



## Financial Statement Analysis of HINDALCO Industries Limited

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### **Abstract**

*Analysis of financial statement is very important for the stakeholders of the company. On the basis of the analysis, they can judge the actual financial performance of the company. In order to ascertain the financial status of the business every business organisation prepares certain statements, i.e. financial statements. Financial statements are mainly prepared for the purpose of decision making. But the information, provided in the financial statements is not sufficient to draw a meaningful conclusion. Therefore, for an effective analysis and interpretation of financial statements of the firm is required. This paper is focusing on the importance of the financial analysis to evaluate financial performance of HINDALCO Industries Limited.*

**Key Words:** *Financial Analysis, Ratio, Profit & Loss Account Ratio, Balance Sheet Ratio, Composite Ratio.*

### **Introduction**

Financial statements give complete information about assets, liabilities, equity, reserves, expenses and profit and loss of an organization. They are not readily understandable to interested parties like creditors, shareholders, investors etc. Thus, different techniques are employed for analyzing and interpreting the financial statements. The analysis and interpretation of financial statements is used to determine the financial position. A number of tools or methods are used to study the relationship between financial statements. However, the following are the important tools which are commonly used for analyzing and interpreting financial statements:

1. Comparative financial statements
2. Common size statements
3. Trend analysis
4. Ratio analysis
5. Funds flow analysis
6. Cash flow analysis

From the above list, Ratio Analysis is an important tool which is helpful in evaluation of firm's financial position. A comparison is also made from year by year basis to examine financial performance of HINDALCO Industries Limited.

### **Need Of Financial Analysis**

Stakeholders need it for carrying out the following

1. Technical Appraisal
2. Commercial Appraisal
3. Financial Appraisal
4. Economic Appraisal
5. Management Appraisal

Users of financial analysis

1. Trade Creditors
2. Suppliers of Long-Term Debt
3. Investors
4. Management

**Objectives Of The Study:** To assess the financial strength and weaknesses of HINDALCO Industries Limited with the help of various financial statement analysis tools and techniques over the period of study I.e. from 2011-12 to 2015-16.

**Sources Of Data Collection:** For the success of the present study data was collected mainly from secondary sources like annual reports of HINDALCO Industries Limited from the FY 2011-12 to FY 2015-16.

**Period Of Study:** The data for a period of 5 years from 2011-12 to 2015-16 has been taken into consideration to assess the financial strength and weaknesses of the company.

**Tools Used For Data Analysis:** The last 5 years annual report of the company is compiled and tabulated for the purpose of study. The techniques used are : Comparative study of Balance sheet, Comparative study of Profit and loss account, Trend Analysis and Ratio Analysis.

### Ratio Analysis

Ratio Analysis is a powerful tool of financial analysis to arrive at the following factors:

1. Liquidity position
2. Profitability
3. Solvency
4. Financial Stability
5. Quality of the Management
6. Safety & Security of the loans & advances to be or already been provided

### Ratios are expressed

1. **As Percentage** - such as 25% or 50% . For example if net profit is Rs.25,000/- and the sales is Rs.1,00,000/- then the net profit can be said to be 25% of the sales.
2. **As Proportion** - The above figures may be expressed in terms of the relationship between net profits to sales as 1: 4.
3. **As Pure Number /Times** - The same can also be expressed in an alternatively way such as the sale is 4 times of the net profit or profit is 1/4<sup>th</sup> of the sales.

Table 1 Classification of Ratios		
Balance Sheet Ratio	P&L Ratio or Income/Revenue Statement Ratio	Balance Sheet and Profit & Loss Ratio
Financial Ratio	Operating Ratio	Composite Ratio
Current Ratio Quick Ratio Proprietary Ratio Debt Equity Ratio	Gross Profit Ratio Operating Ratio Expense Ratio Net profit Ratio Stock Turnover Ratio	Fixed Asset Turnover Ratio, Return on Total Resources Ratio, Return on Own Funds Ratio, Earning per Share Ratio, Debtors' Turnover Ratio,

### Financial Highlights of HINDALCO Industries Limited

Table 2: Balance Sheet of HINDALCO Industries Limited Rs. in Crore					
Financial Position	2015-16	2014-15	2013-14	2012-13	2011-12
Gross Fixed Assets (excluding CWIP)	43955	35434	26804	15073	14478
Capital Work in Progress (CWIP)	3083	10744	17277	23605	16257

<b>Depreciation and Impairment</b>	11141	9374	8749	7975	7328
<b>Net Fixed Assets</b>	35897	36804	35332	30703	23407
<b>Investments (Including Current)</b>	22467	21251	21907	20482	18087
<b>Other Long Term Assets/(Liabilities) - (Net)</b>	148	556	1	440	1017
<b>Net Current Assets</b>	8772	9043	7686	8046	5318
<b>Capital Employed</b>	67284	67653	64926	59671	47829
<b>Loan Funds</b>	28537	28649	27020	24508	14572
<b>Deferred Tax Liability (Net)</b>	1679	1748	1174	1191	1225
<b>Net Worth</b>	37068	37255	36732	33972	32032

As it is depicted from the table 2, the gross fixed assets of the company grown by 3 times during the period. Capital work in progress has reduced to Rs.3083 crore from Rs.16257 and the amount of depreciation is increasing year by year which prevents the growth rate of net fixed assets than that of gross fixed assets. Proportion of loan fund has increased in total capital employed than net worth.

#### Balance Sheet Ratios

- 1. Current Ratio:** It is the relationship between the current assets and current liabilities of a concern.  
Current Ratio = Current Assets/Current Liabilities
- 2. Net Working Capital:** This is worked out as surplus of Long Term Sources over Long Term Uses; alternatively it is the difference of Current Assets and Current Liabilities.  
NWC = Current Assets – Current Liabilities
- 3. Acid Test or Quick Ratio:** It is the ratio between Quick Current Assets and Current Liabilities.  
Quick Ratio = Quick Current Assets/Current Liabilities

**Quick Current Assets:** Cash/Bank Balances + Receivables upto 6 months + Quickly realizable securities such as Govt. Securities or quickly marketable/quoted shares and Bank Fixed Deposits

**Debt Equity Ratio:** It is the relationship between borrower's fund (Debt) and Owner's Capital (Equity).  
Debt/Equity Ratio=Long Term Outside Liabilities / Shareholders' Fund

**Proprietary Ratio:** This ratio indicates the extent to which Tangible Assets are financed by Owner's Fund.  
Proprietary Ratio = (Tangible Net Worth/Total Tangible Assets). The ratio will be 100% when there is no Borrowing for purchasing of Assets.

	2012	2013	2014	2015	2016
<b>Current Ratio</b>	1.64	2.07	1.74	1.75	1.96
<b>Net Working Capital</b>	6,444.40	10,413.27	9,370.10	9,836.48	11,800.41
<b>Quick Ratio</b>	0.87	1.28	1.04	1.08	1.27
<b>Debt Equity Ratio</b>	0.42	0.67	0.67	0.69	0.72
<b>Proprietary Ratio</b>	0.58	0.51	0.50	0.49	0.49

#### Liquidity and leverage position of HINADALCO

Current Ratio and Quick Ratio show good liquidity position of the Company. Net working capital indicates the Investment of long term sources of fund is increasing every year. Debt-Equity Ratio proves larger contribution of owners' stake in the company. According to proprietary ratio half of the total tangible assets are financed by shareholders' fund.

**P&L Ratio or Income/Revenue Statement Ratio**

<b>Profitability</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2013-14</b>	<b>2012-13</b>	<b>2011-12</b>
<b>Net Sales and Operating Revenues</b>	34318	34525	27851	26057	26597
<b>Cost of Sales</b>	31,000	31108	25359	23853	23492
<b>Operating Profit</b>	3318	3417	2492	2204	3105
<b>Depreciation and Impairment</b>	1277	837	823	704	690
<b>Other Income</b>	1066	882	1124	983	616
<b>Interest and Finance Charges</b>	2375	1637	712	436	294
<b>Profit before tax and Exceptional Items</b>	732	1825	2081	2047	2737
<b>Exceptional Items (Net)</b>		578	396		
<b>Profit before Tax</b>	732	1247	1685	2047	2737
<b>Tax for the current year</b>	125	355	298	347	500
<b>Tax adjustment for earlier years (Net)</b>		(33)	(26)		
<b>Net Profit</b>	607	925	1413	1699	2237

This is clear from the comparative Income statement of HINDALCO that gross revenue of the company increases but in the same duration net profit of the company reduces. The main reason of this difference is the high depreciation and interest charges. Operating profit of the company has increased from Rs.3105 crore to Rs.3318, this figure is not much appreciable.

**P&L Ratio or Income/Revenue Statement Ratio**

**Gross Profit Ratio:** By comparing Gross Profit percentage to Net Sales we can arrive at the Gross Profit Ratio which indicates the manufacturing efficiency as well as the pricing policy of the concern.

$$\text{Gross Profit Ratio} = (\text{Gross Profit} / \text{Net Sales}) \times 100$$

Alternatively, since Gross Profit is equal to Sales minus Cost of Goods Sold, it can also be interpreted as below:  
A higher Gross Profit Ratio indicates efficiency in production of the unit.

**Operating Profit Ratio :** It is expressed as  $= (\text{Operating Profit} / \text{Net Sales}) \times 100$

Higher the ratio indicates operational efficiency

**3.Net Profit Ratio :** It is expressed as  $\Rightarrow (\text{Net Profit} / \text{Net Sales}) \times 100$   
It measures overall profitability.

	2012	2013	2014	2015	2016
Gross Profit Ratio	12.48	9.90	8.95	9.90	9.05
Operating Profit Ratio	11.68	10.03	10.03	7.19	8.83
Net Profit Ratio	8.41	6.52	5.07	2.68	1.77
Interest Coverage Ratio	5.1	4.26	3.44	2.41	1.98

#### **Profitability position of HINDALCO**

All three ratios, i.e. G.P.R., O.P.R. and N.P.R. are decreasing year by year. Heavy production cost, Depreciation & Impairment and Interest & finance costs are the main reasons to reduce the profitability. Interest coverage is also affected by less profitability. The profitability position on this basis is not good for HINDALCO.

#### **Balance Sheet and Profit & Loss Ratio**

1. Stock/Inventory Turnover Ratio: This ratio indicates the number of times the inventory is rotated during the relevant accounting period.  $\text{Stock Turnover Ratio} = \text{Cost of Goods Sold} / \text{Average Stock}$ .
2. Stock Conversion Period =  $(\text{Average Stock} / \text{Cost of Goods Sold}) \times 365$ .
3. Debtors Turnover Ratio: This is also called Debtors Velocity or Average Collection Period or Period of Credit given.  $\text{Debtors Turnover Ratio} = \text{Credit Sales} / \text{Average Debtors}$ .
4. Average Collection Period =  $(\text{Average Debtors} / \text{Sales}) \times 365$  (for days).
5. Creditors Turnover Ratio: This is also called Creditors Velocity Ratio, which determines the creditor payment period.
6. Creditors Turnover Ratio =  $\text{Net Credit Purchase} / \text{Average Creditors}$ .
7. Average Payment Period =  $(\text{Average Creditors} / \text{Purchases}) \times 365$  (for days).
8. Asset Turnover Ratio:  $\text{Net Sales} / \text{Tangible Assets}$ .
9. Fixed Asset Turnover Ratio:  $\text{Net Sales} / \text{Fixed Assets}$ .
10. Current Asset Turnover Ratio:  $\text{Net Sales} / \text{Current Assets}$ .
11. Return on Assets:  $\text{Net Profit After Taxes} / \text{Total Assets}$ .
12. Return on Capital Employed:  $(\text{Net Profit before Interest \& Tax} / \text{Average Capital Employed}) \times 100$
13. Average Capital Employed is the average of the equity share capital and long term funds provided by the owners and the creditors of the firm at the beginning and end of the accounting period.
14. Return On Equity Capital (Roe):  $\text{Net Profit After Taxes} / \text{Tangible Net Worth}$   
Earnings per Share: EPS indicates the quantum of net profit of the year that would be ranking for dividend for each share of the company being held by the equity share holders.

#### **Net profit after Taxes and Preference Dividend/ No. of Equity Shares**

	2012	2013	2014	2015	2016
<b>Inventory Turnover Ratio</b>	3.03	3.10	2.84	3.53	3.69
<b>Inventory Conversion Period in days</b>	120.30	117.87	128.31	103.50	99.05
<b>Receivables Turnover Ratio</b>	16.46	15.74	19.76	16.98	15.36
<b>Average Collection Period in days</b>	22.18	23.18	18.48	21.50	23.77
<b>Assets Turnover Ratio</b>	0.48	0.39	0.38	0.45	0.45
<b>Fixed Assets Turnover Ratio</b>	0.68	0.74	0.54	0.65	0.66
<b>Current Assets Turnover Ratio</b>	1.61	1.29	1.27	1.51	1.42

### Turnover Ratio analysis of HINDALCO

Increasing Inventory turnover ratio shows efficiency of inventory in sales. Inventory conversion period reduces throughout the study period which is a good sign for HINDALCO. Receivable turnover ratio has decreased that is why average collection period has increased by one day. Assets turnover ratio reduced earlier but in the second half of the period it has increased its rotation in the business. Except the year 2013-14, fixed assets turnover ratio indicates that fixed assets increase its contribution towards sales. Current Assets Turnover ratio has reduced to effective utilization in sales.

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Return on Assets</b>	0.04	0.03	0.02	0.01	0.01
<b>Return on Capital Employed</b>	0.23	0.15	0.11	0.10	0.11
<b>Return on Equity</b>	0.02	0.03	0.04	0.05	0.06
<b>Earning Per Share</b>	32.7	30.75	28.73	21.53	20.98

Balance Sheet and Profit & Loss Ratios (Profitability Ratios) of HINDALCO

Return on Assets has decreased during the study period. Return on capital employed has registered a decreasing trend due to heavy debt capital in overall investment. ROE is also decreased from 7% to 2% due low profitability. The effect of lower profit decreases EPS throughout the period. The above table depicts poor profitability of the company.

### Findings And Suggestions

Liquidity position and Leverage position of the company are good. Proportion of Owned Fund is larger in the company, but during this period participation of loan fund has increased a lot. During the study period finance charges and other production cost are drastically increased which has affected profitability adversely. Activity Ratios are showing the inability of Assets, Fixed Assets and Current Assets in increasing the rotation in the business, though Inventory turnover ratio is positively changed in the same period. HINDALCO has to control its cost to improve the profitability and company has to utilize its assets properly to increase its sales. Though, the past record of the company is good as compared to present scenario where aluminum industries are struggling due heavy production cost. During the study period

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