Summer Internship Project 2022

REPORT TITLE

Financial Statement Analysis

Submitted by

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DECLARATION

I do hereby declare that the Project title Financial Statement Analysis of ARSS infrastructure project Ltd, BBSR submitted by me for the partial fulfilment of the degree of Integrated MBA, it is an original piece of work carried out by me under the guidance and supervision of the organisational guide **Mr. Rashmi Ranjan Singh**, CA of ARSS Infrastructure Project LTD, Bhubaneswar and my Internal guide **Dr. Ramkrushna Mishra**. The information has been collected from genuine and authentic sources. It is my original work and the same has not been submitted for the award of my other degree diploma/fellowship or other similar title or prize.

Place: Bhubaneswar **Saswati Mund**

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CHAPTER-1

INTRODUCTION

1.1 INTRODUCTION ON FSA

Financial Statement Analysis is a method of reviewing and analysing a company's accounting reports (financial statements) in order to gauge its past, present or projected future performance. This process of reviewing the financial statements allows for better economic decision making. Firms are also obligated to provide their financial statements in the annual report that they share with their stakeholders. As financial statements are prepared in order to meet requirements, the second step in the process is to analyse them effectively so that future profitability and cash flows can be forecasted.

Therefore, the main purpose of financial statement analysis is to utilize information about the past performance of the company in order to predict how it will fare in the future. Another important purpose of the analysis of financial statements is to identify potential problem areas and troubleshoot those. **And the most important three financial statements are**:

The income statement,

The balance sheet and

The cash flow statement.

The term 'financial analysis', also known as analysis and interpretation of financial statements', refers to the process of determining financial strengths and weaknesses of the firm by establishing strategic relationship between the items of the balance sheet, profit and loss account and other operative data.

"Analysing financial statements," according to Metcalf and Titard, "is a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a firm's position and performance."

Objective and importance:

The primary objective of financial statement analysis is to understand and diagnose the information contained in financial statement with a view to judge the profitability and financial soundness of the firm, and to make forecast about future prospects of the firm. The purpose of analysis depends upon the person interested in such analysis and his object.

However, the following purposes or objectives of financial statements analysis may be stated to bring out the significance of such analysis:

(i) To assess the earning capacity or profitability of the firm.

(ii) To assess the operational efficiency and managerial effectiveness.

(iii) To assess the short term as well as long term solvency position of the firm.

(iv) To identify the reasons for change in profitability and financial position of the firm.

(v) To make inter-firm comparison.

(vi) To make forecasts about future prospects of the firm.

(vii) To assess the progress of the firm over a period of time.

(viii) To help in decision making and control.

(ix) To guide or determine the dividend action.

(x) To provide important information for granting credit.

USERS OF FINANCIAL STATEMENT ANALYSIS:

Management

Investors

Owners

Creditors

Governments

Research scholars

Employees

Customers

General public

METHODS OF FINANCIAL STATEMENT ANALYSIS:

There are two main methods of analysing financial statements**: horizontal or trend analysis, and vertical analysis**. These are explained below along with the advantages and disadvantages of each method.

HORIZONTAL ANALYSIS:

Horizontal analysis is the comparison of financial information of a company with historical financial information of the same company over a number of reporting periods. It could also be based on the ratios derived from the financial information over the same time span. The main purpose is to see if the numbers are high or low in comparison to past records, which may be used to investigate any causes for concern.

For example, certain expenditures that are high currently, but were well under budget in previous years may cause the management to investigate the cause for the rise in costs; it may be due to switching suppliers or using better quality raw material.

This method of analysis is simply grouping together all information, sorting them by time period: weeks, months or years. The numbers in each period can also be shown as a percentage of the numbers expressed in the baseline (earliest/starting) year. The amount given to the baseline year is usually 100%. This analysis is also called dynamic analysis or trend analysis.

Advantages and Disadvantages of Horizontal Analysis

Advantages:

When the analysis is conducted for all financial statements at the same time, the complete impact of operational activities can be seen on the company's financial condition during the period under review.

This is a clear advantage of using horizontal analysis as the company can review its performance in comparison to the previous periods and gauge how it's doing based on past results.

Disadvantage:

It can be manipulated to show comparisons across periods which would make the results appear stellar for the company.

For instance, if the profits for this month are only compared with those of last month, they may appear outstanding but that may not be the case if compared with the same month the previous year.

Using consistent comparison periods can address this problem.

VERTICAL ANALYSIS:

Vertical analysis is conducted on financial statements for a single time period only. Each item in the statement is shown as a base figure of another item in the statement, for a given time period, usually for year. Typically, this analysis means that every item on an income and loss statement is expressed as a percentage of gross sales, while every item on a balance sheet is expressed as a percentage of total assets held by the firm. Vertical analysis is also called static analysis because it is carried out for a single time period.

Advantages and Disadvantages of Vertical Analysis

Advantages:

Vertical analysis only requires financial statements for a single reporting period. It is useful for inter-firm or inter-departmental comparisons of performance as one can see relative proportions of account balances, no matter the size of the business or department.

Disadvantages:

Basic vertical analysis is constricted by using a single time period, it has the disadvantage of losing out on comparison across different time periods to gauge performance.

This can be addressed by using it in conjunction with timeline analysis, which shows what changes have occurred in the financial accounts over time, such as a comparative analysis over a three-year period. For instance, if the cost of sales comes out to be only 30% of sales each year in the past, but this year the percentage comes out to be 45%, it would be a cause for concern.

FINANCIAL STATEMENTS AND THEIR KEY ELEMENTS

The main types of financial statements are the balance sheet, the income statement and the statement of cash flows. These accounting reports are analysed in order to aid economic decision-making of a firm and also to predict profitability and cash flows.

I. The Balance Sheet

The balance sheet shows the current financial position of the firm, at a given single point in time. It is also called the statement of financial position. The structure of the balance sheet is laid out such that on one side assets of the firm are listed, while on the other side liabilities and shareholders' equity is shown. The two sides of the balance sheet must balance as follows:

Assets = Liabilities + Shareholders' Equity

Balance Sheet Analysis

The balance sheet is analysed to obtain some key ratios that help explain the health of the firm at a given point in time. These metrics are as follows:

Debt-Equity Ratio = Total Debt / Total Equity

The debt-equity ratio is also called a leverage ratio. It is calculated to assess the leverage, or gearing, of a firm to show how much it relies on debt to finance its activities. This ratio has pertinent implications for the financial health of the firm and the risk and return of its shares.

Market-to-Book Ratio = Market Value of Equity / Book Value of Equity

The market-to-book ratio is used to reflect any changes in a firm's characteristics. The variations in this ratio also show any value added by the management and its growth prospects.

Enterprise Value = Market Value of Equity + Debt – Cash

The enterprise value of a firm shows the underlying value of the business. It reflects the true value of the firm's assets, not including any cash or cash equivalents, while unencumbered by the debt the firm carries.

II. The Income Statement

The purpose of an income statement is to report the revenues and expenditures of a firm over a specific period of time. It was previously also called a profit and loss account. The general structure of the income statement with major components is as follows:

Sales revenue

– Cost of goods sold (COGS)

= Gross profit

– Selling, general and administrative costs (SG&A)

– Research and development (R&D)

= Earnings before interest, taxes, depreciation and amortization (EBITDA)

– Depreciation and amortization

= Earnings before interest and taxes (EBIT)

– Interest expense

= Earnings before taxes (EBT)

– Taxes

= Net income

The net income on the income statement, if positive, shows that the company has made a profit. If the net income is negative, it means the company incurred a loss. Earnings per share can be derived from knowing the total number of shares outstanding of the company:

Earnings per Share = Net Income / Shares Outstanding

Income statement Analysis

Some useful metrics based on the information provided in the income statement and the balance sheet are as follows:

Profitability Ratios:

1. Net profit margin: This ratio calculates the amount of profit that the company has earned after taxes and all expenses have been deducted from net sales.

Net profit Margin =Net Income / Net Sales

2. Return on Equity: This ratio is used to calculate company profit as a percentage of total equity.

Return on Equity = Net Income / Book Value of Equity

Valuation Ratios:

Price to earnings ratios (P/E ratio)

The P/E ratio is used to evaluate whether the value of a stock is proportional to the level of earnings it can generate for its stockholders. It assesses whether the stock is overvalued or undervalued.

(P/E) Ratio = Market Capitalization / Net Income = Share Price / Earnings per Share

III. The Statement of Cash Flows

The statement of cash flows shows explicitly the sources of the firm's cash and where the cash is utilized. It is essentially a statement whereby the net income is adjusted for non-cash expenses and any changes to the net working capital. It also reflects changes in cash coming from, or being used by, investing and financing activities of the firm. The structure and main components of the cash flow statement are as follows:

Cash from operating activities = Net income + Depreciation ± Changes in net working capital

Cash from financing activities = New debt + New shares – Dividends – Shares repurchased

Cash from investment activities = Capital expenditure – Proceeds from sales of long-term assets

All three of the above determine the bottom line: changes in cash flows.

Cash Flows Statement Analysis

In order to measure how much cash is available to the company for investments without outside financing or money diverting from operations, it is useful to conduct a simple cash flow statement analysis. The free cash flow, as the name suggests, allows a company to be able to pay dividends, repay its debts, buy back its stock and also make new investments to facilitate future growth. The excess cash produced by the company, free cash flow, is calculated as follows:

Net Income

+ Amortization/Depreciation

– Changes in Working Capital

– Capital Expenditures

= Free Cash Flow

Some analysts also study the cash flow from operating activities to see if the company is earning “quality” income. In order for the company to be doing extremely well, the cash from operating activities must be consistently greater than the net income earned by the company.

1.2. Objective Of the Study

1.To study true insight into financial position of the company.

2.To make comparative study of financial statement of different years.

3.To study the true picture of the financial position of the company in terms of short-term, liquidity, long-term, profitability by computing various ratios.

1.3. Methodology

Introduction

A financial statement (or financial Report) is a formal record of the financial activities and position of a business, person, or other entity.

Relevant financial information is presented in a structured manner and in a form easy to understand. They typically include basic financial statements, accompanied by a management discussion and analysis.

Methods of Analysis

1. A **Balance sheet,** also referred to as a statement of financial position, reports on a company's assets, liabilities, and ownership equity at a given point of time.
2. An **income statement,** also known as statement of comprehensive income statement of revenue and expenses, P&L or profit & loss report, reports on company's income, expenses and profit over a period of time. A profit & loss statement provides information about the company's operation. These include sales and various expenses during an accounting period.
3. A **statement of changes in equity,** also known as equity statement or statement of retained earnings, which shows the change in equity in an accounting period.
4. A **statement of cash flow,** reports company's activities, particularly its operating, investing and financing cash inflow and outflow.

Research methodology

Research methodology simply refers to the practical "how" of any given piece of research. More specifically, it's about **how** a researcher **systematically designs a study** to ensure valid and reliable results that address the research aims and objectives.

It implies a systematic attempt by the researcher to obtained knowledge about subject under study. This systematic way to show the problem and it is important components of the study without which a researcher may not able to obtain facts and figures from employees. The concept of research is thus closely linked with human endeavour for better understanding of his environment, evolution & growth through diverse stages of human history.

The study is based upon both primary as well as secondary sources for gathering the required information:

Primary data sources: The primary data needed for the project analysis has been collected from individual official guides views and meeting the various financial departments of ARSS construction company.

Secondary data sources:

- Annual report
- Official record in an organization
- Files
- Books and subjects
- Website

Data Collection

- From the annual reports of ARSS
- By the help of Internet
- By asking questions
- By referring different books

1.4. Scope of the study

Scope of the study is identified after and during the study of the project. The study of the financial statement is totally based on analysis of comparative statement, analysis of long-term financial position, analysis of short-term financial & liquidity position and analysis of profitability of the company on the basis of 3years annual report of the company.

1.5. Limitation of the study

- Company does not allow for entering into some kind of account as per their company policy.
- The study conducted with the data available and analysis was made accordingly.
- Due to the confidential financial records, the data is not exposed so that the study may not be detailed and fully fledged.
- Since the study is based on the financial data that are obtained from the company's financial statement shall be equally applicable.
- They did not give the task in proper time, that why I had to sit idle and lost some time.

CHAPTER-2

COMPANY PROFILE

2.1 INTRODUCTION TO COMPANY PROFILE

ARSS is one of the fastest growing construction companies of India, focusing on infrastructure construction segment including highways, irrigation and railways. Incorporated in 17th May 2000 by a group of professionals, it has rapidly achieved a turnover of Rs. 1013.00 crores. It has completed 80 projects across India, with aggregate contract value of over Rs. 7000 million, for various clients all over India.

ARSS has a unique business model, with proven expertise in innovative thinking, project and cost management. We are focused on delivering high quality work within budgeted time and costs, as evident in the various accolades and repeat business. We have also developed an appropriate blend of entrepreneurs and hands on professionals, constantly thinking & executing innovative and cost-effective solutions to clients' requirements.

Today it is acknowledged as a company that continues to empower India, enabling the nation to surge ahead in different core sectors. At the heart of all our development efforts is the attempt to touch and improve the quality of life of people across the length and breadth of the country.

In fact, ARSS, as an industry leader in engineering construction, currently nurtures projects that span across such diverse segments as railway, real estate and highways, all of which impact the nation of India, and the progress of its people.

ARSS, even as you read this, is bringing to bear its wealth of engineering and construction expertise to develop infrastructure aimed at further propelling the nation forward, into the 21st century and beyond.

2.2. VISION:

To be India's most trustworthy, growth-oriented and forward-looking construction company providing eco-friendly, customer-satisfying and safe solutions of international standard in residential, commercial, industrial as well as infrastructure sectors throughout the country; meeting challenges effectively; and setting trends in quality, integrity and efficiency of services.

MISSION

- To deliver such construction solutions as to become a global leader in product costing and designing while proving excellence in meeting most stringent requirements in quality, timely delivery, safety and environmental sustainability;
- To thrive on an organizational culture based on productivity, systematic capacity development, unfailing commitment to results, and continuous product innovation and customization in fulfilling customer requirements; and
- To sustain organizational growth, establish distinct global identity and leadership in real estate and infrastructure sectors, and diversify such leadership to other sectors (i.e, marine, power, aviation, etc.) in a planned manner.

ACHIEVEMENTS

ARSS has made its presence prominent in the field of railway, road and bridges work all across the country. Among the most prestigious projects in the above said fields, ARSS has certainly bagged and completed important projects. Fact wise, ARRS has completed over 80 projects across India, creating a solid brand name that is identified with reliability and trust.

The Company has constructed over 300 km of roads and highways, 200 km of rail tracks and 10 major bridges.

- **Laurels and achievements:** In 2008-09, the Company was awarded with three World Bank-assisted projects by the Government of Orissa.

- **Unprecedented growth:** Registered an increase of 99% in the consolidated revenue over the previous year.
- **Strong order book:** Contracts worth Rs. 2,788.37 Crores as on March 31, 2010.
- **Risk reduction**: The best part of our contracts are with esteemed clients such as the government, PSUs and other government agencies, thereby reducing the risk of default and delayed payments.
- **Nurturing relationships:** Maintained long-term relationship with these reputed clients with our client-centric policies. This resulted in repeat orders from the government of Orissa, Railways Department, Rail Vikas Nigam Limited and RITES.
- **Expansion into new arenas:** Diversified successfully into irrigation and canal construction.
- **Growing bid capacity:** Enhanced our bid capacity by strengthening our technical and financial capability and by drawing on our long years of experience. Successfully bid and procured additional projects.
- **Expertise and experience:** Adequately mobilised resources including equipment, raw material and personnel at short notice while maintaining a track record of speedy completion of projects.

Development activities:

ARSS contributes to the betterment of the community and caters to the requirements of the most down trodden section of the society. It has evolved various people-friendly policies for the pro-active growth in areas concerning flood, calamities etc. ARSS's helping hand lent to overcome these difficulties at the time of crisis/need.

Health-Check Up and Donation

ARSS conducts and organises health check up through camps including blood donation and eye check-up. ARSS has taken number of measures in this direction for upliftment of the poorer section of the society.

Employee safety programs and recreation facilities

To enhance the morale of the employee and create positive impact on the performance within the premises it ensures facilities for recreation and also for physical fitness programs. Company Globalization has fast changed from being just a buzz word to a well accepting reality. The synergistic forces of commerce and technology are driving the world at an ever-increasing pace. This rapidly changing scenario has created a demand for Global Managers, who by their sheer sense of adventure and sensitivity to cultural nuances, have the capability to redefine 'Corporate Vision'.

Creating good and conductive environment

ARSS recognizes that reputation lies on the abilities and attitude of our operation and approach of our staff. We in ARSS takes number of measures by way of:

Course training: We provide guidance through training & encourage the employee to attend classes.

Staff longevity: We in ARSS provide a positive work environment.

Emphasizing safety: we in ARSS provide safety appliances to the technical employees (Workshop & Field) and hold meeting at regular intervals for awareness of the employees engaged in the projects so that all the operations can be carried thoroughly with safety and avoiding hazards.

Donation to Akshaya Patra Foundation, Balagandi.

We have donated Rs. 1,00,000/- to the Akshaya Patra Foundation, Balagandi, Grand-road, Puri, Orissa-752001. The Akshaya Patra Foundation, since the year 2000 has been offering free mid-day meals to under privileged children in about 485 schools in Bangalore. The program has now expanded to other parts of India as well, feeding over 5,38,600 less privileged children in 11 locations in the country- Bangalore, Hubli-Dharwad, Mysore, Mangalore, Bellary in the state of Karnataka, Anantapur in the state of Andra Pradesh and Puri in the state of Orissa.

Sponsorship to Jatni Athletic Association.

ARSS has sponsored Rs. 50,000/- only to Jatni Athletic Association, Jatni Dist. Khurda, Orissa-752050 with a great hope of grand success of all India Ramula Yasin Memorial Football Tournament 2007. This tournament has been duly affiliated to the Odisha Foot Ball association and all the Indian Football Federation.

Advertisement.

The All India Federation of Diploma Engineers organised a mega convention of SAARC DIPLOMA ENGINERS FORUM in the National Capital, New Delhi during the last week of January, 2008. A Souvenir was to be published containing many subjects of immense importance. Considering the importance of the convention, ARSS has given an advertisement of Rs.20,000/- only which was published in said Souvenir.

Donation to Cuttack Club Limited.

ARSS has donated Rs.25000/- only to Cuttack Club Limited, Barabati Fort, Cuttack-753001, Orissa for all round development of the society.

2.3. ARSS HISTORY

The company came into being as a private limited one with name and title ARSS STONES PVT LTD (abbreviated as ARSSSPL) in the year 2000 AD duly registered with the Registrar of Companies Orissa. Within a span of two years i.e. in 2002 we ventured into the field of construction of Major Bridges on well foundation.

The company has proposed to take up high value technical contracts in the entire country and had also negotiated some important contracts for Railways & other important national infrastructure projects.

Since then the Company has spread its wings in infrastructure developments.

In order to cope with its expansion plans and growth, and to have more transparency in development needing public participation the Company was restructured as a public limited company and renamed as ARSS Infrastructure Projects Ltd. On 3rd April 2006.

To keep pace with construction boom in the country, demanding increasing input in all spheres of infrastructure development, we entered into Joint Venture agreement with many leading Engineering Construction Companies in India including Govt. of India undertaking (PSU).

The company achieved a turnover of Rs. 312.00 crores within a short period up to 2007-2008 years, due to the determined effort. The turnover increased manifolds during 2008-09 is Rs. 628.24cr.

The company has entered into construction of railway tracks, bridges, road & buildings etc. in the year 2003-04 in spite of stiff market competition. In the year 2006-07 the Company executed Road Construction work under R.D & R & B Division of Government of Orissa and Road work of HSCL, RVNL, RITES and Railways etc to the client’s satisfaction.

Business Summary

The company is engaged in construction activities in India. It undertakes construction of railway infrastructure, roads, highways, bridges& irrigation projects. It started as a construction company in the field of railway infrastructure development, mainly in the state of Orissa and subsequently expanded its business activities in the zonal jurisdictions of East Coast Railway. It has developed expertise in railway construction projects, which includes earthworks, major and minor bridges, supply of ballast, sleepers, lying of sleepers and rails, linking of tracks, etc. Over the years it diversified its field of activities into other construction segments such as development and construction of roads, highways, bridges, irrigation projects, EPC activities for railways.

Construction projects are typically awarded through competitive bidding process to bidders with certain eligibility requirements based on their past experiences, technical capabilities and financial strength. The company bid for projects both on a standalone basis as well as through project specific joint ventures. It has entered into joint ventures with national and international players such as PT Adhikarya (Persero), Harish Chandra (India) ltd, Triveni Engicons pvt Ltd, RITES, Kalindee Rail Nirman (Engineers) ltd., Patel Engineering ltd, Rohit Kumar Das Construction private ltd., Backbone Enterprises Ltd., Atlanta Ltd & Som Dutt Builder.

The company clients include Ministry of Railways, State Government of Orissa, Rail Vikas Nigam Limited, RITES Limited, IRCON International Limited, National Thermal Power Corporation, Hindustan Steel Corporation Limited, PWD-Orissa, IOCL, and National Highway Authority of India. It has successfully completed around 200 km rail line and about 300km of roads and highways. It has presence in Eastern India, particular in the state of Odisha. However, recently it has pursued opportunities in other parts of India.

2.4. SWOT Analysis

SWOT (strengths, weaknesses, opportunities, and threats) analysis is a framework used to evaluate a company's competitive position and to develop strategic planning. SWOT analysis assesses internal and external factors, as well as current and future potential.

- SWOT analysis is a strategic planning technique that provides assessment tools.
- Identifying core strengths, weaknesses, opportunities, and threats leads to fact-based analysis, fresh perspectives, and new ideas.
- SWOT analysis works best when diverse groups or voices within an organization are free to provide realistic data points rather than prescribed messaging.

Strength:

- Time and efficiency are interdependent variable factors because construction companies have to complete the project on a specific date, and ARSS aims at providing efficiency at every point for smooth work.
- Allocating resources among workers and assign them different task based on their capabilities to get the work done is an important skill of management and ARSS is dedicated to that.
- Majorities of client are the government of states or central Government, public sector undertakings and other government agencies.
- Its own a sizeable fleet of construction equipment, enabling it to rapidly mobilize to same projects sites.
- Rising Net Cash Flow and Cash from Operating activity.
- Effectively using its capital to generate profit.

Weakness:

- ARSS is facing high bargaining power of channel partners in construction services industry and so far it has not able to streamline the operations to reduce the bargaining power of value chain partners in construction industry.

- Declining Revenue every quarter for the past 3 quarters.
- Low Piotroski Score: Companies with weak financials.
- Weak Momentum: Price below Short , Medium and Long Term Averages.
- Slow to strategic competitive environment developments because ARSS is one of the leading players in the construction services industry so it takes time to assess the upcoming competitions.
- The company have not carried out an independent appraisal of the working capital management.
- The company revenue totally depends on the contracts awarded by Central and State Government and their agencies.

Opportunity

- ARSS emphasis on the railway segments can be a positive form of growth point of view given that Indian Railways are likely invest huge sums in expanding and upgrading the railways infrastructure in the country.
- Redefining models of collaboration and team work.

Threats

- Increasing competition in biding process, face competition from national and international companies.
- High working capital requirement, if deficiency will occur that will affect the financial strength of the company.
- Dependence on joint ventures to qualify for the bidding process.
- Change in govt. policies and the political situation in India.

2.5. Company's competitors:

- Larsen & Turbo
- IRB Infrastructure Developers
- G R Infra Projects
- KNR Construction

Customers of ARSS:

The company's valued customers are:

- Govt. of Odisha
- Govt. of Haryana
- Rail Vikash Nigam Limited
- RITES Limited
- IRCON International Limited
- National Thermal Power Corporation
- National Highway Authority of India
- ESSEL Mining
- Damodar Valley Corporation
- Odisha State Disaster Mitigation Authority
- Indian Oil Corporation Limited
- Hindustan Petroleum Corporation Limited
- Jaipur Development Authority
- East Coast Railway
- South Eastern Railway
- North Western Railway
- Southern Railway
- Central railway
- Jindal Steel and Power Limited
- Vishakhapattnam Steel Plant
- Rourkela Steel Plant

CHAPTER-3

DATA ANALYSIS & INTERPRETATION

3.1. ANALYSIS OF COMPARATIVE FINANCIAL STATEMENT

Preparing Comparative Financial Statements is the most commonly used technique for analysing financial statements. This technique determines the profitability and financial position of a business by comparing financial statements for two or more time periods. Hence, this technique is also termed as Horizontal Analysis. Typically, the income statements and balance sheets are prepared in a comparative form to undertake such an analysis.

Furthermore, there is a provision attached to comparing the financial data showcased by such statements. This relates to making use of the same accounting principles for preparing each of the comparative statements. In case the same accounting principles are not followed to prepare such statements, then the difference must be disclosed in the footnote below.

Comparative Balance Sheet

A comparative balance sheet showcases:

- Assets and liabilities of business for the previous year as well as the current year
- Changes (increase or decrease) in such assets and liabilities over the year both in absolute and relative terms

Thus, a comparative balance sheet not only gives a picture of the assets and liabilities in different accounting periods. It also reveals the extent to which the assets and liabilities have changed during such periods.

Furthermore, such a statement helps managers and business owners to identify trends in the various performance indicators of the underlying business.

What To Study While Analysing A Comparative Balance Sheet?

A business owner or a financial manager should study the following aspects of a comparative balance sheet:

1. *Working Capital*

Working capital refers to the excess of current assets over current liabilities. This helps a financial manager or a business owner to know about the liquidity position of the business.

2. *Changes in Long-Term Assets, Liabilities, and Capital*

The next component that a financial manager or a business owner needs to analyse is the change in the fixed assets, long-term liabilities and capital of a business. This analysis helps each of the stakeholders to understand the long-term financial position of a business.

3. *Profitability*

Working capital refers to the excess of current assets over current liabilities. This helps a financial manager or a business owner to know about the liquidity position of the business.

Comparative Income Statement

A comparative income statement showcases the operational results of the business for multiple accounting periods. It helps the business owner to compare the results of business operations over different periods of time. Furthermore, such a statement helps in a detailed analysis of the changes in line-wise items of the income statement.

What To Study While Analysing a Comparative Income Statement?

1. Comparing Sales with Cost of Goods Sold

Changes in the sales in the given accounting periods should be compared with the changes in the cost of goods sold for the same accounting periods.

2. Change in Operating Profits

Change in the operating profits should be analysed.

3. The profitability of a Business

Understanding the overall profitability of a business concern taking into consideration the changes in the net profit of the given accounting periods.

Trading of profit/loss (2021-22) (in Rs. Cr.)

Particulars	31.03.2022	31.03.2021	Absolute changes	% change
INCOME				
REVENUE FROM OPERATION (GROSS)	**288.82**	**248.46**	**40.36**	**16.24%**
Less: Excise/Service Tax/Other Levies	0.00	0.00	0.00	0.00
REVENUE FROM OPERATIONS [NET]	**288.82**	**248.46**	**40.36**	**16.24%**
TOTAL OPERATING REVENUES	**288.82**	**248.46**	**40.46**	**16.24%**
Other Income	16.81	33.65	(16.84)	(48.26%)
TOTAL REVENUE	**305.63**	**282.11**	**23.52**	**8.33%**
EXPENSES				
Cost Of Materials Consumed	139.78	79.76	60.02	75.25%
Purchase Of Stock-In Trade	0.00	139.71	(139.71)	(100%)
Operating And Direct Expenses	0.00	0.00	0.00	0.00
Changes In Inventories Of FG, WIP And Stock-In Trade Changes In Inventories Of FG, WIP And Stock-In Trade	(5.69)	139.71	(145.4)	(104.07%)
Employee Benefit Expenses	19.08	11.28	7.8	69.14%
Finance Costs	1.43	2.28	(0.85)	(37.28%)
Depreciation And Amortisation Expenses	0.74	10.82	(10.08)	(93.16%)
Other Expenses	258.62	42.17	216.45	513.27%
TOTAL EXPENSES	**413.97**	**332.71**	**81.26**	**24.42%**
PROFIT/LOSS BEFORE EXCEPTIONAL, EXTRAORDINARY ITEMS AND TAX	**(108.34)**	**(50.61)**	**(57.73)**	**114.06%**
Exceptional Items	0.00	0.00	0.00	0.00
PROFIT/LOSS BEFORE TAX	**(108.34)**	**(50.61)**	**(57.73)**	**114.06%**
TOTAL TAX EXPENSES	**2.45**	**2.05**	**0.40**	**19.51%**
PROFIT/LOSS FOR THE PERIOD	**(110.79)**	**(52.66)**	**(58.13)**	**110.38%**

Balance sheet (2021-22) (in Rs. Cr.)

Particulars	31.03.2022	31.03.2021	Absolute change	% Change
EQUITIES AND LIABILITIES				
SHAREHOLDER'S FUNDS				
Equity Share Capital	22.74	22.74	0.00	0.00
TOTAL SHARE CAPITAL	**22.74**	**22.74**	**0.00**	**0.00**
Reserves and Surplus	(147.09)	(36.31)	(110.78)	305.09%
TOTAL RESERVES AND SURPLUS	**(147.09)**	**(36.31)**	**(110.78)**	**305.09%**
TOTAL SHAREHOLDERS FUNDS	**(124.36)**	**(13.57)**	**(110.79)**	**816.43%**
NON-CURRENT LIABILITIES				
Long Term Provisions	1.46	1.46	0.00	0.00
TOTAL NON-CURRENT LIABILITIES	**1.46**	**1.46**	**0.00**	**0.00**
CURRENT LIABILITIES				
Short Term Borrowings	1627.49	1628.43	(0.94)	(0.05%)
Trade Payables	27.09	31.86	(4.77)	(14.97%)
Other Current Liabilities	64.22	46.02	18.2	39.54%
Short Term Provisions	0.00	0.00	0.00	0.00
TOTAL CURRENT LIABILITIES	**1718.80**	**1706.30**	**12.5**	**0.73%**
TOTAL CAPITAL LIABILITIES	**1595.91**	**1694.20**	**(98.29)**	**(5.80%)**
ASSETS **NON-CURRENT ASSETS**				
FIXED ASSETS	**35.02**	**32.40**	**2.62**	**8.08%**
Non-Current Investments	32.49	33.22	(0.73)	(2.19%)
Deferred Tax Assets [Net]	10.19	12.64	(2.45)	(19.38%)
Long Term Loans And Advances	0.35	1.94	(1.59)	(81.9%)
Other Non-Current Assets	1235.81	1330.72	(94.91)	(7.13%)
TOTAL NON-CURRENT ASSETS	**1313.86**	**1410.92**	**(97.06)**	**(6.87%)**
CURRENT ASSETS				
Inventories	34.39	26.42	7.97	30.16%
Trade Receivables	10.04	22.58	(12.54)	(55.53%)
Cash And Cash Equivalents	52.20	44.78	7.42	16.56%
Short Term Loans And Advances	49.91	44.03	5.88	13.35%
Other Current Assets	135.51	145.47	(9.96)	(6.84%)
TOTAL CURRENT ASSETS	**282.05**	**283.28**	**(1.23)**	**(0.43%)**
TOTAL ASSETS	**1595.91**	**1694.20**	**(98.29)**	**(5.80%)**

Trading of profit/loss (2020-21) **(in Rs. Cr.)**

Particulars	31.03.2021	31.03.2020	Absolute changes	% change
INCOME				
REVENUE FROM OPERATION (GROSS)	**248.46**	**288.52**	**(40.06)**	**(13.88%)**
Less: Excise/Service Tax/Other Levies	0.00	0.00	0.00	0.00
REVENUE FROM OPERATIONS [NET]	**248.46**	**288.52**	**(40.06)**	**(13.88%)**
TOTAL OPERATING REVENUES	**248.46**	**288.52**	**(40.06)**	**(13.88%)**
Other Income	33.65	65.87	(32.22)	(48.91%)
TOTAL REVENUE	**282.11**	**354.39**	**(72.28)**	**(20.39%)**
EXPENSES				
Cost Of Materials Consumed	79.76	68.93	10.83	15.71%
Purchase Of Stock-In Trade	139.71	192.68	(52.97)	(27.49%)
Operating And Direct Expenses	0.00	0.00	0.00	0.00
Changes In Inventories Of FG, WIP And Stock-In Trade Changes In Inventories Of FG, WIP And Stock-In Trade	139.71	(10.68)	150.39	(1408.14%)
Employee Benefit Expenses	11.28	22.01	(10.73)	(48.75%)
Finance Costs	2.28	4.44	(2.16)	48.64%
Depreciation And Amortisation Expenses	10.82	20.82	(10)	(48.03%)
Other Expenses	42.17	46.29	(4.12)	(8.90%)
TOTAL EXPENSES	**332.71**	**344.50**	**(11.79)**	**(3.42%)**
PROFIT/LOSS BEFORE EXCEPTIONAL, EXTRAORDINARY ITEMS AND TAX	**(50.61)**	**9.89**	**(60.5)**	**(611.72%)**
Exceptional Items	0.00	0.00	0.00	0.00
PROFIT/LOSS BEFORE TAX	**(50.61)**	**9.89**	**(60.5)**	**(611.72%)**
TOTAL TAX EXPENSES	**2.05**	**1.89**	**0.16**	**8.46%**
PROFIT/LOSS FOR THE PERIOD	**(52.66)**	**7.99**	**(60.66)**	**(759.19%)**

Balance sheet (2020-21) **(in Rs. Cr.)**

Particulars	31.03.2021	31.03.2020	Absolute change	% Change
EQUITIES AND LIABILITIES				
SHAREHOLDER'S FUNDS				
Equity Share Capital	22.74	22.74	0.00	0.00
TOTAL SHARE CAPITAL	**22.74**	**22.74**	**0.00**	**0.00**
Reserves and Surplus	(36.31)	16.35	(52.66)	(322.07%)
TOTAL RESERVES AND SURPLUS	**(36.31)**	**16.35**	**(52.66)**	**(322.07%)**
TOTAL SHAREHOLDERS FUNDS	**(13.57)**	**39.09**	**(52.66)**	**(131.97%)**
NON-CURRENT LIABILITIES				
Long Term Provisions	1.46	1.15	0.31	26.95%
TOTAL NON-CURRENT LIABILITIES	**1.46**	**1.15**	**0.31**	**26.95%**
CURRENT LIABILITIES				
Short Term Borrowings	1628.43	1645.18	(16.45)	(0.99%)
Trade Payables	31.86	34.07	(2.21)	(6.48%)
Other Current Liabilities	46.02	50.76	(4.74)	(9.33%)
Short Term Provisions	0.00	0.31	(0.31)	(100%)
TOTAL CURRENT LIABILITIES	**1706.30**	**1730.32**	**(24.02)**	**(1.38%)**
TOTAL CAPITAL LIABILITIES	**1694.20**	**1770.56**	**(76.36)**	**(4.31%)**
ASSETS **NON-CURRENT ASSETS**				
FIXED ASSETS	**32.40**	**41.20**	**(8.8)**	**(21.35%)**
Non-Current Investments	33.22	56.26	(23.04)	(40.95%)
Deferred Tax Assets [Net]	12.64	14.69	(2.05)	(13.95%)
Long Term Loans And Advances	1.94	1.94	0.00	0.00
Other Non-Current Assets	1330.72	1330.72	0.00	0.00
TOTAL NON-CURRENT ASSETS	**1410.92**	**1444.81**	**(33.89)**	**(2.34%)**
CURRENT ASSETS				
Inventories	26.42	79.95	(53.53)	(66.95%)
Trade Receivables	22.58	13.88	8.7	62.68%
Cash And Cash Equivalents	44.78	42.14	2.64	6.26%
Short Term Loans And Advances	44.03	56.50	(12.47)	(22.07%)
Other Current Assets	145.47	133.29	12.18	9.13%
TOTAL CURRENT ASSETS	**283.28**	**325.76**	**(42.48)**	**(13.04%)**
TOTAL ASSETS	**1694.20**	**1770.56**	**(76.36)**	**(4.31%)**

Trading of profit/loss (2019-20) **(in Rs. Cr.)**

Particulars	31.03.2020	31.03.2019	Absolute changes	% change
INCOME				
REVENUE FROM OPERATION (GROSS)	**288.52**	**459.10**	**(170.58)**	**(37.15%)**
Less: Excise/Service Tax/Other Levies	0.00	0.00	0.00	0.00
REVENUE FROM OPERATIONS [NET]	**288.52**	**459.10**	**(170.58)**	**(37.15%)**
TOTAL OPERATING REVENUES	**288.52**	**459.10**	**(170.58)**	**(37.15%)**
Other Income	65.87	26.17	39.7	151.70
TOTAL REVENUE	**354.39**	**485.27**	**(130.88)**	**(26.97%)**
EXPENSES				
Cost Of Materials Consumed	68.93	154.95	(86.02)	(55.51%)
Purchase Of Stock-In Trade	192.68	0.00	192.68	0.00
Operating And Direct Expenses	0.00	182.46	(182.46)	(100%)
Changes In Inventories Of FG, WIP And Stock-In Trade Changes In Inventories Of FG, WIP And Stock-In Trade	(10.68)	(13.33)	2.65	(19.87%)
Employee Benefit Expenses	22.01	26.47	(4.46)	(16.84%)
Finance Costs	4.44	27.53	(23.09)	(83.87%)
Depreciation And Amortisation Expenses	20.82	22.02	(1.2)	(5.44%)
Other Expenses	46.29	102.00	(55.71)	(54.61%)
TOTAL EXPENSES	**344.50**	**502.10**	**(157.6)**	**(31.38%)**
PROFIT/LOSS BEFORE EXCEPTIONAL, EXTRAORDINARY ITEMS AND TAX	**9.89**	**(16.83)**	**26.72**	**(158.76%)**
Exceptional Items	0.00	0.00	0.00	0.00
PROFIT/LOSS BEFORE TAX	**9.89**	**(16.83)**	**26.72**	**(158.76%)**
TOTAL TAX EXPENSES	**1.89**	**(5.62)**	**7.51**	**(133.62%)**
PROFIT/LOSS FOR THE PERIOD	**7.99**	**(11.21)**	**19.2**	**(171.27%)**

Balance sheet (2019-20) **(in Rs. Cr.)**

Particulars	31.03.2020	31.03.2019	Absolute change	% Change
EQUITIES AND LIABILITIES				
SHAREHOLDER'S FUNDS				
Equity Share Capital	22.74	22.74	0.00	0.00
TOTAL SHARE CAPITAL	**22.74**	**22.74**	**0.00**	**0.00**
Reserves and Surplus	16.35	8.31	8.04	96.75%
TOTAL RESERVES AND SURPLUS	**16.35**	**8.31**	**8.04**	**96.75%**
TOTAL SHAREHOLDERS FUNDS	**39.09**	**31.05**	**8.04**	**25.89%**
NON-CURRENT LIABILITIES				
Long term borrowings	0.00	4.79	(4.79)	(100%)
Long Term Provisions	1.15	0.00	1.15	0.00
Other long-term liabilities	0.00	0.85	(0.85)	(100%)
TOTAL NON-CURRENT LIABILITIES	**1.15**	**5.64**	**(4.49)**	**(79.60%)**
CURRENT LIABILITIES				
Short Term Borrowings	1645.18	1685.09	(39.91)	(2.36%)
Trade Payables	34.07	53.75	(19.68)	(36.61%)
Other Current Liabilities	50.76	58.78	(8.02)	(13.64%)
Short Term Provisions	0.31	0.31	0.00	0.00
TOTAL CURRENT LIABILITIES	**1730.32**	**1797.93**	**(67.61)**	**(3.76%)**
TOTAL CAPITAL LIABILITIES	**1770.56**	**1834.62**	**(64.06)**	**(3.49%)**
ASSETS **NON-CURRENT ASSETS**				
FIXED ASSETS	**41.20**	**63.07**	**(21.87)**	**(34.67%)**
Non-Current Investments	56.26	45.18	11.08	24.52%
Deferred Tax Assets [Net]	14.69	16.59	(1.9)	(11.45%)
Long Term Loans And Advances	1.94	1.93	0.01	0.51%
Other Non-Current Assets	1330.72	1330.73	(0.01)	(0.00075%)
TOTAL NON-CURRENT ASSETS	**1444.81**	**1457.50**	**(12.69)**	**(0.87%)**
CURRENT ASSETS				
Inventories	79.95	66.98	12.97	19.36%
Trade Receivables	13.88	74.06	(60.18)	(81.25%)
Cash And Cash Equivalents	42.14	101.33	(59.19)	(58.41%)
Short Term Loans And Advances	56.50	48.55	7.95	16.37%
Other Current Assets	133.29	86.20	47.07	54.60%
TOTAL CURRENT ASSETS	**325.76**	**377.12**	**(51.36)**	**(13.61%)**
TOTAL ASSETS	**1770.56**	**1834.62**	**(64.06)**	**(3.49%)**

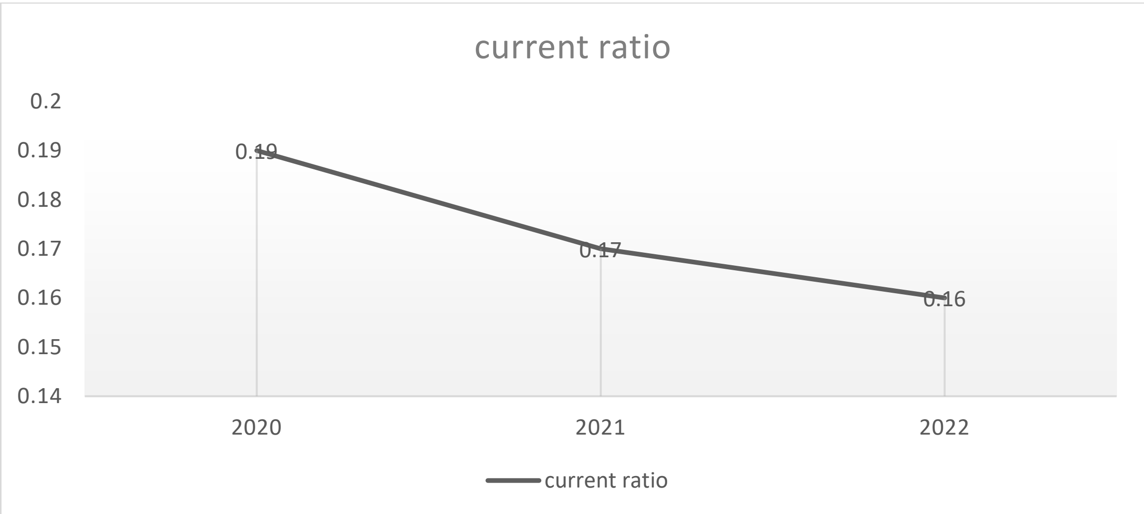
3.2. ANALYSIS OF SHORT-TERM FINANCIAL & LIQUIDITY POSITION

CURRENT RATIO:

Current ratio may be defined as the relationship between current assets and current liabilities. It measures the short-term solvency i.e the liquidity position of the firm and this ratio also known as "working capital ratio". It calculated by dividing the total of current assets by total of current liabilities.

CURRENT RATIO = CURRENT ASSET / CURRENT LIABILITIES:

Year	Current Assets (Rs. in Cr)	Current Liabilities (Rs. in Cr)	Current Ratio
2019-20	325.76	1,730.32	**0.19**
2020-21	283.28	1,706.30	**0.17**
2021-22	282.05	1,718.80	**0.16**



INTEPRETATION

As the above table shows that current ratio is less compare to the ideal current ratio of 2:1. But the conventional rule, suggest that the current ratio would be either 2:1 or more is considered to be satisfactory, the main cause for that is very high creditor liability being paid and very low amount of current assets in hand. So the company is having lower than the ideal ration, it may interpreted that its liquidity is not sufficient. And it's been decreasing year by year it indicates that the company needs to improve its current assets position.

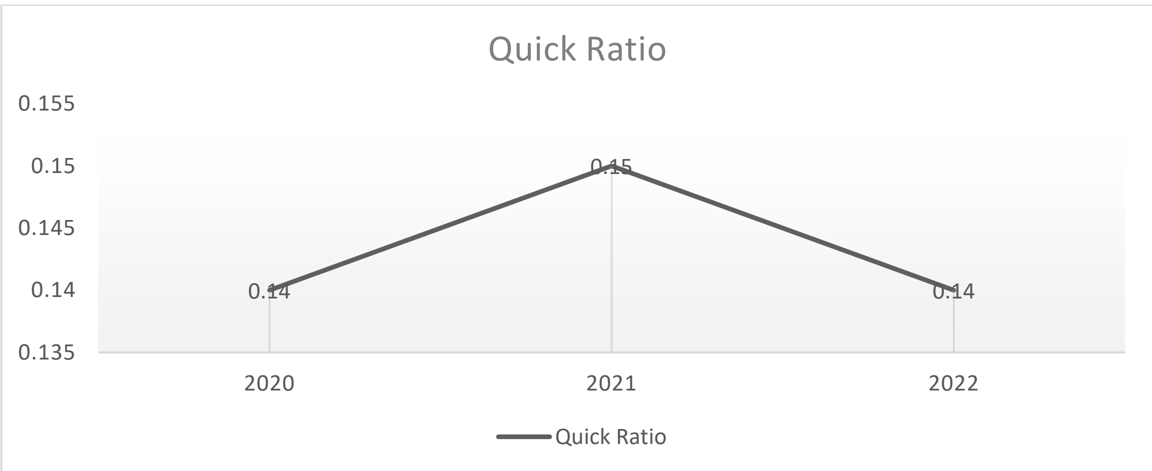
QUICK RATIO (ACID TEST RATIO):

Quick ratio also known as Acid Test or Liquid ratio a more rigorous test of liquidity than the current ratio. The term liquidity refers to the ability of a firm to pay its short-term obligation as when they became due. Quick assets are equal to the current asset minus the inventory, as inventory cannot be readily converted into the cash. Generally ratio of 1:1 is considered to represents a satisfactory for current financial position.

QUICK RATIO = QUICK ASSTES / CURRENT LIABILITIES

<u>Quick Ratio Trends</u>

Year	Quick Asset (Rs. In Cr)	Current Liabilities (Rs. In Cr)	Quick Ratio
2019-20	245.81	1,730.32	**0.14**
2020-21	256.86	1,706.30	**0.15**
2021-22	247.66	1,718.80	**0.14**



INTERPRETATION

The rule here says Liquid Ratio of 1:1 is considered satisfactory. Companies with ratio of less than it can't pay their current liabilities and should be looked at extreme caution. If the acid test ratio is much lower than the current ratio, it means current assets are highly dependent on inventory.

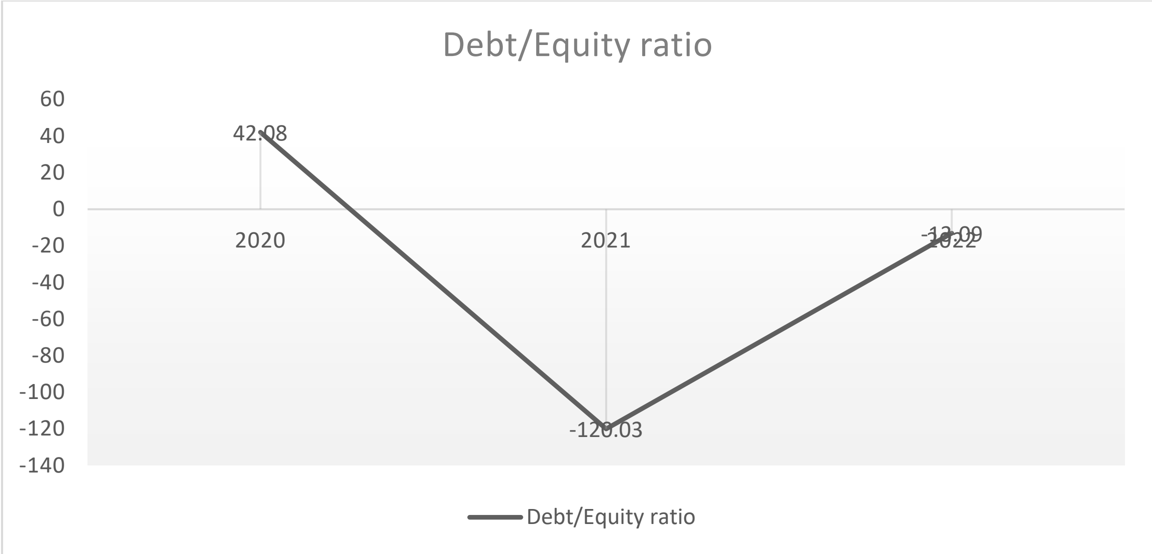
3.3. ANALYSIS OF LONG-TERM FINANCIAL POSITION

DEBT – EQUITY RATIO:

Debt – Equity Ratio, also known as External –internal Equity Ratio is calculated to measure the relative claims of outsiders and (lie owners (i.e. shareholders) the firm's assets. This ratio indicates the relationship between the external equities or the outsiders funds and the internal equities or the shareholders' funds. The two basic components of the ratio are outsider's funds, i.e. external equities and shareholders' funds, i.e, internal equities. The outsiders' funds consist of equity share capital, preference share capital, capital, capita reserves, revenue reserves and reserves representing accumulated profits and surpluses and accumulated losses and deferred expenses if any should be deducted from the total to find out shareholders' funds.

DEBT TO EQUITY RATIO TABLE

Year	Debt Equity Ratio
2019-20	42.08
2020-21	-120.03
2021-22	-13.09



INTERPRETATION

The debt-equity ratio is calculated to measure the extent to which debt financing has been used in a business. The ratio indicates the proportionate claims of owners and the outsiders against the firm's assets. In the year 2021 the debt-equity ratio is negative which indicates that the claims of outsiders (creditors) are greater than those of owners, may not be considered by the creditors because it gives a lesser margin of safety. But it is a good sign that in 2022 its increasing.

3.4. ANALYSIS OF PROFITABILITY POSITION

❖ **OPERATING PROFIT RATIO:**

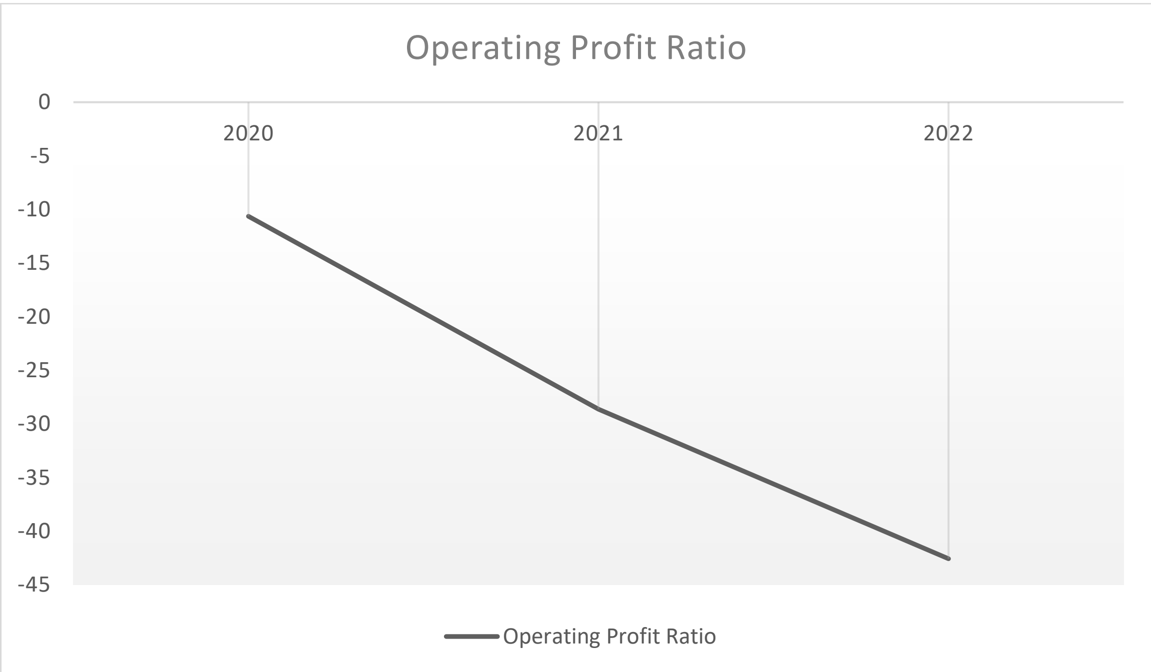
This ratio is calculated by diving operating profit by sales. Operating profit is calculated as:

Operating profit = Net Sales – Operating Cost

OPERATING PROFIT RATIO =OPERATING PROFIT/ SALES X 100

Operating Profit Ratio

Year	Operating Cost (Rs. In Cr.)	Net SALES (Rs. In Cr.)	Operating Ratio (in %)
2019-20	-30.72	288.52	**-10.64%**
2020-21	-71.16	248.46	**-28.64%**
2021-22	-122.98	288.82	**-42.58%**



INTERPRETATION

There is no rule of thumb for this ratio, but higher the ratio better is for the company. Operating profit ratio is much lower because the operating cost in these years is very much high. And as the operating profit ratio is in negative it shows that operating cost is much higher that net sales.

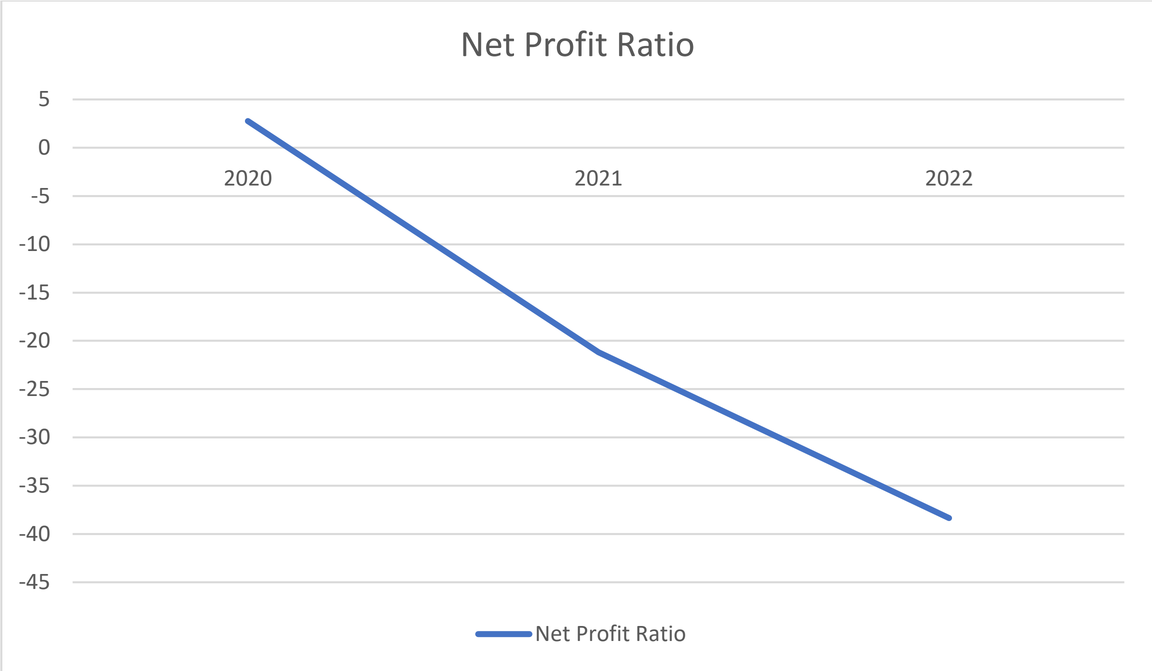
❖ NET PROFIT RATIO:

Net profit ratio establishes a relationship between net profit (after taxes) and sales, and indicates the efficiency of the management in manufacturing, selling, administrative and other activities of the firm. This ratio is the overall measure of firm's profitability. The ratio is very useful as if the profit is not sufficient, the firm shall not be able to achieve a satisfactory return on its investment.

NET PROFIT RATIO =NET PROFIT AFTER TAX / NET SALESX 100

NET PROFIT RATIO

Year	Net Profit (Rs. In Cr)	Net Sales (Rs. In Cr)	Net Profit Ratio %
2008-09	7.99	288.52	**2.76%**
2009-10	-52.66	248.46	**-21.19%**
2010-11	-110.79	288.82	**-38.35%**

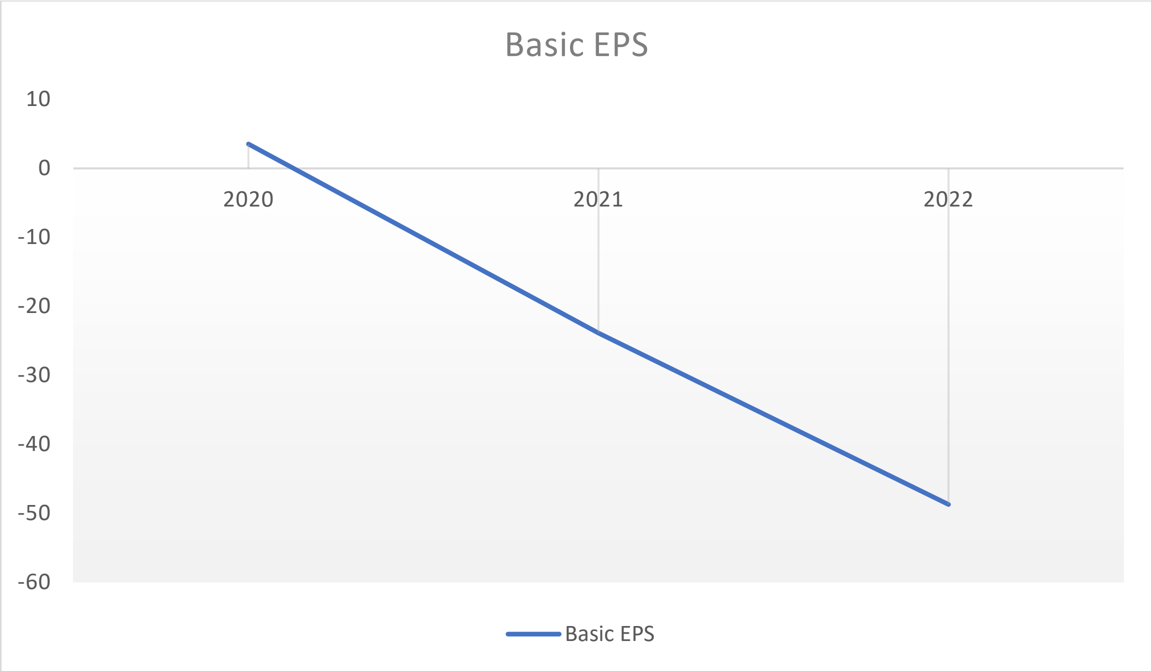


INTERPRETATION

Higher the net profit ratio the better is the profitability. the cost of goods sold, operating expenses are very much high as compare to sales. And we can see that in 2019 the company had very less profit still it was better that 2021, 2022 as the net profit ratio is negative So, the company has to pay greater attention to reduce this and increase its net profit.

❖ BASIC EPS

Year	BASIC EPS (Rs in cr)
2020	3.54
2021	-23.86
2022	-48.72



INTERPRETATION

The Basic EPS is decreasing which is discouraging to Investors as the company is in loss. And loss is increasing year by year which shows that the shareholder are in loss.

CHAPTER-4

FINDINGS

- From the comparative analysis of the balance sheet, I found that the company's current liability has increased but the current and noncurrent asset have decreased which stated that the company have not invested in asset.
- From the comparative income statement, I found that in the year 2021-22 the sales are increase but the expenses are increased in a greater proportion. So, the net profit is decreased as compare previous year.
- From the ratios I found that the quick ratio, current ratio, debt equity ratio shows that it is not in a good position.
- The debt equity ratio indicates that the company is in a huge debt bus as compare to previous financial year it is quite better.

CHAPTER-5

SUGGESTION

Measures to Improve Ratio analysis at ARSS:

The essence of effective working capital management is proper cash flow forecasting. This should take into account the impact of unforeseen events, market cycles, loss of a prime customer and actions by competitors. So, the effect of unforeseen demands of working capital should be factored by company. This was one of its reasons for the variation of its revised ratio analysis projection from the earlier projection.

- It pays to have contingency plans to tide over unexpected events. While market-leaders can manage uncertainty better, even other companies must have risk-management procedures. These must be based on objective and realistic view of the role of working capital.
- Addressing the issue of ratio analysis on a corporate-wide basis has certain advantages. Cash generated at one location can well be utilized at another.
- The company has to pay serious attention on the current ratio, quick ratio and specially the debt-equity ratio as it is negative which indicates that the company is in huge debt.
- An innovative approach, combining operational and financial skills and an all-encompassing view of the company's operations will help in identifying and implementing strategies that generate short-term cash.
- Ratio analysis is an important yardstick to measure a company operational and financial efficiency. This aspect must form part of the strategic and operational thinking. Efforts should constantly be made to improve the working capital position. This will yield greater efficiencies and improve customer satisfaction.
- Cash should be managed properly.
- Effort should be made to reduce the current liabilities and to increase the current asset.

CHAPTER-6

CONCLUSION

Here is a summary of financial information of ARSS INFRASTRUCTURE PROJECTS LIMITED for the financial year ending on 31 March, 2021.

- Revenue / turnover of ARSS INFRASTRUCTURE PROJECTS LIMITED is INR 100 cr. - 500 cr.
- Net worth of the company has decreased by -26.44 %
- EBITDA of the company has increased by 130.87 %
- Total assets of the company have increased by 1.44 %
- Liabilities of the company has increased by 63.20 %

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