

**Jagan Institute of Management Studies**  
**End-Term Examination, September-October, 2017**  
**Trimester IV – PGDM 2016-18**

**Financial Statement Analysis & Credit Appraisal**  
**ET\_PG\_FSACA\_2809**

Time: 3 Hrs.

M. Marks: 70

**INSTRUCTIONS: Attempt any SIX questions including Q7 which is compulsory.**

**Q 1** The Balance Sheets of MARAS LTD. for the years ended on 31.03.2015 and 31.03.2016 are as follows:

(Amount in Rs. Lakh)

	As at	As at
Equity & Liabilities		
Shareholder's Fund:		
Share capital	696.60	726.70
Equity Share suspense	30.07	-----
Equity Share warrants	-----	841.20
Reserve & Surplus	31,256.89	39,156.40
Non-Current Liabilities:		
Secured Loans	4,784.56	3,300.09
Unsecured Loans	9,128.31	14,939.75
Deferred Tax liabilities	3,491.00	3,936.27
Current Liabilities:		
Other current liabilities	8,432.77	10,522.73
Provisions	856.44	1,496.31
	58,676.64	74,919.45
Assets		
Non-current assets	-----	-----
Fixed Assets (Net)	31,830.23	30,941.81
Capital work in progress	3,764.07	11,502.92
Non-Current Investment:		
Investment	8,125.67	11,031.80
Current Assets:		
Inventories	6,068.25	7,123.77
Trade receivables	1,866.21	3,113.79
Cash and bank balance	917.68	2,140.03
Other current assets	1.53	36.27
Loans and advances	6,103.00	9,029.06
	58,676.64	74,919.45

You are required to

- a) Prepare the Common-Size Balance Sheet of Maras Ltd.  
 b) Present and interpret your observations on the common-size Balance Sheet in points.

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**Q 2** The following are the summarized balance Sheet and Profit & Loss statement of MEGLOW Ltd. Balance sheet as at 31<sup>st</sup> March, 2016

(Amount in Rs. Lakh)

	As at
<b>Equity &amp; Liabilities</b>	
<b>Shareholder's Fund:</b>	
<b>Share Capital:</b>	
Paid up capital (1,00,00,000 equity shares of Rs. 10 each fully paid)	1,000
<b>Reserves &amp; Surplus</b>	
Retained Earnings	300
<b>Non-Current Liabilities:</b>	
<b>Long-term borrowings:</b>	
Debentures	1,750
<b>Current Liabilities:</b>	
Trade payables	450
Other current liabilities	250
<b>Total</b>	<b>3,750</b>
<b>Assets</b>	
<b>Non-Current Assets:</b>	
Fixed assets (Net)	2,000
<b>Current Assets:</b>	
Inventory	1,000
Trade Receivables	437
Cash and cash equivalents	125
Other current assets	188
<b>Total</b>	<b>3,750</b>

Profit & Loss statement for the year ended 31<sup>st</sup> march, 2016

(Amount in Rs. Lakh)

Net Sales		4,000.00
Less: Cost of goods sold		3,275.00
Gross margin		725.00
Less: Administrative and selling	100.00	
Less: Finance Costs (interest expenses)	112.50	
	Total	21
		212.50
Earnings before tax		512.50
Less: Tax paid		179.38
Earnings after tax		333.12

The following Additional Information is available:

Market price per share (Rs.)	30
Earnings per share (EPS) (Rs.)	3.3312
Industry's average Ratios are:	
Quick ratio	1.80 : 1
Current ratio	2.40 : 1
Sales to Inventory	8 times
Average collection period	38 days
Interest coverage ratio	7
Profit margin	7%
Debt to Assets Ratio	40%
Price to earnings ratio	16
Return on Total Assets	10%

MEGLOW LTD. would like to borrow Rs. 125.40 lakh from HDFD Bank for less than a year. Required:

Evaluate the company's current financial position by calculating ratios as per following banks format.

Do you think, the bank should grant the loan?

Ratio	Formula used	Value of ratio of Meglow Ltd.	Industry's average	Remarks
<b>(A) Liquid ratio</b>				
(i) Current Ratio				
(ii) Quick Ratio				
(iii) Inventory turnover ratio				
(iv) Average Collection				
(v) Debt to assets				
<b>(B) Profitability</b>				
(i) Profit margin				
(ii) Price to earnings ratio				
(iii) Return on total Assets				
<b>(C) Coverage</b>				

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**Q 3** What are the various mandatory and non-mandatory disclosures in an annual report of a company? What is the importance of such disclosures for different users of annual reports?

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**Q 4** You are a financial analyst with credit rating agency and responsible for rating their debt instruments. Apart from analyzing financial statements, what is the other non-financial information you will try to extract from annual report for giving your opinion? Also give the reasons of looking at that information. (use the following format.)

Information	Reason
1	
2	
3	
4	
5	

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**Q 5** What do you mean by window dressing? Discuss the ways and indicators to find the problems areas in financial statements.

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**Q 6** Write short notes on :

- a) Contingent liability and its importance in analysis.
- b) Importance of analyzing auditors report.
- c) Du-pont analysis.
- d) Distress prediction

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**Q 7** [Read the case and answer the questions given at the end.](#)

The following financial statements have been extracted from the Annual Report 2015-16 of METCALF TEXTILES Ltd. a largest Textile Company, having a strong presence in over 80 countries in the world.

The company wants to keep its shareholders happy by giving them a fair rate of return. The company is using return on equity (ROE) as one of the metrics of performance evaluation for determining the return for shareholders. Due to intense competition, in recent years, its ROE is under pressure and to maintain the level of ROE, the company is to change its business Model-in that, it is varying its, margin, assets utilization and leverage.

You are required to:

Carryout the DuPont Analysis considering the financial parameters given below and show how the return on equity (ROE) of the company (Metcalf Textiles Ltd.) is changing due to change in its Margins, Assets utilization and Leverage over the period of four years.

Give your comments on the trend of the said parameters.

Statement of Profit & Loss for year ended March 31

(Amount in Rs. crore)

	2013	2014	2015	2016
Total revenue	7998	8992	9976	11804
Profit before tax	1855	1612	1990	2817
Profit after tax	1514	1345	1574	2110
Dividend	225	315	225	225
Tax on dividend	37	51	36	38
Retained earning	1252	979	1313	1847

Balance Sheet as at 31<sup>st</sup> March

(Amount in Rs. crore)

	2013	2014	2015	2016
<b>Equity and Liabilities</b>				
1. Shareholders' fund	225	225	225	225
a. Share capital Reserves and Surplus	8055	9034	10347	12194
2. Non-current liabilities: Loan Funds	7	617	17	1352
3. Current liabilities Deferred Tax	<u>251</u>	<u>296</u>	<u>324</u>	<u>392</u>
	<u>8538</u>	<u>1017</u>	<u>10913</u>	<u>1416</u>
<b>Assets</b>				
1. Non - Current assets: Fixed Assets	3774	4369	4685	5276
2. Non - Current investments Investments	371	799	1449	3642
	<u>4393</u>	<u>5004</u>	<u>4779</u>	<u>5245</u>
3. Current assets	<u>8538</u>	<u>10172</u>	<u>10913</u>	<u>14163</u>

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