MODULE 03: FINANCIAL ANALYSIS

Lecture Title 06: LONG-TERM SOURCES OF FINANCE

Lecturer: Antoine P. Portelli

Date: 24 January 2024

Undergraduate Diploma in Business Administration

Group Presentations

Each Group will be assigned, by lot, a different Annual Report. The chosen report must be used for the group presentation on Wednesday, 7 February 2024's session.

- Analyse and comment on the financial performance of the company using **ratio analysis**.
- Use between **5 and 7 ratios**.
- Give the **workings** at arriving at each of the chosen ratios, indicating from where the financial information was obtained.
- **Compare the ratios** of the company for this financial year and last year's ratios.
- **Research information** about the company that you consider relevant to potential new investors.

Groups

1	2	3	4
Anushree Dhunghel	Gurbhag Singh	Marina Selivanova	Bimash Pariyar
Gaganjot Singh	Manjot Singh	Muhammad Moaz	Rina Karki
Lokesh Rana	Manpreet Khaur	Varinder Singh	Rohit Kumar
Panth Piyar Singh	Nitish Singh	Mahimaben Bhupendrabhai Parmar	Sajan Rai
	Sahil		Sukraman Lama
			Vipin Yadav

Presentations

The 4 Annual Reports links are:

A. **Ultramarine & Pigments Limited**

- https://www.learnstockmarket.in/ar/Ultramarine-Pigments-Annual-Report-2023.pdf

B. **Astral Limited**

- https://www.bseindia.com/xml-data/corpfiling/AttachHis//aa9741a9-f026-474d-9169-5be6f7a1a073.pdf

C. **Torrent Pharmaceuticals Limited**

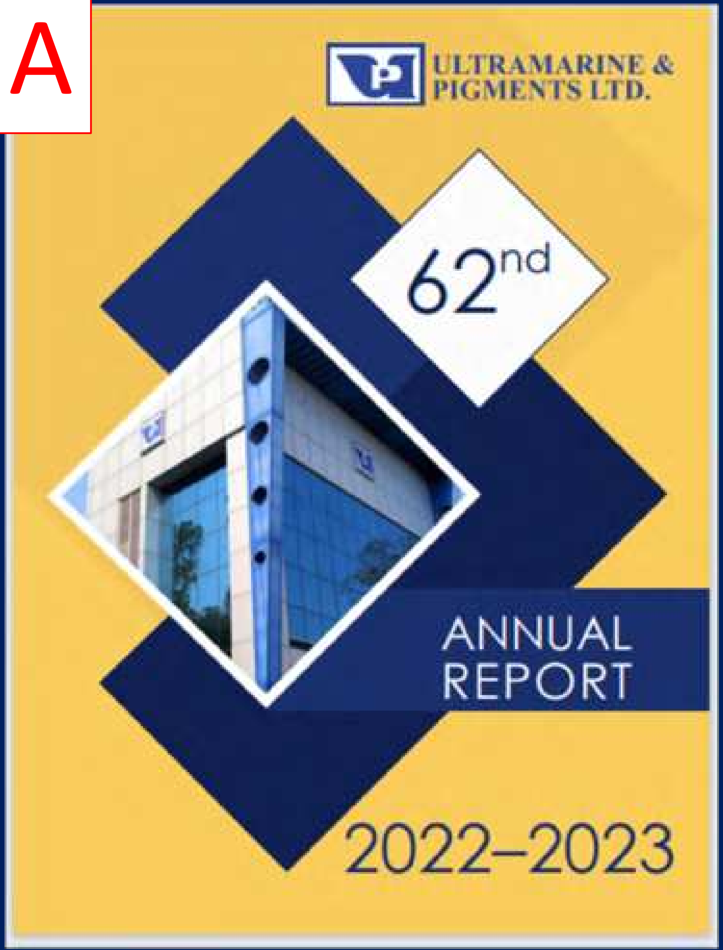
- https://www.bseindia.com/xml-data/corpfiling/AttachHis//6fe845d6-918b-4ab8-9efd-36588666eeed.pdf

D. **EIH Associated Hotels Limited**

- https://www.bseindia.com/xml-data/corpfiling/AttachHis//ba1422ed-e814-4d1a-9896-94ce3ae8d893.pdf

Presentation

A



B

Presentation

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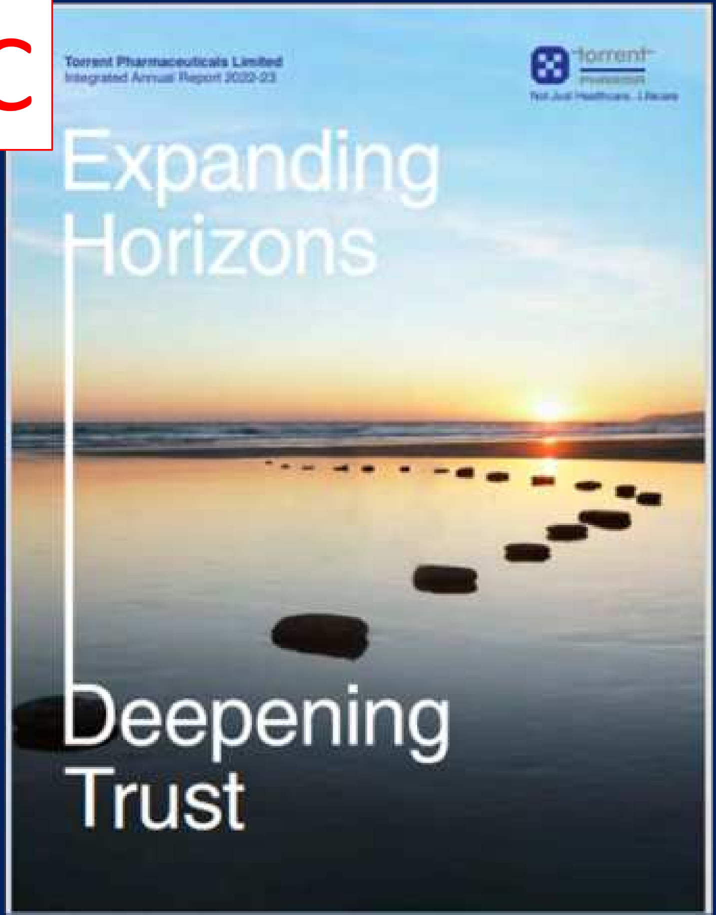
C



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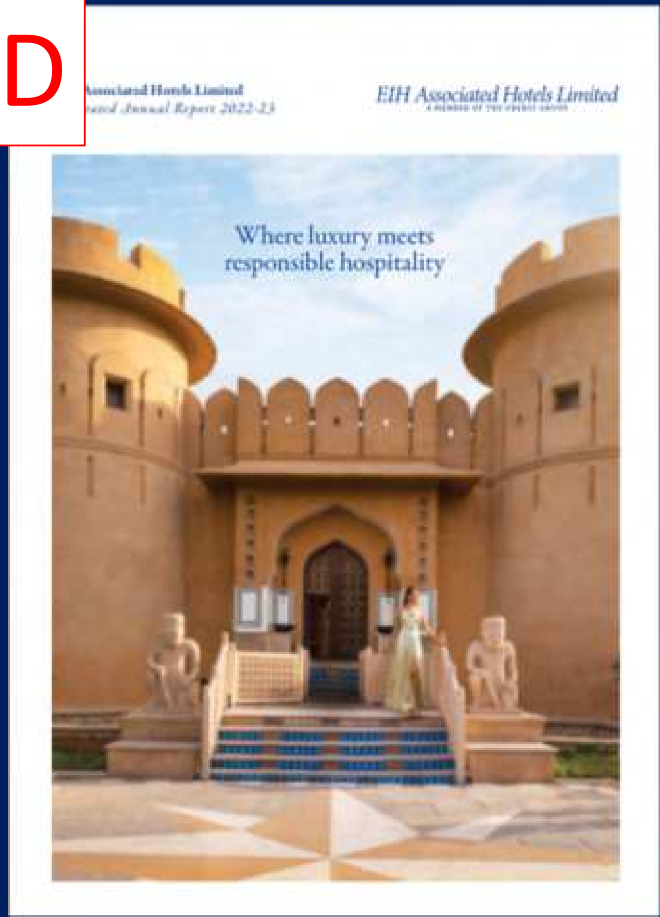


Group Presentations

Group 1 EIH Associated Hotels Limited	**Group 2** Torrent Pharmaceuticals Limited
Group 3 Ultramarine & Pigments Limited	**Group 4** Astral Limited

Assignment Questions

- Assignment Deadline: **15 February 2024**
- Approx. 20 hours researching and writing
- Word count: 1,200 words
- You are expected to use the Harvard referencing style
- Presentation is VERY important
- Choose any ONE of the questions

Assignment Questions

Question 1:

Ratio analysis is an important tool to measure and interpret the success of any business. It allows top management to understand the health of the business, and map strategies for the future.

Outline the financial ratios listed hereunder, providing details on how to calculate the ratios. List also, for each ratio, their meaning and use; and their importance and limitations:

- Acid-Test Ratio
- Asset Turnover Ratio
- Average Inventories Turnover Period
- Average Receivables Settlement Period
- Current Ratio
- Earnings per Share
- Gearing Ratio
- Gross Profit Margin
- Return on Capital Employed
- Return on Equity

Assignment Questions

Question 2:

The financial requirements of a business entity differ from one another. In the context of today's realities, provide a critical overview of the requirements on the basis of terms and periods of financial requirement faced by business. Provide detailed examples of the various forms of business finance available to a business.

Question 3:

Financial Accounting is driven by Principles and Concepts. Provide a detailed explanation of each of these principles and concepts, giving examples of each; their relevance; and any limitations that the application of such principles and concepts have on businesses in today's world.

What we covered in Lecture 05

- Liquidity Ratios
- Gearing Ratios
- Investment Ratios
- Management Accounts
- Sources of Finance
    - Short Term
    - Long Term

Liquidity Ratios

- Liquidity refers to the availability of cash in the near future after taking account of immediate financial commitments

- Key ratios:

CURRENT RATIO
$\dfrac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$

ACID TEST
$\dfrac{\text{CURRENT ASSETS - INVENTORIES}}{\text{CURRENT LIABILITIES}}$

Gearing Ratios

$$\frac{\text{Non-Current Liabilities}}{\text{Share Capital + Reserves + Non-Current Liabilities}} \times 100$$

$$\frac{\text{Operating Profit before Interest}}{\text{Interest Payable}}$$

Investment Ratios

$$\frac{\text{Total Dividend Paid}}{\text{Number of shares in issue}}$$

$$\frac{\text{Profit after tax}}{\text{Number of shares in issue}}$$

$$\frac{\text{Market value per share}}{\text{Earnings per Share}}$$

Management Accounts: The Story behind the Numbers

- Impossible to read numerical tabulations with any accuracy
- Concentrate on main numbers (profits – net assets – debt- net cash flow movement)
- Major asset movements
- Major changes in group structure
- Major changes in financing
- Prospects for future growth
- Additional information outside accounting statements
- Compare interest paid to loans
- Changes in management

Sources of Finance

- Short-Term Finance
- Long-Term Finance
- Outside Investment at start up phase
- Outside Investment at ongoing phase

- Importance of having adequate finances
- Based on size, type, development phase, scope and purpose of business entity

Short Term Finance Types

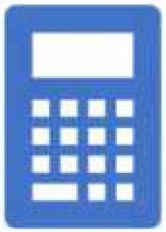
- Overdraft facility
- Short-term Loan
- Trade Credit
- Leasing

Long Term Finance Types

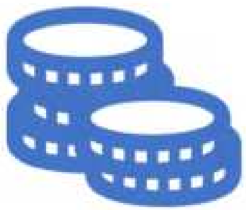
- Long Term Loan
- Bonds
- Equity

Today’s Agenda

Hybrid Instruments



Risk



Business Cycle

Long-Term Finance

Hybrid instruments

- Convertible Bonds
  - Established date to convert to equity
  - Debt → Equity
  - Interest due when debt; Dividends when Equity

- Preference Dividends
  - Equity, with fixed dividend
  - Only when profits are registered
  - Higher priority than Ordinary Shares - Liquidations


SOURCES AND USES
of SHORT – TERM &
LONG – TERM FUNDS
BUSINESS FINANCE
www.21Academy.education

Risk

Risk

- Risk appetite of Business
- Lowest: Debt vs. Equity
- Lowest: Short-term vs. Long-term
- Flexible terms vs. Fixed term
- Collateral vs. Provisions
- Dividends vs. Interest

Timing of Finance requirements

- At what stage is the business ?
- Small business less risky than large ones.
- Large businesses to be more established
- Stable earnings vs. Forecast profits
- Type of project to be financed
- Private investors get involved if business is large and established – public call


Kalkine MEDIA
Risk
WHAT IS BUSINESS RISK?
401K
$40,000
$20,000
SAGE KAVITA GODREI
Kalkine Media

Business Lifecycle

A firm typically goes through ***5*** stages in its life cycle: start-up, growth, maturity, decline, and closing.

The business life cycle.

- Each stage presents unique problems, opportunities, and funding requirements.
- Business life cycles vary considerably. Some firms go through the early stages fairly rapidly and then settle into maturity for a long time, while others skip to the closing stage in a few years.
- Some estimates predict that roughly 60% of businesses that employ others besides the owners will close within their first 6 years.
- The life cycle approach is a useful way to discuss financing opportunities and sources for businesses.

Start-Up and Growth

6 sources of Capital

1. *Personal funds*
2. *Borrowed funds from family and friends*
3. *Commercial bank loans*
4. *Borrowed funds through business start-up programs*
5. *Angel financing or venture capital*
6. *Enterprise Investment Schemes*

Angel Financing & Venture Capital

- usually businesses that would not qualify for commercial bank loan
- ***Angel investors*** - wealthy individuals and groups providing initial funding for high-risk ideas. They typically have very short loan investment horizons (less than 10 years) and upside limits of about $2 million.
- ***Venture capitalist firms or funds*** - fund high-risk projects, but have longer time horizons and higher funding limits. They generally provide the funding in stages.

Differences between Angel Investors and Venture Capitalists

Angel Investors	Venture Capitalists
Individual or group of individuals	Corporate entities
Invest own money	Invest pooled money from range of investors
Focus on early stages of business	All stages
Investment may be tied to individual or group expertise	Investment may be tied to high-growth opportunities, with focus on technology and innovation

Source: Adapted from LBO Advisers, "Essential Differences between Angel Investors and Venture Capital," www.lbo-advisors.com.

Credit Ratings

A comparison of Moody's and Standard & Poor's rating scales

Standard & Poor's	Moody's	Grades	
AAA	Aaa	Prime, maximum safety	Investment grade bonds
AA+	Aa1	High grade, high quality	
AA	Aa2		
AA–	Aa3		
A+	A1	Upper medium	
A	A2		
A–	A3		
BBB+	Baa1	Lower medium	
BBB	Baa2		
BBB–	Baa3		
BB+	Ba1	Speculative	Non-investment grade, high-yield or 'junk' bonds
BB	Ba2		
BB–	Ba3		
B+	B1	Highly speculative	
B	B2		
B–	B3		
CCC+	Caa1	Substantial risk	
CCC	Caa2	In poor standing	
CCC–	Caa3		
CC	Ca	Extremely speculative	
C	C	May be in default	
D		Default	

What is equity capital?

- Ordinary shares
  - Ordinary shares represent the equity share capital of the firm
  - Share in the rising prosperity of a company
  - Owners of the firm
  - The right to exercise control over the company
  - Vote at shareholder meetings
  - A right to receive a share of dividends distributed
  - Each shareholder entitled to a copy of the annual report
  - No agreement between ordinary shareholders and the company that the investor will receive back the original capital invested
  - What ordinary shareholders receive depends on how well the company is managed

Preference shares

- Preference shares usually offer their owners a fixed rate of dividend each year
- However if the firm has insufficient profits the amount paid would be reduced, sometimes to zero
- The dividend on preference shares is paid before anything is paid out to ordinary shareholders
- Preference shares are part of shareholders' funds but are not equity share capital