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Fundamentals Analysis Course FREE

A Thread■

Course Worth : ■20k - ■30k

Today, Let's learn

How to Read Financial Statements

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Financial statement is must read before investing in any company, It helps you to understand how company is running it's operations and what is financial condition of the company

3 Sections of Financial Statements

1. Profit & Loss
2. Cash Flow
3. Balance Sheet

Now let's understand each in details

1■■ Profit & Loss

It helps you to understand the Profitability of a company

P&L shows 5 Components

■ Revenue
■ Expenses
■ Operating Margin
■ Interest Payment
■ Net Profit

Let's take example of Book Seller to understand the concept in most easiest way

So suppose if one book seller is doing sales of 100000 (1 lac) per month

■Revenue : It shows how much sale any company has done in given period it's total business of company without any deductions

Ex. Book Sellers Revenue:10000

■Expenses: it's total expenses done by company to run business to achieve the sales so it's basically all outgoing money

Ex. Book seller need to pay fuel expenses, rent expenses etc

So expenses for the month are 20000

Now Remaining Cash in hand is : 80000

■Operating Margin (OPM):
It's percentage of margin on which company is operating it's business

Ex. You are a book seller and you buy one book at 100 and sell the same at 130 then your OPM is 30%

But here 30 is not directly profit as it further goes down with other expense

■Interest Payment : If business has taken some debt to start or expand business it then it has to pay certain interest to the bank.

Interest payment is shown in PNL and if it's increasing with every Quarter and it's more than net profit then it's RED flag and avoid such stocks

If company is repaying debt on time and interest payment is going down then it's good sign for the stock

Mostly consider stocks with lower debt as higher debt is always risky as in few years interest payment becomes more than company's net profit and then company goes bankrupt

■Net Profit: It's final profit left with company after all expenses like Sales Expenses, Employees Expenses, Rent, Interest Payment, Tax etc

Ex. Book Seller
Sales : 100000
Operating Profit : 30000
Expenses : 20000
Interest Payment/Tax : 0
Net Profit : 10000

Now suppose if Book Seller has some loan then he will run into losses despite having business with 30% OPM so debt is one of the most important factor here

Of course unless PM is your best friend ■

2■■Cash Flow : It shows inflow and outflow of cash of given period

3 Sections of Cash Flow :
■ Cashflow from Operating Activity
■ Cashflow from Investing Activity
■ Cashflow from Financial Activity

■ Cashflow from Operating Activity

Cash generated from core business activities of company

Ex. Cash generated from selling books

■ Cashflow from Investing Activity

Cash generated from Investing some cash into stock market or in some other assets which gives your returns

Ex. Book seller earns some amount from FD or Stock Market

■ Cashflow from Financial Activity

Cashflow to Finance company activities like debt payment, Dividend payment etc

From this section you can check if debt is getting repayed or not in certain period

Ex. If book seller pays divided to it's shareholders or repays it's loan

3■■ Balance Sheet:

It shows companies financial situation of given period

2 Sections of Balance Sheet:
■ Assets
■ Liabilities

■ Assets :
Entity own by company which helps it to generate revenue

Ex. Book Store, Book Advertisement Platforms etc which helps it to run business, gain customers and increase it's business

■ Liabilities:
Total sum of cash which company is supposed to pay to bank from where it go loan

Ex. If book seller has taken loan of 5 lacs then it will come under Liability column

It takes huge efforts to make this thread and explain in layman's language

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