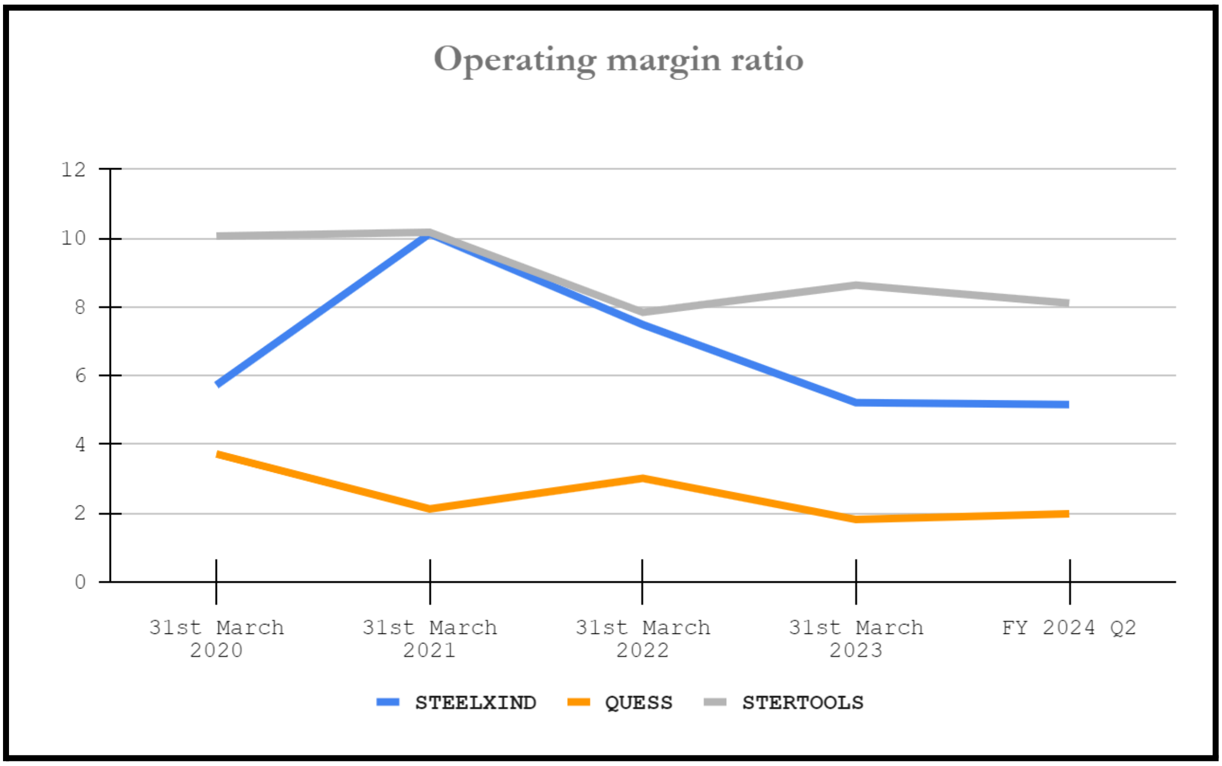
For STEELXIND the ratio has been decreasing continuously with a low in Q2 2024.

For QUESS it consistently maintained a highly favourable value according to Quess's provided data, indicating strong profitability.

For STERTOOLS The ratio decreased in 2021-2022 but increased again. The higher the ratio the better it is for the company because it implies that customers are paying on time and the company is good at collecting

4. PROFITABILITY RATIOS

4.1 OPERATING MARGIN RATIO



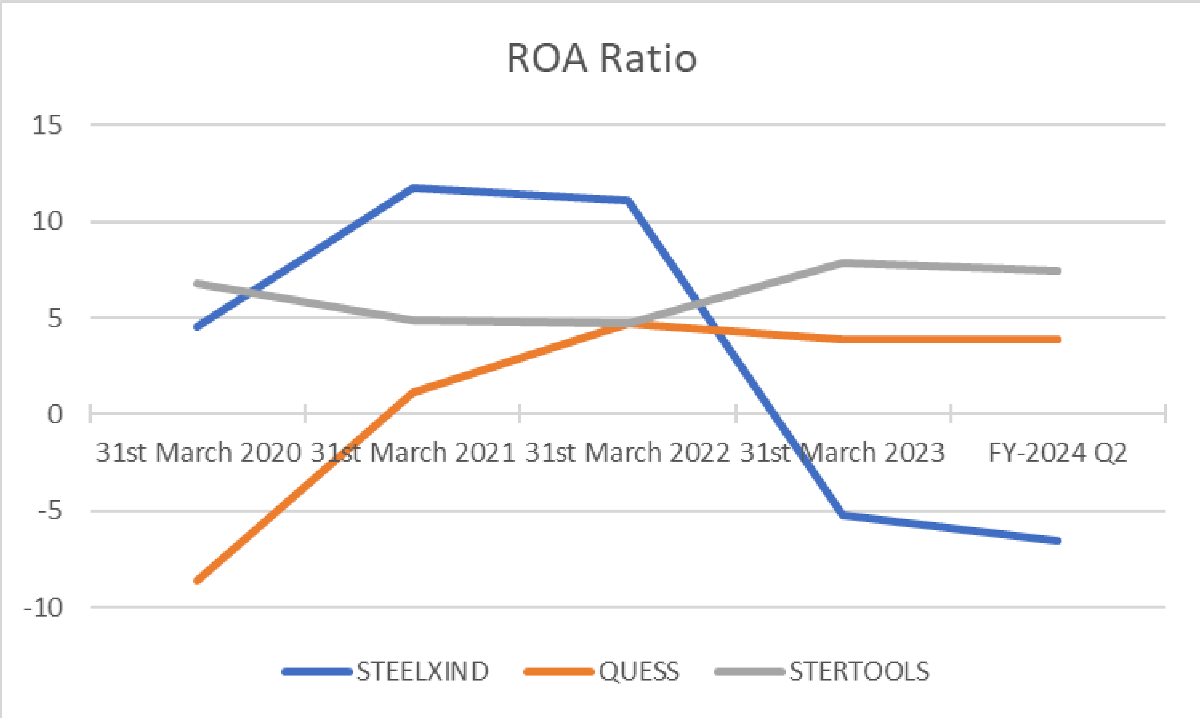
Operating margin ratio measures amount of profit a company makes per rupee of sales after covering all it's business expenses and average

For STEELXIND the ratio has been on a very sharp decrease since 31st MARCH 2022 ,indicating the profit a company making per rupee of sales to decrease

For QUESS it experienced a modest trend from 2020 to 2022, followed by a sharp decline in of 2023 which lasted till end of Q2 in 2024

STERTOOLS had a pretty good Operating Margin Ratio suggesting that it hsa a significant levels of profit

4.2 RETURN ON ASSETS RATIO



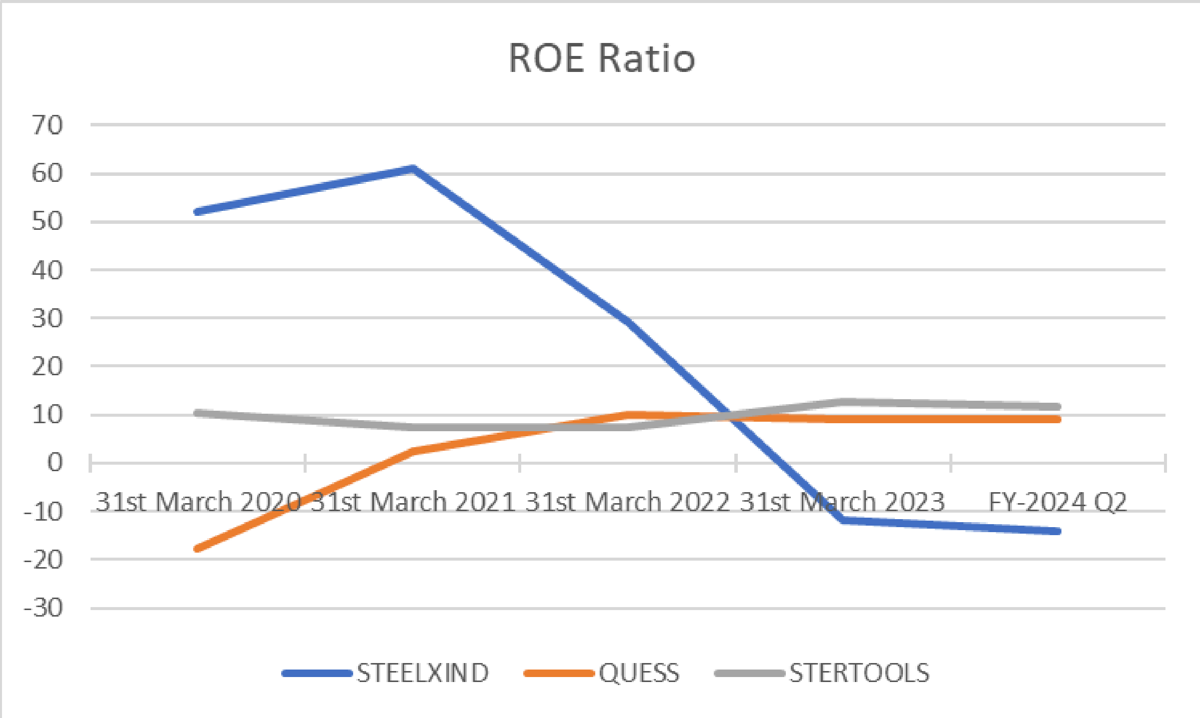
It Measures how efficiently a company utilises its assets to generate profits.

For STEELXIND the ROA ratio signifies efficient use of assets to generate profits for FY 2022-23 and Q2 2024 ROA is negative which implies that the company is focused towards having more invested capital or less earning profits in the last 2 years. It also implies that for the last 2 years company is not able to manage its assets efficiently

For QUESS due to the impact of the COVID-19 pandemic, Quess had a negative ratio in FY 2020,However, it subsequently rebounded to a positive value indicating the financial gains,from 2021 to 2024.

For STERTOOLS a positive ROA ratio suggests that it is efficient in converting assets into profits

4.3 RETURN ON EQUITY RATIO



It indicates how profitable a company is with respect to money invested by shareholders.

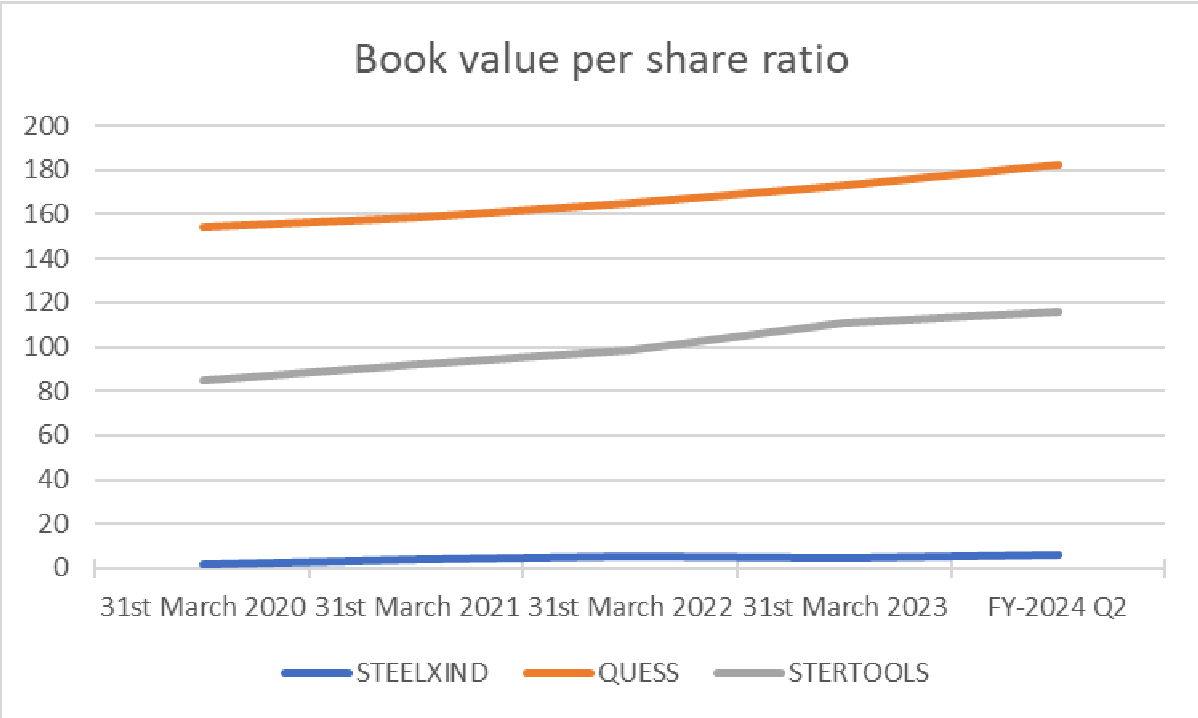
For STEELXIND the ROE ratio signifies company is good at generating returns for its shareholders factors contributing to good ROE include strong profitability. But for FY 2022-23 and Q2 2024 ROE is negative which implies that either the business is in loss or it has more liabilities than assets

For QUESS due to the impact of the COVID-19 pandemic, Quess had a negative ratio in FY 2020,However, it subsequently rebounded from, 2022 to 2024.

For STERTOOLS we can see that for a good ROE value the company is good at generating returns for its shareholders factors contributing to good ROE include strong profitability, efficient management, or leveraging debt strategically

5 MARKET VALUE RATIOS

5.1 BOOK VALUE PER SHARE RATIO



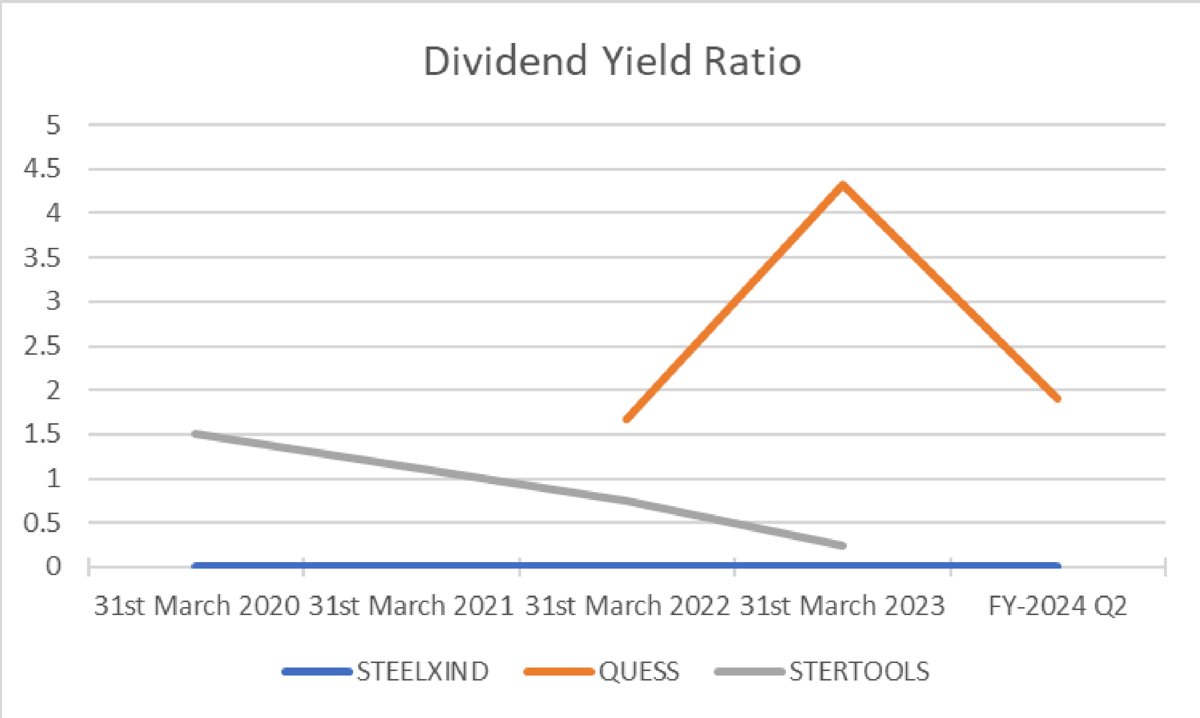
It indicates theoretical value of a company's common stock per share based on its accounting records.

STEELXIND showcases a very low Book value per share Ratio indicating concerns of the financial health

Quess has consistently shown an upward trend from 2020 to 2024, This reflects the increasing proportion of equity attributable to common shareholders.

For STERTOOLS shows that the values has been increasing through the years and shows a positive value of the company's stock

5.2 DIVIDEND YIELD RATIO



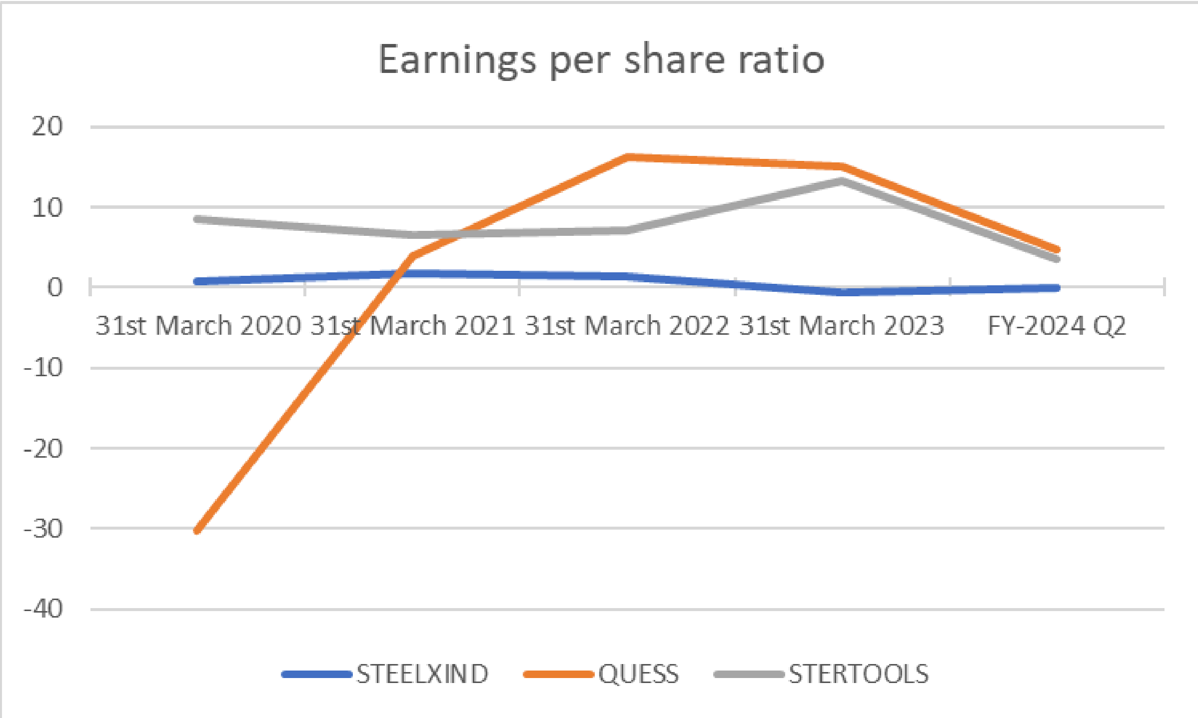
It measures a company's annual dividend payment per share as a percentage of its current market price per share.

For STEELXIND Dividend yield is 0 since the company doesn't pay out any dividend to its shareholders

Quess historically did not issue dividends, but in the last three years, they have started paying dividends, with a yield of 1.67% and 4.33% respectively. This is higher than the industry average.

For STERTOOLS we can see that over the years the company is lowering its dividends given to the investors

5.3 EARNINGS PER SHARE RATIO



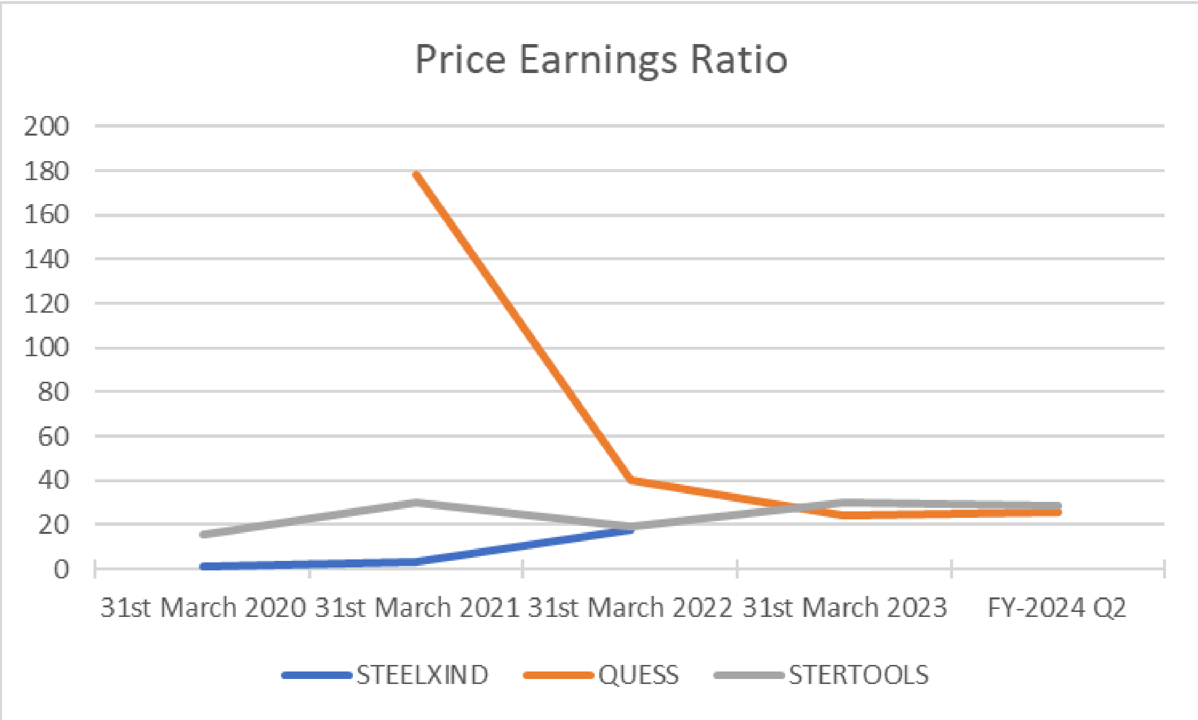
It Measures how much profit a company generates for each share of its common stock outstanding.

For STEELXIND the ratio is pretty stable indicating it does not earn much profit for the shares outstanding

For QUESS due to the impact of the COVID-19 pandemic, Quess had the ratio in the negative for FY 2020,However, it subsequently rebounded upwards indicating companies increasing profitability,from 2021 to 2024.

For STERTOOLS we can see that the company generates a good profit for each share in its common stock with a sharp decline in 2023

5.4 PRICE EARNINGS RATIO



It Measures company's stock price relative to EPS calculated and provides insights into the relative valuation of the company

For STEELXIND The PE ratio suggests that stocks are priced relatively higher as compared to its current earnings.

For QUESS it had a high P/E ratio in 31st March 2021 but after that it has faced massive decline in its value

For STERTOOLS due to the high P/E Ratio it tells us that the stocks are priced relatively higher as compared to its current earnings.

CONCLUSION

Steel Exchange has low risk of defaulting its debts, however its cash reserves seem to be struggling. While it has seen increased borrowing for its funds, the ratio has been falling to more acceptable values. Its efficiency in earning is extremely strong, and has maintained a high value consistently. Despite setbacks, the company consistently manages to deliver good profits to its investors, indicating a strong profitability in the near future. Its market value has stayed stable, showing the confidence of investors as well as their trust in its future.

Quess appears to have a healthy ability to repay its debts, but it does have concerns about its cash reserves. It does not rely on debts to finance its growth, while repaying its interest payments with ease. It shows efficiency in creating revenue and cash flows from assets and inventory, indicating strong earning capability. While it is not particularly profitable, it shows improvement in recent times, indicating increasing profitability. Its market value has been increasing, showing investors trust in the company's future.

Sterling Tools LTD appears to have great liquidity, with good ability to pay back its obligations using both liquid assets and short term assets. It appears to have a high level of debt, indicating financing its operations with debts. Its ability to pay back interest payments is also to be questioned. However, it does not indicate inability to do so. We observe an increased efficiency in converting inventories to sales. And ability to generate revenue and income streams. However, its profitability is to be questioned as the ratios do not paint a very great picture, indicating inefficiency in generating earnings. Its market value ratios also show a general decline, indicating its struggles in being competitive.

<u>**PART-2 (FINANCE)**</u>

<u>**QUESTION 1**</u>

YIELD ANALYSIS OF DIFFERENT COUNTRIES

YIELD CURVE

It is a graphical representation that shows the relationship between the interest rates of debt securities and their respective time to maturity.It helps to tell us the various market expectations with future interest rates and overall economic activity. There are three types of yield curves:

Normal Yield Curve:

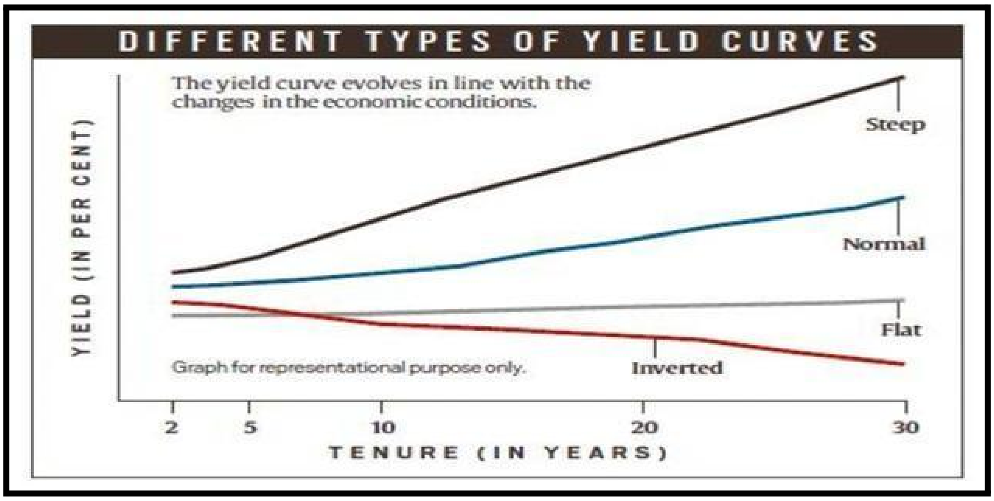
this curve shows low yields for shorter-maturity bonds and then increases for longer maturity bonds, sloping upwards.

Inverted Yield Curve:

this curve slopes downward, where short-term interest rates are more than long-term rates. It is an indicator for economic recession.

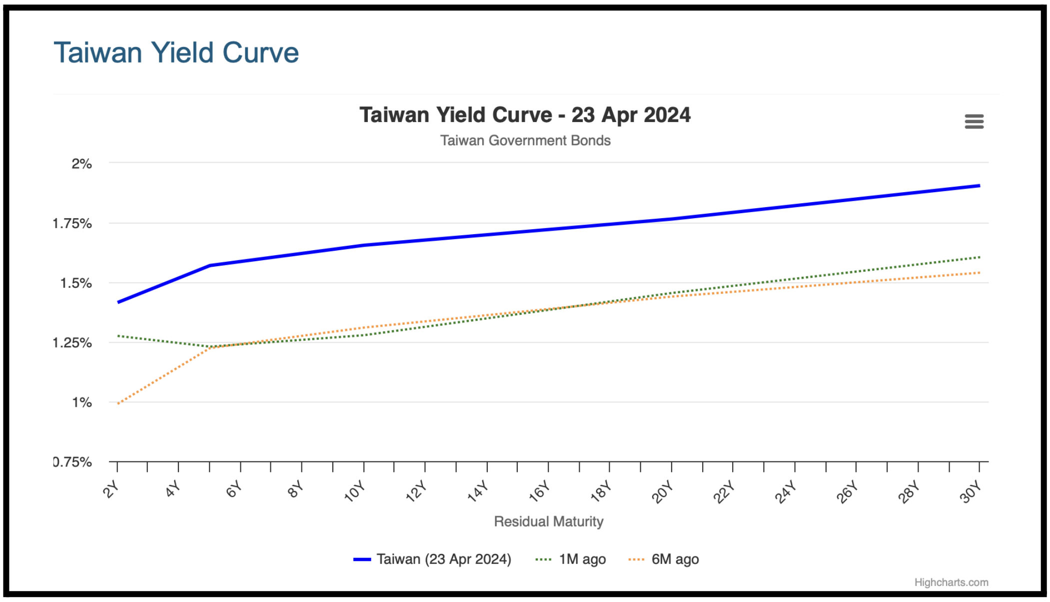
Flat Yield Curve:

this happens when short-term and long-term interest rates are equal which shows uncertain future economic conditions and interest rate movements



The three countries under consideration are:Taiwan,China,India

TAIWAN



Taiwan's yield curve typically exhibits an upward slope, indicating that longer-term bonds have higher yields compared to shorter-term bonds.This shape is indicative of normal market conditions where investors demand higher compensation for the added risk and uncertainty associated with longer-term investments.

Taiwan is known for its robust export-oriented economy, particularly in the semiconductor and technology sectors. Optimism about economic growth and global demand tends to result in an upward-sloping yield curve as investors seek higher yields for longer-term investments in anticipation of economic expansion.expectations of stable or modest inflation generally support the upward slope of the curve.

	Residual Maturity	Yield			ZC Price			Last Change
		Last	Chg 1M	Chg 6M	Last	Chg 1M	Chg 6M	
	2 years	1.415%	+14.0 bp	+42.5 bp	97.23	-0.28 %	-0.84 %	23 Apr
	5 years	1.570%	+34.0 bp	+34.6 bp	92.51	-1.66 %	-1.69 %	23 Apr
	10 years	1.655%	+37.7 bp	+34.5 bp	84.86	-3.64 %	-3.35 %	23 Apr
	20 years	1.765%	+31.0 bp	+32.5 bp	70.47	-5.93 %	-6.20 %	23 Apr
	30 years	1.905%	+30.0 bp	+36.5 bp	56.77	-8.47 %	-10.20 %	23 Apr

The Taiwan 10Y Government Bond has a 1.655% yield.

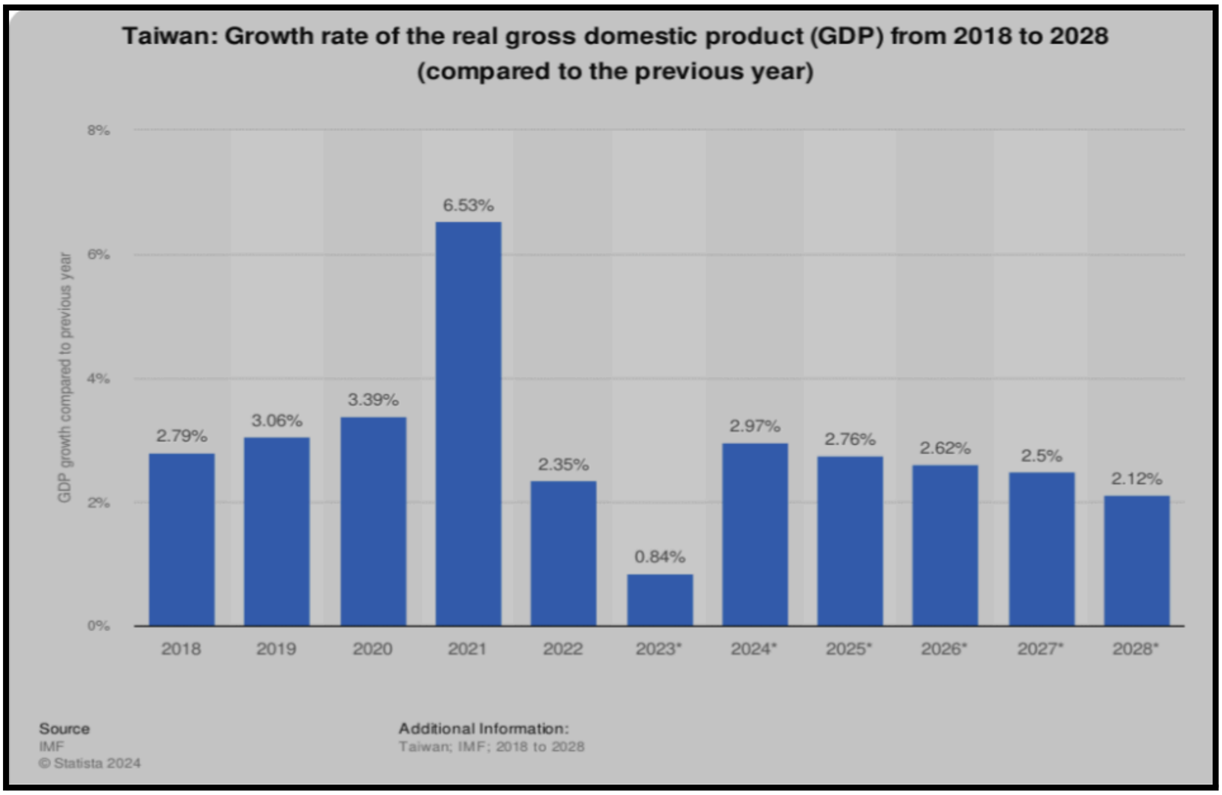
10 Years vs 2 Years bond spread is 24 bp.

Central Bank Rate is 2.00% (last modification in March 2024).

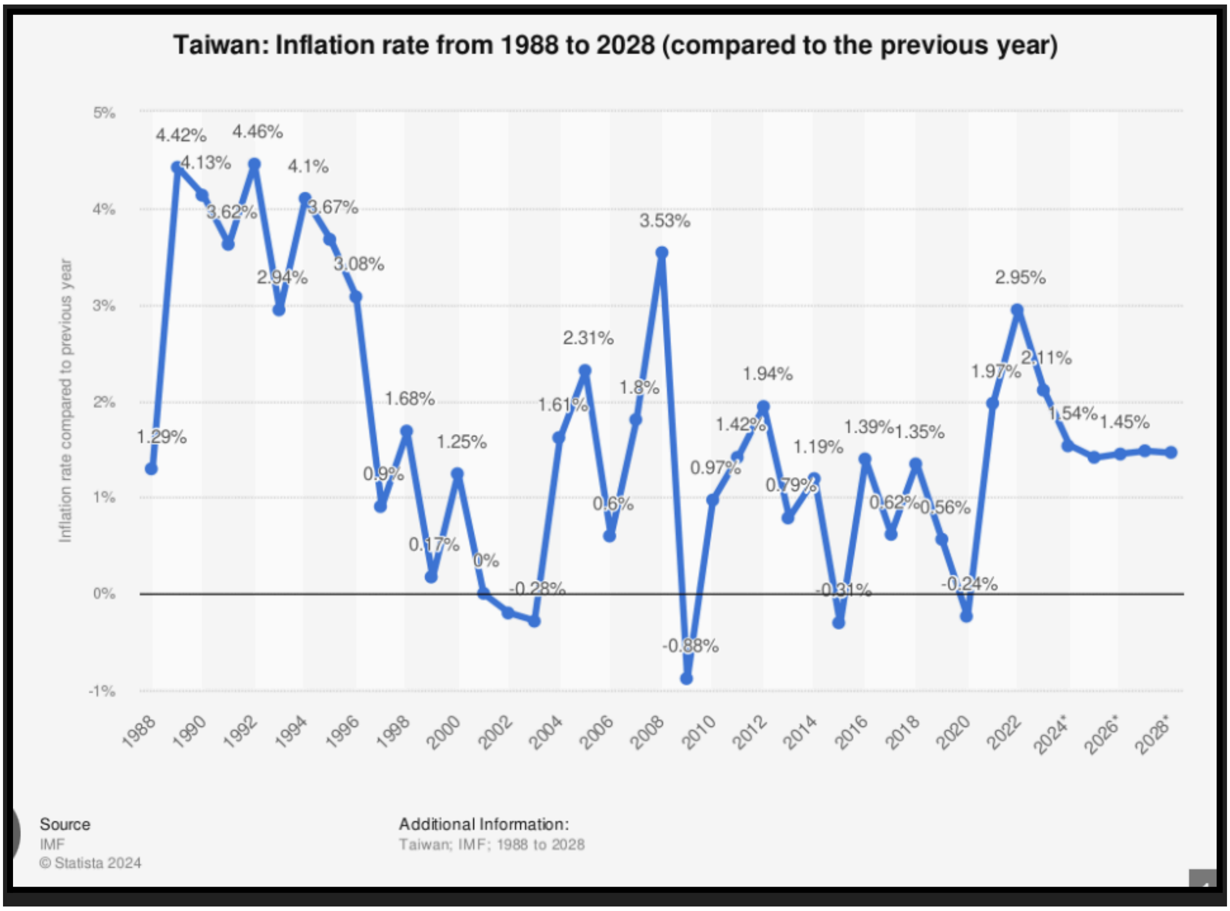
The macroeconomic implications include:

GDP GROWTH:

- Stronger economic growth is typically associated with higher yields on longer-term bonds as investors anticipate higher returns from investments in a growing economy.
- The yield curve shape indicates that investors are optimistic about Taiwan's ability to sustain economic expansion in the medium to long term



INFLATION EXPECTATIONS:
Stable inflation expectations are reflected in the shape of Taiwan's yield curve.
Stable inflation levels support investor confidence and contribute to the positive slope of the curve.

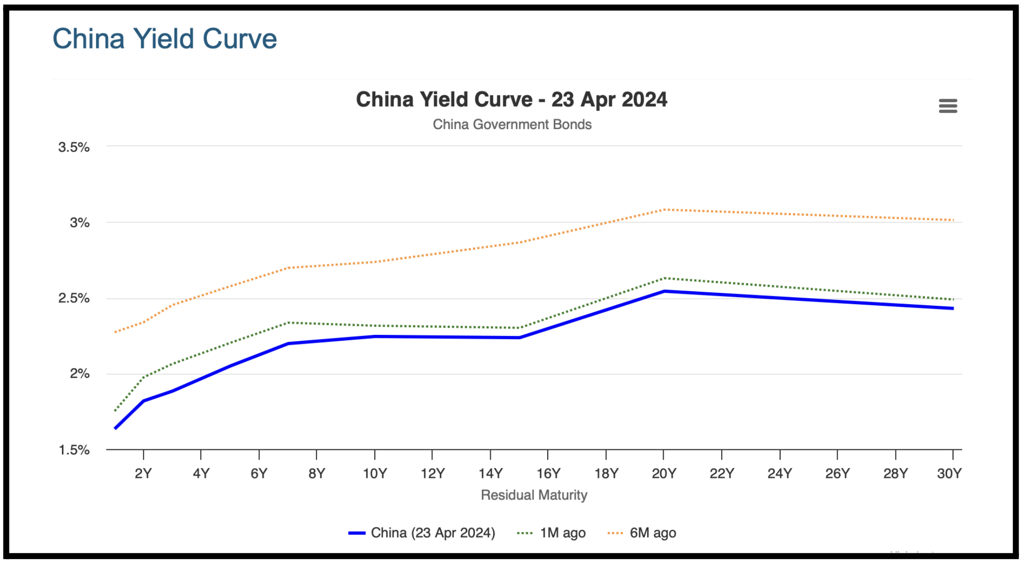


In conclusion, Taiwan's upward-sloping yield curve reflects optimism about economic growth, stable inflation expectations, and the influence of monetary policy.

CHINA

China's yield curve often exhibits a relatively flat or mildly upward-sloping shape, with yields on longer-term bonds only slightly higher than shorter-term bonds. However, it's essential to note that China's bond market is less developed and transparent compared to those of other major economies.

The PBOC's policy decisions, including interest rate adjustments, reserve requirement changes, and liquidity injections, influence bond yields across different maturitiesThe relatively flat yield curve suggests that investors do not anticipate significant inflationary pressures in the near future.



The China 10Y Government Bond has a 2.244% yield.

10 Years vs 2 Years bond spread is 42.6 bp.

Central Bank Rate is 3.45% (last modification in August 2023).

The China credit rating is A+, according to Standard & Poor's agency.

Residual Maturity	Yield			ZC Price			Last Change
	Last	Chg 1M	Chg 6M	Last	Chg 1M	Chg 6M	
1 year	1.633%	-11.8 bp	-63.9 bp	98.39	+0.11 %	+0.62 %	23 Apr
2 years	1.818%	-15.6 bp	-52.0 bp	96.46	+0.30 %	+1.03 %	23 Apr
3 years	1.883%	-18.0 bp	-56.9 bp	94.56	+0.53 %	+1.69 %	23 Apr
5 years	2.049%	-15.3 bp	-52.7 bp	90.36	+0.76 %	+2.61 %	23 Apr
7 years	2.197%	-13.8 bp	-50.0 bp	85.89	+0.95 %	+3.48 %	23 Apr
10 years	2.244%	-7.1 bp	-49.2 bp	80.10	+0.70 %	+4.93 %	23 Apr
15 years	2.236%	-6.5 bp	-62.9 bp	71.77	+0.96 %	+9.64 %	23 Apr
20 years	2.543%	-8.6 bp	-53.9 bp	60.52	+1.70 %	+11.07 %	23 Apr
30 years	2.429%	-5.9 bp	-58.4 bp	48.68	+1.76 %	+18.62 %	23 Apr

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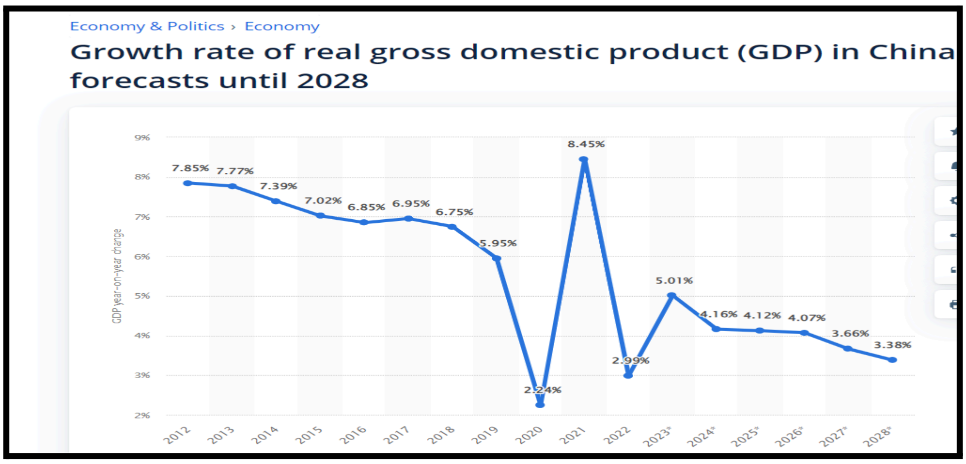
Macroeconomic Implications

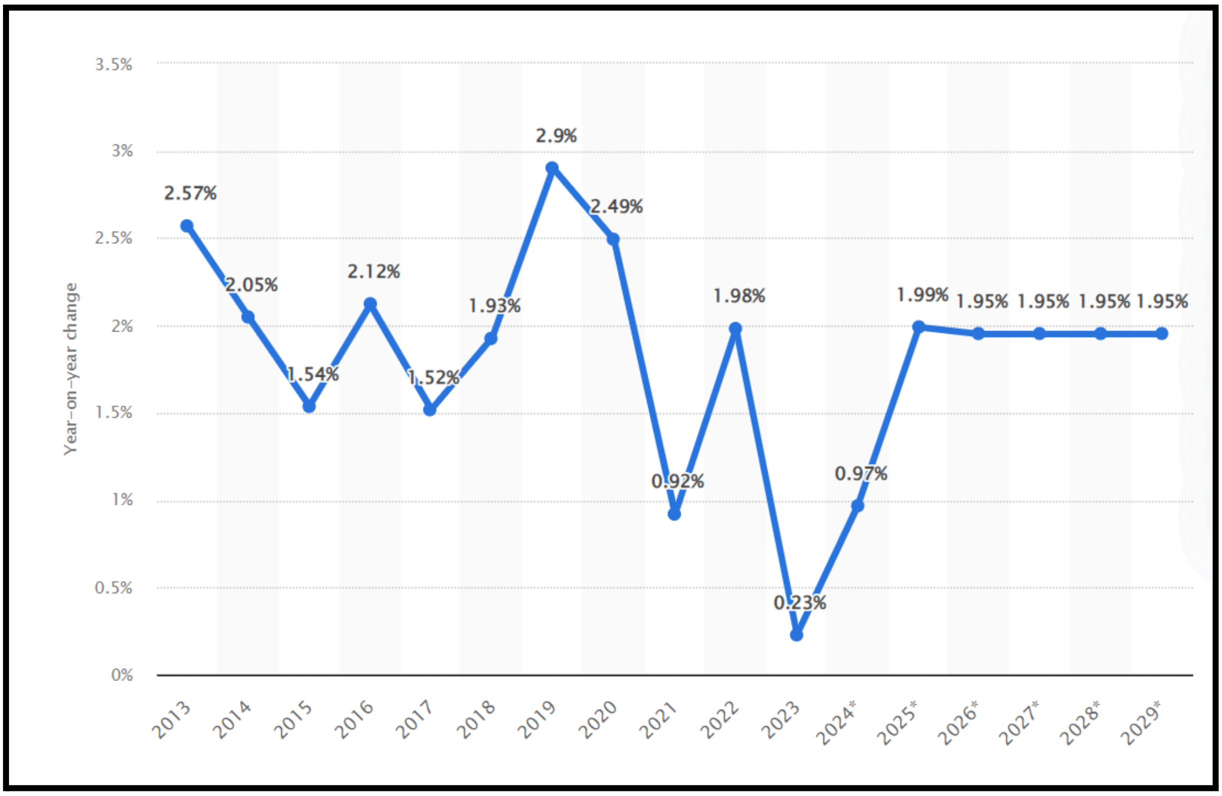
GDP growth

The stability of longer-term bond yields indicates confidence in China's ability to maintain moderate economic growth over the medium to long term.



Inflation expectation

Moderate inflation expectations are reflected in the shape of China's yield curve.

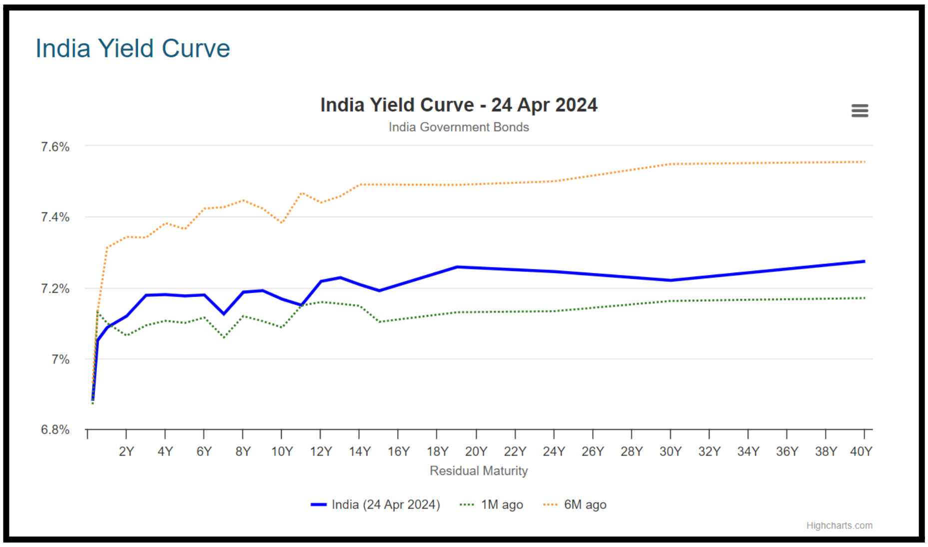


In conclusion, China's yield curve shape reflects its unique economic structure, monetary policy stance, and market dynamics.

INDIA

The yield curve of India can be seen as a upward sloping curve which is due to the Reserve Bank of India's (RBI) monetary policy, which holds a major role in shaping the country's yield curve.

This curve, formed by government securities, and mainly sovereign bonds which have different maturity dates, this tells us the optimism showed by the investors in India's Future. A steep yield curve gradient tells us that expectations of economic expansion, as long-term investment returns are anticipated to outperform short-term returns.



The India 10Y Government Bond has a 7.167% yield.

10 Years vs 2 Years bond spread is 4.8 bp.

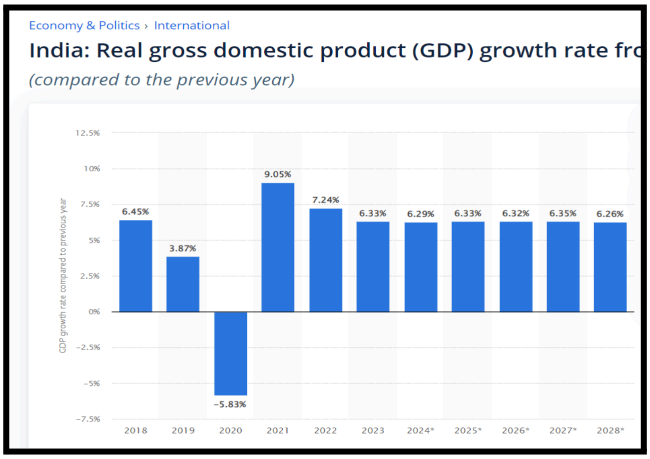
Central Bank Rate is 6.50% (last modification in August 2023).

The INDIA credit rating is BBB-, according to Standard & Poor's agency.

	Residual Maturity	Yield			ZC Price			Last Change
		Last	Chg 1M	Chg 6M	Last	Chg 1M	Chg 6M	
	3 months	6.880%	+1.0 bp	-5.0 bp				23 Apr
	6 months	7.050%	-8.0 bp	-8.0 bp				23 Apr
	1 year	7.087%	-1.2 bp	-22.6 bp	93.38	+0.01 %	+0.20 %	23 Apr
	2 years	7.119%	+5.5 bp	-22.4 bp	87.15	-0.10 %	+0.41 %	23 Apr
	3 years	7.178%	+8.5 bp	-16.3 bp	81.22	-0.25 %	+0.46 %	23 Apr
	4 years	7.180%	+7.4 bp	-20.2 bp	75.78	-0.28 %	+0.76 %	23 Apr
	5 years	7.176%	+7.6 bp	-18.9 bp	70.72	-0.35 %	+0.90 %	23 Apr

Macroeconomic Implications

GDP growth

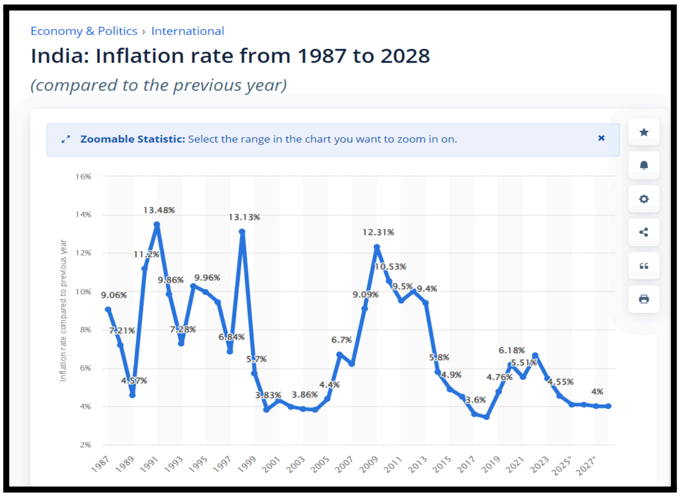


In 2022, India's GDP had surged by around 7.2%, showcasing a good recovery from the pandemic-induced fall in 2020.

The maximum GDP was seen in the year 2021 which was about 9.05% this was the period just after the pandemic which is the cause of such a high GDP rate.

However, GDP growth faces challenges from inflation, fiscal deficits, and environmental concerns. Due to the pandemic, an all-time low of -5.8% was observed which improved drastically in the very next year.

Inflation expectation



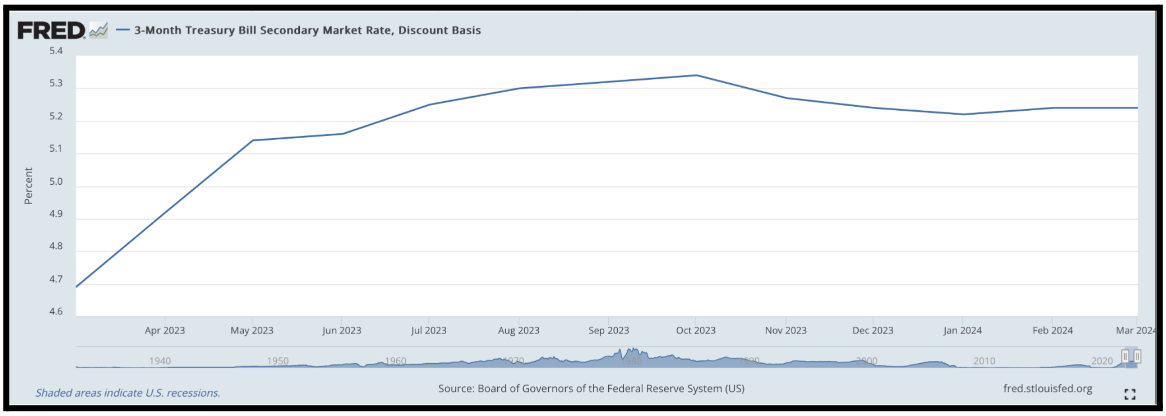
India has seen its fair share of inflation ups and downs. When inflation stays moderate, it's good news for the country because of its large population, a bustling services sector, and strong spending habits. Despite the inflation hurdles, India's future still looks bright thanks to things like low per-person income and a young workforce. Plus, inflation rates have dropped significantly compared to before, giving India's economy a boost.

QUESTION 2

Comparing the yield of a 90-day Treasury bill (T-bill) with that of Commercial Paper of similar maturity provides insights into the risk-return trade-off between government-backed securities and corporate debt.

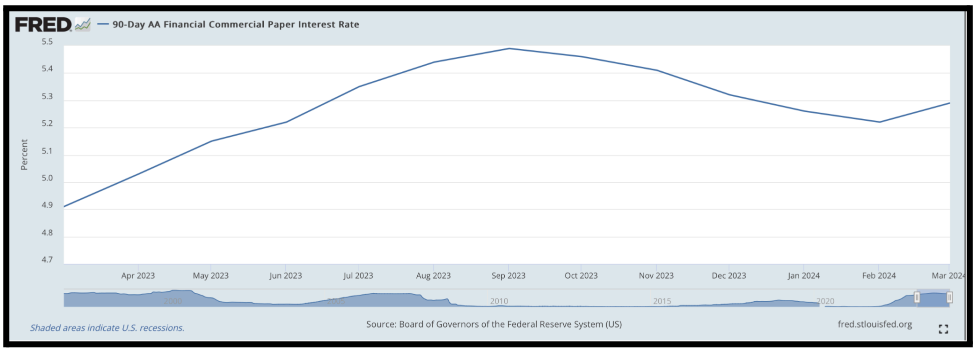
TREASURY BILLS

These short-term bonds are issued by the government with maturities typically ranging from a few days to one year. Investors consider T-bills among the safest investments due to their backing by the government, which reduces the risk of default. As a result, T-bills usually offer lower yields compared to other securities, reflecting their lower risk profile.



COMMERCIAL PAPER

This refers to unsecured, short-term debt issued by corporations to address immediate financial needs. The risk associated with commercial paper varies depending on the financial health and creditworthiness of the issuing company. Investors demand higher returns, in the form of interest, to compensate for the risk they take by lending money to corporations. Commercial paper typically has maturities of less than 270 days.



The difference in yields between a T-bill and another money market security with a similar maturity can vary based on several factors, including credit risk, liquidity, and market conditions.T-bills are considered risk-free because they are backed by the full faith and credit of the government. Therefore, they usually offer lower yields compared to other money market securities that carry some level of credit risk.

Date	Treasury Bill Yield	Commercial Paper Yield	Difference in Yield
2023-03-01	4.69	4.91	0.22
2023-04-01	4.92	5.03	0.11
2023-05-01	5.14	5.13	-0.01
2023-06-01	5.16	5.22	0.06
2023-07-01	5.25	5.35	0.10
2023-08-01	5.3	5.44	0.14
2023-09-01	5.32	5.49	0.17
2023-10-01	5.34	5.46	0.12
2023-11-01	5.27	5.41	0.14
2023-12-01	5.24	5.32	0.08
2024-01-01	5.22	5.26	0.04
2024-02-01	5.24	5.22	-0.02
2024-03-01	5.24	5.29	0.05

In most months, Commercial Paper yields were higher than T-bill yields, reflecting the higher risk associated with corporate debt compared to government-backed securities.

The difference in yields is not constant suggesting the risk premium associated with Commercial Paper is dynamic and influenced by various factors.

REASONS FOR YIELD DIFFERENCES

RISK PREMIUM

Commercial Paper carries a higher risk of default compared to T-bills. Investors demand a premium in the form of higher yields to compensate for this additional risk.

CREDITWORTHINESS OF ISSUERS

The financial health and credit rating of the companies issuing Commercial Paper influence the yield. Companies with stronger financials generally offer lower yields compared to those perceived as riskier.

ECONOMIC CONDITIONS

Broader economic conditions and market sentiment play a role. During periods of economic uncertainty or stress, investors may perceive corporate debt as riskier, leading to a widening of the spread between Commercial Paper and T-bill yields.

CHANGE IN RISK PREMIUM AND ECONOMIC CONDITIONS: OBSERVATIONS

FLUCTUATING RISK PREMIUM

The difference in yields between Commercial Paper and T-bills, representing the risk premium, demonstrates significant fluctuation throughout the year.

INITIAL INCREASE IN RISK PREMIUM

From March to August 2023, the spread generally widened, indicating an increased perception of risk associated with Commercial Paper compared to T-bills. This could be due to factors such as economic uncertainty or specific events impacting the corporate debt market.

SUBSEQUENT DECREASE IN RISK PREMIUM

From September 2023 onwards, the spread started to narrow, with a more pronounced decline from November 2023. This suggests a decrease in the perceived risk of Commercial Paper relative to T-bills.

NEGATIVE RISK PREMIUM

In February and March 2024, the yield on Commercial Paper fell below the T-bill yield, resulting in a negative risk premium. This is an unusual situation and could indicate specific market dynamics at play.

POSSIBLE EXPLANATIONS FOR THE CHANGE

IMPROVED ECONOMIC OUTLOOK

A strengthening economy and positive investor sentiment might lead to a decrease in the perceived risk of corporate debt, causing the risk premium to narrow.

CHANGES IN MONETARY POLICY

Central bank actions, such as lowering interest rates or implementing quantitative easing, can influence the risk-free rate of return (T-bill yields) and impact the relative attractiveness of Commercial Paper.

FLIGHT TO QUALITY

During periods of economic uncertainty or market volatility, investors often seek the safety of government-backed securities like T-bills, leading to a widening of the risk premium. Conversely, increased risk appetite can drive investors towards higher-yielding Commercial Paper, narrowing the spread.

SPECIFIC EVENTS IMPACTING THE CORPORATE DEBT MARKET

Changes in credit rating agencies' outlook on corporate debt, major corporate defaults, or shifts in industry-specific risks can all influence the risk premium associated with Commercial Paper.

BIBLIOGRAPHY & REFERENCES

- BloomBerg Lab Database