

EPISODE 5

In Search of Top Quality Companies

Decoding Financial Statements for Practical Wealth Creation

The Three Pillars of Data



Income Statement

Shows the "Top Line" (Sales) and "Bottom Line" (Profit) of the business over a period.



Balance Sheet

A snapshot of what the company owns (Assets) and what it owes (Debt/Equity).



Cash Flow Statement

The ultimate truth. Shows the actual movement of "Physical Cash" in the bank.

1. Market Dominance (The Sales Test)

Formula & Logic

How much of the "Sector Pie" does this company own?

Quality companies are usually leaders.

$$\text{Market Share \%} = (\text{Co. Revenue} / \text{Total Industry Revenue}) \times 100$$

Q Where to Look?

Statement Income Statement

Line Item Revenue from Operations / Net Sales

BSE Link Financials -> Results

2. Operating Efficiency (Margins)

OPM & NPM

OPM tells us about "Core Efficiency" before interest and taxes. Net Profit Margin is the final takeaway.

$$\text{OPM \%} = (\text{Operating Profit} / \text{Revenue}) \times 100$$

Look For: **Line Item** EBITDA or Operating Profit in the Income Statement.

> 15%

Target Margin

3. Capital Efficiency (The ROE Test)

This connects the Income Statement (Profit) to the Balance Sheet (Equity).

Variable Name	Source Statement	Exact Line Item
Net Profit	Income Statement	Profit After Tax (PAT)
Shareholder Equity	Balance Sheet	Equity Share Capital + Reserves
Target	Calculation	ROE > 15-20% (Consistent)

$$ROE = (PAT / \text{Shareholders' Equity}) \times 100$$

4. Safety (The Solvency Test)

< 1.0

Ideal Debt-to-Equity

Is the company "In Debt"?

Karza kitna hai? High debt leads to high interest, which destroys quality in bad times.

Look In Balance Sheet

Line Item Long-term Borrowings + Short-term Borrowings

5. Reality Check (Cash Flows)



PAT vs. CFO

Profit is what the company "claims" to make. Cash Flow from Operations (CFO) is the "Actual Rokda" in the bank.

Condition: $CFO / PAT \geq 1.0$

"Agar profit hai par cash nahi, toh quality mein kachra hai."

Source Cash Flow Statement

BSE India: The "Where to Look" Cheat Sheet

Requirement	Statement	Exact Line Item Name
Sales Growth	Income Statement	Revenue from Operations / Net Sales
Margin Power	Income Statement	Operating Profit / EBITDA
Company Size	Balance Sheet	Total Assets / Shareholders' Funds
Loan Burden	Balance Sheet	Non-current Liabilities (Borrowings)
Actual Cash	Cash Flow	Net Cash from Operating Activities

Practical Assignment

Complete your Top 5 Company Quality Search on Spreadsheet

- ✓ Extract PAT, Sales, Equity & Debt for 3 years.
- ✓ Use Formulas to calculate ROE, OPM, and D/E.
- ✓ Compare CFO with PAT for the "Reality Check".

Live Query Session: Tuesday 20th Jan