



SIMPLE IS BETTER

SIMPLE IS BETTER – ISSUE -12 – FUND FLOW ANALYSIS

We have seen in the previous simple is better to issue regarding profit and loss account in [Issue-8](#), balance sheet in [Issue-9](#), Relationship between balance sheet and profit & loss account in [Issue-10](#), and Cash flow statement in [Issue-11](#). Analysis of balance sheet is essential for a better understanding of the financial strength of the company. Balance sheet majorly focuses on the sources from where we have brought the fund and at where we have deployed that fund.

Equity and liability side shows us a source of funds and assets side show us an application of the funds which we have brought.

We have to check in detail that does fund get proper utilization which company has to bring or not. For proper understanding, we need to prepare and analysis fund flow statement. Using fund flow analysis, we can come to that fund is effectively utilized by the management or not. This analysis also helps us to know where the fund is going and from where the fund is coming to the business. Does fund utilize to the wrong places or does fund brings from the sources which can be not favorable for the owners of the company?

Preparation and analysis of fund flow statement require a knowledge of balance sheet so that kindly read my article on balance sheet.

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 2018

(Amount in crores of INR)

Particulars	Note	As at March 31, 2018	As at March 31, 2017
ASSETS			
Non-current assets			
(a) Property, plant and equipment	5	4,771.39	4,495.03
(b) Capital work-in-progress	6	239.02	386.50
(c) Intangible assets	7	189.57	103.82
(d) Intangible assets under development	8	116.46	194.46
(e) Equity accounted investments in associates	9A	1,159.63	1,025.37
(f) Financial assets			
– (i) Investments	9B	918.49	496.94
– (ii) Loans	10	45.85	48.52
(g) Income tax assets (net)	12	394.51	332.50
(h) Other non-current assets	13	559.58	658.35
Total Non - Current Assets		8,394.50	7,741.49
Current assets			
(a) Inventories	14	962.68	708.58
(b) Financial assets			
– (i) Investments	9B	5,591.12	4,544.06
– (ii) Trade receivables	15	1,426.97	1,551.75
– (iii) Cash and cash equivalents	16	130.61	74.06
– (iv) Bank balances other than (iii) above	17	106.96	121.33
– (v) Loans	10	28.50	24.93
– (vi) Others	11	543.28	145.02
(c) Other current assets	13	212.11	400.78
Total Current Assets		9,002.23	7,570.51
Total Assets		17,396.73	15,312.00
EQUITY AND LIABILITIES			
Equity			
(a) Equity share capital	18(a)	39.94	39.94
(b) Other equity	19	11,931.52	10,275.57
Total Equity attributable to owners of the Company		11,971.46	10,315.51
Non-controlling interests	20	93.21	67.38
Total Equity		12,064.67	10,382.89
LIABILITIES			
Non-current liabilities			
(a) Financial liabilities			
– Borrowings	21	149.63	207.90
(b) Provisions	22	119.18	75.62
(c) Deferred tax liabilities (net)	23	581.89	468.90
Total Non - Current Liabilities		850.70	752.42
Current liabilities			
(a) Financial liabilities			
– (i) Borrowings	21	75.37	40.08
– (ii) Trade payables	24	3,375.26	3,266.20
– (iii) Other financial liabilities	25	205.49	371.21
(b) Other current liabilities	26	764.95	456.63
(c) Provisions	22	60.29	42.57
Total Current Liabilities		4,481.36	4,176.69
Total Equity and Liabilities		17,396.73	15,312.00

Let's start with the fund flow analysis which is majorly focused on the inflow and outflow of the funds. We need to identify activities from the balance sheet which will be resulted in the inflow or outflow of the fund from the company.

We have seen in the balance sheet that equity and liability side is known as a source of fund. Sources of funds mean different sources from which we can able to bring the fund to the company. As equity and liabilities increases, the new fund gets into the business and as equity and liabilities decreases, the fund gets out from the business.

Assets side of the balance sheet indicates an application of fund. These are places where fund gets deployed which we have brought from the equity and liabilities. So that as assets decreases, the new fund gets into the business (we get payment from the sold out of the assets) and as assets increases, the fund gets out from the business (we need to pay fund for acquiring the assets).

Let's check in detail how we can come to know about the fund movements by analyzing the fund flow statement.

Sources of Fund

Equity

Particulars	Note	As at March 31, 2018	As at March 31, 2017
Equity			
(a) Equity share capital	18(a)	39.94	39.94
(b) Other equity	19	11,931.52	10,275.57
Total Equity attributable to owners of the Company		11,971.46	10,315.51
Non-controlling interests	20	93.21	67.38
Total Equity		12,064.67	10,382.89

Now, we need to analyze that through equity fund gets into the company or fund go out of the company.

(Amount in crores of INR)	As at March 31, 2018	As at March 31, 2017	Fund Inflow / (Outflow)
Equity			
(a) Equity share capital	39.94	39.94	0
(b) Other equity	11931.52	10275.57	1655.95
Total Equity attributable to owners of the Company	11971.46	10315.51	1655.95
Non- controlling interests	93.21	67.38	25.83
Total Equity	12064.67	10382.89	1681.78

In above example, we can see that total fund get into the company through equity worth of Rs.1681.78 crore.

- Through equity share Capital Company does not has brought any new fund into the business; that means the company does not dilute any new equity shares.
- Other equity includes Reserves and Surplus, Exchange differences in translating the financial statements of foreign operations etc. Here, the company gets new fund inflow of Rs.1655.95 crore which indicates that company has majorly from the retained earnings.

(Amount in crores of INR)	As at March 31, 2018	As at March 31, 2017	Fund Inflow / (Outflow)
Equity			
(b) Other equity	11931.52	10275.57	1655.95
Capital reserve	0.00	0.00	0.00
Securities premium reserve	8.30	3.13	5.17
General reserve	2676.34	2676.34	0.00
Share options outstanding account	6.74	3.90	2.84
Retained earnings	9247.01	7597.60	1649.41
Exchange differences in translating the financial statements of foreign operations	-6.87	-5.40	(1.47)

- The company gets an inflow of Rs.25.83 crore through the non-controlling interests.

Liabilities

Particulars	Note	As at March 31, 2018	As at March 31, 2017
LIABILITIES			
Non-current liabilities			
(a) Financial liabilities			
Borrowings	21	149.63	207.90
(b) Provisions	22	119.18	75.62
(c) Deferred tax liabilities (net)	23	581.89	468.90
Total Non - Current Liabilities		850.70	752.42
Current liabilities			
(a) Financial liabilities			
(i) Borrowings	21	75.37	40.08
(ii) Trade payables	24	3,375.26	3,266.20
(iii) Other financial liabilities	25	205.49	371.21
(b) Other current liabilities	26	764.95	456.63
(c) Provisions	22	60.29	42.57
Total Current Liabilities		4,481.36	4,176.69
Total Equity and Liabilities		17,396.73	15,312.00

Let's analyze fund inflow or outflow from the businesses through liabilities.

(Amount in crores of INR)	As at March 31, 2018	As at March 31, 2017	Fund Inflow / (Outflow)
LIABILITIES			
Non-current liabilities			
(a) Financial liabilities			
Borrowings	149.63	207.90	(58.27)
(b) Provisions	119.18	75.62	43.56
(c) Deferred tax liabilities (net)	581.89	468.90	112.99
Total Non - Current Liabilities	850.70	752.42	98.28

In above example, we can see that total fund get into the company through non - current liabilities worth of Rs.98.28 crore.

- Non-current borrowing of the company gets reduced that means fund gets out from the company worth of Rs.58.27 crore.
- Provisions of the company increased by Rs.43.56 crore which means fund gets into the company.
- Deferred tax liabilities (net) of the company increased by Rs.112.99 crore which means fund gets into the company.

(Amount in crores of INR)	As at March 31, 2018	As at March 31, 2017	Fund Inflow / (Outflow)
LIABILITIES			
Current liabilities			
(a) Financial liabilities			
(i) Borrowings	75.37	40.08	35.29
(ii) Trade payables	3375.26	3266.20	109.06
(iii) Other financial liabilities	205.49	371.21	(165.72)
(b) Other current liabilities	764.95	456.63	308.32
(c) Provisions	60.29	42.57	17.72
Total Current Liabilities	4481.36	4176.69	304.67

In above example, we can see that total fund get into the company through current liabilities worth of Rs.304.67 crore.

- Current borrowing of the company gets increased that means fund gets into the company worth of Rs.35.29 crore.
- Trade payable of the company gets increased by Rs.109.06 crore which means fund gets into the company.
- Other financial liabilities of the company get reduced that means fund gets out from the company worth of Rs.165.72 crore.

- Other current liabilities of the company get increased that means fund gets into the company worth of Rs.308.32 crore.
- Provisions of the company get increased that means fund gets into the company worth of Rs.17.72 crore.

Application of Fund

Here, we deploy funds which we get from the sources of fund. Assets decreases, the new fund gets into the business (we get payment from the sold out of the assets) and as assets increases, the fund gets out from the business (we need to pay fund for acquiring the assets).

Assets

Particulars	Note	As at March 31, 2018	As at March 31, 2017
ASSETS			
Non-current assets			
(a) Property, plant and equipment	5	4,771.39	4,495.03
(b) Capital work-in-progress	6	239.02	386.50
(c) Intangible assets	7	189.57	103.82
(d) Intangible assets under development	8	116.46	194.46
(e) Equity accounted investments in associates	9A	1,159.63	1,025.37
(f) Financial assets			
– (i) Investments	9B	918.49	496.94
– (ii) Loans	10	45.85	48.52
(g) Income tax assets (net)	12	394.51	332.50
(h) Other non-current assets	13	559.58	658.35
Total Non - Current Assets		8,394.50	7,741.49
Current assets			
(a) Inventories	14	962.68	708.58
(b) Financial assets			
– (i) Investments	9B	5,591.12	4,544.06
– (ii) Trade receivables	15	1,426.97	1,551.75
– (iii) Cash and cash equivalents	16	130.61	74.06
– (iv) Bank balances other than (iii) above	17	106.96	121.33
– (v) Loans	10	28.50	24.93
– (vi) Others	11	543.28	145.02
(c) Other current assets	13	212.11	400.78
Total Current Assets		9,002.23	7,570.51
Total Assets		17,396.73	15,312.00

Let's analyze fund inflow or outflow from the businesses through assets.

Non-current assets

(Amount in crores of INR)	As at March 31, 2018	As at March 31, 2017	Fund (Inflow) / Outflow
Non-current assets			
(a) Property, plant and equipment	4771.39	4495.03	276.36
(b) Capital work-in-progress	239.02	386.50	(147.48)
(c) Intangible assets	189.57	103.82	85.75
(d) Intangible assets under development	116.46	194.46	(78.00)
(e) Equity accounted investments in associates	1159.63	1025.37	134.26
(f) Financial assets			
– (i) Investments	918.49	496.94	421.55
– (ii) Loans	45.85	48.52	(2.67)
(g) Income tax assets (net)	394.51	332.50	62.01
(h) Other non-current assets	559.58	658.35	(98.77)
Total Non - Current Assets	8394.50	7741.49	653.01

In above example, we can see that total fund get out from the company through Non-current assets worth of Rs.653.01 crore.

- Property, plant, and equipment increased which indicate that Rs.276.36 crore worth of fund goes out of the company.

(Amount in crores of INR)	As at March 31, 2018	As at March 31, 2017	Fund (Inflow) / Outflow
Property, plant and equipment			
Freehold land	108.05	101.60	6.45
Buildings	1997.48	1791.07	206.41
Plant and equipment	2511.53	2463.33	48.20
Furniture and fixtures	25.51	25.17	0.34
Vehicles	34.35	31.60	2.75
Office equipment	28.56	20.45	8.11
Data Processing equipment	65.91	61.81	4.10
Total	4771.39	4495.03	276.36

Here, we can see that the company has acquired buildings worth of Rs.206.41 crore which is a major part of the increased into the Property, plant, and equipment.

- Capital work in progress reduced which indicates that work in progress might get completed and converted into the assets so that fund gets into the company worth of Rs.147.48 crore. Similarly, intangible assets under development also reduced which might be converted into the intangible assets and show that fund get into the company worth of Rs.78.00 crore.
- Intangible assets of the company have been increased which shows that fund gets out of the company which is worth of Rs.85.75 crore.
- Equity accounted investments in associates has increased which shows that fund get out from the company worth of Rs.134.26 crore and company has increased investment into the associates' company.
- Investments of the company have increased which indicates that fund go out from the company and company has purchased investments worth of Rs.421.55 crore.
- Loans have reduced which indicates that the company has given loans and advances. Now, get back from the source and that has increased fund of the company worth of Rs.2.67 crore.
- Income tax assets (net) (*It can refer to a situation where a business has overpaid taxes or taxes paid in advance on its balance sheet.*) has been increased which shows that company has overpaid or advanced pay its taxes worth of Rs.62.01 crore.
- Other non-current assets of the company have reduced which indicates that company gets fund inflow worth of Rs.98.77 crore.

Current assets

(Amount in crores of INR)	As at March 31, 2018	As at March 31, 2017	Fund (Inflow) / Outflow
Current assets			
(a) Inventories	962.68	708.58	254.10
(b) Financial assets			
(i) Investments	5591.12	4544.06	1047.06
(ii) Trade receivables	1426.97	1551.75	(124.78)
(iii) Cash and cash equivalents	130.61	74.06	56.55
(iv) Bank balances other than (iii) above	106.96	121.33	(14.37)
(v) Loans	28.50	24.93	3.57
(vi) Others	543.28	145.02	398.26
(c) Other current assets	212.11	400.78	(188.67)
Total Current Assets	9002.23	7570.51	1431.72
Total Assets	17396.73	15312.00	2084.73

In above example, we can see that total fund get out from the company through current assets worth of Rs.1431.72 crore.

- Inventories of the company increased which indicate that the company remains with higher closing inventories compared to the last year and company have acquired higher inventories worth of Rs.254.10 crore and resulted into the fund outflow from the company.

(Amount in crores of INR)	As at March 31, 2018	As at March 31, 2017	Fund (Inflow) / Outflow
(a) Inventories			
Raw materials and components	447.08	397.14	49.94
Goods in transit of raw materials and components	111.78	27.43	84.35
Work in progress	37.44	32.01	5.43
Finished goods			
Two wheelers	215.68	104.78	110.90
Spare parts	37.19	43.40	(6.21)
Stores and spares	89.46	82.93	6.53
Loose tools	24.05	20.89	3.16
Total	962.68	708.58	254.10

Here, we can see that majority of the inventories increased due to the increase into the finished goods inventory of two-wheelers.

- Current Investments increased which indicate that the company has acquired current investment and fund go out of the company by the worth of Rs.1047.06 crore.
- Trade receivable has reduced that means the company gets fund worth of Rs.124.78 crore.
- Cash has increased by Rs.56.55 crore which means fund go out the company whereas company can be parked increased cash to the cash equivalent and bank balance reduced which shows fund came into the company by the worth of Rs.14.37 crore.
- Loans have increased which indicates that the company has given loans and advances for the less than 1 year of the horizon. Fund go out of the company worth of Rs.3.57 crore.
- Other current financial assets have increased which indicates that fund goes out of the company by the worth of Rs.398.26 crore.
- Other current assets have reduced which indicates that company gets fund inflow worth of Rs.188.67 crore. Here, we can see that the majority of the increased into the others current (financial assets) is due to increase into the Accrual of incentives from State Governments worth of Rs.395.60 crore.

(Amount in crores of INR)	As at March 31, 2018	As at March 31, 2017	Fund (Inflow) / Outflow
Others current (financial assets) Particulars			
Unsecured, considered good			
Derivatives instruments carried at fair value	0.00	4.42	(4.42)
Interest accrued on deposits	0.41	0.22	0.19
Accrual of incentives from State Governments	518.65	123.05	395.60
Other recoverables	24.22	17.33	6.89
Total	543.28	145.02	398.26

As we have seen that Rs.2084.73 crore of fund we get from sources of funds and that fund get deployed to different assets. Out of Rs.2084.73 crore, the company has deployed Rs.1468.61 crore for acquisition of the investment. We need to check that whether the investment is into the subsidiaries or associated companies or into the marketable securities. Here, we can see that the company has the majority of the investment into mutual funds. So that company has the majority of the investment into the mutual fund which indicates that a company makes an investment of excess funds into the mutual funds rather take it at home.

By analyzing the fund flow statement, we can check that whether management has made a proper capital allocation or not, whether management has deployed money at value-creating assets or take back home. We do not perform fund flow analysis for one particular year but we should perform fund flow analysis for the multiple years for knowing the inflow and outflow of the fund and the way it has happened.

I have performed multiyear fund flow analysis with one of the companies which are into the diagnostics chain and laboratory service segment.

Fund Flow									
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Assets									
Non-Current Assets		118.02	11.24	15.26	21.13	27.99	-7.68	37.58	72.33
Fixed Assets		86.65	3.46	1.43	22.42	37.08	-19.96	38.87	50.44
Tangible Assets		66.29	0.50	2.37	3.86	17.54	11.09	6.26	51.88
Intangible Assets with Goodwill		20.33	2.59	-1.07	18.91	18.76	-34.19	21.05	4.65
Capital Work-in-Progress		0.03	0.36	0.13	-0.36	0.78	3.15	11.56	-6.09
Non current Investments		17.92	0.00	12.03	-18.51	-11.44	0.00	0.00	0.00
Long-Term Loans & Advances & Capital Advances		9.92	6.60	-8.15	10.04	-4.47	-13.87	-0.03	0.01
Other non-current assets		1.48	0.78	-0.05	0.14	0.91	20.87	8.69	16.32
Deferred Tax Assets		2.04	0.40	10.00	7.05	5.91	5.28	-9.96	5.56
Current Assets		46.48	-5.37	66.49	58.05	116.02	83.48	101.41	156.46
Current Investments		1.00	3.76	45.56	-41.73	29.33	26.49	41.67	38.72
Inventories		7.22	-1.62	2.28	3.13	3.26	0.24	3.39	9.43
Trade Receivables		9.67	4.31	5.30	4.66	7.03	5.35	5.50	-0.65
Cash and Cash Equivalents		20.52	-11.31	6.98	87.04	44.96	61.91	29.42	73.99
Short-Term Loans & Advances		7.52	-0.14	6.46	1.76	30.11	-45.25	-0.28	0.06
Other Current Assets		0.56	-0.38	-0.08	3.20	1.33	34.74	21.71	34.90
Total Assets		164.50	5.87	81.75	79.18	144.00	75.80	138.98	228.79
Equity and Liabilities									
Shareholders' Funds		92.60	19.42	39.83	63.95	125.27	125.48	128.96	195.66
Share Capital		5.06	-0.04	0.00	75.29	0.95	1.42	0.39	0.27
Reserves & Surplus		87.55	19.46	39.83	-11.34	124.32	124.07	128.57	195.40
Minority Interest		0.00	0.00	0.00	0.00	2.30	0.65	-0.51	1.35
Preference shares issued by a subsidiary outside the Group		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-Current Liabilities		9.87	-2.12	2.89	3.47	-2.36	-6.48	2.02	0.66
Long-term borrowings		3.75	-3.75	0.00	0.00	0.00	0.00	0.00	0.00
Long-term provisions		1.14	0.31	-1.44	0.11	0.10	-0.21	0.00	0.00
Deferred Tax Liabilities (Net)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term liabilities		4.98	1.32	4.34	3.36	-2.46	-6.27	2.02	0.66
Deferred incentives		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current Liabilities		62.03	-11.43	39.03	11.76	18.79	-43.85	8.51	31.12
Short Term Borrowings		14.17	-14.17	0.00	0.01	-0.01	0.00	0.00	0.00
Trade Payables		17.15	7.55	8.55	4.83	4.50	-0.32	10.11	13.08
Current tax liabilities (net)		0.00	0.00	0.00	0.00	0.00	0.00	0.18	1.24
Other Current Liabilities		19.18	-12.15	35.02	8.22	8.32	-31.29	-1.92	15.01
Short-Term Provisions		11.53	7.34	-4.54	-1.30	5.98	-12.25	0.14	1.79
Deferred incentives		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Equity and Liabilities		164.50	5.87	81.75	79.18	144.00	75.80	138.98	228.79

Here, we can see that the majority of the fund comes into the company through the reserve and surplus which indicates that the company has reinvested profit to the business. And the majority of the application of fund to the current investment and to the cash and bank balance which indicates the liquidity strength of the company. Also, we can see that increases into the inventories + receivable are getting offset by the increase into the payables. This scenario suggests that a company can able to easily meet up the working capital requirement and from profit, they fund fixed assets requirement. So that company does not require to bring a borrowing to fund a growth of the business.

If continuous increases into the share capital over a period of time then we can say that the company is bringing a fund through diluting share capital. Also, continuously increases into the loans and advances slightly need more attention to look deeper into it. We also need to perform a fund flow analysis of the notes to account for capturing a detail funds moving into the company.

We also get income in form of our salary and if we keep on deploying that income into the depreciating assets (Assets such as a car, high-value smartphones & other assets) and also taking EMIs (taking borrowing) for acquiring depreciating assets rather deploying those fund to the appreciating assets. We do not consider them as a good capital allocator. Yes, if assets are essential to have such as if we want to diversify income source and for another source of income, we acquire few assets then we need to bring it. So as similar to our life, we also need to check for companies that whether companies deploying fund to the assets which depreciate their value or deployed to the assets which appreciate into the value.

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Simple is Better Series

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Disclaimer

Above article is just my perception, and perception can be wrong. For me, my perception can be right but for others, it might be wrong.

I am Grateful to

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Author: Jimit R. Zaveri (Founder of Lucky Idiot)

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*As a founder of Lucky Idiot; My mission through **“Lucky Idiot”** is to educate novice investors and to distribute learning to more and more people in a simple manner.*

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