

# Understanding the Financial Health of an Organisation

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# Learning Objectives

- Understand and analyse information from financial statements
- Evaluating the effectiveness of managerial decisions using financial statements

# Key Takeaways

- Develop skills in measuring and analyzing the effectiveness of managerial decisions using financial statements

# Purpose of Accounting

- Measure business activities
- Process this information into reports
- Communicate the reports to decision makers

Information for Decision Making

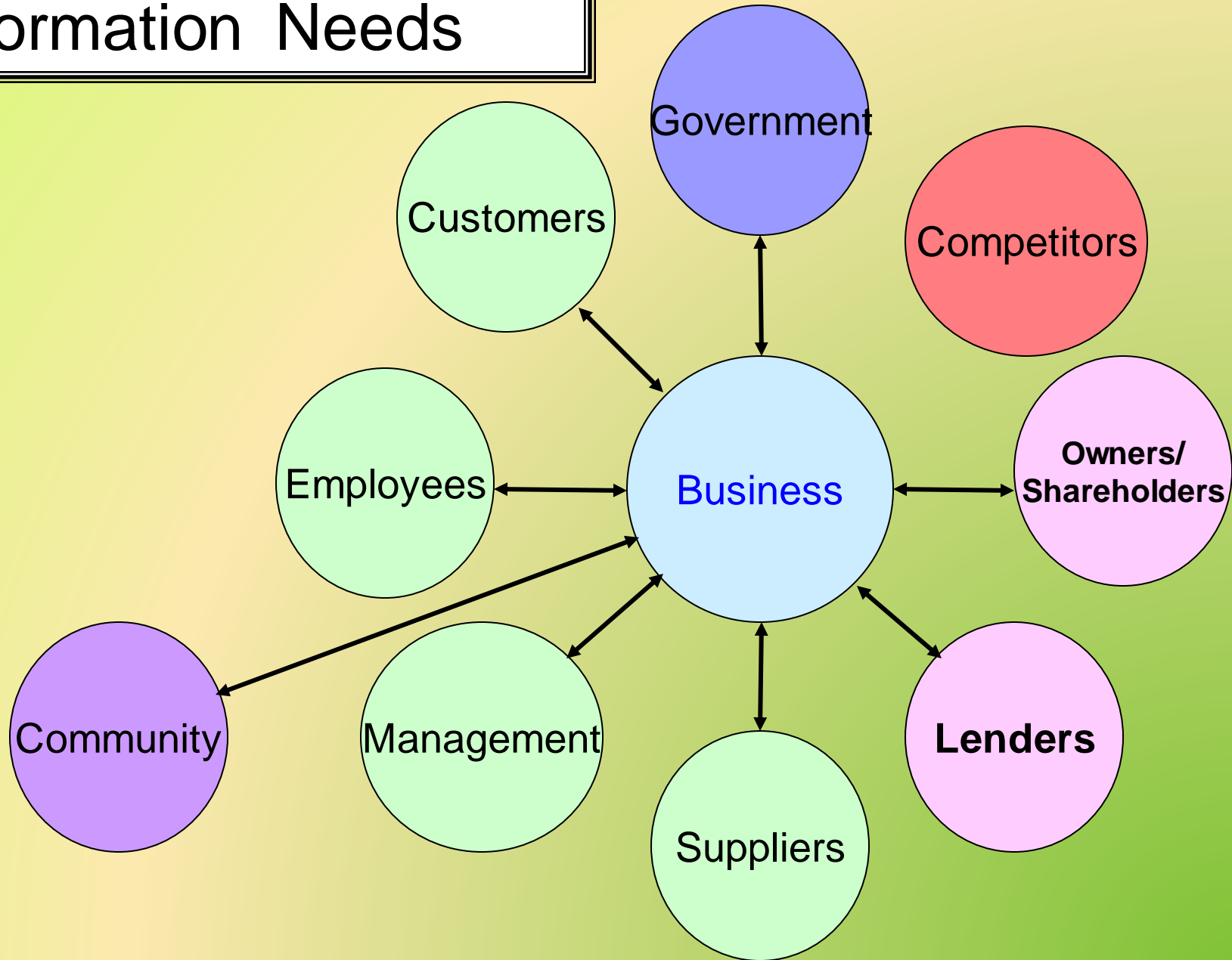
# Decision Makers and their information needs

Who are the  
decision  
makers?

What  
decisions do  
they take?

What  
Information do  
they need?

# Stakeholders and their Information Needs



# OBJECTIVE OF DECISION MAKING SURVIVAL OF A BUSINESS

A dramatic illustration of a large cruise ship sinking at night. The ship is tilted at a steep angle, with its white hull and yellow funnels partially submerged in dark blue water. The ship's lights are on, and the scene is reflected in the water. The sky is dark with some stars visible.

**CASH FLOW**

# CASH FLOW

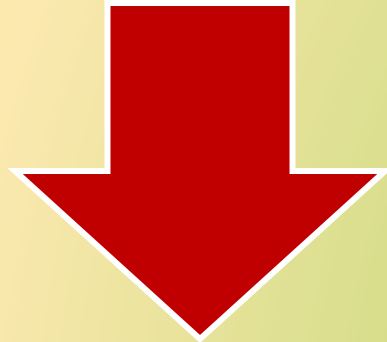
SURVIVAL



NET CASH  
FLOW



Cash  
Inflow

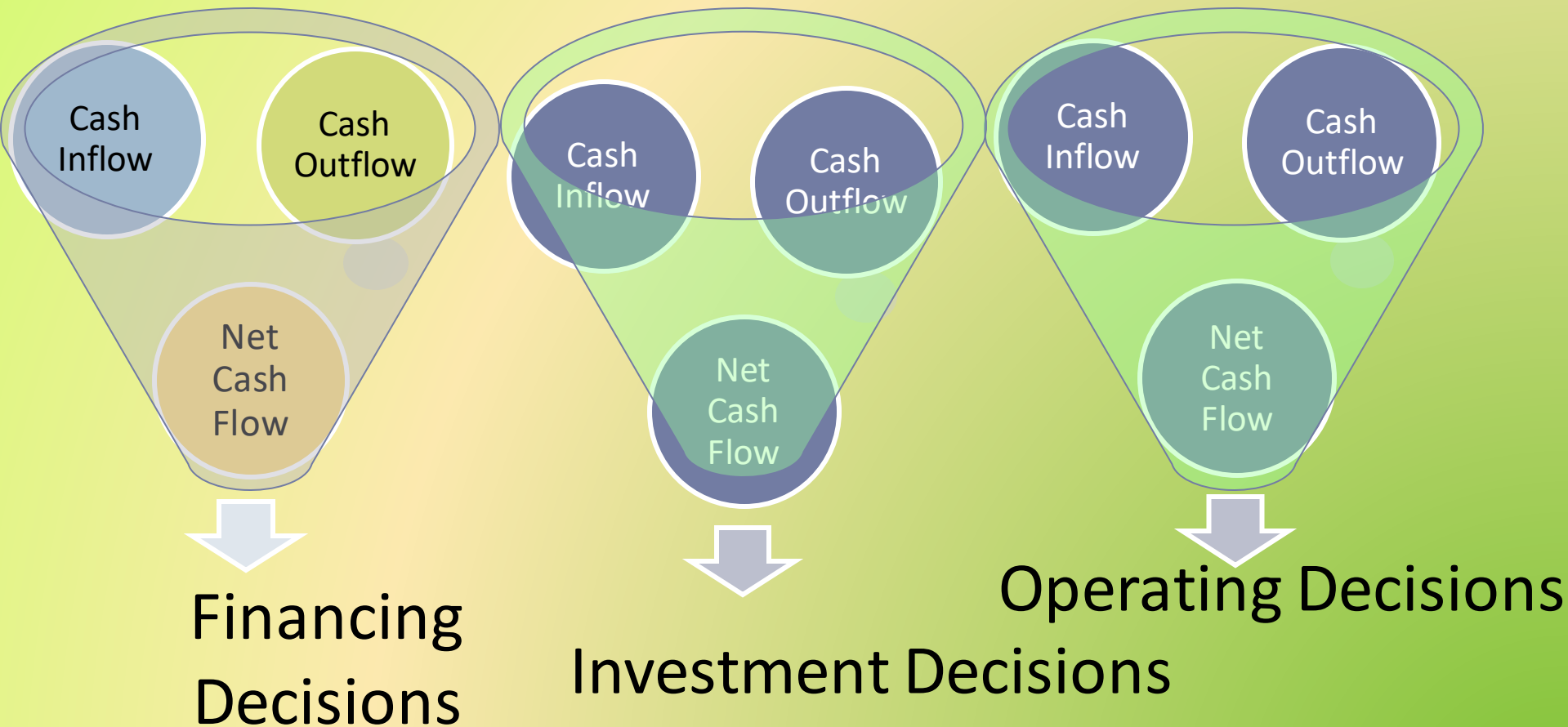


Cash  
Outflow

VENDOR DEFAULT

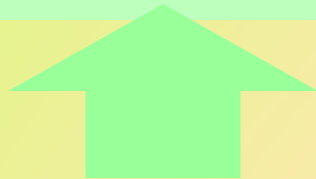


# CASH FLOW STATEMENT



# CASH FLOW STATEMENT

## HUL - 2022-23



Cash Inflows



Cash Outflows

**FINANCING**

Net Cash Flow =  
Cash Outflow  
Rs -8,966 crores

**INVESTMENT**

Net Cash Flow =  
Cash Outflow  
Rs -1,062 crores

**OPERATING**

Net Cash Flow =  
Cash Inflow  
Rs 9,626 crores

**Rs -402 crores**

**Rs 988 crores**

**Rs 586 crores**

# OBJECTIVE OF DECISION MAKING SUCCESS OF A BUSINESS



# Cash Flow vs Profit

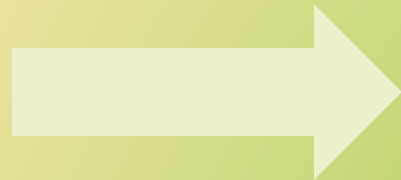
SURVIVAL



CASH FLOW

CASH INFLOW – CASH OUTFLOW

SUCCESS



PROFIT

PROFIT = INCOME – EXPENDITURE

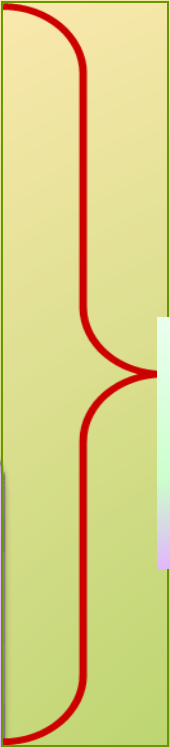
# PROFIT & LOSS ACCOUNT

**INCOME**

**MINUS**

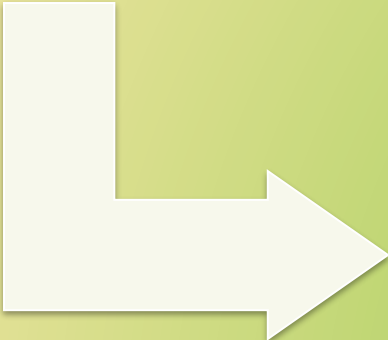


**EXPENDITURE**



Operating  
Decisions

**EQUALS**



**PROFIT**

# PROFIT & LOSS ACCOUNT

**INCOME**  
Cash + Accrued

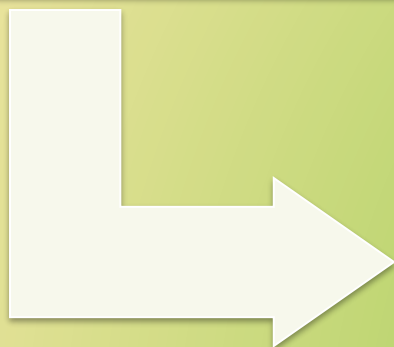
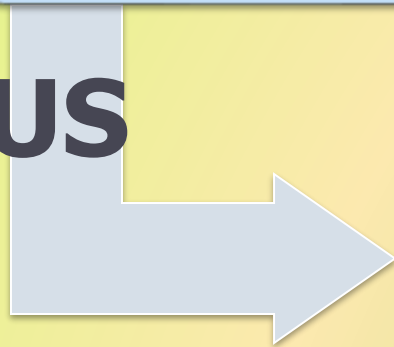
**EXPENDITURE**  
Cash + Accrued

**PROFIT**  
Cash+Accrued

Operating  
Decisions

**MINUS**

**EQUALS**



# PROFIT & LOSS ACCOUNT ONGC 2022-23

**INCOME**

**Rs 59,784 cr**

**EXPENDITURE**

**Rs 49,822 cr**

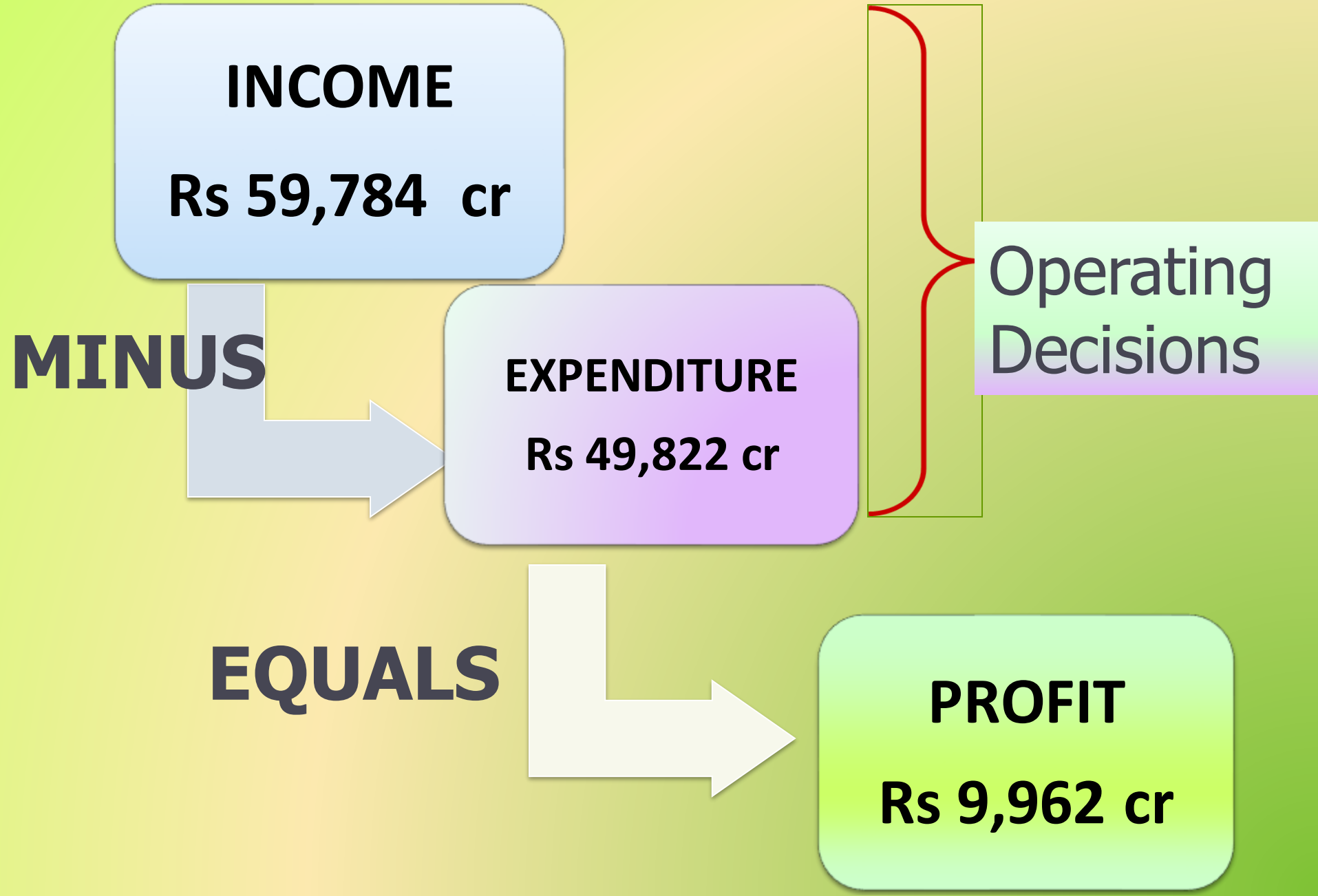
**PROFIT**

**Rs 9,962 cr**

Operating  
Decisions

**MINUS**

**EQUALS**



# Cash Flow vs Profits - example





# PROFIT AND LOSS ACCOUNT

| FOR THE YEAR ENDED 31 Mar      | 2021          | 2022          | 2023          |
|--------------------------------|---------------|---------------|---------------|
| <b>INCOME</b>                  |               |               |               |
| Revenue from Operations        | 45,311        | 50,336        | 58,154        |
| Other Operating Revenue        | 685           | 857           | 990           |
| Other Income                   | 513           | 393           | 640           |
| <b>TOTAL INCOME</b>            | <b>46,509</b> | <b>51,586</b> | <b>59,784</b> |
| <b>EXPENDITURE</b>             |               |               |               |
| Cost of Materials Consumed     | 14,951        | 15,869        | 19,229        |
| Purchase of Stock in Trade     | 7,117         | 9,274         | 11,968        |
| Stock Adjustment               | -391          | -19           | -53           |
| Royalty                        | 730           | 839           | 839           |
| Employee Remuneration          | 2,229         | 2,399         | 2,665         |
| Power, fuel and water          | 304           | 395           | 349           |
| Other Manufacturing expenses   | 671           | 268           | 281           |
| Advertising & Sales Promotion  | 4,737         | 4,718         | 4,859         |
| Freight Handling & Packing     | 1,674         | 1,801         | 1,901         |
| Admin & Miscellaneous Expenses | 2,650         | 3,146         | 3,474         |
| <b>TOTAL EXPENDITURE</b>       | <b>34,672</b> | <b>38,690</b> | <b>45,512</b> |


|   |               |               |               |
|---|---------------|---------------|---------------|
| <b>PROFIT BEFORE DEPRECIATION &amp; AMORTISATION, INTEREST AND TAX (EBITDA)</b> | <b>11,837</b> | <b>12,896</b> | <b>14,272</b> |
| Less : Depreciation & Amortisation  | 1,012         | 1,025         | 1,030         |
| <b>PROFIT BEFORE INTEREST AND TAX</b>   | <b>10,825</b> | <b>11,871</b> | <b>13,242</b> |
| Less: Finance Cost  | 108           | 98            | 101           |
| <b>PROFIT BEFORE EXCEPTIONAL ITEMS &amp; TAX</b>                                | <b>10,717</b> | <b>11,773</b> | <b>13,141</b> |
| Exceptional Items   | -227          | -34           | -62           |
| <b>PROFIT BEFORE TAX</b>  | <b>10,490</b> | <b>11,739</b> | <b>13,079</b> |
| Less : Provision for Tax  |               |               |               |
| Current Tax   | -2,458        | -2,778        | -2,922        |
| Deferred Tax  | -78           | -143          | -195          |
| <b>PROFIT AFTER TAX</b>   | <b>7,954</b>  | <b>8,818</b>  | <b>9,962</b>  |

# OBJECTIVE OF DECISION MAKING PROSPERITY OF A BUSINESS



# HUL Q2 Results: Net profit up 4% on year to ₹2,717 crore; dividend declared

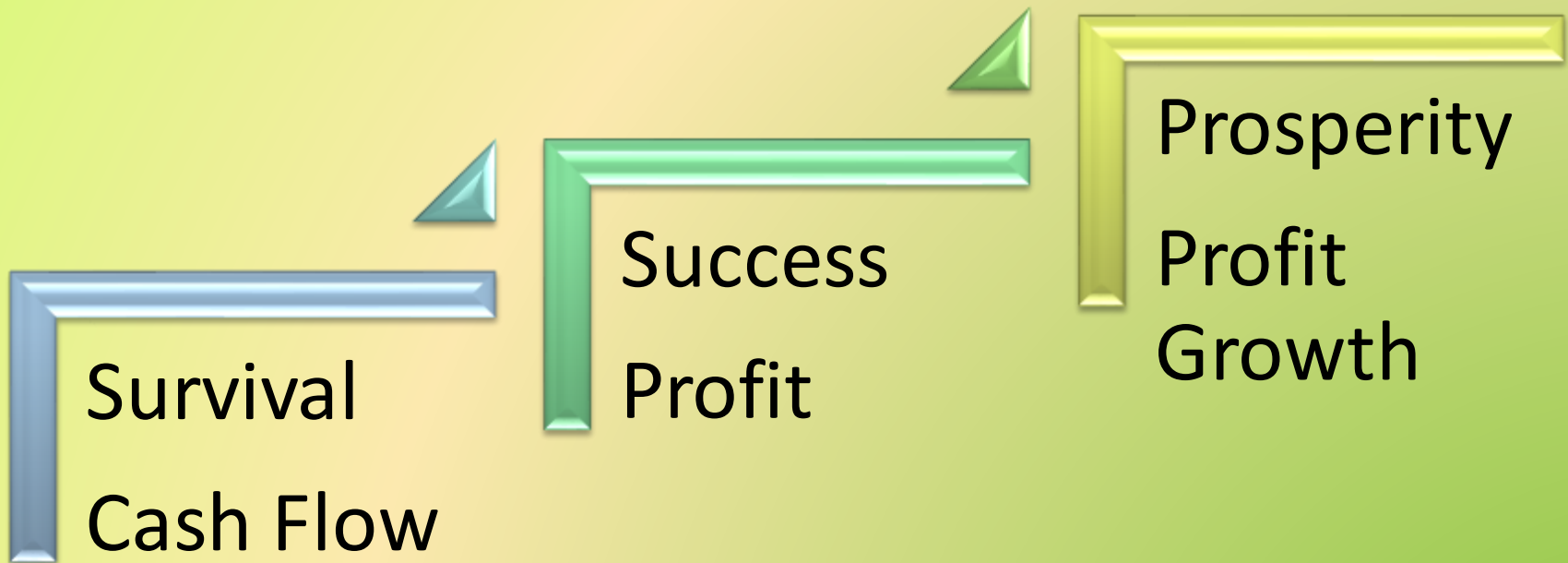
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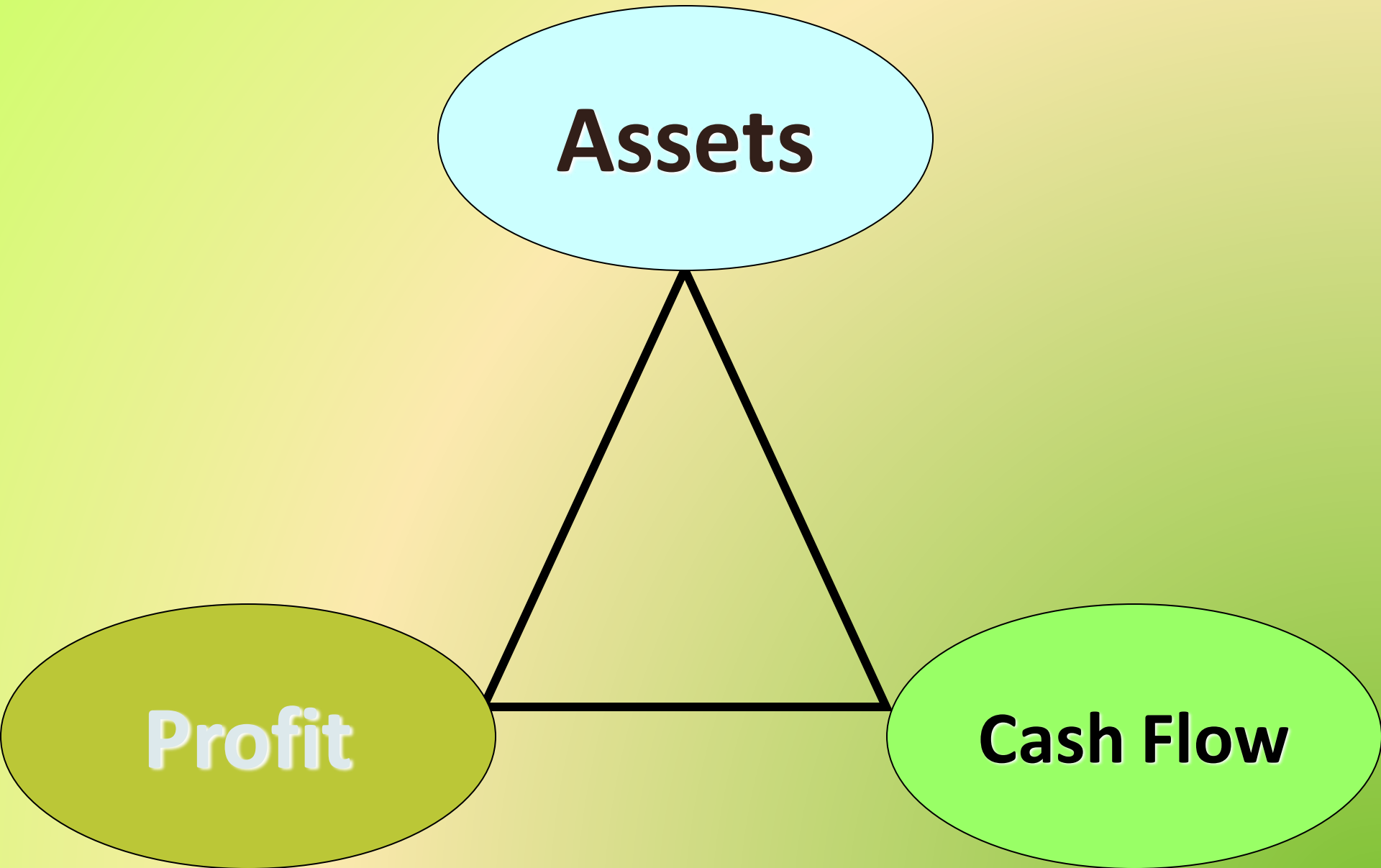
*HUL Q2 Results: HUL Q2 net profit rises 4% to ₹2,717 crore. HUL's Q2 revenue from operations up 3.6% to ₹15,276 crore. HUL declares interim dividend of ₹18 per equity share.*

# PERFORMANCE METRICS

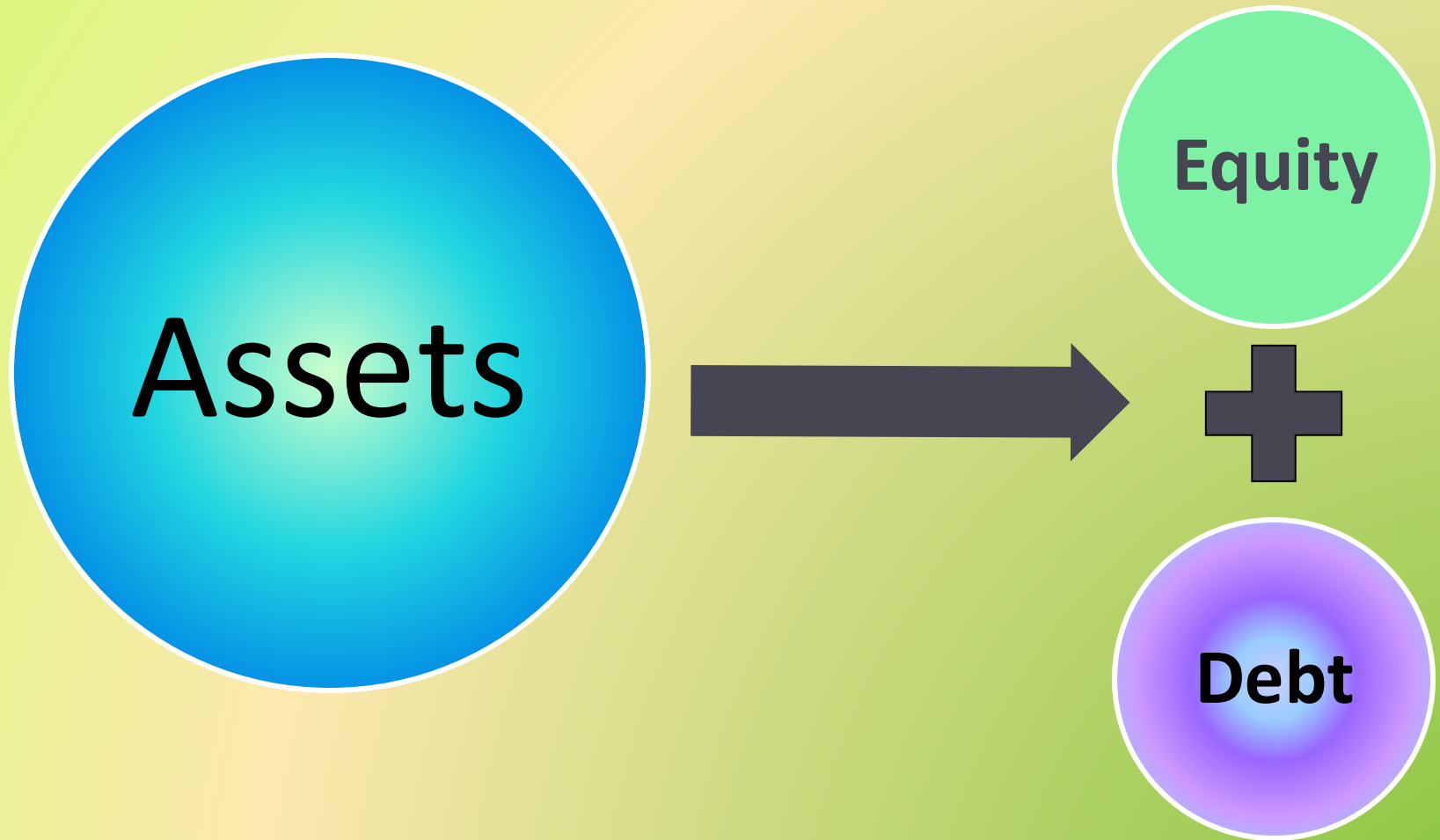


PROFIT GROWTH – Profit in Q1 last year vs Profit in Q1 this year

# Numbers that Drive Business



# Assets - Creation



# Asset Creation

SOURCE OF FUNDS

Assets

=

Debt

+

Equity

Equity Share  
Capital

Retained Earnings

$\Sigma$  *INCOME*  
– *EXPENDITURE*  
– *DIVIDEND*

# OBJECTIVE -MANAGERIAL DECISION MAKING

SURVIVAL



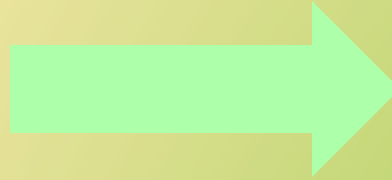
CASH FLOW

SUCCESS



PROFIT


PROSPERITY



PROFIT  
GROWTH



# Return on Investment ROI

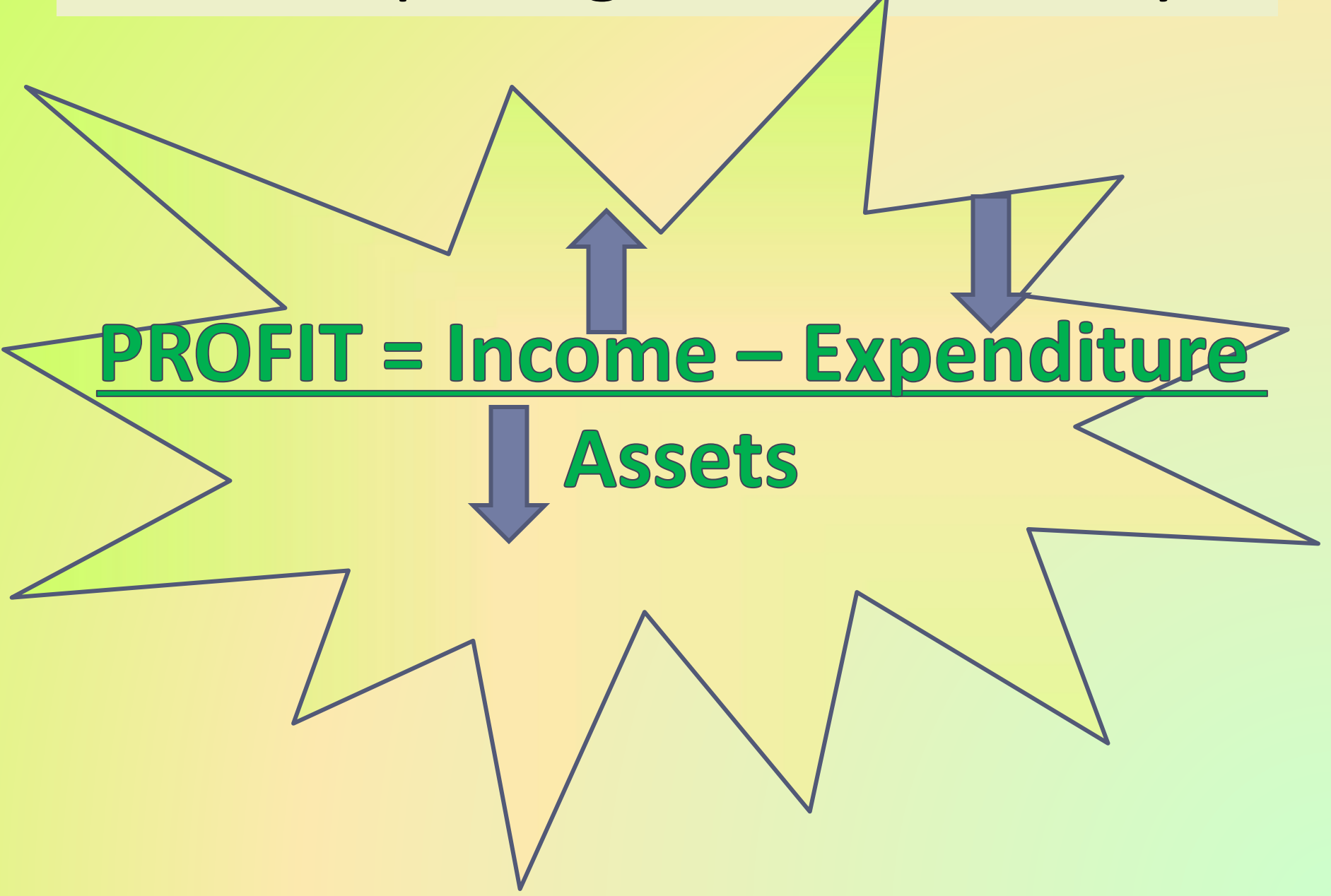

$$\text{ROI} = \frac{\text{Profit}}{\text{Assets}}$$

Return on Investment ROI  
measures profitability of the assets

# Decomposing the Profitability

**PROFIT = Income – Expenditure**

**Assets**



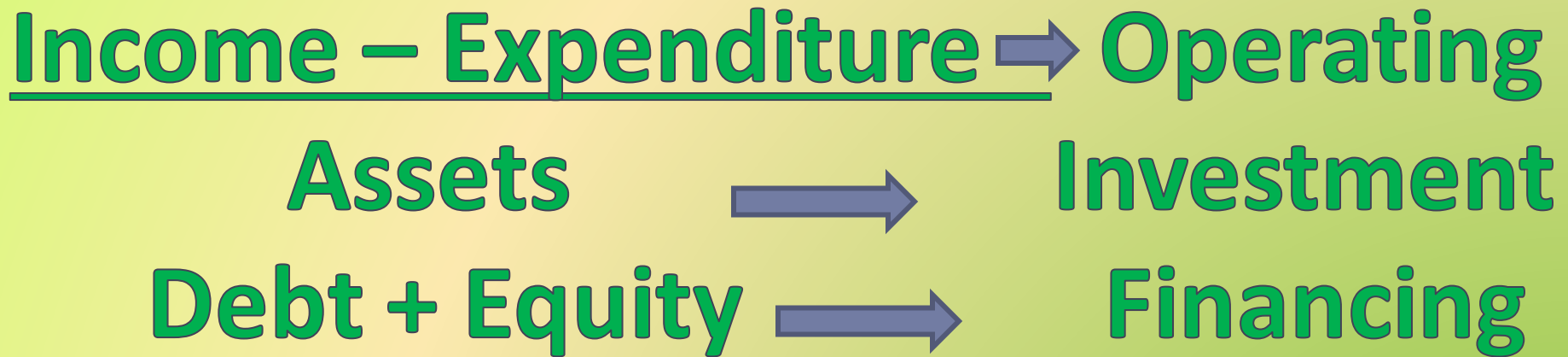
# Decomposing the Profitability

Income – Expenditure

Assets =

Debt + Equity

# Managerial Decisions Drive Profitability



# Managerial Decisions

## FINANCING DECISIONS

- Raising **FUNDS** to acquire **ASSETS**

## INVESTMENT DECISIONS

- Acquiring **ASSETS** to operate the business

## OPERATING DECISIONS

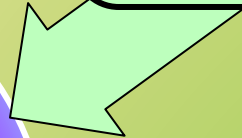
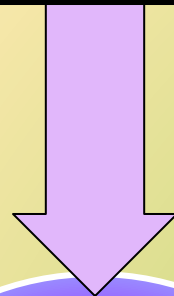
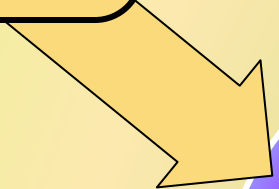
- Operating **ASSETS** to generate **INCOME**

**BALANCE SHEET**  
Financing &  
Investment  
Decisions

**PROFIT & LOSS  
ACCOUNT**  
Operating  
Decisions

**CASH FLOW  
STATEMENT**  
Operating,  
Investment &  
Financing Decisions

**Managerial  
Decision  
Making**



# BALANCE SHEET

Financing  
Decisions

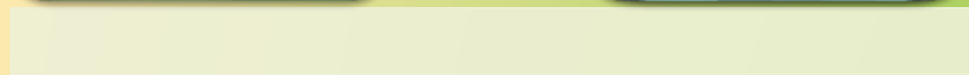
Investment  
Decisions

Equity

Debt

=

Assets



# BALANCE SHEET

Financing  
Decisions

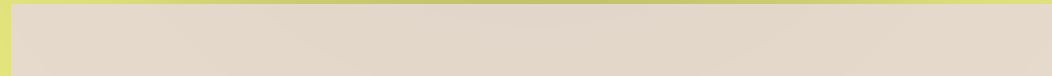
Investment  
Decisions

**Equity**

**Liabilities**

=

**Assets**





# BALANCE SHEET

Financing  
Decisions

Investment  
Decisions

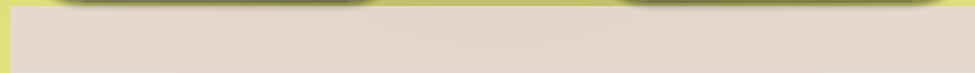
**Equity**

**Non-Current  
Assets**

**Non Current  
Liabilities**

**Current  
Assets**

**Current  
Liabilities**



# Current Liabilities vs Non-Current Liabilities

31<sup>st</sup> March, 2022

31<sup>st</sup> March 2023

## CURRENT LIABILITIES

Liabilities falling due after  
1.4.2022 upto 31/3/2023

## NON-CURRENT LIABILITIES

Liabilities falling due  
after 31/3/2023

# BALANCE SHEET

Financing  
Decisions

Investment  
Decisions

**Equity**

**Non-Current  
Assets**

**Non-Current  
Liabilities**

**Current  
Assets**

**Current  
Liabilities**



# BALANCE SHEET – ASSETS

| ASSETS                          |  |               |               |               |        |
|---------------------------------|--|---------------|---------------|---------------|--------|
|                                 | AS ON 31.3   | 2020          | 2021          | 2022          | 2023   |
| NON-CURRENT ASSETS              | <b>Non-Current Assets</b>                                  |               | Rs in crores  |               |        |
|                                 | Property, Plant & Equipment - Gross                        | 6636          | 8,427         | 8,912         | 10,520 |
|                                 | Less: Accumulated Depreciation                             | -2011         | -2,641        | -3,099        | -4,331 |
|                                 | Property, Plant & Equipment - Net                          | 4625          | 5,786         | 5,813         | 6,189  |
|                                 | Capital Work in Progress                                   | 513           | 623           | 901           | 1,020  |
|                                 | Goodwill   | 36            | 17,316        | 17,316        | 17,316 |
|                                 | Other Intangible Assets                                    | 395           | 27,925        | 27,905        | 27,900 |
|                                 | Investments in subsidiaries, associates and joint ventures | 250           | 310           | 610           | 981    |
|                                 | Financial Assets   |               |               |               |        |
|                                 | Investments  | 2             | 2             | 2             | 2      |
|                                 | Loans  | 453           | 520           | 541           | 339    |
|                                 | Other Financial Assets                                     | 3             | 613           | 720           | 715    |
|                                 | Non-Current Tax Assets (net)                               | 1016          | 1,200         | 1,107         | 1,115  |
|                                 | Deferred Tax assets (net)                                  | 261           |               |               |        |
|                                 | Other Non Current Assets                                   | 140           | 181           | 175           | 199    |
| <b>Total Non Current Assets</b> | <b>7694</b>  | <b>54,476</b> | <b>55,090</b> | <b>55,776</b> |        |
| CURRENT ASSETS                  | <b>Current Assets</b>                                      |               |               |               |        |
|                                 | Inventories  | 2636          | 3,383         | 3,890         | 4,031  |
|                                 | Raw Materials  | 986           | 1,324         | 1,795         | 1,870  |
|                                 | Work in process  | 254           | 428           | 409           | 391    |
|                                 | Finished Goods   | 1325          | 1,542         | 1,580         | 1,651  |
|                                 | Stores & Spares  | 71            | 89            | 106           | 119    |
|                                 | Financial Assets   |               |               |               |        |
|                                 | Investments  | 1248          | 2,683         | 3,510         | 2,811  |
|                                 | Trade Receivables  | 1046          | 1,648         | 1,932         | 2,735  |
|                                 | Cash and Cash Equivalents                                  | 3130          | 1,740         | 988           | 586    |
|                                 | Bank Balances  | 1887          | 2,581         | 2,630         | 3,836  |
|                                 | Other Financial Assets                                     | 1410          | 1,150         | 1,104         | 1,426  |
|                                 | Other Current Assets                                       | 533           | 438           | 580           | 612    |
|                                 | Assets held for Sale                                       | 18            | 17            | 13            | 12     |
| <b>Total Current Assets</b>     | <b>11908</b>   | <b>13,640</b> | <b>14,647</b> | <b>16,049</b> |        |
| <b>Total Assets</b>             | <b>19602</b>   | <b>68,116</b> | <b>69,737</b> | <b>71,825</b> |        |

# BALANCE SHEET – EQUITY & LIABILITIES

|  | AS on 31st March            | 2020         | 2021          | 2022          | 2023          |
|--|-----------------------------|--------------|---------------|---------------|---------------|
|  | <b>EQUITY</b>               | Rs in crores |               |               |               |
|  | <b>Equity Share Capital</b> | 216          | 235           | 235           | 235           |
|  | <b>Other Equity</b>         |              |               |               |               |
|  | <b>Total Other Equity</b>   | <b>7815</b>  | <b>47,199</b> | <b>48,525</b> | <b>49,986</b> |
|  | <b>TOTAL EQUITY</b>         | <b>8031</b>  | <b>47,434</b> | <b>48,760</b> | <b>50,221</b> |

|                                | <b>LIABILITIES</b>                   |             |              |               |              |
|--------------------------------|--------------------------------------|-------------|--------------|---------------|--------------|
| <b>NON CURRENT LIABILITIES</b> | <b>Non Current Liabilities</b>       |             |              |               |              |
|                                | Financial Liabilities                | 670         | 945          | 1,015         | 1,241        |
|                                | Provisions                           | 1198        | 1,551        | 1,553         | 1,335        |
|                                | Non Current Tax Liabilities (net)    | 416         | 1,359        | 1,324         | 1,076        |
|                                | Other Non Current Liabilities        | 183         |              |               |              |
|                                | Deferred Tax Liabilities (net)       |             | 5,986        | 6,141         | 6,325        |
|                                | <b>Total Non Current Liabilities</b> | <b>2467</b> | <b>9,841</b> | <b>10,033</b> | <b>9,977</b> |

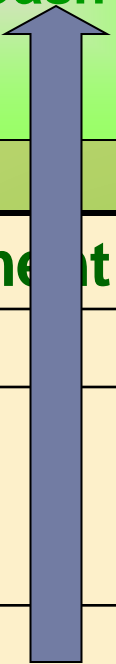
|                            |                                       |              |               |               |               |
|----------------------------|---------------------------------------|--------------|---------------|---------------|---------------|
| <b>CURRENT LIABILITIES</b> | <b>Current Liabilities</b>            |              |               |               |               |
|                            | Financial Liabilities                 |              |               |               |               |
|                            | Trade Payables                        | 7399         | 8,627         | 8,864         | 9,391         |
|                            | Other Financial Liabilities           | 869          | 1,156         | 1,108         | 1,122         |
|                            | Other Current Liabilities             | 418          | 567           | 638           | 735           |
|                            | Provisions                            | 418          | 491           | 334           | 379           |
|                            | <b>Total Current Liabilities</b>      | <b>9104</b>  | <b>10,841</b> | <b>10,944</b> | <b>11,627</b> |
|                            | <b>TOTAL LIABILITIES</b>              | <b>11571</b> | <b>20,682</b> | <b>20,977</b> | <b>21,604</b> |
|                            | <b>TOTAL EQUITY &amp; LIABILITIES</b> | <b>19602</b> | <b>68,116</b> | <b>69,737</b> | <b>71,825</b> |

# in the Financial Statements

|                                  |  |
|----------------------------------|--|
| <b>Profit &amp; Loss Account</b> |  |
| <b>Income</b>                    |  |
| Sales                            |  |
| Other Income                     |  |
| <b>Expenses</b>                  |  |
| Cost of Material consumed        |  |
| Manufacturing Expenses           |  |
| Employee Expenses                |  |
| Selling Expenses                 |  |
| Gen & Admin Expenses             |  |
| <b>EBITDA</b>                    |  |
| Less: Depreciation               |  |
| <b>EBIT</b>                      |  |
| Less: Interest                   |  |
| <b>Profit before Tax</b>         |  |
| Less: Tax                        |  |
| <b>Profit After Tax</b>          |  |
| Less: Dividend                   |  |
| <b>Retained Profit</b>           |  |

|                                 |                    |
|---------------------------------|--------------------|
| <b>Balance Sheet</b>            |                    |
| <b>Equity &amp; Liabilities</b> | <b>Assets</b>      |
| Equity Capital                  | Non Current Assets |
| Other Equity                    |                    |
| Non Current Liabilities         | Current Assets     |
| Current Liabilities             | Cash               |

|                            |  |
|----------------------------|--|
| <b>Cash Flow Statement</b> |  |
| Opening cash balance       |  |
| Operating                  |  |
| Investment                 |  |
| Financing                  |  |
| Closing Cash Balance       |  |



# RETURN ON CAPITAL EMPLOYED

|                                |                          | 2021         | 2022         | 2023         |
|--------------------------------|--------------------------|--------------|--------------|--------------|
| Return on Capital Employed (%) | <u>PBIT</u>              | <u>10825</u> | <u>11871</u> | <u>13242</u> |
| ROCE                           | Capital employed         | 57275        | 58793        | 60198        |
|                                |                          | 18.90%       | 20.19%       | 22.00%       |
| Capital Employed =             | Total Equity +           | 47434        | 48760        | 50221        |
|                                | Non Current Liabilities+ | 9841         | 10033        | 9977         |
|                                | Short Term Borrowings -  |              |              |              |
|                                | Deferred Tax Assets      |              |              |              |
|                                |                          | 57275        | 58793        | 60198        |

## ROCE DECOMPOSITION

|                                  |                             |              |              |              |
|----------------------------------|-----------------------------|--------------|--------------|--------------|
| Return on Capital Employed       | OPM* Productivity of Assets | 18.90%       | 20.19%       | 22.00%       |
| Operating Profit Margin          | <u>PBIT</u>                 | <u>10825</u> | <u>11871</u> | <u>13242</u> |
| OPM                              | Sales                       | 45996        | 51193        | 59144        |
|                                  |                             | 23.53%       | 23.19%       | 22.39%       |
| Productivity of Capital Employed | <u>Sales</u>                | 45996        | 51193        | 59144        |
| (Times)                          | Capital Employed            | 57275        | 58793        | 60198        |
|                                  |                             | 0.80         | 0.87         | 0.98         |

| <b>OPM DECOMPOSITION</b>                    |  |              |              |              |
|---|--|--------------|--------------|--------------|
|   |  | <b>2021</b>  | <b>2022</b>  | <b>2023</b>  |
| Material Cost to Sales (%)                  | <u>Material Cost</u>                     | <u>22068</u> | <u>25143</u> | <u>31197</u> |
|   | Sales                                    | 45996        | 51193        | 59144        |
|   |  | 47.98%       | 49.11%       | 52.75%       |
| Manufacturing Expenses to Sales (%)         | <u>Manufacturing Expenses</u>            | 1705         | 1502         | 1469         |
|   | Sales                                    | <u>45996</u> | <u>51193</u> | <u>59144</u> |
|   |  | 3.71%        | 2.93%        | 2.48%        |
| Employee Cost to Sales (%)                  | <u>Employee Cost</u>                     | 2229         | 2399         | 2665         |
|   | Sales                                    | 45996        | 51193        | 59144        |
|   |  | 4.85%        | 4.69%        | 4.51%        |
| Freight & Handling Cost to Sales (%)        | <u>Freight &amp; Handling Cost</u>       | 1674         | 1801         | 1901         |
|   | Sales                                    | 45996        | 51193        | 59144        |
|   |  | 3.64%        | 3.52%        | 3.21%        |
| Advertising & Sales Promotion to Sales (%)  | <u>Advertising &amp; Sales Promotion</u> | 4737         | 4718         | 4859         |
|   | Sales                                    | 45996        | 51193        | 59144        |
|   |  | 10.30%       | 9.22%        | 8.22%        |
| Admin & Miscellaneous Expenses to Sales (%) | <u>Admin &amp; Misc Expenses</u>         | 2650         | 3146         | 3474         |
|   | Sales                                    | 45996        | 51193        | 59144        |
|   |  | 5.76%        | 6.15%        | 5.87%        |



# RETURN ON EQUITY

| ROE DECOMPOSITION               |                         | 2021        | 2022        | 2023        |
|---------------------------------|-------------------------|-------------|-------------|-------------|
| Return on Net Worth/ Equity (%) | <u>Profit after tax</u> | <u>7954</u> | <u>8818</u> | <u>9962</u> |
| RONW or ROE                     | Shareholders' equity    | 47434       | 48760       | 50221       |
|                                 |                         | 16.77%      | 18.08%      | 19.84%      |
| Net Profit Margin               | <u>Profit after tax</u> | <u>7954</u> | <u>8818</u> | <u>9962</u> |
| NPM                             | Sales                   | 45996       | 51193       | 59144       |
|                                 |                         | 17.29%      | 17.23%      | 16.84%      |
| Productivity of Assets          | <u>Sales</u>            | 45996       | 51193       | 59144       |
| (Times)                         | Assets                  | 68116       | 69737       | 71825       |
|                                 |                         | 0.68        | 0.73        | 0.82        |
| Leverage                        | Assets                  | 68116       | 69737       | 71825       |
| (Times)                         | Shareholders' equity    | 47434       | 48760       | 50221       |
|                                 |                         | 1.44        | 1.43        | 1.43        |