

Company Analysis

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- final stage
- estimation of return and risk of individual shares
- internal & external information
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Financial statements

- Balance Sheet
 - Snapshot of company's Assets, Liabilities and Equity. (financial position)
- Income statement
 - Sales, expenses, and taxes incurred to operate
 - Earnings per share
- Cash flow statement
 - Sources and Uses of funds

Financial Ratio Analysis

- Liquidity (ability to pay bills)
- Debt (financial leverage)
- Profitability (cost controls)
- Efficiency (asset management)

Liquidity Ratios

- Measure ability to pay short- term obligations

1. Current ratio

– Current assets / current liabilities

2. Quick ratio

– (Current assets **less** inventories) / current liabilities

Leverage ratio (capital structure)

- ability to meet long term obligation
- Debt-equity ratio
 - $\text{Total long-term debt} / \text{shareholders equity}$
- Proprietary ratio
 - $\text{shareholders equity} / \text{Total Assets}$
- **Interest converge ratio**
 - $\text{EBIT} / \text{interest charges}$

Profitability Ratios

- Measure profits relating either to sales, or to investment, or to the equity shares.
- profits relating to sales=
Operating profit ratio= $\text{EBIT} / \text{SALES}$
Net profit Ratio = $\text{EAT} / \text{sales}$
- to investment=
 $\text{ROA} = \text{EAT} / \text{Total asset}$
 $\text{ROE} = \text{EAT} / \text{shareholder's equity}$
- Equity Shares
 $\text{EPS} = \text{Profit available to ES holders} / \text{NO. of ES}$

Activity/ Efficiency Ratios

- Measure effectiveness of asset management
- Total asset turnover
 - $\text{Sales} / \text{average total assets}$
- Fixed asset turnover
 - $\text{Sales} / \text{average net fixed assets}$
- Current Assets Turn over
 - $\text{Sales} / \text{Current Asset}$

Other variables

- Sales Revenue (growth)
- Profitability (trend)
- Product line (turnover, age)
 - Output rate of new products
 - Product innovation strategies
 - R&D budgets
- Pricing Strategy
- Patents and technology
- Availability of raw materials
- company's market shares
- modernisation and expansion

Technical analysis

- Technical analysis is the study of historical prices and volume movements so as to for the purpose of predict the prices in the future
- fundamental and psychological and emotional factors.
- Technical analysts frequently utilize charts of past prices to identify historical price patterns
- These price patterns are then used to forecast prices in the future

- Charles Dow and Edward Jones were newspaper reporters working in New York
- They formed Dow, Jones and Company
- started newspaper in 1882 (specialized in the delivery of accurate financial news)
- The Wall Street Journal was started in 1899.
- Charles Dow appointed as the editor of Wall Street Journal.

- William Hamilton joined the WSJ in 1899 and worked closely with Dow
- Hamilton developed what he called implications of **Dow's Theory** and published these from time to time in the Wall Street Journal as editorials entitled “**The Price Movement**”
- The book “The Dow Theory” published in 1932

DOW'S THREE MOVEMENTS:

- 1. primary trend: the broad upward or downward movements known as bull or bear markets, which may be of several years duration.
- 2. secondary reaction: an important decline in a primary bull market or a rally in a primary bear market. These reactions usually last from three weeks to as many months.
- 3. Minor movement : daily fluctuation.

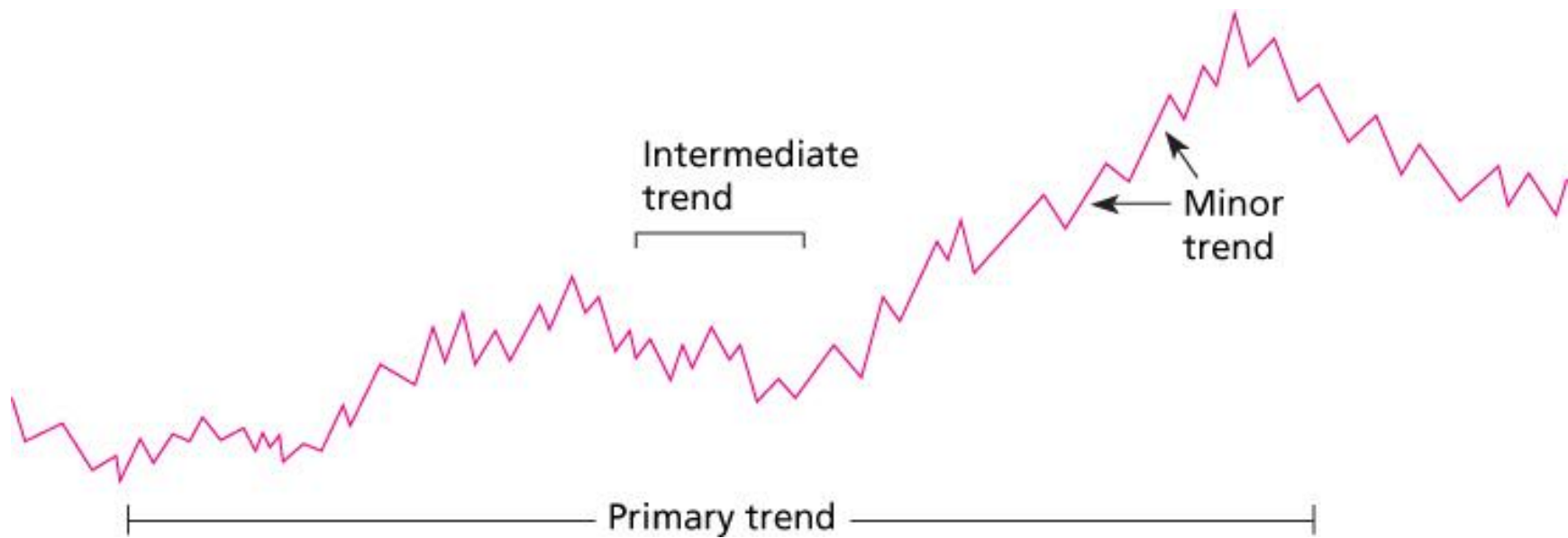


Figure 19-3 Dow Jones Industrial Averages in 1988

