Project Dissertation Report on

Financial Performance Analysis of V-Guard Industries: To Make Investment or Disinvestment Decisions

Submitted By

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CERTIFICATE

This is to certify that the work titled **‘Financial Performance Analysis of V-Guard Industries: To make investment or disinvestment decision’** as part of the final year Major Research Project submitted by Aditya Sinha in the 4th Semester of MBA, Delhi School of Management, Delhi Technological University during January-May 2021 is his original work and has not been submitted anywhere else for the award of any credits/ degree whatsoever. The project is submitted to Delhi School of Management, Delhi Technological University in partial fulfillment of the requirement for the award of the degree of Master of Business Administration.

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DECLARATION

I hereby declare that the work titled **'Financial Performance Analysis of V-Guard Industries: To make investment or disinvestment decision'** as part of the final year Major Research Project submitted by me in the 4 th Semester of MBA, Delhi School of Management, Delhi Technological University, during January-May 2021 under the guidance of Dr. Abhinav Chaudhary is my original work and has not been submitted anywhere else

The report has been written by me in my own words and not copied from elsewhere. Anything that appears in this report which is not my original work has been duly and appropriately referred/ cited/ acknowledged.

Aditya Sinha

(2K19/DMBA/05)

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I have put all my efforts to ensure that the project is completed in the best possible manner and also ensured that the project is error-free.

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ABSTRACT

Financial analysis referred to financial statement analysis or in other words it is the assessment of the stability, viability and profitability of a business. The thought behind this examination is to break down the monetary situation of the organization. This research is done with assistance of the information which is gathered from the yearly report, quarterly reports of the organization. Also, some industry reports from big four were consulted for the research. The financial performance was measured by using various financial tools such as profitability ratio, solvency ratio, turnover ratio, relative valuation etc.

In view of the analysis, discoveries have been shown up that the organization has got sufficient assets to meet its obligations and liabilities, the income statement of the company shows net profit of the company is projected to decrease in next two year. So long term investment V- Guard is not suggested for investment purpose. Although short selling intraday trading will be suggested for V Guard Industries. More over for investment purpose other stock such as Siemens which is a large cap consumer durable company is available at relatively lower industry price.

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CHAPTER 1
INTRODUCTION

1. Background

1.1 Macroeconomic Factors

- Numerous macroeconomic essentials keep on supporting the case for India as the high-expected market for retail, which incorporates:
- India is the quickest developing significant economy and second biggest by populace, representing 17% of the total populace and 3% of the worldwide utilization. It has the most elevated utilization development among the main 10 nations positioned by size of HFCE.
- Per capita pay in India has almost quadrupled since the beginning of the century, ascending from 452.4 USD in 2000 to 1577.6 USD in 2020. This has placed more discretionary income in the pockets of buyers who are not short of expenditure it.
- The utilization development in India can be ascribed to the popularity-based ascent in prosperity, which isn't restricted to simply the metros or a restricted level of pay.
- **Growth in young urban consumers and nuclear families:** 47% of the populace is younger than 25 years and India is scheduled to be the most youthful country by 2020.4 Further, rising urbanization (27% toward the start of the century to 32% in 2015) and expansion in the female cooperation in the labor force are additionally making a period starved purchaser bunch which is probably going to pay a premium for comfort. Family units are likewise expanding, with 70% families with an atomic develop, up 13% in the course of recent many years – and family units burn through 20–30% higher than joint families.
- **Growth in aspirations:** There is a growing trend among Indian buyers to 'upgrade' to tagged things from those supplied 'free,' paying for administration and lodging. This is due to a shift in sector structure,

increased awareness of global patterns, a quest for better products, and a focus on better living.

- **Digital influence:** In India, digital entry is rapidly growing: 13 percent of the population owns a cellphone, 91 percent of whom use it to seek for products to buy, and 54 percent have completed a transaction. This level of advanced development corresponds to a population that has 37 percent Internet access and is growing at a CAGR of 31 percent, which is greater than China and the United States. This appears to be an excellent fit for the e-commerce sector.

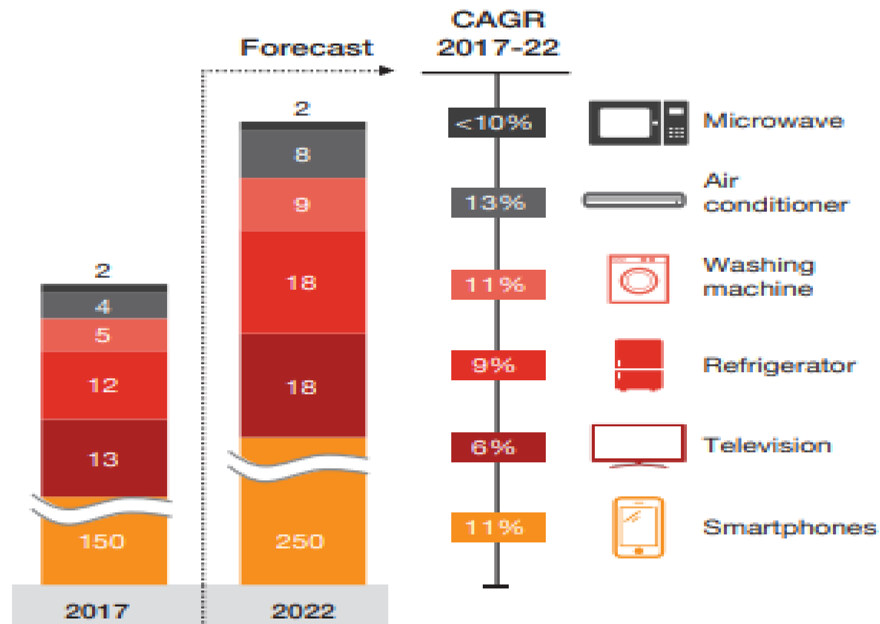
1.2 Industry Analysis

The Electrical Equipment: The industry of electrical equipment is segmented into products such as cable, switchgears, Transformers, transmission lines, solar equipment etc. With the increase in the population in both rural and semi urban areas of India the demand in electrical equipment in the household as well as in the industry has increased. The electrical equipment industry is expected to grow with a CAGR of 9% from 2020 t0 2025.

Electronic industry: India witnessed a substantial growth in demand of electronic product in last few years this is mainly due to demand of electronic chips in the electrical equipment. The Government of India has given the high priority to the Electronic Hardware Manufacturing India as a core activity of digital and start-up program. With various government initiatives to boost the domestic manufacturing and assembling electronic systems India is on the way to generate US$ 1trillion of economic value by year 2025.

Consumer Durable Industry: All the electrical products such as fans, air cooler, kitchen equipment's, electric water heaters, refrigerators etc falls under consumer durable products. this industry is expected to witness high demands in rural India in coming years. The demand is also likely to accelerate with the rising disposable income and easy access to credit. consumer durables market research rupees Rs.76,400 crores in 2019. appliance and consumer electronics industry are expected to reach Rs.1.48 Lakh crore by 2025.

Figure1: Forecasted Growth in Consumer Durable and Electronic Product



Source: Pwc's consumer durable industry report

Coming up next are the patterns that we hope to see for the following 5 years in the tough business all in all:

1. Venture into new portions: Many new players are entering the purchaser strong area as the future looks encouraging.

2. Expanded moderateness and rising earnings: Advancement in innovation and higher contest are driving value decreases across different customer strong item sections.

3. Zero in on energy-effective and climate well-disposed items: Companies additionally plan to expand the utilization of climate amicable parts and lessen e-squander by advancing item reusing. India has made it compulsory for assembling organizations to control outflows from environment harming refrigerants (model: in the AC fragment, numerous organizations have begun zeroing in on just invertor ACs).

4. Amazing cutthroat and showcasing technique: Traditional deals models are gradually offering approach to on the web and online media related deals and

aiding increment the impression of a significant number of the versatile handset suppliers just as new contestants to the market.

2. Objective of Study

1. To examination and dissect monetary execution of V- Guard Industry.
2. To build a two-year projected financial statement considering Current Macro Economic Factors, Industry Growth and Company Performance.
3. To know the solvency, profitability, and the financial strength by evaluating financial statement.
4. To compare the financial performance by doing the relative valuation of the small cap consumer durable company.
5. Recommend the investment or disinvestment decision to the investors.

3. Scope of Study

1. The study is basically confined to study the financial health of V- Guard Industry.

2. The examination assists with assessing the dynamic concerning the monetary presentation.

3. The investigation is completed with the assistance of four years budget summary of the organization.

4. The study would help investors to make investment decision in company.

5. It would help to understand the consumer durable industry and macro-economic factors influencing it.

CHAPTER 2
Literature Review

2.1 Literature Review

The literature review in such a manner was undertaken to identify the various methods and approaches used for the study related to the topic. It describes about the work that has already been done in the research area.

(Brealey and Myers, 2001) Fundamental investigation is one that is based on the financial reports, outline, and other financial profile of a company. A specialized inquiry is an investigation based on market quantifiable data collected by a body that displays the expansion and decline of a market. diminishing sought after furthermore, supply. Learning money is an endeavor to comprehend about monetary administration, monetary revealing and monetary choices

James Clausen (2009), He express that to assess how well a business is performing, a ratio analysis of the pay structure and financial records is used. The learn proportion examinations of the pay explanation and accounting report, he said. Two important reports that demonstrate the benefit and total assets of the organization are the pay proclamation and the monetary record. It investigates how effectively the firm is performing in terms of benefits vs deals. He also demonstrates how effectively the resources are doing in terms of generating revenue. He describes the pay announcements as "showing the organization's net benefit by subtracting expenses from net benefit.".

As indicated by Moyer et al. (2011), monetary proportions investigation is utilized to address three principal purposes. In the first place, it is utilized as a scientific instrument in distinguishing the qualities and shortcomings of the firm just as to evaluate its feasibility as a continuous undertaking or to decide if an acceptable return can be acquired for the danger taken. Second, monetary proportions are helpful as observing apparatuses for guaranteeing the

organization destinations are viable with its assets. Third, monetary proportions assume a compelling part in wanting to accomplish the organization's objectives. Monetary proportion is a relationship that shows a company's exercises. Monetary proportions empower an investigator to make an examination of an association's monetary condition over the long run or comparable to different firms.

Tariq Zafar is a writer who lives in Pakistan (2012) The author conducted research into the fact that the ratios are calculated using monetary articulations' that are built up as desired by the administration and approaches received on degradation and stock characteristics, resulting in just a collection of financial realities that can't generate a complete and accurate picture of the firm Furthermore, distinct components that impact execution may or may not be present. They found that to control chief's administration regularly abuse ratio and focus more on improving the ratios and furthermore known reality that ratio is straightforward correlation of numerator and a denominator and in contrasting ratios it become troublesome with arbitrate whether contrasts are because of progress in the numerator or denominator or in both. It is additionally discovered that ratios are interconnected however are regularly treated by the board in detachment and furthermore discovered that analysis of ratios need realness as information utilized in computation are not exact but rather controlled show by the advertisers.

Manoj Kumara (2015), The author attempted to determine the monetary presentation of selected vehicle businesses in India using monetary execution bounds. It can be reasoned that the intended contributions to the company from this study are to assist key masterminds in focusing on the appropriate actions that have a latent and steady influence on their automobile execution. This exploration works with a far-reaching model for inspecting the monetary exhibition of auto execution what's more, the significant discoveries of this exploration will give a significant boundary and assists with filling a comparison gap in the text This logical strong fit model, with an R-square of 54 percent, demonstrates the impact of autonomous variables on subordinate variables. To reveal and examine the overall hierarchical advancement execution, further

study is needed to focus on crucial limits such as Economic Value Added and Refined Economic Value Added.

(Didin, 2017) The budget reports are monetary records include earnings, monetary records, benefit misfortunes, and capital changes that are used by business executives to make financial decisions. The monetary condition of an organization is represented by fiscal reports, which include a monetary record of benefit/misfortune estimates as well as other monetary data such as earnings and held profit. The monetary status of a company is represented by fiscal summaries, which include an asset report of benefit or loss estimates as well as other monetary data, such as revenue and pay explanations.

2.2 Research Gap:

In all the research paper above, financial performance analysis is done on majorly sectors related to banks, footwear industry. Rarely any research paper has been made for consumer durable sectors or home electronics sector. So, this paper will try to full fill this gap by giving the insights about performance of consumer durable industry as well as a specific company.

CHAPTER 3
Research Methodology

1. Data Collection

The data for the project has been collected from secondary source which is the annual reports of the company. In the annual report, specifically financial statements and notes of financials has been taken. In the financial statements we have analysed the balance sheet, income statement and cash flow statement. For the data collection purpose annual report of pervious four year has been consulted, that is 2016-17,2017-18, 2018-19, 2019-20. Also, some research paper and reliable web source (IBEF) is consulted for that matter.

2. Data Analysis

In order to study the company, the financial statements which include balance sheet, income statement and cash flow statement are analysed by performing Ratio Analysis, DCF valuation which is followed by relative valuation. The tool used to analyse the data is Microsoft Excel.

3. Research Design

For the study analytical design is chosen. In these kind of research facts are finds out about the given topic and answers are given to develop new ways of doing things. The analytical usually works upon cause-effect relationship.

4. Tools Used for Analysis

The following tools are used for analysis,

A. Ratio analysis

1.) Liquidity Ratio

1) Current Ratio
2) Quick Ratio
3) Working Capital Ratio

2.) Profitability Ratio

1) Gross Profit Margin
2) EBITDA Margin

3) Net Profit Margin

4) Return on Asset

5) Return on Equity

6) Return on Investment

3) Efficiency Ratio

1) Account Receivable Days

2) Account Payable Days

3) Inventory Days

5. The Basics of Ratio Analysis

1. Ratio Analysis is the techniques for figuring and deciphering monetary ratios to survey the association's exhibition and status. It's a compelling device of monetary analysis. It very well may be utilized to think about the danger and return connections of different firms of various sizes. Ratio analysis is characterized as the methodical utilization of ratio to decipher the budget reports to comprehend the qualities and shortcomings, authentic execution and current monetary state of a firm. Ratio analysis isn't just the utilization of a recipe to monetary information to compute a given ratio, it is the understanding of the ratio esteem.

2. Ratio analysis considers levels and the progressions of relative estimations of monetary execution. This technique is the most generally utilized on the planet practices of monetary analysis due to its overall straightforwardness and accessibility of information sources. While utilizing the ratio analysis one can tell how productive a business is: to show in the event that it has sufficient cash-flow to meet its commitments and even propose whether its investors are fulfilled by an expanding worth of the organization or not. Ratio analysis assists with affirming whether an organization is performing preferred in the current year over earlier year; it additionally tells how a firm is performing contrasting and the comparable firms in industry. The appropriate use of a ratio relies upon right prudent and monetary importance of that ratio. To be helpful, both the significance and limits of a picked ratio

must be perceived. Significant ratio analysis should affirm to the accompanying components:

1. The viewpoint of the analysis taken
2. The objectives of the analysis
3. The potential standards of comparison

The data contained in the principle fiscal summaries has significant importance to different invested individuals who consistently need to have relative proportions of the organization's business effectiveness. Monetary analysis led for the need of outsiders is outer by its temperament and regularly called "analysis of budget reports". The analysis of budget reports depends on the utilization of ratios. The lone information sources to ratio analysis are the company's budget reports.

Grouping of monetary ratios in four distinct sorts:

1. **Coverage Ratios:** A coverage ratio is a proportion of a company's capacity to "cover" certain monetary commitments. The denominator is a commitment and the numerator is the measure of the assets accessible to fulfill that commitment.

2. **Return Ratios:** A return ratio is net advantage acquired from a specific venture (assets/comparative action). The numerator is the net consequence of an operation and the denominator is the assets spent for that operation.

3. **Turnover Ratios**: A turnover ratio is a proportion of how much a firm gets from its resources. It looks at the gross profit by a movement with the assets utilized in it.

4. **Component Percentage**: A component rate is the ratio of one sum in a budget summary, like deals, to the all out of sums in that fiscal report.

- To make right ends on proportion investigation, two kinds of proportion examinations ought to be made: cross-sectional methodology and trend-breaking down technique.

1. Cross-Sectional Analysis: This examination includes correlation of various company's monetary proportions throughout a similar timeframe. It typically concerns at least two organizations in comparative lines of business. In these, the organizations is keen on

how well the organization has acted according to different firms in same industry.

2. Trend Analysis (or Time-Series Analysis): In trend investigation, proportions are analyzed throughout some undefined time frame (a long time). Examinations in years can feature trends and point up conceivable requirement for activity. Trend investigation works best with three to five years of proportions. The hypothesis behind time-arrangement investigation is that the organization should be assessed corresponding to its past exhibitions, developing trends should be separated and proper move should be made to coordinate the firm towards prompt long haul objectives. Time-arrangement investigation is frequently useful in checking the sensibility of an association's projected budget reports. Absolutely, the most instructive way to deal with proportion investigation consolidates both cross-sectional and trend examination. A joined perspective makes it conceivable to evaluate the trend in the conduct of the proportion corresponding to the trend for the business.

We can utilize Financial Ratios to assess five parts of working execution and monetary conditions:

- Profitability of company
- Return on investment
- Liquidity in company
- Activity in company
- Financial Leverage

There are several ratios revealing each of the five aspects of firm’s operating performance and financial condition. They are as follows:

5.1 Liquidity Ratios

The liquidity of a firm is estimated by its capacity to fulfill its transient commitments. Liquidity also refers to an organization's ability to convert its assets into cash more quickly and at a lower cost. Such flexible resources are critical for addressing "monetary emergencies" and serving as a support for an organization's operations. The liquidity ratio reflects an organization's current monetary strength or dissolvability.

The liquidity of a commercial firm is usually of particular concern to its temporary leasers, since it forecasts the firm's ability to pay those banks. The firm's liquidity is measured by a few monetary proportions. The current proportion, the quick proportion or analysis, the cash percentage, and net working capital are the four proportions.

Current Ratio: The current proportion, perhaps the most well-known and significant monetary proportions, which estimates the organization's ability to fulfil its immediate obligations using just present resources. The segments of current resource comprise of - resources and money that can without much of a stretch be transformed down into cash counterparts and the current liabilities. Current Liabilities comprises of installments that an organization hopes to make sooner rather than later. Consequently, The edge of liquidity is estimated by the percentage of current resources to current obligations. It's referred to as the present proportion. The present liquidity percent is one of the most well-known and often used.

$$Current\ Ratio = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

The higher the current ratio, the better equipped an organization is to meet its obligations, since it has a greater amount of current resource value in comparison to the value of its transitory liabilities. what's more, the more prominent is the wellbeing of assets of momentary lenders. Hence, current proportion, as it were, is a proportion of edge of wellbeing to the loan bosses.

Note that a large ratio of current resources for current liabilities may indicate sloppy administration practices, as it may signal excessive inventories for current requirements due to helpless stock administration, extreme money due to helpless money the board, and helpless credit the executives in terms of overextended sales records. In this manner, an organization ought to have a sensible current proportion.

The aftereffect of having a high current percent means having better liquidity and more noticeable asset security momentary lenders which decreases the danger to the banks yet. Because current resources are less helpful than fixed

resources, production is a penance. A extremely low current ratio indicates be the inverse of the previously indicated greater current proportion.

Quick (Acid-Test) Ratio: Quick Ratio estimates liquidity by thinking about just speedy resources. It estimates the ability of a company to pay all of its extraordinary liabilities when they become due using only resources that can be quickly converted to cash. Cash, cash reciprocals, appealing safeguards, short-term speculations, and current record receivables are among them. The quick ratio is a metric that gauges an organization's ability to satisfy its short-term obligations with its most liquid resources. For instance, inventory has a fairly low liquidity since selling it may need lowering expenses and a firm. needs to discover a purchaser on the off chance that it needs to exchange the stock, or transform it into cash. Discovering a purchaser isn't in every case simple. On the opposite side, cash, transient protections, and bills that clients have not yet paid, are more fluid. The fast proportion gives, a keep an eye on the liquidity of an organization as demonstrated by its present proportion. The speedy proportion is a more thorough and infiltrating trial of the liquidity position of an organization.

$$Quick\ Ratio = \frac{Cash + Securities + (accounts\ and\ notes\ receivable)}{Current\ Liabilities}$$

By and large, a quick ratio of 1:1 is considered as agreeable as an organization can without much of a stretch meet every single current case. On the off chance that an organization has speedy proportion under 1, is consider that it can't right now completely take care of its present liabilities.

Cash Ratio (Absolute liquidity proportion): The most fluid resources of the organizations are cash and monetary instruments. This proportion estimates an organization's capacity to take care of momentary liabilities with profoundly fluid resources. These resources have an outright liquidity and permit reclaiming all commitments quickly. The suggested worth of this proportion is 0.2 to 0.5

$$Quick\ Ratio = \frac{Cash + Securities + (short\ term\ Securities)}{Current\ Liabilities}$$

Operating Cash Flow Ratio: The number of times a corporation can pay off existing obligations with cash earned in the same period is measured by this ratio. Current debt obligations consist of long-term debt maturities as well as notes due.

$$Operating\ Cash\ Flow\ Ratio = \frac{Cash\ Flow\ from\ Operations}{Current\ Liabilities}$$

These liquidity measures are only indications of a financial position problem intended to draw the attention of a concerned party. There are no substitutes for a comprehensive financial strategy that ensures a company's ability to pay its payments. Because short-term assets and liabilities may be rapidly modified, liquidity ratios have a negative aspect.

5.2 Profitability Ratio

Gross Profit Margin: This ratio estimates the level of deals cash staying after the firm has paid for the raw material. Higher the gross net revenue the better and the lower the relative cost of sales. An organization ought to have a sensible gross edge to guarantee the satisfactory inclusion for operating costs of the organization and adequate re-visitation of the proprietors of the net total sales margin reflects the success of the company. The gross profit margin (GPM) is a measure of how profitable a company is calculated as follows:

$$\text{Gross profit margin} = \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sales}} = \frac{\text{Gross profit}}{\text{Sales}}$$

In practice, a company's gross profit margin should be consistent. It shouldn't alter greatly from one period to the next unless the business it's in has gone through significant changes that will affect the costs of items supplied or the methods used to evaluate them.

Operating Profit Margin: It calculates the proportion of each monetary unit left after all costs and expenses have been removed, except interest, taxes,

and preferred stock dividends. It addresses the unadulterated benefit acquired on every deal. Operating benefits are unadulterated on the grounds that they overlook any monetary and government charges and measures just the benefit acquired on operations. On the off chance that an organization's edge is expanding, it is procuring more per 1 money related unit of deals. A high operating net revenue is liked.

$$Operating\ Profit\ Margin = \frac{Operating\ Profits}{Sales}$$

Net Profit Margin: After all expenses and costs, such as interest, burdens, and preferred stock profits, the net profit margin estimates the amount of each monetary unit left after all expenses and costs, including interest, burdens, and preferred stock profits, have been eliminated.

$$Net\ Profit\ Margin = \frac{Profit\ after\ Tax}{Sales}$$

Return on Assets (ROA): Measures the general adequacy of the executives in producing benefits with its accessible assets. An organization is productive on the off chance that it can create a sufficient return while utilizing the base measure of assets. Productively working organization doesn't need a lot of money for regular tasks and can move its overabundances to interests in new circles. Therefore, the ROA is viewed as a basic proportion for deciding an organization's general degree of working effectiveness and it shows how much benefit was procured on the all-out capital used to make that benefit. Here, the productivity proportion is estimated as far as the connection among net benefits and assets. This may likewise be called benefit to-resource proportion. The equation is as per the following

$$Return\ on\ Assets = \frac{Net\ Profits}{Total\ Assets}$$

Return on Equity (ROE): The profit from equity productivity ratio that measures a company's ability to generate profits from its investors' stake in the company. Overall, the profit from equity percentage demonstrates how much benefit each rupee of normal investor stock generates. The profit from equity estimates the return procured on the proprietors' capital (both liked and

normal investors') as a marker of the board's presentation. Exceptional yield on equity shows viable administration execution however low profit from equity demonstrates incapable administration execution.

$$Return\ on\ Equity = \frac{Net\ income}{Shareholders\ Equity}$$

Return on Capital Investment: This ratio demonstrates the effectiveness and benefit of an organization's capital speculations. This ratio gives adequate understanding how effectively the long-term assets of proprietors and banks are being utilized. The higher the proportion, the more proficient is the utilization of capital utilized.

$$Return\ on\ Capital\ Employed = \frac{EBIT}{Total\ Asset - Current\ Liabilities}$$

5.3 Efficiency Ratio

Inventory Turnover: This ratio addresses the occasions the measure of accounts receivable is gathered consistently. All things considered; accounts receivables are gathered during a year. The accounts receivable turnover ratio works with the normal assortment time frame ratio to decide the nature of an association's receivables and the proficiency of the company's assortment and credit arrangements.

A high turnover ratio is for the most part something to be thankful for since it implies that clients are covering their bills on schedule. On the off chance that the turnover ratio is excessively high when contrasted with the business the organization is in, it might mean, notwithstanding, that the organization is too prohibitive in its credit and assortment arrangements and not stretching out credit to enough clients.

It is calculated as follows:

$$Inventory\ Turnover = \frac{Cost\ of\ Goods\ sold}{Average\ Inventory}$$

By and large, a high stock turnover ratio is superior to a low ratio. A high ratio suggests great stock administration. However, an extremely high ratio requires a cautious examination. It could be characteristic of underinvestment in, or low degree of stock. An exceptionally low degree of stock has genuine ramifications. It will antagonistically influence the capacity to satisfy client need as it may not adapt to its necessities. That is, there is a threat of the organization being unavailable and bringing about high stock out cost. Almost certainly, the organization might be following a strategy of renewing its stock in an excessive number of little sizes. Aside from being expensive, this arrangement may impede the creation cycle as adequate load of materials possibly accessible.

In the same way, a low inventory turnover ratio is risky. It denotes an excess of inventory or an overabundance of merchandise. Excessive inventory comes at a cost in terms of interest on cash held in escrow, renting of space, and probable degradation, among other things. Inferior quality items, overvaluation of closing inventories, stock of unsellable/obsolete items, and purposeful over purchases in expectation of future price increases, among other factors, can all contribute to a low ratio. As a result, a company's inventory turnover should be neither too high nor too low.

Days in Receivables: The Days in Receivables ratio shows how long it takes consumers to pay back their accounts on average (if for a company, how many days are needed to collect their revenues).

$$Days\ in\ receivable = \frac{Average\ account\ receivable}{Average\ Sales} * 365$$

The Days in Payables: Days in Payables is a metric that displays a company's average payable period. It's a measure of how long it takes a corporation to pay its creditors or suppliers.

$$Days\ in\ Payable = \frac{Average\ accounts\ Payable}{Avrage\ cost\ of\ sales} * 365$$

5.4 Limitation of Ratio Analysis

Ratio Analysis have certain impediments related with them and ought not to be applied as clear answer. Ratios are normally applied to decide monetary outcomes and to settle on administrative choices as they can give organizations execution or monetary circumstances.

Some Limitation with Ratio analysis are as follows:

- Ratios that deviate greatly from the norm simply show the consequences of a problem. To isolate the causes of the problem, it is necessary to do additional analysis based on internal data on a regular basis. Ratio analysis just concentrates on feeble aspects that are predicted. It does not provide incontrovertible proof; rather, it just indicates the presence of a problem.
- Because there is no "correct" figure for the various ratios, a great deal of subjectivity is necessary. Furthermore, arriving at an obvious resolution is difficult when some of the ratios are optimum and others are negative.
- Because of a variety of factors, such as exceptional bookkeeping practices or different financial year time frames, ratios may not be stringently tantamount for separate businesses. Furthermore, if a company has a wide range of product offerings, it may be difficult to determine which business class it belongs to. Similarly, just because a single ratio is higher than the average doesn't always mean that the company is doing well; it's possible that the remainder of the company is struggling.
- Ratios depend on budget reports that mirror the past and not the future Furthermore, fiscal summaries, The monetary record, for example, shows the image at "one point" on the timetable, and hence may not be representative of longer periods.

CHAPTER 4

Analysis/ Discussion and Recommendation

1. Introduction to Case

V- Guard is a small cap consumer durable company having its manufacturing plant in Kerala. From an investor's perspective a large amount of wealth can be earned from the stocks which is still a small cap company. Because a small cap company has the scope of becoming a mid-capital or large capital company. Long term investment in a good small cap company is favourable. Form the V- Guard's management it was conveyed to general public, that the company is planning to expand its operation in north India. So, through the analysis of below financial statements, we will try to understand whether it will be beneficial to invest in V- Guard Industry for next 2 years.

2. Data Collection:

1.1 Income Statement – Income Statement is one of the financial statements, in which summery of all the revenue and expenses over the time period is noted. It records all the profit and loss in the business activity of the company.

Table1: V Guard's Income Statement

	Historical	*Historical*	*Historical*	*Historical*	*Projected*	*Projected*
INCOME STATEMENT	**2017**	**2018**	**2019**	**2020**	**2021P**	**2022P**
Sale of products	210,312.05	230,726.69	256,212.29	248,103.46		
Services of products	24.04	18.60	20.49	12.88		
Sale of Scrap	1,084.31	1,487.86	1,755.57	1,455.53		
Revenue	**211,420.40**	**232,233.15**	**257,988.35**	**249,571.87**	**262,050.46**	**290,876.01**
Growth (%)		9.84%	11.09%	-3.26%	*5.00%*	*11%*
Cost of raw materials consumed	58,546.55	65,715.75	82,048.39	78,188.38		
Purchase of stock-in-trade	94,520.12	98,992.80	103,059.67	99,051.52		
(Increase)/ decrease in inventories	(5,268.66)	(2,846.94)	(4,458.08)	(11,064.15)		

Cost of Goods Sold	147,798.01	161,861.61	180,649.98	166,175.75	180,953.65	200,858.56
% of Sales	*69.91%*	*69.70%*	*70.02%*	*66.58%*	*69.05%*	*69.05%*
Gross Profit	63,622.39	70,371.54	77,338.37	83,396.12	81,096.81	90,017.46
% of Sales	*30.09%*	*30.30%*	*29.98%*	*33.42%*	*30.95%*	*30.95%*
Employee Benefits Expenses	14,394.70	17,197.18	20,539.88	20,882.60	22,970.86	25,267.95
% y-o-y growth		*19.47%*	*19.44%*	*1.67%*	*10.00%*	*10.00%*
Other Expenses	25,510.34	34,477.65	35,780.08	37,436.63	36,543.93	40,563.76
% of Sales	*12.07%*	*14.85%*	*13.87%*	*15.00%*	*13.95%*	*13.95%*
EBITDA	**23,717.35**	**18,696.71**	**21,018.41**	**25,076.89**	**21,582.02**	**24,185.75**
% of Sales (EBITDA Margin)	*11.22%*	*8.05%*	*8.15%*	*10.05%*	*8.24%*	*8.31%*
Depreciation and Amortisation	1,623.53	1,967.76	2,300.89	2,938.14	2,745.54	3,070.99
Operating Income (EBIT)	**22,093.82**	**16,728.95**	**18,717.52**	**22,138.75**	**18,836.48**	**21,114.76**
Interest Expense (Finance Cost)	210.06	204.07	176.04	416.12	375.28	375.28
Pre-tax Income (EBT)	**21,883.76**	**16,524.88**	**18,541.48**	**21,722.63**	**18,461.20**	**20,739.49**
Income Tax Expense	7,637.43	5,767.18	6,470.98	7,581.20	6,442.96	7,238.08
Tax Rate	*34.90%*	*34.90%*	*34.90%*	*34.90%*	*34.90%*	*34.90%*
				34.90%		
Net Income	**14,246**	**10,758**	**12,071**	**14,141**	**12,018**	**13,501**

Source: Annual Reports and Calculation

2.2 Assumptions Behind Future Year Projections-

- **Revenue Growth (%)-** The revenue growth increased from 9.84% to 11.09% in FY18 to FY19 then revenue growth has decrease to -3.26% in FY20 due to floods in Kerala, where V Guards manufacturing facility exists. For FY 2021 the growth in revenue in comparison to FY2022 is expected to increase by 5%. Also, in the upcoming years if the covid situation gets improve, the company is expected to give revenue growth of 11% in FY22.

- **Percentage of Cost of Goods Sold to Revenue-** The ratio of COGS to the Revenue generated is consistent throughout 2017 to 2020 which is around 70% So for the projection of FY21 & FY22 the ratio is assumed to be 69.05, which is the average of previous 4 Financial Years.
- **Percentage of Gross Profit to Sales-** The ratio of gross profit to sales by for FY21 and FY22 is projected to be 30.95% coming out by dividing gross profit by sales of that particular year.
- **Employee Benefit Expenses-** The growth in employee benefit for FY2020 is calculated by taking the average to employee benefit expense from year FY2018 to FY2020. Which is coming out to be 10%.
- **EBITDA Margin-** The EBITDA margin is calculated by dividing the EBITDA by the sales of the company and coming out to be 8.24%, 8.39% for FY2021, FY2022.
- **Depreciation and Amortisation-** The straight-line approach is used to compute depreciation and amortisation, with a depreciation rate of 10% assumed.
- **Finance Expense-** Finance expense it is also known as interest expense for the short term loans the rate of interest charged was 9% and for long term loans the interest charged was 7%.
- **Tax Rate-** The income tax rate levied on the V Guard as stated in annal report is 34.90% in the corporate tax category.
- **Net Income-** It is also known as net profit, it is the actual profit which remains in the hand of management after clearing all the expenses, taxes. For FY2020 the net profit is 141.4 Crore and it is projected for FY2021 net profit will be 120 Crore, in FY2022 net profit will be 135 Crore.

2.3 Balance Sheet - A balance sheet is a financial statement that illustrates a company's or a business's financial situation. At the conclusion of the accounting year, it captures all data connected to the company's assets and liabilities.

Table 2: V Guard's Balance Sheet

BALANCE SHEET	2017	2018	2019	2020	2021P	2022P
Current Assets						
Current Investments	8887.02	7516.04	8312.78	3600.14	3600.14	3600.14
Inventories	27433.44	31649.18	37639.44	47895.35	52055.16	58331.53
Trade Receivables	31211.81	44927.84	45909.32	32430.14	42516.60	47193.43
Cash and Cash Equivalents	1496.37	538.41	8569.61	11155.35	8544.73	11836.38
Short Term Loans and Advances	271.51	250.81	333.06	488.80	488.80	488.80
Other Current Assets	2877.34	6742.52	7849.08	10475.43	10475.43	10475.43
Total Current Assets	**72177.49**	**91624.80**	**108613.29**	**106045.21**	**117680.86**	**131925.71**
Non-Current Assets						
Property, Plant & Equipment	16368.08	20735.58	22140.02	27455.41	30709.87	33638.88
Intangible Assets	469.50	639.48	530.35	595.69	595.69	595.69
Capital Work-In-Progress	1041.64	746.42	784.78	6686.51	6686.51	6686.51
Deferred Tax Assets [Net]	0.00	0.40	0.00	248.22	248.22	248.22
Investment Property	27.00	27.90	27.90	27.90	27.90	27.90
Long Term Loans and Advances	674.41	732.49	605.58	373.89	373.89	373.89
Other Non-Current Assets	2669.03	2570.13	4465.78	4056.98	4056.98	4056.98
Total Non-Current Assets	**21249.66**	**25452.40**	**28554.41**	**39444.60**	**42699.06**	**45628.07**
TOTAL ASSETS	**93427.15**	**117077.20**	**137167.70**	**145489.81**	**160379.92**	**177553.78**
Current Liabilities						
Short Term Borrowings	6.33	468.67	1411.69	1277.25	1277.25	1277.25
Trade Payables	21861.05	33604.84	35921.99	30514.10	33385.96	37058.42
Other Current Liabilities	4336.83	3399.88	4695.82	5348.12	5348.12	5348.12
Short Term Provisions	2476.64	3021.56	3170.44	3750.59	3750.59	3750.59
Total Current Liabilities	**28680.85**	**40494.95**	**45199.94**	**40890.06**	**43761.92**	**47434.38**
Long Term Liabilities						
Long Term Borrowings	240.00	0.00	0.00	0.00	0.00	0.00
Deferred Tax Liabilities [Net]	398.64	241.88	258.31	0.00	0.00	0.00
Other Long-Term Liabilities	0.00	333.81	363.85	3718.90	3718.90	3718.90
Long Term Provisions	671.59	873.49	1154.24	972.21	972.21	972.21
Total Non-Current Liabilities	**1310.23**	**1449.18**	**1776.40**	**4691.11**	**4691.11**	**4691.11**
TOTAL LIABILITIES	**29991.08**	**41944.13**	**46976.34**	**45581.17**	**48453.03**	**52125.49**
Equity Share Capital	4246.54	4256.76	4269.34	4282.88	4282.88	4282.88
Reserves and Surplus	59189.53	70707.39	85671.56	95262.33	107280.57	120781.98

Minority Interest	0.00	168.72	249.96	363.43	363.43	363.43
TOTAL EQUITY	**63436.07**	**75132.87**	**90190.86**	**99908.64**	**111926.88**	**125428.29**
TOTAL LIABILITIES & EQUITY	**93427.15**	**117077.00**	**137167.20**	**145489.81**	**160379.92**	**177553.78**
Check	*0.00*	*-0.20*	*-0.50*	*0.00*	*0.00*	*0.00*

Source: Annual Reports and Calculations

2.3 Cash Flow Statement- A cash flow statement is a financial statement that describes a company's cash and cash equivalents coming in and out. The cash flow statement provides information on how successfully a firm manages its financial position, or, in other words, how well it earns cash to pay off its debt commitments.

Table 3: V Guard's Cash Flow Statement

CASH FLOW STATEMENT	2017	2018	2019	2020	2021P	2022P
CASH FLOW FROM OPERATING ACTIVITIES						
Net Income					12,018.24	13,501.41
Add Back Non-Cash Items						
Depreciation and Amortisation					2,745.54	3,070.99
Changes in Working Capital						
Accounts Receivable					(10,086.46)	(4,676.83)
Inventory					(4,159.81)	(6,276.37)
Accounts Payable					2,871.86	3,672.46
Net Cash Provided by Operating Activities					3,389.38	9,291.66
CASH FLOW FROM INVESTING ACTIVITIES						
Capital Expenditures - Purchase of PP&E					(6,000.00)	(6,000.00)
Net Cash Used in Investing Activities					(6,000.00)	(6,000.00)
CASH FLOW FROM FINANCING ACTIVITIES						
Revolving Credit Facility (Line of Credit)						
Long Term Debt						
Net Cash Provided by (Used in) Finance Activities					0.00	0.00
Net Cash Flow					(2,610.62)	3,291.66
Beginning Cash Balance					11,155.35	8,544.73
Ending Cash Balance					8,544.73	11,836.38

Source: Annual Reports and Calculations

3. Data Analysis

Table 4: V Guard's Ratio Analysis

		Historical	Projected	Projected
RATIOS	**Computational Formula**	**2020**	**2021P**	**2022P**
Liquidity Ratio				
Current Ratio	Current Asset/Current Liabilities	2.59	2.69	2.78
Quick Ratio	(Current Asset-Inventories)/Current Liabilities	1.07	1.17	1.24
Working Capital	Current Asset-Current Liabilities	65155.15	73918.93	84491.33
Profitability Ratio				
Gross Profit Margin	(Sales-COGS)/ Sales	33.42%	30.95%	30.95%
EBITDA Margin	EBITDA/Sales	10.05%	8.24%	8.31%
Net Profit Margin	PAT/ Sales	5.67%	4.59%	4.64%
Profit Before Tax Margin	EBT/Sales	8.70%	7.04%	7.13%
Return on total Asset	PAT/Total Asset	9.72%	7.49%	7.60%
Return on Equity	PAT/ Total Equity	14.15%	10.74%	10.76%
Return on fixed asset	PAT/Fixed Asset	51.51%	39.13%	40.14%
Return on Investment	EBT/(Total Asset- Total Labilities)	21.74%	16.49%	16.53%
Efficiency Ratio				
AR Days	(Trade Receivables/Sales) *365	47	59	59
AP Days	(Trade Payable/Sales) *365	67	67	67
Inventory Days	(Inventories/COGS) *365	105	105	106

3.1 Liquidity Ratio Analysis:

- **Current Ratio** for year 2020 to 2022 projected to be 2.59 to 2.79 which means the company is holding 2.59 times more asset than its liabilities, and company can easily pay off its debt obligation. Also, the current ratio is much higher that recommended value of 1, that means management is generally reluctant in borrowing capital from banks or other lending organisation to run and operate the business. A significantly high current ratio also indicates that company is holding higher inventories.
- **Quick Ratio** for the year 2020 to 2021 is between 1.07 to 1.024 which shows enough cash and liquid securities is available which can be quickly

converted into cash equivalent and paid off the liabilities. So, it can be concluded that V- guard industries is a company with low debt and company is in good position to pay off its liabilities.

3.2 Profitability Ratio Analysis:

- **Gross Profit Margin** of V- Guard is somewhere around 30%, that means after paying for the raw materials the company is left with 30% of its total revenue. The positive point about this ratio is for V Guard the gross profit margin is consistent throughout the years.
- **EBITDA Margin** of V- Guard is somewhere around 9% which means after paying for advertisement and employee benefit, V- Guard is able to save only 9% of revenue. Which is significantly less.
- **Net profit margin** of V guard is approximately 5 %, that means only 5% out of total revenue remains with the company as a profit after paying for all the expenses, taxes and interests. Since it is completely a small cap product-based company the net profit margin is 5% is acceptable.
- **Return on Equity ratio** is a benefit ratio which estimates the capacity of a firm to create benefit from investors interests around there. It is 14% in FY 2020 and will be fall to 10.7% in FY 2021P and FY 2022P. It means V guard has given a return of 14 % to an investor and in this return is going to fall further in next two year. Generally, fall in return on Equity indicates inefficient performance of management but there is also a possibility V Guard is expanding its operation in north India, so a lag in ROE may be due to expenditure on opening new operation facility in north India.
- **Return on Asset** ratio is again a benefit ratio which measure the general viability of the board in creating benefit with accessible assets. ROE of V Guard for FY 2020 is 51% which means the company is earning 51% of profit utilising its total capital. And ROA is projected to fall to 40% in FY2021 and FY2022.
- **Return on Capital Investment** is a profitability ratio which indicates how efficiently the long-term funds of owner and lender are being used, the ROCI of V Guard is reducing from 21% to 16 % in next two year indicates that the long-term funds of investors are not utilising efficiently.

3.3 Efficiency Ratio

- **Account Receivable days** is an efficiency ratio which tell the number of days on an average, the customer takes to pay back to the company. For V Guard the account receivable days was 47 days for FY2020 that means the customers are paying back to V guard in 47 days which is approximately 1.5 months. Also, it is projected that Account Receivable days will be going to increase to 59 days or approximately 2 months in FY2021 and FY2022, which will not be a favourable situation for V Guard's operations.
- **Account Payable Days** is an efficiency ratio which tells the number of days on an average, the company takes to pay back to its suppliers. For the V Guard the account payable days was 67 days in FY 2020 that means V guard are paying back to its suppliers in 67 days which is approximately more than 2 months. Also, the projected account payable for FY 2021 and FY 2022 will be 67 days. A decrease in account payable days would be favourable for the company.
- **Inventory Days** is an efficiency ratio which tells about number of days the inventory is going to last. For FY2020 the inventory days for V Guard is 105 days and in FY 2021, FY2022 the projected inventory days will be 105 days and 106 days respectively, which is more than 3.5 months. A high inventory day is not favourable for company, it may expose to the risk of out-dated product, it talks about the low sales volume of the finished products.

3.4 Relative Valuation

Table 5: V Guard's Price to Earnings Ratio

V Guard	Computational Formula	2017	2018	2019	2020	2021P	2022P
Price Per Share			226	222	240	245	245
EPS	(Net Income/ Outstanding Shares)		2.49	2.79	3.27	2.78	3.12
PE Ratio			90.78	79.48	73.34	88.09	78.41
Growth %						20.12%	-10.99%

- **Price to Earnings Ratio:** Price to earnings ratio is also called PE Ratio is one of the most popularly used valuation ratios. It is used to understand how expensive or cheap any stock is. It has very simple

calculations where current market price of share is divided by Earning Per Share (EPS). When EPS from the last four quarters is used to find out P/E it is known as trailing P/E and when P/E is calculated using EPS of nest four quarters, forward/leading P/E is achieved. A better understating of company valuation is achieved by forward P/E method.

- **P/E** ratio could also be interpretated as amount paid to earn one unit of money. In V- Guard case for FY2020 P/E ratio was Rs. 73 that means to earn Rs.1 an investor had to pay Rs. 73, where as in FY2021P to earn Rs. 1 investor will be had to pay Rs. 88. Then again in year FY 2022P the P/E is becoming Rs. 78.
- The increase in P/E in year 2021P is due to market news of expansion of V- Guard in north India. The investors are expecting high return from the company in future. Therefore, the investors are willing to pay high in comparison to previous year.

Peer Company:

CROMPTON GREAVES

Table 6: Crompton's Price to Earnings Ratio

Crompton Greaves	2017	2018	2019	2020	2021P
Price Per Share		234	223	207	221
EPS		5.17	6.4	7.92	6.5
PE Ratio		45.26	34.84	26.14	34.07

- **Crompton Greaves** is another small cap consumer electrical company having its manufacturing facility in central India. The calculated price to earnings ratio of Crompton in FY 2020 is Rs. 26 and it is expected to have PE of Rs.34 in FY2021P. So, shares of Crompton are available at much lower price in comparison to V guard in FY 2020 as well as in FY2021.

HAVELS

Table 7: Havels Price to Earnings Ratio

Havel	2017	2018	2019	2020	2021P
Price Per Share		508	764	500	591
EPS		10.57	12.56	11.76	12
PE Ratio		48.06	60.83	42.52	50.79

- **Havel's** is another small cap consumer electrical company having its manufacturing facility in north India. The calculated price to earnings ratio of Havel in FY 2020 is Rs. 42 and it is expected to have PE of Rs.50 in FY2021P. So, shares of Havel are available at much lower price in comparison to V guard in FY 2020 as well as in FY2021.

SIEMENS

Table 8: Siemens Price to Earnings Ratio

Siemens (Large Cap)	2017	2018	2019	2020	2021P
Price Per Share		1124	1160	1050	1111
EPS		25.31	30.87	21.59	25.9
PE Ratio		44.41	37.58	48.63	42.87

- **SIEMENS** is a large cap consumer electrical company having its manufacturing facility in north India. The calculated price to earnings ratio of Siemens in FY 2020 is Rs. 48 and it is expected to have PE of Rs.42 in FY2021P. So, it can be noted shares of Siemen are available at much lower price in comparison to V guard in FY 2020 as well as in FY2021.

Table 9: Industry Price to Earnings Ratio

Industry PE	57.13	53.18	47.66	53.95

- **The Industry Price to Earnings** ratio is calculated by taking the average PE ratio of all Crompton, Havel, Siemens and V Guard industries. It can be noticed that industry PE for FY2020 is Rs.47 and for FY2021 projected to be Rs. 53. Which is much lower than V guards PE of Rs.73 and Rs.88 for the respective year. So, we can see that V guards share is much expensive in comparison to other stocks available in market.

4. Findings and Recommendation

Ratio Analysis

1. Current Ratio is 2.5 times greater than 1, therefore V-Guard has enough to pay short term obligations; Company can easily pay off to its suppliers.

2. Quick Ratio is greater than 1 therefore, V-Guard can easily meet short term obligation.
3. Gross Profit Margin- The Company is able to retain consistent sales revenue of 30% approx. after incurring the direct cost associated with its production.
4. Net Profit Margin- Financial Health of company has depleted after year 2020 and will take 4 years to show the same growth rate of 6%.
5. Return on Equity- Return on Equity has fallen after from 24% to 15.2% from (2017-20) and expected to give return of 10% from next 4 years.
6. Return on Asset- Return on total asset has fallen continuously after 2017; Management could not utilize the assets on optimum efficiency.
7. Return on Investments- Return on Investment has fallen from 34% to 21% from 2017-20 and expected to give return of 15% form next 4 years.
8. Account Receival Days is expected to be 2 months for FY2021P, FY2022P.
9. Account Payable Days is expected to be 2 months and 6 days for FY2021, FY2022.
10. Inventory remains with the company for more than 3 months, which is not preferable. High Inventory indicated the risk of getting the product obsolete in market.

Relative Valuation

1. The Price to Earnings ratio of V Guard has increased by 20%, from FY 2020 to FY2021, which shows it's not the right time to buy the share in year 2021P. The share is overpriced
2. Buy Recommendation in 2021 as, historical data shows a high EPS, also it is Under Priced due to low PE Ratio in FY2021.

5. Limitation of Study

- The data of past cannot project the future data with 100% accuracy.
- Since data is collected from annual report, some of the financial figures provided by the company may be inappropriate.

- The financial performance analysis of V Guard is done for only 4 years for the accuracy in result and decision making.

CHAPTER 5

Conclusion

The objective of the research is to study the financial statements and project the sales and net profit of company in next two years that is FY2021P and FY2022P and it is concluded from the financial statement that V- Guard is a financially strong company with negligible debt. But the projected performance of the company for FY2021 & FY2022 in context of growth is not satisfactory due to cyclical nature of industry and due to covid-19 pandemic.

On the bases of relative valuation, the stock of V Guard comparatively 1.5 times expensive in comparison to industrial average in FY2021P. So, the investors are recommended not to invest in V Guard industries in FY 2021. Though Siemens which is a large cap consumer durable company, is available at low cost in comparison to industry is suggested for investment purpose.

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