

Twitter Thread by Tar ■



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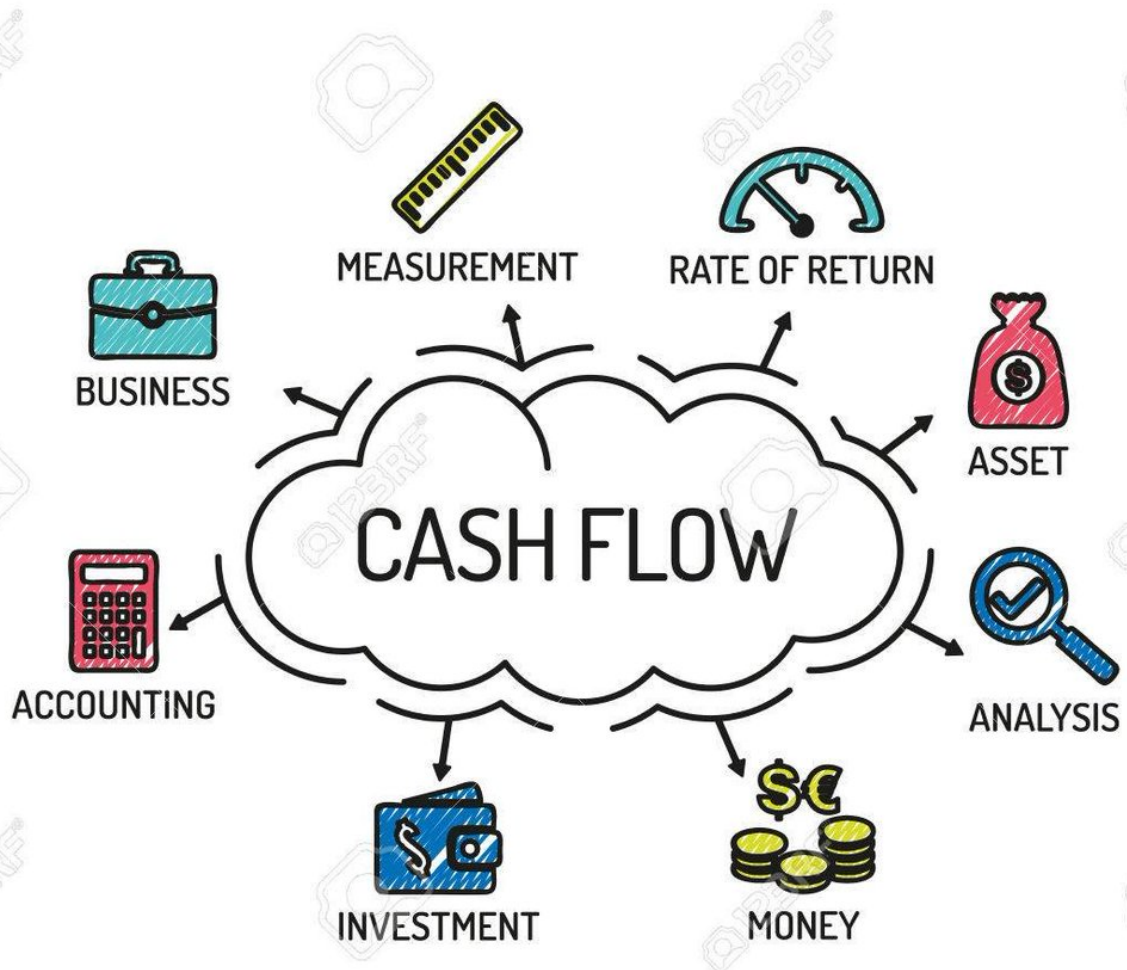
It's the weekend!

Grab a cup of coffee, in this thread I will explain

- 1. What a cash flow statement is?**
- 2. What does it tell you about a business?**
- 3. How to analyze one?**

Examples included various Indian companies.

Let's dive right in.



Cash flow statement is a financial statement published by a company every quarter and annually.

It comprises of all transactions that a company does in cash or cash equivalents.

*Cash equivalents are other liquid assets that can easily be sold for immediate cash.

This is what a typical cash flow statement looks like

STANDALONE AUDITED CASH FLOW STATEMENT			
(₹ in Crores)			
S.No	Particulars	Audited Year Ended 31.03.2021	Audited Year ended 31.03.2020
(A)	Cash Flow From Operating Activities		
	Profit before tax	4,090.38	3,413.03
	Adjustments for:		
	Depreciation and amortisation expense	697.47	689.97
	Interest income	(41.20)	(41.67)
	Dividend income	(16.45)	(34.73)
	Finance costs	71.66	78.38
	Allowance for doubtful debts and advances	27.90	15.27
	Bad debts written off	0.56	6.18
	Deferred income arising from government grant	(2.28)	(1.64)
	Net unrealised foreign exchange (gain)/ loss	(16.73)	36.74
	(Gain) on sale of property, plant and equipment (net)	(18.37)	(10.50)
	Net gain on modification/ termination of leases	(1.72)	(0.96)
	Net gain arising on financial assets measured at fair value through profit or loss (FVTPL)	(92.28)	(75.26)
	Impairment loss on non-current investments - subsidiaries	-	33.20
	Other non cash adjustment	-	8.01
	Operating Profit before working capital changes	4,698.94	4,116.02
	Adjustments for :		
	(Increase)/Decrease in trade receivables	(724.39)	116.12
	(Increase)/Decrease in financial assets	(242.73)	18.85
	(Increase) in inventories	(297.14)	(242.37)
	(Increase)/Decrease in other assets	(234.99)	95.82
	Increase/(Decrease) in trade and other payables	1,234.30	(368.18)
	Increase in provisions	40.50	10.16
	Cash generated from Operating activities	4,474.49	3,746.42
	Income Tax paid (net of refund)	(1,014.99)	(933.35)
	Net Cash generated from Operating activities	3,459.50	2,813.07
(B)	Cash Flow from Investing Activities		
	Purchase of Property, plant and equipment	(210.56)	(306.43)
	Sale of Property, plant and equipment (including advances)	25.56	26.35
	Payment for acquiring right of use assets	(7.14)	(9.79)
	Loan given to subsidiary	(1.85)	(6.25)
	Purchase of non-current investments - Subsidiaries	-	(379.84)
	Purchase of non-current investments - others	(0.50)	(24.95)
	Sale of non-current investments	272.32	85.50
	Purchase of term deposits	(897.11)	(489.02)
	Proceeds from maturity of term deposits	458.01	222.53
	Sale of current investments (net)	(139.34)	31.26
	Interest received	47.21	41.26
	Dividend received from subsidiaries	8.64	8.13
	Dividend received from others	7.81	26.60
	Net Cash (used in) Investing activities	(436.95)	(774.65)
(C)	Cash Flow from Financing Activities		
	(Repayment) of non-current borrowings	(5.90)	-
	Proceeds from non-current borrowings	1.96	17.86
	Acceptances (net)	115.17	(202.80)
	Repayment of lease liabilities	(158.71)	(148.72)
	Finance costs paid	(69.36)	(76.78)
	Dividend and Dividend tax paid	(466.06)	(2,090.41)
	Net Cash (used in) Financing activities	(582.90)	(2,500.85)
(D)	Net Increase/(Decrease) in cash and cash equivalents [A+B+C]	2,439.65	(462.43)
	Add: Cash and cash equivalents as at 1 st April	693.93	1,156.36
	Cash and cash equivalents as at 31st March	3,133.58	693.93



Cash flow statement is important as it gives you transparency into how the company utilizes its cold hard cash generated by the business.

Because we are following actual cash, there are very few accounting tricks that can be employed in this section.

A cash flow statement has three main parts:

1. Cash Flow from Operations (CFO)
2. Cash Flow from Investing (CFI)
2. Cash Flow from Financing (CFF)

Let's dive into CFO in detail.

*CFI and CFF will be covered in a separate thread

Cash flow from Operations (CFO), the single most important part of a cash flow statement and my personal favorite.

CFO tells you how the profits generated by the company were used in the day to day operations of the company.

5 main parts of CFO include

1. Receivables

These show how much is *owed* to the company. If a company sells their product on credit, it gets recorded in the PnL Statement but will have to be deducted from Op.Profit under CFO cause the company didn't receive cash for these sales

Cash Flows

Consolidated Figures in Rs. Crores / [View Standalone](#)

	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021
Cash from Operating Activity -	1,063	762	710	1,187	1,402	1,188	2,243	1,527	2,113	2,470	2,632	3,683
Profit from operations	1,246	1,331	1,539	1,784	2,051	2,271	2,848	3,056	3,274	3,861	4,380	4,970
Receivables	-51	-82	-305	-299	-254	-155	-146	-475	-483	-205	160	-1,342

A simple metric you can use here is

Receivables/Profit from Operations

This will show you what % of overall profit booked by the company is actually on credit.

From the above example, this % comes to 27.

Higher % of receivables as part of Op Profit = BAD

Lower = Good

The next section under CFO is Inventory

This is all the unsold but completed product that company has in its warehouse.

Similar to Receivables, since its unsold and hasn't been converted into cash, it should be removed from profit from operations.

	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021
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Inventory	-191	-350	-293	-247	-231	-144	202	-629	-39	-492	-251	-409
Payables	376	255	188	388	317	-151	142	501	442	287	-647	1,544

Just like with receivables, we can calculate what % does the inventory comprise of actual CFO.

From the previous example, it's about 8% of Operating Profit.

Higher % = BAD

Lower % = GOOD

The third part to analyze is Payables.

This is the money that is owed by the company.

This money doesn't belong to the company and must be paid to others by the company. Can be raw material suppliers etc.

Profit from operations	1,246	1,331	1,539	1,784	2,051	2,271	2,848	3,056	3,274	3,861	4,380	4,970
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Payables	376	255	188	388	317	-151	142	501	442	287	-647	1,544

Unlike the above two (Receivables and Inventory), this is actually *ADDED* to the profit from operations.

Why?

Cause the money hasn't left the company yet.

These payments need to be paid by the company at some date in future, but until then the cash is with the company.

A combination of the above three

Receivables + Inventory - Payables

Gives us the Working Capital changes of the company.

Working Capital = how much money is required to run the company day to day

Great businesses require negative working capital.

This means that company runs its day to day operations on money borrowed from its suppliers mostly in the form of payables.

This happens when

Company receives money that is owed to it in a shorter time (for eg. 30 days)

and

has to pay the money that is owed by the company to its supplier at a later date (for eg. 60 days)

This means for 30 days the company can use money owed to supplier for its WC

The two remaining parts of CFO are

1. Direct Taxes

These are just taxes actually paid in cash by the company. Since cash is going out, these get deducted from Operating Profit.

2. Exception CF Items

Any cash activity out of ordinary get recorded here.

Cash Flows

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Inventory	-191	-350	-293	-247	-231	-144	202	-629	-39	-492	-251	-409
Payables	376	255	188	388	317	-151	142	501	442	287	-647	1,544
Working capital changes	134	-176	-410	-159	-168	-450	198	-603	-80	-410	-737	-206
Direct taxes	-317	-392	-430	-438	-480	-633	-802	-925	-1,081	-982	-1,011	-1,080
Exceptional CF items	0	0	10	0	0	0	0	0	0	0	0	0

Combining all of the above gives you

CASH FLOW FROM OPERATIONS

Profit from Operations - Receivables - Inventory + Payables - Direct Taxes +/- Exceptional CF Items

This is the actual cash generated by the company through its business.

This is what is earned by the company.

Personally I believe CFO is the most important part of financial statement to analyze.

Why?

If cash generated by the business is increasing every year, then it shows the business is healthy.

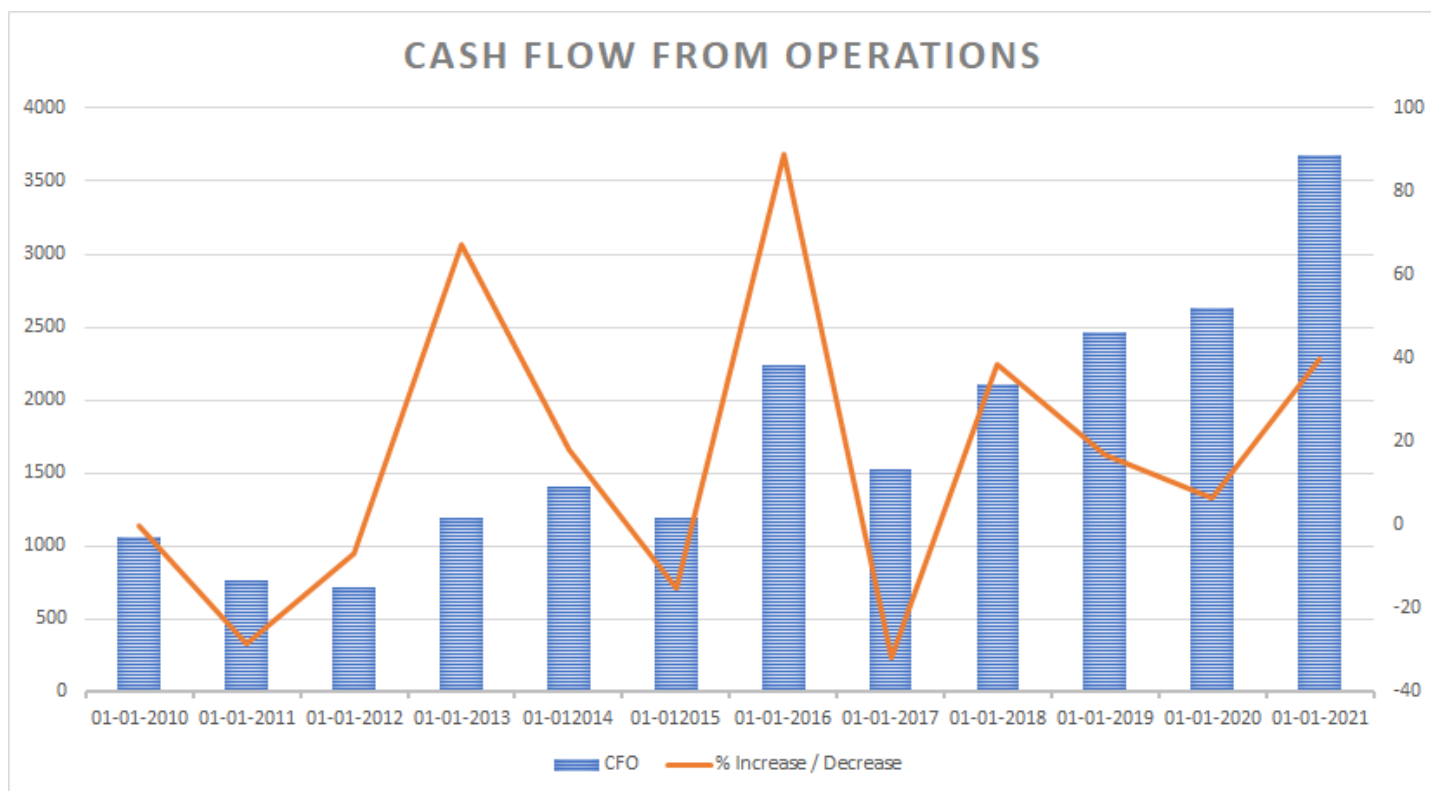
Once a company can generate cash, it can figure out rest of the stuff in the business.

But if a company cannot generate cash then survival of the business becomes hard.

Without enough cash in the bank a company cannot run its business efficiently, cannot invest back into the business and cannot grow a business.

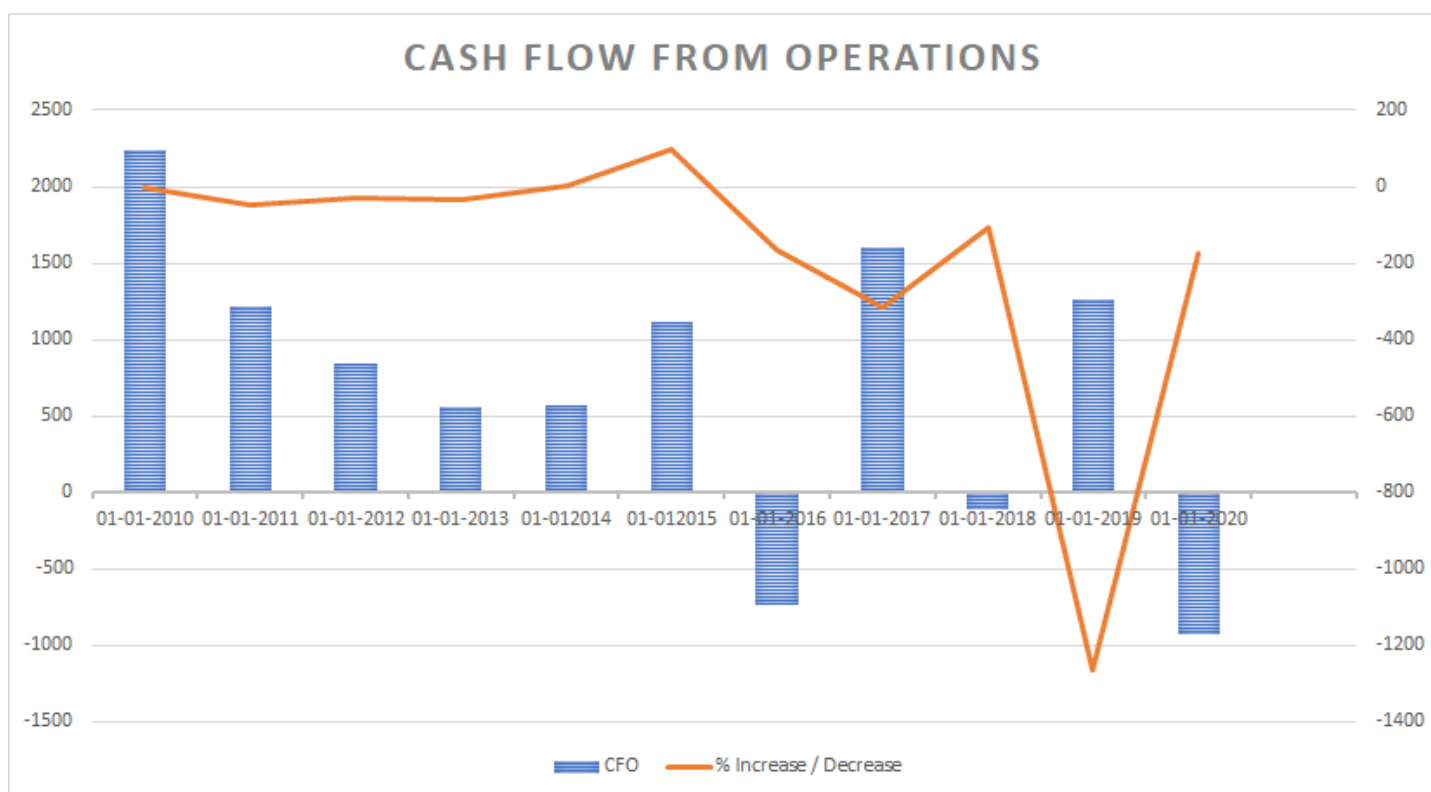
Here is an example of a great business and its CFO

Notice how the business has more than tripled its CFO in last 10 years from 1000cr in 2010 to now more than 3500cr in 2021.



Here is an example of a bad business

Notice how CFO is lumpy and started indicating signs of trouble in the company when it decreased from 2000cr in 2010 to 500cr in 2013.



You can do a whole lot of analysis with CFO.

$\text{CFO} / \text{Profit after Tax (PAT)}$ = will show you what % of cash generated actually gets converted to net profit available to

shareholders

CFO / EBITDA = will show you what % of cash generated by a business is actually part of earnings before income tax depreciation and amortization

*Depreciation and amortization are non cash expenses, more on that in some other thread

So study Cash Flow from Operations, be obsessed with it if you're analyzing a company.

It will tell you a whole lot more about a company than a PE, PB or Price to Sales multiple ever would.

Thank you for reading.

Leave a comment on what do you think is the name of the good business analyzed as example in this thread.

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