

Abstract

Financial analysis of any company is important for making wise decisions related to the investment made in the particular company. It is the analysis of a company's financial statements for making a valuable conclusion regarding the company. In today's business environment, the operations of business become complex day to day which makes it the investors difficult to understand the different aspects of the company and made investment mistakes. So it becomes necessary to make the investors understand the financial aspects of the company in simple terms. In this assignment, the investors use the financial statements of Delta World Plc to calculate financial ratios of the company and then compare it with the past performance of the said company and also with the industry standards to make an analysis of the overall financial performance of the company and also make a report on the different components which make this analysis more reliable otherwise provided. By making the analysis, it was found that the financial performance of delta plc in the year 2021 is far better than the year 2020 and makes the opportunity for the investors to invest in the company.

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1. Introduction

The financial performance of any company is playing a significant role to decide whether the company is able to achieve its organizational objectives or not. In this assignment, by using the financial data of the company like the income statement and the balance sheet a person is able to analyze the true position of the company by using simple tools and techniques and makes the appropriate investment decision related to Delta World Plc. this report also includes the important component which is not provided by the said company that the company analysis more reliable and robust.

2. Company's overview

Delta World Plc. is a multinational company that is engaged in three business areas which are coatings and sealants, polymer products, and fibers and chemicals. They are international suppliers of shipbuilding, aerospace, automotive, and construction. In addition to this, they are also dealt with pharmaceuticals, electronics, food, and textiles to multinational customers. Their core competencies are in polymer technology, cellulose chemistry, and surface science.

3. Calculation of financial ratios of delta world company

Financial ratios of the company are the measurement of the overall financial health of the company. It is a tool that is used by the stakeholders of the company to measure its liquidity and profitability. The ratios help to tell us the true economic status of the company. They are useful for making particular decisions regarding the company. The following are the calculation of different financial ratios of Delta world company and make the analysis for taking the appropriate decisions whether to invest in this company or not. (Adediji, E. A. 2014)

3.1 Statement showing the calculation of ratios

Profitability Ratios	May 21	May 20
Gross Profit Margin	$= 488 * 100 / 1028$	$= 485 * 100 / 923$

$= \frac{\text{gross profit}}{\text{sales}} * 100$	$= 47.47\%$	$= 52.546\%$
Return on shareholder's equity $= \frac{\text{earnings after tax}}{\text{Shareholder's fund}} * 100$	$= \frac{391 * 100}{631}$ $= 61.965\%$	$= \frac{96 * 100}{509}$ $= 18.86\%$
Return on Capital Employed\ $= \frac{\text{earnings before interest and tax}}{\text{capital employed}} * 100$ Capital employed = total assets – current liabilities 2021 = 1010 – 218 = 792 2020 = 868 – 211 = 657	$= \frac{439 * 100}{792}$ $= 55.43\%$	$= \frac{150 * 100}{657}$ $= 22.83\%$
Net profit margin = $\frac{\text{net profit}}{\text{sales}} * 100$	$= \frac{391 * 100}{1028}$ $= 38\%$	$= \frac{96 * 100}{923}$ $= 10.40\%$

Liquidity Ratios	May 21	May 20
Current Ratio $= \frac{\text{current assets}}{\text{Current liabilities}}$	$= \frac{621}{218}$ $= 2.85$	$= \frac{536}{211}$ $= 2.54$
Acid Test Ratio $= \frac{\text{current assets} - \text{inventory}}{\text{Current liabilities}}$	$= \frac{(621 - 295)}{218}$ $= 1.5$	$= \frac{(536 - 178)}{211}$ $= 1.7$

Efficiency Ratios	May 21	May 20
Inventory Days = (inventory / Cost of goods sold) * 365	= (215 * 365) / 540 = 145.32 days	= (178 * 365) / 438 = 148.33 days
Trade Receivable Days = (trade debtors / Total credit sales) * 365	= (211 * 365) / 1028 = 74.9 days	= (182 * 365) / 923 = 71.97 days
Trade Payable Days = trade creditors / Total credit purchases * 365	= (157 * 365) / 540 = 106.12 days	= (139 * 365) / 438 = 115.83 days
Total asset usage = net sales / Total assets	= 1028 / 1010 = 1.02 times	= 923 / 868 = 1.063
Fixed asset usage = net sales / Total fixed assets	= 1028 / 389 = 2.64 times	= 923 / 332 = 2.78 times

Market ratios	May 21	May 20
Price-earnings ratio = share price / Earnings per share (EPS) EPS = net income / No. of shares	= 142 / 56.5 = 2.5	= 136 / 14.72 = 9.24

2021 = $391 / 6.92 = 56.5$		
2020 = $96 / 6.52 = 14.72$		
Dividend cover ratio (payout ratio) = <u>Earnings per share (EPS)</u> / dividend per share (DPS)	= $56.5 / 5.9$ = 9.576 times	= $14.72 / 5.1$ = 2.886 times
Dividend yield = <u>dividend per share (DPS)</u> / Share price	= $(5.9 * 100) / 142$ = 4.155%	= $(5.1 * 100) / 136$ = 3.75%
Interest cover ratio = <u>EBITDA</u> / Interest expense EBITDA = earnings before interest tax depreciation and amortization	= $439 / 15$ = 29.27	= $150 / 14$ = 10.71

Debt ratio	May 21	May 20
Debt to equity ratio = <u>debt</u> / Equity * 100	= $(395 * 100) / 631$ = 62.6%	= $(385 * 100) / 509$ = 75.64%

3.2 Analysis of Delta World plc on the basis of the above-calculated ratios

1. Profitability ratios

Profitability ratios are defined as the ability of the company to generate profit from different aspects like revenue, operating cost, assets, and shareholder funds. It tells how efficient the company is to generate income. A higher profitability ratio helps in more favorable conditions for the company.

In the case of Delta World company, the overall profitability ratio of the company is good. When a person compares the profitability ratio with the past year of the company, there is a huge difference between the ratios like return on shareholder's equity, return on capital employed, and net profit margin. This difference mainly arises due to the huge difference between the operating cost in the year 2020 i.e., 335 and 2021 i.e. 49. And when we a person compare the ratios with industry standards, we can also observe that there is a huge difference between the industry and the company in the year 2021 the ratios like return on shareholder's equity will increase from 18.86% in 2020 to 61.965% in 2021 and also net profit margin rise from 10.4% in 2020 to 38% in 2021. Through this, a person can conclude that the year 2021 is outperformed by Delta World and can be called an abnormal year for the company but Delta World Plc does not provide evidence regarding the statement because of a lack of detailed information the company.

2. Liquidity ratio

Liquidity ratios of any company help us to determine the ability of the company to pay its short-term debts without raising the external debts. The investors and creditors want to see the liquidity ratio of the company is 1.0 although it varies from industry to industry. A company with a higher liquidity ratio is get easily accessed to raise debts in the market. The most common liquidity ratios are the current ratio, quick ratio, and operating cash flow ratio.

In the above case, the liquidity ratio of the Delta World company is good because it has the ability to set off all its short-term liability without affecting its working capital. As seen above, there is no major difference between the current ratio and quick ratio for the two years i.e., the current ratio in 2020 and 2021 are 2.85 and 2.54 and the quick ratio is 1.5 and 1.7. But a person can observe there is heavy working capital blockage of Delta World Plc. in the inventory, because their huge difference between the current ratio and quick ratio i.e. 2.85 and 1.5

On the other hand, when a person compares the company with industry standards he can observe that there is a huge difference between the current ratio and the quick ratio, i.e. the current ratio of the same industry is 2.5 and 1.1 through which a conclusion can be drawn that the industry in

which Delta World Plc. operate requires huge working capital to block inventory because the difference between the current ratio and the quick ratio is only of inventory. (Ratio analysis, n.d.)

3. Efficiency ratio

Efficiency ratios of any company referred to the ability of the company how efficiently uses its capital and other assets that are invested in the company to generate revenue for the business. It is regarded as a percentage of expenses in terms of revenue. All the industries want to minimize their efficiency ratio i.e. they want to reduce the expenses and increase the revenue generated from that expenses incurred.

In the above relevant case, the overall efficiency ratio of the company is considered as good. When a person compares the performance of the company with the past year Delta World Plc. Seems to improve in the areas like inventory days, total asset usage, and fixed asset usage in 2020 the said ratios are 148.33, 1.063, and 2.78 and in 2021 is 145.32, 1.02, and 2.64 but the improvement is not significant. While calculating inventory day a person can here also conclude that the company needs heavy investment in the inventory because it takes approx. 146 to release cash from inventory. When talking about the industry standards, the company is performing well as compared to others. The company's trade suppliers' days are very huge i.e. 106.12 days which is considered a positive sign for any company because they have time to invest these funds in another important thing.

4. Market ratios

Market value ratios of any company are the important metrics which is used by the investors and other shareholders to find out the true economic status of the company. These ratios help the investors to find out the share price of the company and whether its share is undervalued or overvalued.

In the above relevant case, the market ratio of the company seems good. The price-earnings ratio of May 2021 of Delta World Plc is very low i.e. 2.5 when compared with 2020 i.e. 9.24 and with industry-standard i.e. 11 which concludes that the share price of this company is highly

undervalued which is considered a very positive sign for the company because the investors want to invest in the company but on the other hand Delta World Plc does not provide sufficient data to conclude the exact reason behind lower price-earnings ratio because it could be the abnormal year for the Delta World Plc.

The dividend coverage ratio of this company is very high in 2021 i.e., 9.576 when compared with 2020 i.e., 2.886, and the industry standards i.e., 2.5 which also makes the company a good option to invest in by investors.

The high-interest coverage ratio i.e., 29.27 of the company makes a good option to invest by persons who are risk-averse.

5. Debt ratios

The debt ratio of any company tells us about the extent of the riskiness of the company. It is referred to as the portion of the assets of the company which is under debt. The higher debt ratios are considered as the company is operating in a risky environment and has the possibility of making defaults on repayment of their loans and the possibility of filing bankruptcy by the company will rise.

In this above relevant case when a person can observe the debt-equity ratio which is 62.6% in 2021 and 75.64% in 2020 it seems good but when he compares the ratio of Delta World Plc with the industry standards which is 30%, he will observe that that company has a higher proportion of debt. Which makes the company riskier than other company that deals in the same industry which is not favorable for Delta World Plc. (Novyarni, N., Et al., 2020)

From the above analysis, a **conclusion** can be drawn that Delta World Plc is a good company for investing in as it has higher profitability in the year 2021 and performed efficiently. The share price of Delta World plc is also highly undervalued it's a good opportunity to grab for the investors. But when someone clearly observes the data he may observe the huge reduction in the operating expenses of the company and the company does not provide sufficient details regarding the details of operating expenses, therefore, it could not say how this drastic change in the profitability in

2021 of Delta World plc happens. Also, the debt ratio of this company is higher than the other companies in the same industry which make the company a slightly risky company to invest in. (Rosa, N. L. 2020)

4. Further information which helps the analysis of the company more robust and credible

4.1 Lack of detailed income statement

Firstly, as above said, there is a lack of detailed information about the income statement of the company which makes a person ineligible to get a detailed idea about the increase in the profitability in 2021 of Delta World Plc. there may be some abnormal reasons for the increase in the profitability in said year and thus increase in the financial performance of this company. Detailed information about the reduction of operating expenses of this company should be needed to conclude surely about the performance of the company. (Hussey, R. (2014)

4.2 Cash flow statement

The cash flow statement of any company talks about the cash generated by the particular company in a particular year. It provides information about the aggregate cash inflows and the cash outflows of the company. The cash flow statement has 3 activities

1. Operating activities which gives information about the sales purchases operating expenses and changes in working capital

2. Investing activities which tell us about the investment made by the company for future benefits.

3. Financing activities relate to the activities like taking loans and repayments and distributing dividends.

The investors considered the cash flow statement is a very important component for accurate financial analysis because it talks about how efficiently the company uses its cash. (Krylov, S. 2016)

The two majors are calculated through cash flow statements which are

1. Operating cash flow to net sales which tells about how much cash is generated with the given sales.

2. Free cash flow which tells us about the efficient use of cash by a particular company.

5. Effect of disclosures of corporate governance and CSR on analysis of the company

1. Corporate governance

Corporate governance is considered a framework of rules and regulations through which the government of any country controls the operations of the companies. These rules are helpful in increasing the efficiency of the firm and achieving its objectives.

The disclosures of different corporate governance are very essential for the analysis because their governance helps in maintaining transparency in the accounts and operations of the company which is very helpful for the investors and other stakeholders of the company to become reliant on the information provided by the company and made the investment related decisions on the basis of the financial statements provided by the company. (Thomsen, S. 2006)

2. Corporate social responsibility

Corporate social responsibility is considered the self-regulated responsibility of the companies in which they are actively involved in activities which give a positive impact on the environment. These responsibilities may be in the form of activities related to protecting the environment, educating society, making ethical labor laws, etc.

In today's business environment, investors took a keen interest in the social activities performed by the company. According to recent studies, companies that involve in social activities that benefit society are becoming more attracted to investors and customers. This makes the company take participate in these activities in order to maintain stability in a business environment.

So, to conclude the above statement if Delta World Plc is actively involved in CSR, then this company makes a chance for attracting investors to invest in their company and the paths successful in achieving their organizational goals. (Riantani, S., Et al., 2015)

6. Recommendation and conclusions

Delta World Plc performed excellently in the year 2021 when a person compared its financial performance with the year 2020 due to a huge reduction in the operating expenses of the company. The company's profitability in 2021 is huge compared to the industries and also the company's share price is highly undervalued in the year 2021. This makes the company a wise decision for investing by the investors.

However, the reduction in operating expenses is so significant and the company has not provided a detailed summary of different allocations which makes a person a difficult to rely on this because the reason for this reduction is unknown. Also, the analysis can be better performed if the information regarding the cash flow statement is given because a person may be able to analyze the efficient use of cash by Delta World Plc. So, to conclude Delta World Plc is a good company for investment purposes because the market price of this company will soon rise.

7. References

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