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VWC Limited: Analysis of Financial Statements

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VWC Limited: Analysis of Financial Statements

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Abstract:

VWC Limited, a big brand that makes guar gum powder in India, is facing unknown financial troubles. They have been around for 35 years and make cool stuff used in various things like processed food, pharmaceuticals, and chemicals. Even though they're doing well regarding assets, their profits are less significant than before. They smartly grow their guar crops, and their products are known globally. A new analyst trainee, Mr. Henry Khoda, is now checking out their financial situation. The company thinks there will be more demand for their products and a stable market, especially for food products. But, for some reason, they're not making as much money as expected. Mr. Henry is trying to figure out areas where they can do better in the future.

VWC Ltd:

VWC Ltd began making guar gum powder (GGP) in 1988. This excellent material is used in many fields, such as processed food, pharmaceuticals, and chemicals. It's all about quality and being able to adapt. They even figured out how to grow guar crops without worrying about the unpredictable monsoons. Because they want to expand, they make not just guar polymers but also "Certified Organic" ones.

This means that VWC Ltd is well-known in India, and their guar gum polymer name is being spread worldwide. To be a world leader, they must follow all the rules and ensure their goods can be tracked. They stay strong in the global game even though there are problems. They make sure that people get what they need.

VWC Limited, a key player in the Indian guar gum powder industry, has hired a consulting firm to help them improve their business and financial performance. Mr. Henry Khoda, an analyst trainee in the consulting firm, is looking thoroughly at the company's finances, aiming to identify opportunities for enhancement and address potential challenges. The consultancy company is trying to help VWC Ltd find its way to a better future by giving valuable recommendations.

Financials of VWC Ltd:

Two significant audited and published financial statements, such as the Balance Sheet and Profit & Loss Statement of VWC Ltd for 2019-20, are presented in Exhibit 1. With 35 years of existence in the market, VWC's financial stance appears robust with significant total assets of INR 1,69,174.82 lakhs, a healthy net worth of INR 1,14,507.03 lakhs and sales revenue of INR 75,762.81 lakhs. However, the company encounters hurdles, though, as shown by its narrower margins and decreased profit from INR 4,692.16 lakhs during the year 2018-19 to INR 2,134.83 lakhs during the year 2019-20, which raises questions about its financial performance. A careful balance between strengths and challenges characterizes its financial landscape.

This case is written by Dr. Rachappa Shette with the help of Mr. Henry Khoda as the basis for class discussion rather than to examine either effective or ineffective handling of an administrative situation.

Guar Gum industry:

India accounts for almost 80% of the world's guar gum, making it the leader in the industry. The guar gum industry supply chain involves several steps, from cultivating beans, processing them into guar gum powder, and finally exporting them. Guar gum, extracted from guar beans, has thickening and stabilizing properties that are useful in food, feed, and industrial applications. In 2023, the industry was worth \$1.25 billion worldwide, and it's expected to grow even more, reaching \$2.01 billion by 2030. Guar gum is used in various products like food, medicine, textiles, and oil & gas.

The task of Mr. Henry:

A crystal ball reading says there will be much more demand for guar polymers, especially in food. The VWC is all in and wants to ride this wave. However, the company is making less money than planned because of specific unknown internal financial and external issues, which makes Mr. Henry scratch his head.

He could prepare the list of ratios given in Exhibit 2 for analysis of the balance sheet and profit and loss statement based on what he learned in his MBA class about ratios analysis. He also could collect the computed ratios of VWC's competitor, Rama Gur Industries (India) Ltd, from his colleague, as given in Exhibit 3, for better interpretation and analysis of VWC's computed ratios. The report that Mr. Henry made will help the consulting firm develop ways to improve VWC's business and financial success. Mr Henry needs to make a brief report on analysis of financial performance, financial condition, drivers of current financial performance and list of suggestions for further improvement in future, if any.

Questions:

1. Compute the ratios (given in Exhibit-2) of VWC Ltd.
2. What is your evaluation of the performance of VWC Ltd as compared to Rama Gur Industries? Why?
3. Identify the causes of the over/under financial performance of VWC Ltd.
4. What are your three significant suggestions to improve VWC Ltd's financial performance in the future?

Exhibit 1: Financial Statements of VWC Ltd

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Balance Sheet of VWC Ltd As on March 31, 2020 (INR in lakhs)

		Note No	As at March 31,2020	As at March 31,2019
Assets				
Non-Current Assets				
a)	Property, Plant and Equipment	3	63,406.03	66,839.79
b)	Capital Work in-progress	3	1,156.33	1,109.28
c)	Other intangible assets	3	1.03	2.72
d)	Financial Assets	4		
i)	Other financial Assets		266.08	266.08
e)	Other non-current assets	5	28,330.38	28,329.38
Total Non-Current Assets			93,159.85	96,547.25
Current Assets				
a)	Inventories	6	7,303.17	10,099.78
b)	Financial Assets	7		
i)	Trade receivables		60,560.79	52,525.12
ii)	Cash and cash equivalents		106.18	56.99
iii)	Bank balances other than ii) above		77.92	77.92
c)	Other Current Assets	8	7,966.91	7,753.74
Total Current Assets			76,014.97	70,513.55
TOTAL ASSETS			1,69,174.82	1,67,060.80
EQUITY AND LIABILITIES				
Equity				
a)	Equity share capital	9	2,044.40	2,044.40
b)	Other Equity	10	1,12,462.63	1,10,472.61
Total Equity			1,14,507.03	1,12,517.01
Liabilities				
Non-Current Liabilities				
a)	Provisions	11	788.31	576.47
b)	Deferred tax liabilities (net)	12	-604.19	46.56
Total non-current liabilities			184.12	623.03
Current Liabilities				
a)	Financial Liabilities	13		
i)	Borrowings		13,564.91	15,529.26
ii)	Trade Payables		7,727.98	9,022.88
iii)	Other financial liabilities		10,219.00	7,097.75
b)	Other current liabilities	14	20,178.88	19,951.23
c)	Provisions	15	22.75	19.94
d)	Current tax liabilities	15	2,770.16	2,299.66
Total Current liabilities			54,483.68	53,920.72
Total Liabilities			54,667.80	54,543.75
TOTAL EQUITY AND LIABILITIES			1,69,174.83	1,67,060.76

Source: Annual Report of VWC Ltd

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Statement of Profit and Loss of VWC Ltd for the year ended March 31, 2020

INR in Lacs

Particulars	Notes	March 31, 2020	March 31, 2019
Income			
Revenue from operations	16	75,762.81	79,997.99
Other income	17	-	4.22
Other gains	17	0.08	3,012.28
Total Income		75,762.89	83,014.49
Expenses			
Cost of material consumed	18	67,167.31	68,688.82
Change in inventory of finished goods	19	254.90	-46.41
Excise duty on sale of goods	20	-	-
Employee benefit expenses	21	2,167.25	3,503.19
Finance costs	22	416.27	2,107.61
Depreciation and amortisation expense	23	3,435.45	3,454.48
Other expenses	24	401.33	670.21
Total Expenses		73,842.51	78,377.90
Profit/ (Loss) before tax		1,920.38	4,636.59
Income tax (credit)/expense	25		
-Current tax[Minimum Alternate Tax ('MAT)]		470.49	1,325.80
-MAT credit entitlement		-	-
-Deferred tax		-684.94	-1,381.37
Profit/(Loss) for the year		2,134.83	4,692.16

Source: Annual Report of VWC Ltd

Exhibit 2: List of financial ratios for analysis

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		Numerator	Denominator
Profitability Ratios:			
1	Return on Equity	Profit after Tax*100	Total Equity
2	Return on Investment	Profit after Tax*100	Total Assets
3	Net Income Ratio	Profit after Tax*100	Revenue from operations
Efficiency Ratios (Activity or Turnover Ratios):			
1	Total Assets Efficiency ratio	Revenue from operations	Total Assets
2	Non-Current Assets Efficiency	Revenue from operations	Total Non-Current Assets
3	Current Assets Efficiency	Revenue from operations	Total Current Assets
4	Inventory Efficiency	Revenue from operations	Inventory
5	Receivables Efficiency	Revenue from operations	Receivables
6	Inventory holding days	Number of Days in a year*	Inventory Efficiency
7	Receivables Collection Days	Number of Days in a year*	Receivables Efficiency
Liquidity Ratios:			
1	Current Ratio	Current Assets	Current Liabilities
2	Debt-to-Equity Ratio	Total Liabilities	Total Equity
Solvency Ratios:			
3	Leverage	Total Assets	Total Equity
4	Interest Coverage Ratio	Profit before Interest and Tax	Interest
*Number of days in a year are assumed as 360 days.			

Source: Author's own work

Exhibit 3: Ratios of Rama Gur Industries (India) Ltd

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		2020 March	
Profitability Ratios:			
1	Return on Equity	10.18	%
2	Return on Investment	3.58	%
3	Net Income Ratio	1.17	%
Efficiency Ratios (Activity or Turnover Ratios):			
1	Total Assets Efficiency ratio	3.06	times
2	Non-Current Assets Efficiency	25.76	times
3	Current Assets Efficiency	3.48	times
4	Inventory Efficiency	8.17	times
5	Receivables Efficiency	8.06	times
6	Inventory holding days	44.09	days
7	Receivables Collection Days	44.68	days
Liquidity Ratios:			
1	Current Ratio	1.36	times
2	Debt-to-Equity Ratio	1.84	times
Solvency Ratios			
3	Leverage	3.06	times
4	Interest Coverage Ratio	3.32	times
*Number of days in a year are assumed as 360 days.			

Source: Author's own work

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