A Case Study of Financial Performance of AMPL

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Sourabh was still a bit stunned as he pressed the lever on the water cooler just outside his boss's office. Just minutes before, Sourabh had left the office of Mr Vivek Verma a director at Drishti Associates and Sourabh's immediate supervisor. During their brief visit, Mr Verma had informed him that the firm wanted to broaden its practices to include new economy automobile accessories manufacturing firm. To get the ball rolling for the firm's new target market, he asked Sourabh to work up a performance analysis for Aryan Manufacturing Private Limited and present it to the company's Directors in two weeks. This meant that Sourabh would have to come to grips with how much value Aryan Manufacturing Private Limited was creating and how it was doing it. Sourabh was thrilled with the opportunity to lead the effort but very concerned the would have enough time to come up with anything meaningful. After all, rationalizing the market variations of automobile accessories firms was not easy even to the savviest investors.

After graduating with an MBA from a well known business school of India Sourabh had joined the staff of a business consulting firm Drishti Associates, where he entered the firm's practice as an associate with a specialization in Finance. Drishti Associates specializes in the design of compensation programmes that provide greater employee incentives to create shareholder value. The principal tool used for its performance appraisal system is Economic Value Added (EVA).

Aryan Manufacturing Private Limited (AMPL) is a Delhi base firm and produces Automobile accessories for car manufacturing companies. The historical performance of the firm is similar to that of many other new economy Automobile accessories manufacturing firms. The details about the firm's financials performance are given below.

A. ACCOUNTING EARNINGS

(Rupees Thousands)

	2000	2001	2002
Revenue	14012	37720	64839
Cost of Sales	(2,185)	(6,465)	(12,390)
Gross Profit	11827	26255	52449
General and Admin Exp	(3491)	(6024)	(9841)
Selling & Distribution Exp	(7540)	(20,124)	(32,451)
R & D	(4812)	(13,268)	(29,401)
Goodwill Amortisation	-	-	(15,96)
Net Operating Profit	(4,016)	(13,161)	(20,840)

B. BALANCE SHEETS

(Rupees Thousands)

	31 March-99	31 March- 00	31 March- 01	31 March- 02
ASSETS				
Cash and equivelent	6,116	19,595	92,028	89,777
Net Receivables	717	3,381	15,779	4,941
Inventories	3	61	167	-
Other current assets	143	491	1,885	3,212
Total current assets	6,979	23,528	109,859	97,930
Gross Plant & Machinary	692	3,462	7,896	12,355
Accumulated depreciation	98	783	2,753	6,082
Net Plant & Machinary	594	2,679	5,143	6,273
Investment at equity	-	-	816	-
Intangibles	-	-	-	9,048
Other assets	1	261	886	14,808
TOTAL ASSETS	7,574	26,468	116,704	128,059
LIABILTIES				
Account Payable	185	2,405	2,136	3,563
Accrued Expenses	200	1,318	3,653	10,418
Other current liabilities	646	2,912	16,550	23,742
Total current liabilities	1,031	6,635	22,339	37,723
Long term debt	-	-	963	987
Other liabilities	-	-	15,500	5,833
EQUITY				
Preffered stock-redeemable	7,654	23,153	-	-
Preffered stock-nonredeemable	14	14	-	-
Total preffered stock	7,668	23,167	-	-
Common stock	-	1	31	34
Capital surplus	921	2,543	95,557	117,546
Retained earnings	(2,046)	(5,878)	(17,686)	(34,064)
Common equity	1,125	(3,334)	77,902	83,516
Total equity	6,543	19,833	77,902	83,516
TOTAL LIABILTIES AND EQUITY	7,574	26,468	116,704	128,059
COMMON SHARES OUTSTANDING	148	2,140	123,464	134,296

a) Evaluate Aryan Manufacturing Private Limited profitability over the period 2000-02.

b) What do you think is the appropriate number for Aryan Manufacturing Private Limited invested capital at the end of 2002? Note that both marketing and R&D expenditures are expected fully against revenues in the year when the expenditures are made. Do you think that this distorts total assets as an indication of the firm's invested capital? Explain.

c) Explain how you would go about evaluating the EVA for 2000-02. What problems do you see in carrying out the analysis?

Analysis of the Case will appear in the next issue.