

Cash Flow Statement: Comparative Analysis of Financing, Operating and Investing Activities.

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Abstract: Cash flow statement is an important tool to analyze the cash position of business firm. It can denote changes in cash position during two financial years. Concern is the world's second largest manufacturer of micro irrigation system and the business model of concern is loaded with heavy working capital as huge fund is blocked in trade receivables. Recently, the concern has reported fluctuating turnover for last three years in its annual reports. Hence it is necessary to judge the sufficiency of the cash position to support the success story of company. This study is based on financial figures disclosed by company in three consecutive years. Study involves comparative analysis of cash flow from three business activities i.e. operating, financing and investing. Accordingly the sufficiency of cash position is concluded and some recommendation is made to overcome the scenario.

Keywords: Cash flow Analysis, Financing Activities, Investing Activities, Operating Activities.

I. Introduction:

The concern is the listed midcap company limited by shares. it is the largest micro irrigation company in Asia and second largest in world. The company's revenue model is said to be loaded with heavy working capital as major part of revenue is linked with Govt. subsidies.

Recently the company has disclosed its Q3 (December 2014) financial result in press release reporting that turnover is declining and overall receivable level stands around 137 days.

It reported that the decline in business is short term in nature and caused by the extreme whether condition and decline in oil and polymer prices [6]. Such 137 days as overall age of receivables denotes that majority of revenue is noncash in nature. Considering such current business scenario,

it is necessary to undertake the in-depth analysis of cash flow statements.

II. Literature Review:

A] Cash Flow Statement Analysis:

Cash flow statement provides information about the cash receipts and payments of an enterprise for a given period. It provides significant information that compliments the profit and loss account and balance sheet. A cash flow statement is a statement which provides a detailed explanation for the change in a firm's cash during a particular period by indicating the firm's sources and uses of cash during that period. Cash flow statement classifies cash flow during the period from operating, investing and financing activities.

a] Cash Flow from Operating Activities:

Cash generated by production and sales of business is reflected under this head. It comparatively denotes inflow of cash from operating activities and outflow of cash for business operating expenses. E.g. cash from operation is the revenue net of expenses.

b] Cash Flow from Financing Activities:

This section of Cash flow statement denotes cash generated from activities to finance the business operation. E.g. cash receipt on account of issue of equity shares or debentures etc. and cash paid to such stake holders. Dividend to equity shares or interest on debenture etc.

c] Cash Flow from Investing Activities:

This section denotes cash invested in long term assets e.g. purchase of machinery and other long term assets as well as other current assets such as purchase of equity shares of other company etc. and cash receipts from such investing activities e.g. dividend received, interest received sales of machinery and scrap etc [5].

III. Objectives of the Study:

- To ascertain the sources of cash and uses of cash.
- To ascertain the net changes in cash indicating the difference between sources and uses of cash by three activities during the period of study.
- To measure the weight of such sources and uses of cash against cash profit position of the firm.
- To identify the strength and weakness in cash flow position of the firm.

IV. Research Methodology:

A] Research Type:

It is an analytical research based on the secondary data. It investigates the financial figures of the concern using theoretical framework of cash flow statement analysis. Figures of cash flow statement of 3 years i.e. 2011-12, 2012-13 & 2013-14 is comparatively analyzed to indentify strength and weakness in cash flow of the business.

B] Type of Data: Secondary Data

Secondary data involves figures denoted regarding cash inflow and cash outflow in cash flow statement reported in annual report of the business firm for three years i.e. 2011-12, 2012-13 & 2013-14. Also some important information is collected by various sources of secondary data such as books, websites, and official release of business firm.

C] Analysis tools and techniques:

Figures are analyzed using basic mathematical tools like average and percentage etc. and it is interpreted using various kinds of charts and graphs.

V. Data Analysis & Interpretation:

6. Analysis of Revenue

Table 6: Net Revenue in Million

Particulars	2011-12	2012-13	2013-14
Sales	37810.92	35109.48	41331.12

(Sources: Annual Reports of the Concern)

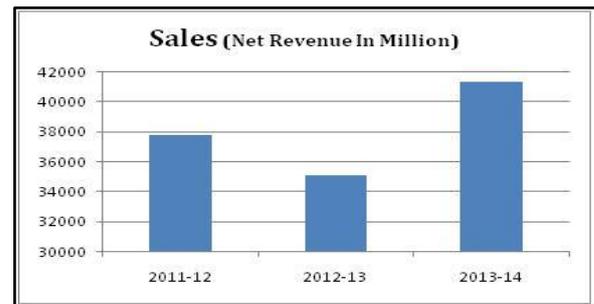


Figure 6: Sales (Sources Annual Reports)

Interpretation: Figure 1 denotes fluctuation of sales during the three years that is 2011-12, 2012-13 & 2013-14. As well as according to the press release of concern (10th Feb 2015) domestic business is declined by 12.7 % and export business is marginally declined by 3.4 % in the current quarter. This reflects that currently firm is operating in a uncertain business environment. Farmers are the customers of firm and during current financial year unexpected rainfall has affected the agriculture sector throughout the year and throughout the country. This suggests a tough time ahead and it can lead the concern towards the insufficient cash position to support the breakeven point.

7. Analysis of Operating Activity:

Table 7: Analysis of Operating Activity (In Millions)

Particulars	2011-12	2012-13	2013-14
Cash from Operations	2393.24	3727.94	5199.01
Cash Operating Expenses	34390.55	33931.51	38798.59

(Source: Annual Reports)

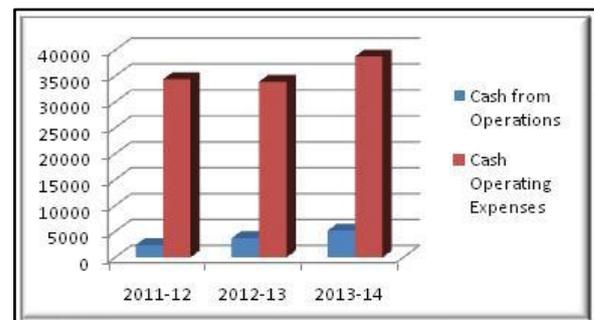


Figure 2: Operating Activity (Source: Annual Report)

Interpretation: Figure 2 denotes comparative weight of cash generated from operating activity and total cash operating expenses. Total cash

operating expenses is total operating expenses net of depreciation and amortization. Total cash operating expenses includes unpaid expenses. This figure reflects that total cash operating expenses is 14.36, 09.10 and 07.46 times more than cash from operation during 2011-12, 2012-13 & 2013-14 respectively. It is very large if compared with cash from operation. As well as in Q3 2015 firm has suffered loss of Rs. 29.9 Crores. It denotes that cash earning is not sufficient.

8. Analysis of Working Capital Changes:

Table 8: Changes in Working Capital (In Millions)

Current Assets	2011-12	2012-13	2013-14
Inventories	8011.96	11570.43	11730.81
Debtors	20286.08	15986.79	14846.96
Cash & Bank	2811.73	1716.94	1219.41
Other Assets	2849.72	3245.44	3400.83
Loans & Advances	2402.39	3951.68	5852.14
Total	36361.88	36471.28	37050.2
Current Liabilities	2011-12	2012-13	2013-14
S/Term Borrowings	15800.03	14211.91	14968.58
Trade Payables	11744.54	11688.86	11000.39
Other Current Liabilities	4198.75	4202.66	4597.56
S/Term Provision	509.85	329.5	354.73
Total	32253.17	30432.93	30921.3
Particulars	2011-12	2012-13	2013-14
Working Capital	4108.71	6038.35	6128.89

(Source: Annual Reports)

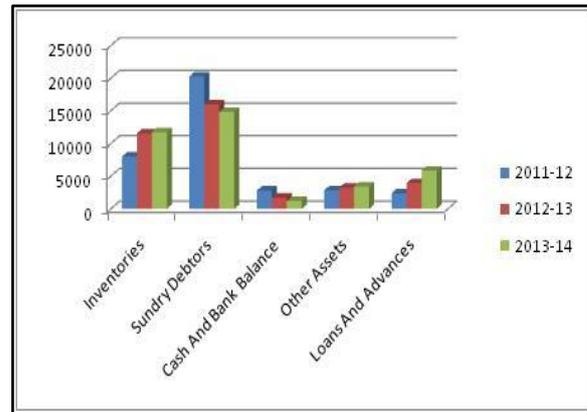


Figure 3: Changes in Current Assets



Figure 4: Changes in Current Liabilities

Interpretation: Table 3 denotes working capital is increased in 2012-13 as compared to 2011-12 and there is no change in 2013-14. Figure 3 reflects that sundry debtors are the major part of current assets which is improved in 2013-14. And figure 4 denotes that trade payables and short term borrowings are major part of current liabilities. High weight of sundry debtors, trade creditors and borrowings denote that large volume of the business transactions are credit transactions indicating insufficient position of cash.

9. Analysis of Investing Activities:

Table 9: Analysis of Investing Activity (in Millions)

Particulars	2011-12		2012-13		2013-14	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
Purchase Of Fixed Assets		4352.50		2072.98		1752.35
Sale Of Fixed Assets	5.65		18.42		692.45	
Purchase Of Investment		274.61		2998.50		559.80
Sale Of Investment (Net)			303.98		252.08	
Loan Given To Subsidiaries	53.37		632.76			696.65
Share Application Money Paid				556.25		
Interest Received	145.72		233.01		150.64	
Dividend Income	0.01		0.01			0.03
Total	204.75	4627.10	1188.20	5627.70	1095.20	3008.80

(Source: Annual Reports)

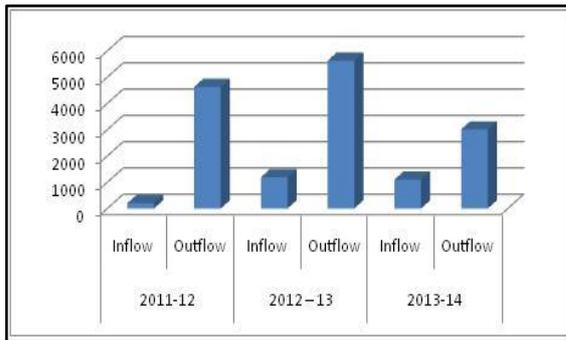


Figure 5: Inflow & Outflow from Investing Activities

Interpretation: Figure 5 denotes the comparative weight of cash inflow and cash outflow from investing activities. During the three years of 2011-12, 2012-13 & 2013-14 cash inflow is 22.60, 04.74 & 02.75 times more than cash inflow. In 2011-12, Cash outflow is associated with purchase of fixed assets. In 2012-13, cash outflow is associated with purchase of fixed assets and investments. And in 2013-14 cash outflow is associated with purchase of fixed assets, purchase of investments and loan given to subsidiary.

10. Analysis of Financing Activity:

Table 10: Cash flow from financing activities (In Millions)

Particulars	2011-12		2012-13		2013-14	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
Proceed By Issue Of Equity Share	14.13		3903.03		647.25	
Proceed By Issue Of Share Warrants			161.81			161.81
Proceed From Term Loan Borrowings	4880.95		5893.88		2496.55	
Repayment Of Term Loan		2677.82		4176.95		3341.9
Incr. / Decr. In W.C. Borrowings	2789.53			1602.61		756.67
Int. And Fin. Charges Paid		3534.01		4121.96		3903.76
Div. & Div. Distribution Tax Paid		448.19		468.74		265.24
Total	7684.61	6660.02	9958.72	10370.26	3900.47	7672.71

(Source: Annual Reports)

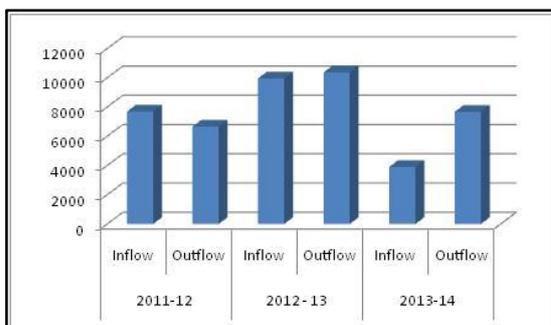


Figure 6: Financing Activities

Interpretation: Figure 6 denotes the comparative weight of cash inflow and cash outflow from financing activities. During the year of 2011-12 cash inflow is more than cash outflow. Both inflow & outflow in 2011-12 is attributed to borrowings and repayments of borrowings. Both are at par in 2012-13 and cash inflow is attributed to issue of equity shares and term loan borrowings as well as cash outflow is primarily associated with repayment of term loan, working capital loans and interest on the same. In 2013-14 cash outflow is marginally attributed to issue of equity shares and primarily term loan borrowings as well as cash outflow is primarily associated with repayment of term loan and interest on the same.

11. Analysis of cash flow from all 3 activities.

Table 11: Cash flow from 3 Activities (In Millions)

Particulars	2011-12	2012-13	2013-14
Net Cash From Operating Activities	2393.24	5199.01	3727.94
Net Cash Flow Used in Investing Activities	4422.36	4439.55	1913.60
Net Cash Used in Financing Activities	1024.59	411.54	3772.24
Net Decrease in Cash Position	1004.53	1123.15	486.83

(Source: Annual Reports)

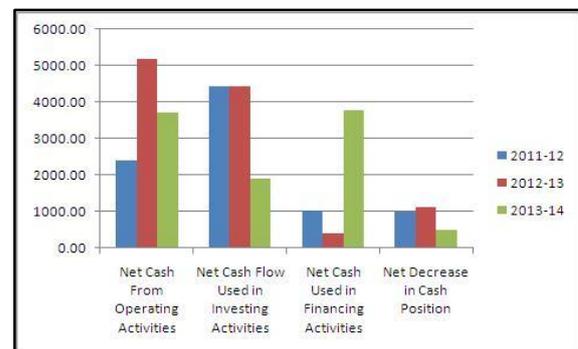


Figure 7: Cash flow from 3 activities

Interpretation: Figure 7 denotes the comparative weight of cash flows all 3 activities i.e. financing activities, operating activities and investing activities. The net cash from operating activities is increased in 2012-13 by 2.17 times and again it is declined in 2013-14 by 0.39 times. Net cash flow used in investing activities is almost at par in 2011-12 & 2012-13 but in 2013-14 it is declined by 0.23 times. Similarly net cash used in financing

activities is declined by 59.83 % and inclined by 89.09 % in 2013-14. Net cash balance is increased by 11.80 % in 2012-13 and declined by 56.65 % in 2013-14.

VI. Key findings of the study:

D. Sources of Cash & Uses of Cash:

- The said business firm during the period of Analysis has raised the additional fund from issue of equity shares marginally and short term and long term commercial borrowings to finance the working capital and expansion of business.
- Most of the fund is utilized for purchasing & modernizing fixed assets for increasing the installed capacity of plastic processing and tissue culture. And increase in other investments is investment to new sustainable agro commercial finance Ltd.
- Also big part of cash flow is absorbed by loss in current period.

E. Net Changes in Cash & its distribution in 3 business activities.

- The net position of cash is almost decreased in 2013-14. That is 50 % against previous year cash position.
- Fund used in investing activities during 2013-14 is almost 51.33 % and fund used in financing activities is at par with cash from operation.
- Most of the cash flow is associated with external borrowings and its repayment with interest cost that is excessive in nature.

F. Strength And Weakness In Cash Flow Position:

- The sales of the concern are fluctuating during these three years. The external environment is quite uncertain due to unexpected rainfall and decline in oil and polymer prices.
- During the period of analysis business firm is facing a liquidity crunch indicating sufficient cash is not earned to support the established capacity. This is evident from the fact that majority of revenue is blocked in trade receivables for near about 6 month. To meet this gap, burden of outside fund and its interest cost is associated with cash inflow and outflow.

VII. Suggestions:

- The concern hereby recommended that it should try to increase its overall sales by

promoting sales of fruit processing and onion dehydration and consolidating the operations in plastic division for short term purpose until uncertainty is get over.

- The burden of external borrowings is excessive and company should get it repaid through raising the equity fund from employee stock options.
- Company can also think to more diversify its business in cash based business model. This will provide the firm long term stability in coping with adverse impact of trade receivables.

VIII. Conclusion:

- Cash flow analysis is important to identify weaknesses in business operation that can lead the firm towards liquidity crunch. Through cash flow analysis, company can identify the unproductive use of fund as well as to ascertain and plan future cash flow.
- The business model of the firm is geared with heavy working capital but still it is sustainable in long term period. But currently it is facing a short term uncertainty in plastic division.
- In spite of decline in cash position in current period, it is quite sufficient to support established capacity.
- The burden of external borrowed fund and its interest cost is increased in cash flow of the firm in recent years.
- Management responded this situation very positively by establishing a non banking financial institution that will take care of the burden of trade receivable of micro and plastic divisions. As well as management has well aligned and diversified the business model of firm.

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