

IDENTIFY INDIAN INDUSTRY¹

It was a Friday evening in January 2018, Suchitra, Kanishk, Yogith and Saqib, MBA students of Classic Business School were in deep thought about how to analyse a case that their professor of Finance Dr Kanak Numberwala had asked them to solve. They were supposed to present their case analysis on the ensuing Monday. The table shared with them (Exhibit 2) showed different components expressed in percentages which were seemingly part of the Income statement, Balance sheet, and possibly a combination of both in the form of ratios (Exhibit 1). The professor had announced in class that the ratios were of 14 companies listed in India operating in different industries and asked the students to match the disguised companies with the operational characteristics of each industry listed here.

1. Agricultural Products
2. Airlines
3. Automobile Manufacturer
4. Cement
5. Financial Services
6. Healthcare
7. Hyper Market Chain
8. Real Estate Developer
9. Quick Service Restaurant
10. Retail Jewelry Store
11. Search Services
12. Software Services
13. Steel Producer
14. Hotel Chain

¹ Prof. Latha Ramesh and Prof. Krishna M. C, Institute of Management, Christ University, developed this case study. The case study solely provides material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation.

Christ University prohibits any form of reproduction, storage or transmission without its written permission. Reproduction of this material is not covered under authorization by any reproduction rights organization. To request permission contact ccrd@christuniversity.in Copyrighted©2019, Christ University.

Kanishk helped the group recollect the various techniques of analysing financial statements. He explained that vertical analysis (also called common-size statement) converts each item in the Income statement as a percentage of sales and each item in the balance sheet as a percentage of Total Assets. By this method, it becomes easier to compare the performance of different industries by varied size. Suchitra recalled that Ratio Analysis is another useful technique as it expresses an indicator as a percentage of another related indicator. Kanishk added an example of how Return on Assets (ROA) estimates the relationship between dollar profit and the invested assets, thereby indicating the profitability of the business.

Saqib was overwhelmed with the task was not sure of the relevance of the exercise. Suchitra, who had earlier worked as an analyst in the investment banking firm, explained the strong influence of the nature of the industry on the financial indicators. She added that each industry has a pattern of the financial statements and creating a framework would help them better analyse the performance of the companies with respect to the industry benchmark.

After getting clarity on the significance of the exercise, the team started visualising the financial structure, typical for an industry. They were wondering how many of the companies they might match correctly when the professor would give out the solution the next day.

Exhibit I

Receivable Days	$\text{Receivables} \times 365 / \text{Sales}$
Inventory Days (Days Sales)	$\text{Inventory} \times 365 / \text{Sales}$
Payable Days(Days Sales)	$\text{Payables} \times 365 / \text{Sales}$
EBITDA margin (%)	$\frac{\text{Earnings Before Interest Depreciation Taxes Depreciation and amortisation/sales}}{\text{Sales}} \times 100$
Equity Multiplier	$\frac{\text{Total assets}}{\text{Equity}}$
Asset Turnover	$\frac{\text{Revenue from operations/ Total assets}}{\text{Total assets}}$
Return on Assets	$\frac{\text{Net Profit/Total Assets}}{\text{Total Assets}}$
Current Ratio	$\frac{\text{Current Assets/ Current Liabilities}}{\text{Current Liabilities}}$

Exhibit II

Company Code	A	B	C	D	E	F	G	H	I	J	K	L	M	N
INCOME STATEMENT (Common Size)														
Excise Duty	0	13	7	0	11	0	0	13	0	1	0	0	0	0
Material Expenses	0	68	0	0	28	22	0	14	25	9	84	9	46	31
Purchase of Stock in Trade	0	5	88	0	2	4	0	2	0	0	14	0	0	2
Employee Cost	10	3	2	55	11	23	50	6	21	10	2	26	9	49
Fuel and Electricity	50	0	0	0	0	0	0	17	0	0	0	0	0	0
BALANCE SHEET (Common Size)														
Plant Property & Equipment	66	32	52	6	64	57.5	10	59	55	6	18	35	0	85
Inventory	3	6	23	0	7	4	0	8	4	56	78	1	0	4
Trade Receivables	2	5	0	0	1	1	27	4	10	4	0	2	66	2
Trade Payables	39	18	7	1	6	23	7	8	14	11	21	3	77	6
RATIOS														
Receivable Days	2	8	0	0	43	1	78	11	35	130	0	27	3184	12
Inventory Days	164	15	18	0	71	3	0	35	14	362	90	8	0	13
Payable Days	63	49	9	12	102	49	25	56	45	76	2	66	0	57
EBITDA Margin (%)	11	11	5	8	36	17	23	27	10	25	7	29	23	6
Equity Multiplier (times)	-2.81	0.39	0.24	0.41	-0.43	0.47	0.19	0.30	0.31	2.02	1.50	0.64	11.36	2.00
Asset Turnover (times)	2	1	2	1	0	2	1	1	1	0	3	0	0	1
Return on Assets	14	14	8	10	3	5	28	7	6	2	3	2	2	-1