**Financial Statement Analysis**

**NMIMS Solved Assignments for December 2024**

**Q1. Please forecast Future Net Income and Cash Flow:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Revenue (₹ crores)** | **Net Income (₹ crores)** | **Operating Cash Flow (₹ crores)** |
| **2021** | **100** | **10** | **15** |
| **2022** | **115** | **12** | **18** |
| **2023** | **130** | **14** | **21** |

* **Revenue Growth Rate: 12% annually**
* **Net Income Margin: 10% of Revenue (consistent with past years)**
* **Operating Cash Flow to Revenue Ratio: 16% (based on past trends)**

**Answer:**

**Introduction:**

In the realm of financial analysis, forecasting future net income and cash flow is crucial for understanding a company's potential profitability and liquidity. This exercise involves examining historical data to identify trends and apply them to future projections. In this scenario, we have a company that has demonstrated steady revenue growth over the past three years, alongside a consistent net income margin and operating cash flow ratio. By applying a projected revenue growth rate of 12% annually, we can estimate future revenues and subsequently calculate net income and operating cash flow using established margins and ratios. This approach not only aids in budgeting and strategic planning but also assists stakeholders in assessing the company's financial health and making informed investment decisions. The analysis will provide valuable insights into the company's expected financial performance over the next few years.

**This is partially solved sample answer**

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**Q2. Let’s assume we are evaluating five companies from different sectors:**

**1. Company A – Technology**

**2. Company B – Consumer Goods**

**3. Company C – Healthcare**

**4. Company D – Financial Services**

**5. Company E – Industrial Manufacturing**

|  |  |  |  |
| --- | --- | --- | --- |
| **Company** | **Revenue Growth (YoY)** | **ROE (%)** | **Debt-to-Equity Ratio** |
| **Company A** | **15%** | **18%** | **0.5** |
| **Company B** | **8%** | **12%** | **0.3** |
| **Company C** | **20%** | **25%** | **0.7** |
| **Company D** | **12%** | **10%** | **2.5** |
| **Company E** | **5%** | **7%** | **1.2** |

**Screening Criteria:**

**1. Revenue Growth: At least 10% year-over-year growth for the past three years.**

**2. Return on Equity (ROE): Minimum of 15% to ensure the company is generating good returns for shareholders.**

**3. Debt-to-Equity Ratio: Less than 0.8 to avoid companies with excessive leverage**

**Please screen the potential investments and shortlist the companies.**

**Answer:**

**Introduction:**

In today's dynamic investment landscape, selecting the right companies for potential investment requires a systematic approach to evaluating their financial performance. This analysis focuses on five companies across diverse sectors—technology, consumer goods, healthcare, financial services, and industrial manufacturing. The objective is to identify suitable investment opportunities based on three key screening criteria: Revenue Growth, Return on Equity (ROE), and Debt-to-Equity Ratio. Companies demonstrating consistent revenue growth of at least 10% year-over-year for the past three years indicate strong market demand and operational efficiency. A minimum ROE of 15% signifies effective management and value creation for shareholders. Lastly, a Debt-to-Equity Ratio of less than 0.8 highlights financial stability and lower risk from excessive leverage. By applying these criteria, we aim to shortlist companies that exhibit robust financial health and growth potential for investment consideration.

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**Q3. You are a manager of an Equity Research company you have to make a note explaining types of comparative statements on the basis of:**

**a. Profit & Loss Account**

**Answer:**

**Introduction:**

In equity research, comparative statements play a crucial role in analyzing a company's financial performance over different periods. The Profit & Loss Account, also known as the income statement, provides a summary of revenues, expenses, and profits or losses within a specific timeframe. By creating comparative Profit & Loss Accounts, analysts can evaluate trends, identify growth patterns, and assess operational efficiency. This analysis aids investors in making informed decisions based on a company’s financial health and performance relative to its competitors or historical data.

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**b. Balance Sheet**

**Answer:**

**Introduction:**

In equity research, comparative statements are essential for assessing a company's financial position over time. The Balance Sheet provides a snapshot of a company's assets, liabilities, and shareholders' equity at a specific point. By preparing comparative Balance Sheets, analysts can identify trends in financial stability, liquidity, and leverage across multiple periods. This analysis enables stakeholders to evaluate the company's financial health and make informed investment decisions by comparing its performance against industry benchmarks or historical data.

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