

# **Institute of Management, Nirma University**



## **Summer Internship Project** **Final Report**

**Submitted By:**

Kush Shah	191232	B
-----------	--------	---

**Submitted To:**

Prof. Tripura Joshi
---------------------

**Internship Organization:**

<b>Hemal Y Shah &amp; Associates, CHARTERED ACCOUNTANTS</b>
---

*Date of Submission: 18<sup>th</sup> July, 2020*

## **Title Page**

### **Author of the Report**

- Kush Shah (191232)

### **Organization Name**

- Hemal Y. Shah & Associates

### **Organization Address**

- 404, DTC apartment, b/s. Ratna telenet, dalagiya mohollo, Mahidharpura, Surat.

### **Date of the Report**

- 18th July, 2020

### **Purpose of Report**

- To understand accounting and financial reporting process and on the basis of which, carrying out the financial analysis and interpretation

### **Prepared for**

- Institute of Management, Nirma University

### **Faculty Guide**

- Prof Tripura Joshi

## Contents

Acknowledgement: .....	5
Executive Summary: .....	6
1 Profile of Organization.....	7
1.1 About Organization:- .....	7
□ Auditing .....	7
□ Taxation .....	7
□ GST recording.....	7
□ Management Consultancy.....	7
□ Preparing CMA Report ( Credit Monitoring Appraisal) f7	
□ Corporate and allied laws related consultancy.....	7
□ And various other services.....	7
1.2 About Chartered Accountancy Profession .....	8
1.2.1 Financial Accounting.....	8
1.2.2 Audit.....	8
1.2.3 Cost Accountancy.....	8
1.2.4 Tax Management .....	9
1.2.5 Managerial Accounting.....	9
1.2.6 Consulting service.....	9
1.2.7 CA in the industry.....	10
2 Project Work .....	11
2.1 Accounting Process:.....	11
2.1.1 Analysing and recording the business transactions .....	11
2.1.2 Ledger Posting.....	11
2.1.3 Preparation of Trial Balance (Unadjusted).....	12
2.1.4 Adjustment Entries .....	12
2.1.5 Preparation of Adjusted Trial Balance:.....	13
2.1.6 Preparation of Financial Statement.....	13
2.2 Credit Monitoring and Arrangement (CMA Reporting).....	16
2.2.1 It requires:.....	16
2.2.2 It includes the following aspects: .....	16
2.3 Financial Statement Analysis .....	18
2.3.1 Horizontal and vertical analysis .....	18
2.3.2 Annual Report analysis .....	18
2.4 Knowledge Gap .....	18
2.5 Objective of Study: .....	19
2.6 Utility of Study: .....	19

3	Methodology: .....	20
3.1	Approach .....	20
	Fundamental Analysis.....	20
3.2	Sources of Data:.....	22
3.3	Method of Data Collection: .....	23
3.4	Method of Analysis:.....	23
3.4.1	Understanding the Business .....	24
3.4.2	Ratio Analysis.....	26
3.4.3	Intrinsic Valuation .....	30
4	Presentation of Data:.....	31
4.1	Ratio Analysis:.....	31
4.2	Intrinsic Valuation using DCF Model:.....	33
5	Analysis & Discussion:.....	36
5.1	Analysis of Business: .....	36
5.2	Ratio Analysis:.....	37
5.2.1	Revenue and PAT growth rate: .....	37
5.2.2	Earning Per Share: .....	39
5.2.3	Debt Level: .....	39
5.2.4	Inventory Level:.....	39
5.2.5	Sales vs. receivables: .....	39
5.3	Intrinsic Valuation: .....	40
5.4	Conclusion:.....	40
5.5	Managerial Implication: .....	40
6	Learning: .....	41
7	References.....	42

## **Acknowledgement:**

I would like to thank Mr. Hemal Shah with deep gratitude, because he provided me with an opportunity to learn something new even in this epidemic and provided me his valuable guidance and continuous cooperation in every step of the project. This project is indeed the result of his clear vision and support.

I want to also thank all the employees of the organization, that had answered to my queries and helped me understand the work of the company. Their suggestions and cooperation made my work more valuable.

Finally, I would like to sincerely thank my faculty mentor- Professor Tripura Joshi for providing him with the necessary guidance and constant support.

## **Executive Summary:**

At the point when an investor need to put resources into the business for quite a while (for instance, 3-5 years), it gets important to comprehend the business from alternate points of view. For investor, it is critically analyse essential of business.

Generally an investment grade of company has different set of characteristics from junk grade of company. Fundamental Analysis to fill up this gap by using various research tools such as:

- Understanding main competitiveness strength of the business,
- Analysis of future prospects of earnings and financial soundness, by critically reviewing past performance.
- And finally, determining the worth of investment by comparing fair valuation with actual cost.

Following this steps one can expect good return in long term.

# 1 Profile of Organization

## 1.1 About Organization:-

Hemal Y. Shah and Associates is a Surat based Chartered Accountant firm, providing its expertise services in different field, such as:

- **Auditing**

It is the way toward checking books of record, reports and voucher; so as to confirm honesty of bookkeeping record.

- **Taxation**

Under this administration a CA firm offer tax compliance and advisory services to viably deal with the duty obligation.

- **GST recording**

- **Management Consultancy**

- **Preparing CMA Report ( Credit Monitoring Appraisal)** for customer to apply for bank advance

- **Corporate and allied laws related consultancy**

- And various **other** services.

The firm, is well known for its solution oriented methodology, work order, mastery and constant quality improvement, and brings a genuinely elevated level of expert administrations to the customers maintaining exclusive requirements of uprightness and sound moral practices.

## **1.2 About Chartered Accountancy Profession**

In past few years, the accounting as a profile has grown rapidly. Changes in the economy have laid heavy responsibility on CA. The accounting as a profession has evolved from just auditing and taxation, to providing other valuable services such as consultancy and advisory pertaining to companies Law. List of services that may be provided by a CA firm are as follow:

### **1.2.1 Financial Accounting**

Financial reporting involves work of keeping complete records of financial transactions. This work includes interpretation of accounts, supervision, control, and cost and revenue organization. This includes aggregating daily, quarterly and yearly accounts. The tasks are as follows:

- Operating books of account
- Perform an internal audit
- Payroll management
- Pay bills and passing out the invoices
- Tax planning and managing.

### **1.2.2 Audit**

Corporate law requires statutory auditing in both: private and public sectors as per Companies Act. ACS performs internal audits to maintain records of management procedures and internal controls, and to ensure records are correct and sufficiently controlled. Verify compliance with company policies and pre decided procedures.

The tax Audit involves verifying of financial transactions and other information as provided by assessee to determine appropriateness of his tax obligations. The Legal Authority has tax auditors that they can appoint to audit the accounts of taxpayer.

### **1.2.3 Cost Accountancy**

Cost accountancy deals with complex activities, detailing the expenses incurred in various products, process, and job to produce. It further includes:

- Preparing budget and budgetary control
- Prediction
- Keeping the check at expenditures to ensure costs are not overestimated

#### **1.2.4 Tax Management**

CA's are specialized in tax management and helps in improving the financial structure of businesses. They study the tax implications of the proposed plan for any change in business structure and, in fact, any such important decisions. It provides advice on the financial effectiveness of performance targets.

#### **1.2.5 Managerial Accounting**

Management accounting is the job of the experienced CA .

- It performs collection, organization, presentation and analysis of information from the various departments of organization.
- Carry out a regular and critical analysis of past and present performance, in financial terms.
- And making future estimation.

#### **1.2.6 Consulting service**

For CA consultancy is a bright and challenging opportunity. Today, companies need accurate accounting information.

The consultancy function pertains to the following areas:

- Providing advice on business formation and structure, borrowing, liquidation and pertaining to corporate law in the area of finance.
- Consultancy in area of financing of a project and its monetary resources
- Secretary practices and procedures
- Information management of system

### 1.2.7 CA in the industry

In industry, CA generally has the highest accounting and finance position at any levels. In addition to holding regular positions, CA is also involved in financial and strategic planning, preparing red hearing prospectus for the issuance of shares, managing pensions and non-current investments, and searching for potential investments or mergers or acquisitions.

## 2 Project Work

My project work consists of:

- I. As the part of this project my daily routine work is to maintaining accounting records. And on the basis of which, preparing financial statements such as Profit and Loss account, Balance Sheet, Cash Flow Statement, Bank Reconciliation Statement etc.
- II. As the part of research, I learned to carry out analysis of Annual Report of company, using the concepts of Fundamental Statement Analysis.
- III. And finally I was supposed to understand to learn basic concepts of Credit Monitoring and Arrangement (CMA Report).

### 2.1 Accounting Process:

#### 2.1.1 Analysing and recording the business transactions

The initial phase in the bookkeeping cycle is gathering records of all business transactions such as receipts, payments, banking transactions, purchase or sell of assets and inventory etc. for the given period of time.

This is the basic monetary data that should be converted into something valuable.

#### 2.1.2 Ledger Posting

This includes recording the entirety of the monetary data that are accumulated in sync one into the general record.

The record is comprised of a ledger A/c, a sequential rundown of the entirety of a business' exchanges, recorded by the principles of 'dual effects' of each transaction. This implies at whatever point an exchange happens, two opposite effects must be made, influencing in any event two records either Debit or Credit.

For instance, if we purchase a PC for the business, asset (Debit) will go up, and bank balance will go down.

When we've changed over the entirety of the business exchanges into the debit or credit transactions, it's an ideal opportunity to move them into organization's record.

The record is an enormous, numbered list demonstrating all the organization's exchanges and how they influence every one of business' individual records. The general record resembles the ace key of accounting arrangement. On the off chance that we're searching for any money related record for business, the quickest route is to check this record.

Ledgers are typically presented on the record consistently, when business exchanges happen, to ensure that the organization's books are consistently exceptional.

### **2.1.3 Preparation of Trial Balance (Unadjusted)**

Next comes recording the unadjusted entries, which occurs toward the finish of the book-keeping time frame.

The initial step to setting up an unadjusted preliminary equalization is totalling up all the charges and credits in every one of organization's records, and ascertaining a complete record for every individual transactions.

As indicated by the principle of dual accounting concepts, the entirety of an organization's charges must rise to all credits. On the off chance that the aggregate of the charge sections in a preliminary parity doesn't rise to the entirety of the credits, that implies there's been a mistake in either the account or posting of diary passages.

Scanning for and fixing these errors is called as making rectification of transactions.

### **2.1.4 Adjustment Entries**

Once we've made the vital rectification entries, it's an ideal opportunity to make adjustment entries to make sure that fiscal reports just contain data that is applicable to the specific timeframe. There are four fundamental sorts of changes: deferrals, accumulations, taxation entries, and unrecorded or missing.

1. **Deferrals** have to do with cash that is spent before observing any subsequent income (for example purchasing office supplies that we will be using later on), or money we got before conveying a help or great (for example a propelled instalment from a client).

Put another way, deferrals expel exchanges that don't have a place with the period we're making a budget report for.

2. **Accumulations** have to do with incomes that didn't quickly record at the ideal opportunity for instance a bill that we sent to the client fourteen days subsequent to giving them any services such as consultancy, or costs that were not paid promptly at the hour of event like unpaid lease of office.

Accumulations ensure that the budget summaries we're planning currently consider those future instalments and costs.

3. **Missing entry adjustments** help us to represent the exchanges that we disregarded while accounting—things like business buys on close to home credit.

4. **Adjustment of tax liability**, help us to represent things like depreciation of assets and tax deduction transactions. For instance, we may have paid huge cash for another bit of hardware; however we'd have the option to discount some portion of the cost for the current year.

### **2.1.5 Preparation of Adjusted Trial Balance:**

Once we've posted all, it's an ideal opportunity to make another verification of correctness, this time considering the entirety of the altering sections we've made.

This new preliminary parity is called as adjusted trial balance, and one of its motivations is to demonstrate that the entirety of record's credits and charges balance after all modifications.

When we have a balanced preliminary balance, we have all the data required to begin setting up the organization's fiscal reports.

### **2.1.6 Preparation of Financial Statement**

The last advance in the bookkeeping cycle is getting ready final accounts that disclose to us where the business' cash is, and how it arrived. It's most likely the main motivation we experience all the difficulty of the initial five bookkeeping cycle steps.

When you've made a balanced preliminary parity, gathering fiscal summaries is a genuinely direct assignment.

Firstly Profit and Loss statement is prepared using all details of income or revenue generated versus expenditure incurred for the same.

A balance sheet is prepared to show the status all assets that business owns versus all liabilities that it owes.

## Steps involved in preparing books of account:

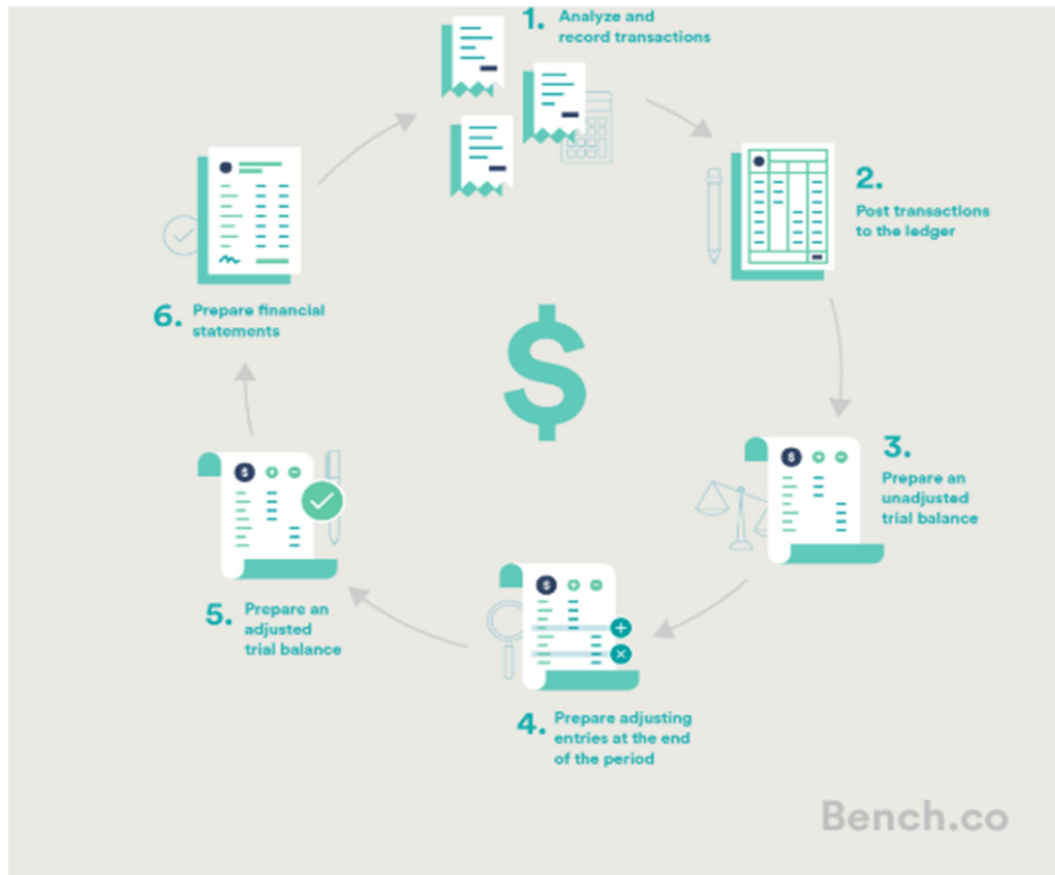


Figure 1

Source: <https://bench.co/blog/accounting/accounting-cycle/>

This all five process can be done easily and effectively using accounting software such as Tally ERP 9. It provide complete accounting support from journal entry, ledger entry, final accounts, GST returns, ratio analysis, cash flow statements to inventory records.

Tally is an on-premise bookkeeping arrangement that gives business functionalities including bookkeeping, fund, stock, deals, buy, purpose of-deals, fabricating, work costing, finance and branch the board.

The bookkeeping modules empowers bolster undertakings, for example, vouchers the board, update letters and bank reconciliation and gives a dashboard to follow financial ratios. The business module tracks orders, records receivables/payables and produce bills and solicitations.

Cash-flow can be overseen through the MIS revealing module to encourage choices with respect to bank advances, credit cut-off points and capital investment in business. Count's stock capacities can bolster producers, merchants and brokers in stock bookkeeping.

**Tally ERP 9 Software:**

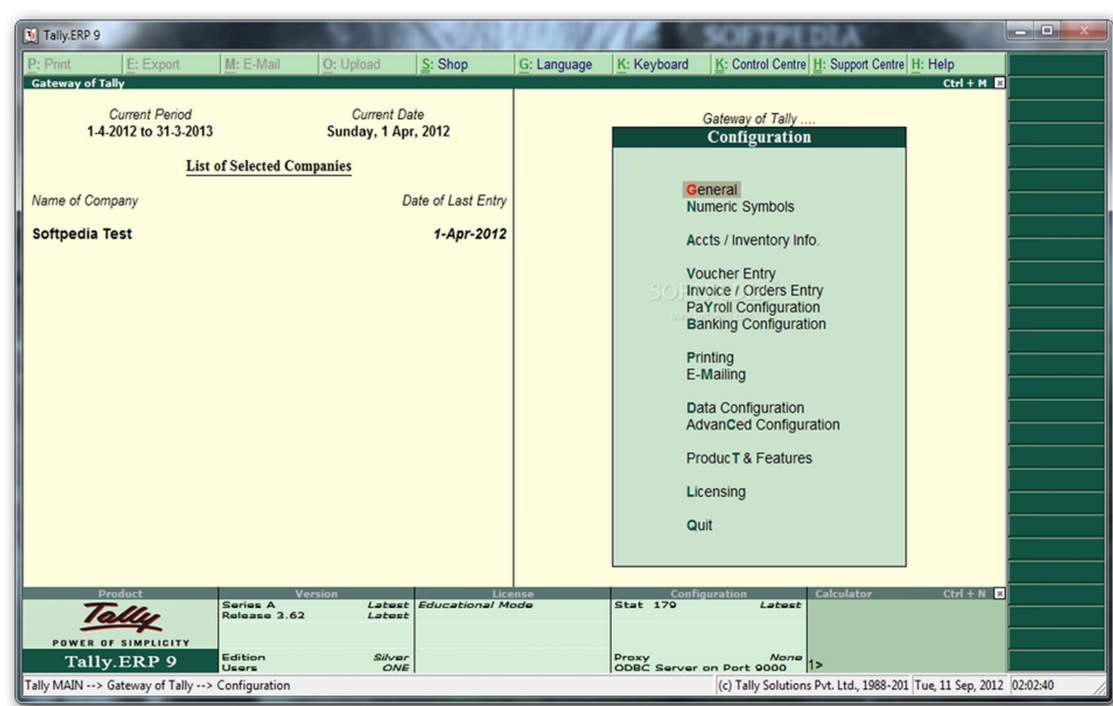


Figure 2

Source: <https://www.softwareadvice.com/accounting/tally-profile/>

## **2.2 Credit Monitoring and Arrangement (CMA Reporting)**

It is the report indicating the future anticipated performance and the previous performance of a business in money related terms. It is assembled with all the necessary performance ratios and measurements to support Financial Analysts and Bankers to discover the budgetary soundness of a business. The vast majority of the Banking and Financial Institution demand the candidate (Business Loan Applicant) to set up a Credit Monitoring Arrangement report (CMA report) so as to comprehend the stream and utilization of assets in a business.

For preparing CMA Report detailed primary information is required to be collected to prepare the report.

### **2.2.1 It requires:**

- Past 2 years audited annual report,
- Provisional annual performance of current year,
- Final sanction letter (if credit is to be renew),
- Repayment schedule of Term loan (in case if any),
- Complete details of the proposed increments (if any) and terms and conditions.

### **2.2.2 It includes the following aspects:**

#### **1. Details of current as well as proposed limits of credit:**

This statement in the CMA report lists the existing credit limits and proposed of both unfunded and funded limits of fund, usage limits & their history. In addition, the statement should include the borrower's recommended or applicable limit. This document is primary document that the borrower must provide to the banker.

#### **2. Operating statement:**

This is the second report showing the borrower's plan for business, which shows current sales, pre-tax and post-tax profits, sales forecasts, direct expenses and indirect expenses, and profit status for next 3 to 5 financial years. Such requirements are based on the debtor's working capital needs. It requires scientific analysis of the ability to generate existing and planned returns to repay the credit.

### **3. Balance sheet analysis:**

This is the third articulation in the CMA information; this report contains an examination of the current and anticipated monetary years. It helps in giving a thorough examination of current and non-current resources, current and non-current liabilities and money and bank position of the borrower. This statement additionally indicates the total assets position of the borrower for the future anticipated years. As the name says, it is the investigation of the Balance sheet and gives a total image of the budgetary situation of the borrower.

### **4. Relative explanation of Current Asset and Current liabilities:**

This is the fourth articulation which gives the near investigation of the development of the current resources and liabilities. Essentially, this examination assists with choosing the limit of the borrower to meet the working capital necessities and the real working capital cycle for the anticipated period.

### **5. Computation of Maximum Permissible Bank Finance (MPBF):**

This is the fifth articulation and a significant one. This incorporates a count which shows the Maximum Permissible Bank Finance. It shows the borrower's ability to obtain cash.

### **6. Fund flow analysis:**

The following proclamation is the Fund inflow and outflow examination for the current and anticipated period. In this investigation, it shows the fund position of the borrower regarding the anticipated asset reports and MPBF (Maximum Permissible Bank Finance) estimations. The primary target of this announcement is to catch the development of the reserve for the given time frame.

### **7. Ratio Analysis:**

This is the last explanation in Credit Monitoring Arrangement report (CMA report) which gives key budgetary proportions to the Financial Analysts and Bankers use. The essential key proportions are GP (Gross benefit) proportion, Net benefit proportion, Current proportion, Quick proportion, Stock turnover proportion, Net worth, the proportion of Net worth to Liabilities, DP limit, MPBF, Asset turnover, Current resource turnover, Working capital turnover, Fixed resource turnover, Debt-Equity proportion and so forth.

## 2.3 Financial Statement Analysis

The analysis of financial statements involves checking the organization's financial statements to understand the organization's financial status. This analysis can be used to make investment or credit decisions. This review included identifying the following items in the entity's financial statements during many reporting periods:

There are two main methods for analysing financial statements:

### 2.3.1 Horizontal and vertical analysis

Horizontal analysis is a method of financial comparison in different time periods. In the vertical analysis, it is a proportional analysis of each element in the income statement and balance sheet on a certain basis.

### 2.3.2 Annual Report analysis

The analysis of the report is to use the relevant elements of the final account to represent the report in a more useful form so that it can be compared over time and compared with the industry average.

## 2.4 Knowledge Gap

### **For Fundamental analysis**

At the point when an Investor wishes to put resources into a business as long as possible (state 3 – 5 years) it turns out to be amazingly fundamental to comprehend the business from different viewpoints. It is basic for a financial specialist to isolate the day by day momentary clamour in the stock costs and focus on the fundamental business execution. Over the long haul, the stock costs of an in a general sense solid organization will in general acknowledge, along these lines making growth for its investments. And Fundamental Analysis (FA) is a comprehensive way to deal with study a business

## **2.5 Objective of Study:**

To identify a company with strong fundamentals that can deliver good performance in long term.

## **2.6 Utility of Study:**

Fundamental Analysis helps investors to identify investment grade stock, which can generate healthy return in long term. It also helps financial institution to determine liquidity soundness of the company that wants to borrow money from them.

## 3 Methodology:

### 3.1 Approach

#### Fundamental Analysis

A high-quality investable company have some distinctive characteristics. These characteristics can classify into terms; "qualitative" and "quantitative". The evaluation process of a strong company includes research on these two aspects. Sometime a good investor gives qualitative aspects little more important over quantitative aspects.

**Qualitative aspects** basically include understanding the non numeric parameters such as:

- **The board's experience** –  
Who are they, their experience, understanding, training, do they have the legitimacy to maintain the business, any criminal arguments against the advertisers and so forth
- **Business morals** – is the administration engaged with tricks, pay off, out of line strategic approaches.
- **Corporate Governance**– Appointment of chiefs, association structure, straightforwardness and so on.
- **Minority investors** – How does the administration treat minority investors, do they think about their advantage while taking corporate activities
- **Investors** – Who are the critical investors in the firm, who are the individuals with above 1% of the exceptional portions of the organization.
- **Related gathering exchanges** – Is the organization offering budgetary favors to referred to elements, for example, advertiser's family members, companions, sellers and so on at the cost of the investors reserves?

- **Political alliance** – Is the organization or its advertisers excessively near an ideological group? Does the business need consistent political help?
- **Promoter life style** – Are the advertisers excessively ostentatious and noisy about their way of life? Do they like to show their riches?

A warning is raised when any of the variables referenced above don't fall in the perfect spot. For instance, in the event that an organization embraces too many related gathering exchanges, at that point it would impart a sign of preference and misbehaviour by the organization. This isn't acceptable over the long haul. Although it may be quite difficult to pick out such information, a clever investors may be cautioned about it from management statement, latest news etc.

**Quantitative aspects** are matters identified with monetary numbers. Some information of the quantitative aspects is directly available, while some of them are most certainly not. For instance money held in stock is directly available, where as receivable period, payable period etc. are not directly available in financial statement.

It study aspects such as :

- Profit and its growth rate
- Revenue and growth in it
- Improvement in profit margin
- Cash flow analysis
- Efficiency in production
- Dividend pay-out
- Financial ratio etc.

This is a metric that should be determined. The dalal street gives a great deal of consideration to quantitative angles.

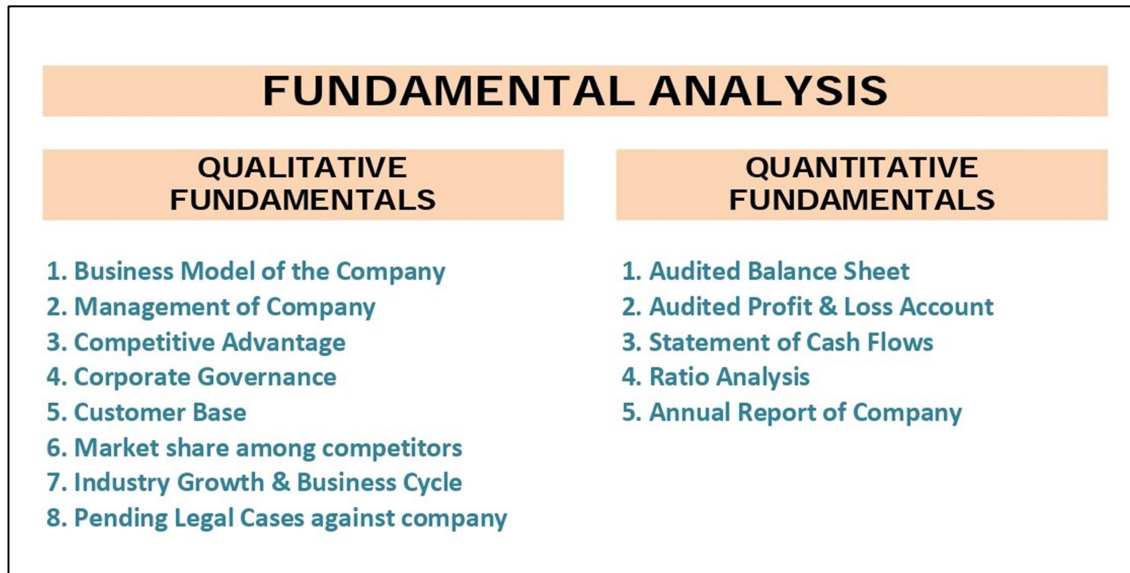


Figure 3

<https://www.google.co.in/url?sa=i&url=https%3A%2F%2Fmedium.com%2F%40moneymanagemantras%2Ffundamental-analysis-c9e88878442a%3Fsource%3Drss>

### 3.2 Sources of Data:

#### **Primary Sources:**

It is the first information or issue. Its validity or credibility is reasonably high. To accumulate the basic data the best course is to help out people clearly or it will in general be through direct gatherings additionally, surveys. Both these systems have used for collection of fundamental data.

#### **Secondary Sources:**

It isn't effective or investigate unequivocal. It tends to be modest and can be immediately accumulated through a leader in a modest quantity of time. This information has been accumulated by some other examiner. Such information can be accumulated by Company's site or some other writing body.

Financial Institution such as Banks, Credit Rating Agency etc. can have direct access to detail information of organization. Also, they get first hand information from there management. Thus they relies on both primary and secondary data.

But for external users such as investors they only access to the Annual statement published by the company, which is available on BSE, NSE and company's website. Thus based on this secondary information analysis of financial statements is to be carried out.

### **3.3 Method of Data Collection:**

#### **I. Annual Report**

Most of the company related data or information can be extracted from annual Reports of the company. Also, various software or tools are also available which can provide data such as Ace-equity, Screener, Money Control etc.

#### **II. Industry Related Data:**

Industry related data for cross-comparison of a company with its peer can be freely obtained from the website of respective industry Association.

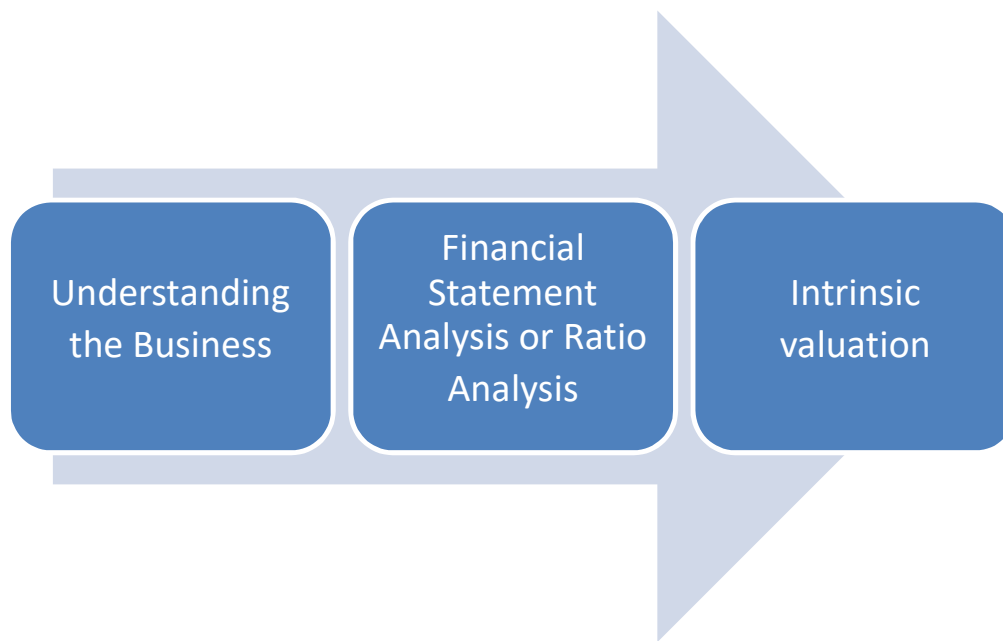
#### **III. Access to News:**

Various news related to economic fundamentals, government policy, and industry or company specific advancements can be obtained from various business newspapers or e-news such as Business Standard, Economic Times etc.

### **3.4 Method of Analysis:**

Fundamental Analysis can carry out in following three steps:

- I. Understand the business - need to read the annual report
- II. Application list on various financial parameters using Ratio Analysis and
- III. Determining the Valuation (Estimation of the intrinsic value) of the business to determine fair price of the stock to purchase.



### 3.4.1 Understanding the Business

Before taking long term investment decision in any company it is necessary to nature of the business, its product, competitive position etc.

In order to understand the business we need to satisfy our self on following questions that helps to determine inner strength of a company:

Sr. No.	Question	Rationale
1	What does organization do?	To get an essential comprehension of the business
2	Who are the Promoters of business and there background?	To identify people behind the business and whether there is any criminal charge, or political affiliation with them.
3	What do they produce?	To know the demand and supply of there product.
4	How many plants they operate and there location?	To get a feeling of their geographic nearness. Additionally on occasion their plants could be situated in a prime area, and the estimation of such area could go wobbly sheet, making the

		organization exceptionally underestimated.
5	Are they running the plant in full capacity?	Gives us a thought on their operational capacities, interest for their items, and their situating for future interest.
6	What sort of raw material is needed?	Helps us comprehend the dependence of the organization. For instance the crude material could be controlled by Govt. (like regulated commodities such as coal) or the crude material should be imported both of which needs further examination
7	Who are the organization's customers or end users?	By realizing the customer base we can get a feeling of the business cycle and endeavors required to sell the organization's items
8	With whom the firm compete?	Helps in knowing the competitive position. Too many contending organizations imply edge pressure. In such a case the organization needs to accomplish something creative. Edges are higher if the organization works in – imposing business model, duopoly, or oligopoly monopoly structure
9	Who are the significant investors of the company?	Besides the advertiser and advertiser gathering, it assists with knowing who else possesses the portions of the organization. In the event that an exceptionally fruitful financial specialist holds the offers in the organization, at that point it could be a decent sign
10	Do they intend to launch any new products?	Gives a sense on how goal-oriented and inventive the organization is. While simultaneously an organization propelling items outside their area raises some warnings – is the organization losing centre?
11	Do they intend to expand the	Same as above

	operation various countries?	
12	What is the sources of revenue and there proportion? Which item sells the most?	Helps us comprehend which section (and in this way the item) is contributing the most to income. This in turns encourages us comprehend the drivers for future income development
13	Do they work under an overwhelming administrative environment?	This is both acceptable and terrible – Good since it acts a characteristic hindrance from new rivalry to enter the market, awful in light of the fact that they are constrained with decisions with regards to being creative in the business
14	Who are their merchant bankers, auditors?	Good to know, and to preclude the chance of the organizations relationship with fraudulent practices.
15	Is there any presence of any entry barriers in industry?	Helps us see how simple or troublesome it is for new organizations to enter the market and destroy the edges
16	Does the organization have such a large number of subsidiaries?	If truly, you have to address why? Is it a path for the organization to redirect reserves?

List of the above questions can be answered form the information published in annual report or website of the company.

While carrying out analysis, if we found any discrepancies in first step itself, then we must reject the investment decision.

### 3.4.2 Ratio Analysis

The stage 1 of value research process encourages us comprehend the how, what, who, and why of the business. It encourages us build up a comprehensive view on the organization. Be that as it may, similar to they say – the truth will eventually come out; so regardless of how alluring the business looks the quantities of the organization ought to likewise look appealing.

The target of the second phase of value research is to assist us with appreciating the numbers and really assess if both the idea of the business and the monetary presentation of the business supplement one another. On the off chance that they don't supplement one another, at that point unmistakably the organization won't qualify as investible evaluation.

The most ideal approach to break down the fiscal summaries is by contemplating the 'Budgetary Ratios'. Money related proportions help in deciphering the outcomes, and permits correlation with earlier years and different organizations in a similar industry.

Various accounting ratios can be arranged into various classifications, to be specific –

#### **3.4.2.1 Profitability Ratio:**

The Profitability proportions help the expert to measure the productivity of the organization. This ratio passes on how well the organization can act as far as producing profit. of an organization ability to generate profit flags the efficiency of the administration and productivity. As the benefits are required for business development and to deliver profits to its investors an organization's productivity is a significant thought for the investors.

Various ratio involved for the calculation of the same is as follow:

- Operating Profit Margin (EBIDTA %)
- Net Profit (PAT) Margin
- (ROE) Return on Equity
- (ROA) Return on Asset
- (ROCE) Return for Capital Employed, also Du Point Analysis

#### **3.4.2.2 Leverage Ratio**

The Leverage ratio represents the organization's capacity (in long term) to support its everyday tasks. It measure the degree to which the organization utilizes the obligation to fund for its growth and development. Leverage ratios assist us with understanding the organization's manageability of this borrowing, keeping its commitment in context.

Some of the frequently used leverage ratios are as below:

- Debt to Equity Ratio and Debt to Asset Ratio
- Financial Leverage Ratio
- Interest Coverage Ratio

### **3.4.2.3 Valuation Ratios**

The Valuation ratios look at the stock cost of the organization with either the profitability of the organization or the general valuation of organization to get a feeling of how modest or costly the stock is being currently traded. Along these lines this proportion causes us in investigating whether the current cost of the stock is seen as high or low. In less complex words, the valuation proportion compares the cost of stock in relation to its benefits for owning them.

Some of the most frequently used ratios are:

- (P/S) Price to Sales Ratio
- (P/BV) Cost to Book Value of the stock and
- (P/E) Ratio: Price to Earnings Ratio

### **3.4.2.4 Operating Ratio:**

The Operating Ratios or Activity Ratios' estimates the productivity at which a business can convert its both current assets and noncurrent assets into sales or revenue. This ratio is also sometime referred as 'Management Ratio, because it shows how effective is the management of the organization.

Some of the famous Operating Ratios are:

- Working Capital Turnover Ratio
- Fixed Assets Turnover Ratio

- Total Assets Turnover Ratio
- Number of Days as Inventory
- Stock Turnover Ratio
- Receivable Turnover Ratio
- Days of credit extended etc.

Finally combining all ratios for analysis of its fundamentals a check list can be presented as below:

Sr. No.	Variables	Comment
1	Margin of Gross Profit	preferably above 20% (although it may vary from industry to industry)
2	PAT growth	Net Profit growth must be in alignment to growth of revenue
3	ROE	preferably above 25% (also it must be compared with degree of debt)
4	Financial Leverage	it is to ensure that business is not operating at the cost of high debt, which can drain away future profit in form of interest
5	Operating Cash Flow	It has to be positive otherwise business is facing operating stress.
6	Level of Inventory	Growing in level of inventory supported by growth in net profit margin, signifies healthy outlook
7	Sales versus Account Receivables	If growth of sales is backed by rise in debtors, it reflects negative signals that company is pushing its sells through extending the credit.
8	Earnings Per Share	Growth of EPS must in line with growth in PAT. It must also be ensured that company is not diluting equity.

### 3.4.3 Intrinsic Valuation

The second stage is basically the application of then standard financial requirement, to evaluate the performance of company. Based on reasonable logic, the list we discuss may vary from person to person.

Thus after satisfying above two stages, we need to evaluate the intrinsic value of the stock in comparison to its market value. Intrinsic value is the fair value of the share in relation to its future earnings prospects.

As famously quoted by **Warren Buffet**:

***"It is far better to buy a wonderful Company at Fair Price than a Fair Company at wonderful Price"***

In light of its present market value, we reach the accompanying inferences:

- i. On the off chance that the market price of stock cost beneath the lower range of Intrinsic Value, at that point we think the stock is undervalued, so we ought to think about purchasing the stock.
- ii. On the off chance if the market price of the stock is within the range intrinsic valuation, it preferable to maintain hold position. Buying of any fresh new stock must be avoided.
- iii. On the off chance that the stock cost is higher than the intrinsic valuation, the stock is considered exaggerated. Investor may book profit by exiting the position or they maintain hold position to book more profit. But anyhow, buying at this level may not worthwhile for long term investment

## 4 Presentation of Data:

For demonstration of research work of Fundamental Analysis, I am taking an example of Dabur India Ltd. which is a consumer good company listed on both NSE & BSE.

### 4.1 Ratio Analysis:



Sr. No.	Variables	Score	Result
1	Margin of Gross Profit (for FY'20)	49.9%	
2	<ul style="list-style-type: none"><li>PAT growth</li><li>Revenue Growth</li></ul>	<p>6.1% (3year CAGR)</p> <p>4.6 % (3year CAGR)</p>	
3	ROE	24.9 %	
4	Financial Leverage (Debt to Equity ratio)	0.1	
5	Operating Cash Flow	16,136 ( ₹ Million)	
6	Level of Inventory	Table 1	Average
7	Sales versus Account Receivables	Table 2	
8	Earnings Per Share	Table 3	

Table 1

<b>FY</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Inventory (₹ Million)</b>	12,562	13,005	13,796
<b>% changes</b>	14	4	6
<b>PAT Margin (%)</b>	17.8	17.7	17.6
<b>% changes</b>	5.95	-0.56	-0.56

Table 2

<b>FY</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Sales (₹ Million)</b>	<b>77,219</b>	<b>85,150</b>	<b>87,036</b>
<b>% Change</b>	1.4	10.3	2.2
<b>Receivables (₹ Million)</b>	7,061	8,336	8,139
<b>% Change</b>	8.56	18.06	-2.36

Table 3

<b>FY</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>PAT (₹ Million)</b>	13,720	15,056	15,279
<b>EPS</b>	8.6	9.2	9.4

## 4.2 Intrinsic Valuation using DCF Model:

### Free Cash Flow Estimate (In INR Crs)

	2018	2019	2020
Net cash from Operating Activities	1089	1499	1614
Capital Expenditures	-200	-225	-401
Free Cash Flow (FCF)	889	1274	1213
3 Year Average Free Cash flow			1125

### Inputs

Number of years considered	10
FCF Growth rate for first 5 years	15%
FCF Growth rate for last 5 years	10%
Terminal Growth Rate	3.50%
Discount Rate	8.48%

### Discount Rate = WACC

Equity		Debt	
Total Equity	1767	Total Debt	4718
Risk Free Rf (10 year bond yield)	6.47	Cost of Debt	495
Nifty Annualized Return (Rp) of past 10 years	8.87	% Cost of Debt	10.5
Beta (B)	0.6		
% Cost of Equity = $R_f + B(R_p - R_f)$	7.91		
WACC ( weighted mean of cost of capital and cost of Debt)		8.48	

### Cash flow & Present Value Table

SI No	Year	Cash flow	PV of Cash flow
1	2021	1,294.10	1,192.93
2	2022	1,488.21	1,264.63
3	2023	1,711.44	1,340.64
4	2024	1,968.16	1,421.22
5	2025	2,263.38	1,506.64
6	2026	2,489.72	1,527.75
7	2027	2,738.69	1,549.16
8	2028	3,012.56	1,570.86
9	2029	3,313.82	1,592.87
10	2030	3,645.20	1,615.19

Terminal Year 2030		2,030.00
Terminal Value		75,758.60
PV of Terminal Value		33,568.75

### Intrinsic Value Calculation (INR Crs)

Total PV of cash flow	48,150.65
Total Debt	2,711.80
Cash & Cash Balance	811.37
Net Debt	1,900.43
Share Capital	176.63
Face Value (INR)	1.00
Number of Shares	1,76,63,00,000
Share Price (INR)	261.85

#### Intrinsic Value Band

Model Error leeway	10%
Lower Intrinsic value band	235.7
Upper Intrinsic value band	288.0

---

#### **Assumptions:**

- Assumed annualized growth rate of 15% in next five years on the basis of expected growth in revenue by the organization during the same period.
- And in other next five year FCF growth is determined at 10%.
- Terminal growth rate is conservatively assumed at 3.5%.

## 5 Analysis & Discussion:

### 5.1 Analysis of Business:

- Dabur is one of the oldest Indian FMCG company manufacturing Ayurvedic medicines, health related consumer goods and hygienic products.
- Product mix of Dabur with relation to the market penetration and market share is as follow:

Parameter	Low Market Share	High Market Share
High Penetration	<ul style="list-style-type: none"><li>❖ Shampoos</li><li>❖ Hair Oils</li><li>❖ Toothpaste</li></ul>	<ul style="list-style-type: none"><li>❖ Glucose</li><li>❖ Cough &amp; Cold</li></ul>
Low Penetration	<ul style="list-style-type: none"><li>❖</li></ul>	<ul style="list-style-type: none"><li>❖ Pudina Hara</li><li>❖ Baby Massage Oil</li><li>❖ Ayurvedic Medicines</li><li>❖ Air Freshners</li><li>❖ Juices</li><li>❖ Honey</li><li>❖ Nleaches</li><li>❖ Chyawanprash</li><li>❖ Mosquito Repellent Creams</li></ul>

Source: Company, MOFSL

- Dabur is very old and reputed company. It has good set of Promoters that do not have any significant criminal records other than one case on former promoter Pradip Burman, which were later refuted.
- Dabur faces strong competition from various FMCG giants such as Marico, HUL, Emami etc. on various front.
- But Dabur through its well diversified product mix and distribution is equipped to achieve healthy growth.
- Also, on consumer front demand for Ayurvedic products is showing the rapid growth. And Dabur is specialised in this segment.
- With macro economic parameter consumer goods industry is front runner as there products are discretionary in nature. Hence, this sector would quickly overcome the loss due pandemic. Among geographical area rural India will be showing strong prospectus of growth and Dabur is well equipped to grab the opportunity.
- And in remaining all parameter Dabur scores up very well.

Thus, from initial study Dabur is worth something to be investigated deeper to identify the buying opportunities.

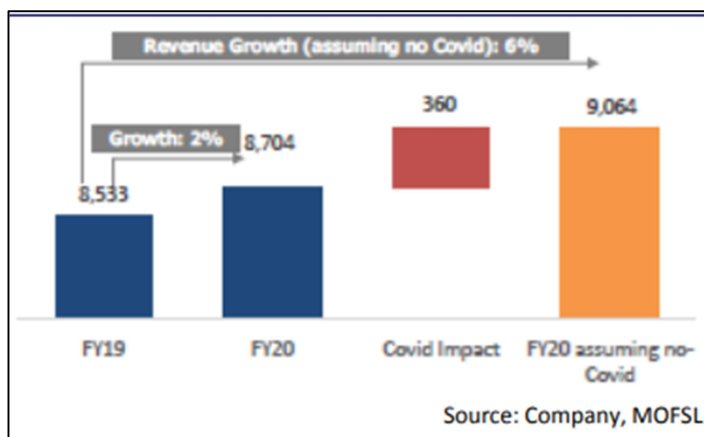
## 5.2 Ratio Analysis:

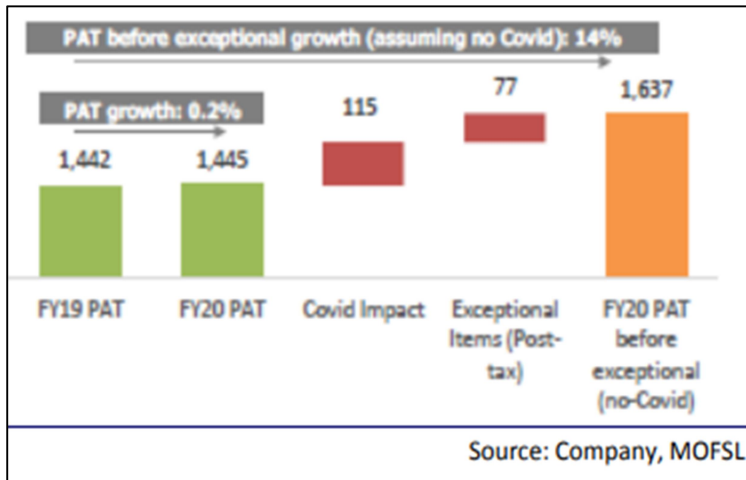
### 5.2.1 Revenue and PAT growth rate:

The principal indication of an organization qualified to be an investable evaluation is its Net Profit growth rate. To assess the organization's development, we have to check income and PAT development. We will assess development from two viewpoints –

**Year-on-year** development this will give us a thought of the progress the organization makes each year. It would be ideal if you note that the business encounters recurrent changes. From this point of view, if the organization's development is level, that is fine. Notwithstanding, simply ensure that you additionally check your rivals to guarantee that the development of the whole business is steady.

**Compound yearly Growth rate (CAGR)-** CAGR gives us a specific comprehension of the organization's turn of events and improvement techniques all through the business cycle. A decent, investable evaluation organization is normally the primary organization to defeat changes in the business cycle. This will eventually mirror a solid compound yearly development rate.





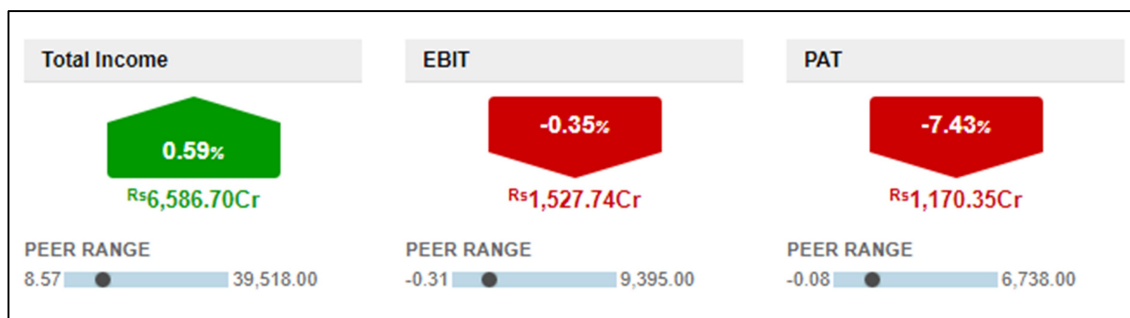
Summary of Profitability ratios:

Y/E March (INR m)	FY10	FY15	FY17	FY20	10Y CAGR (%)	5Y CAGR (%)	3Y CAGR (%)
Total Revenue	33,905	78,272	76,136	87,036	9.9	2.1	4.6
Gross Profit	18,398	41,071	38,582	43,434	9.0	1.1	4.0
Gross Margin (%)	54.3	52.5	50.7	49.9	(436)bps	(257)bps	(77)bps
EBIDTA	6,341	13,164	15,090	17,923	11.0	6.4	5.9
Margin (%)	18.7	16.8	19.8	20.6	189bps	377bps	77bps
Profit after Taxes	5,062	10,839	12,770	15,250	11.7	7.1	6.1
Margin (%)	14.9	13.8	16.8	17.5	259bps	367bps	75bps

Source: Company, MOFSL

We can see that on various front of Profitability such as Gross Profit margin, EBIDTA and PAT margin of Dabur is quite impressive.

However 5 year CAGR shows lower growth than long term growth. Also, with respect top its peer Dabur lacks operating efficiency.



<https://economictimes.indiatimes.com/dabur-india-ltd/profitandlose/companyid-11796.cms>

### 5.2.2 Earning Per Share:

Profit per share speaks to income per share. The development paces of EPS and PAT are comparable, demonstrating that the organization has not weakened income by giving new offers, which is valuable to existing investors. It tends to be viewed as this mirrors the capacity of the organization's administration.

It can be seen from third table that EPS growth is at par with PAT growth.

### 5.2.3 Debt Level:

FY	2018	2019	2020
Loan (₹ million)	9,418	7,039	4,718
Debt To Equity Ratio	0.2	0.1	0.1

Dependency on external debt is constantly reducing and Debt to Equity level is quite stable at very good level.

### 5.2.4 Inventory Level:

Inventory level helps to determine for analysis of:

- Expanding stock by expanding PAT gives this is an indication of organization development
- The steady inventory holding days show that the administration's operational proficiency is to a limited degree

The stock days are pretty much steady. Actually, it gives indications of a slight decay. Both stock and PAT give comparative mix indications of growth, which is quite acceptable.

### 5.2.5 Sales vs. receivables:

FY	2018	2019	2020
Receivables as % Sales	9.1	9.8	9.35

From above table we can conclude that growth in sales is not backed by credit sales as proportion of receivables is quite stable with relation to sales.

And after considering other major parameters of ratios we can conclude that Dabur successfully clears all the standard requirements that made it a fundamentally sound company which can worth looking for investment.

### **5.3 Intrinsic Valuation:**

Using DCF model we come to the intrinsic valuation at ₹ 261.85. And upper and lower limit valued at ₹ 288 and ₹ 235.67 respectively. While Market valuation of at end of trading session on 17<sup>th</sup> July was ₹ 490.55. Thus it is valued at 1.87 times of its fair value.

### **5.4 Conclusion:**

Although stock fails at first two stages, it failed on valuation parameter as its market price is overpriced by 87% than its intrinsic value.

And from long term investment we will not initiate any fresh buying as long as stock is traded above its fair value.

### **5.5 Managerial Implication:**

Fundamental Analysis is holistic study of the business on various qualitative and quantitative aspects of the business to differentiate investment grade companies from others. A manager needs to deeply analyse all the aspects as below:

Before making any decision it is necessary to study every aspects that might affects the business whether it is economic indicator, industry related problem or company specific matter. After convincing on first step, it becomes necessary to analyse actual performance on the basis of past information. Although a business might look interesting, but if cannot be able to deliver good performance, it is worthless.

And finally after convincing on above two parameters it becomes important to determine whether firm is correctly valued or not, so that return can be maximize.

Fundamental analysis helps management handling the client portfolio or taking investment decision on behalf of the institution to determine moat or competitiveness of a company.

## 6 Learning:

This Summer Internship project helps me to get the corporate exposure about how the financial related decision is taken.

It gave me chance to practically apply the concepts that I learned in Financial Accounting and Corporate finance course. It helped to strengthen my knowledge on accounting by getting first hand experience on its preparation.

Secondly, from CMA Reporting I learned to predict the future status of revenue, profit, cost, assets, liability etc. on the basis of scientific calculations and sound reasoning.

Finally through concepts of Fundamental Analysis I learned:

- I. **To be practical:** this is the essence of the financial lessons. And to have the patience to stay, so that market can bring you rich returns. Practically, compound annual growth rate between 15% and 18% is decent and fairly realistic. If someone boasts of high CAGR growth of 50-60% must be critically observed.
- II. **Long-term approach-** a stock chosen on logical criteria and quantitative parameters and purchased on fair price helps to generate good return in long term. But for that we must ignore short term fluctuations and rumours.
- III. To find the **investable degree stock** based on sound characteristics - keep investing if these characteristics persist. Book the profits when we think that the company no longer meet these parameters.
- IV. To give due importance to **Qualitative data** – in many condition it is more important than quantitative analysis. Always pay attention to investments in companies that have performed and they are backed by good team of management and promoters.
- V. And finally **continuous learning** is pre requisite in financial markets to ace it. As long as we invest in financial markets we must be remained aware about it.

Thus concepts of fundamental analysis will not only help in my finance career but also to take investment decision of my savings.

## 7 References

- <https://www.elearnmarkets.com/blog/why-fundamental-analysis-is-important/>
- <https://zerodha.com/varsity/chapter/introduction-fundamental-analysis/>
- <https://economictimes.indiatimes.com/dabur-india-ltd/profitandlose/companyid-11796.cms>
- <https://www.moneycontrol.com/swot-analysis/daburindia/DI/weakness>
- <https://stableinvestor.com/2018/01/nifty-annual-yearly-returns-historical.html>



**HEMAL Y SHAH & ASSOCIATES**  
CHARTERED ACCOUNTANTS

404, DTC APPARTMENT, B/S. RATHA TELENET,  
DALAGIYA MOHOLLO, MAHICHARPURA, SURAT.  
Email: [cahyshah.kcm@gmail.com](mailto:cahyshah.kcm@gmail.com)

15<sup>th</sup> July, 2020

**TO WHOMSOEVER IT MAY CONCERN**

This is to certify Mr. Kush Shah, student of Institute of Management, Nirma University, Ahmedabad has successfully completed internship at Hemal Y Shah & Associates. His internship lasted for a period from 4<sup>th</sup> May to 3<sup>rd</sup> July. He has worked on following projects:

1. Learning the Accounting process and preparing the Final Account.
2. Analysing and interpreting the financial position of the organization using the concepts of Fundamental Analysis.
3. Understanding the basic concepts of Credit Monitoring Arrangements (CMA) reporting, which is prepared to show the past performance and future projected performance of an organization.

Kush was sincere and showed inquisitiveness during the entire period of internship. His conduct was found to be good. We wish him a bright and successful career ahead.

FOR, HEMAL Y SHAH & ASSOCIATES  
Chartered Accountants



CA Hemal Shah  
Proprietor