

## **10 important things to analyse in an Annual Report**

*You can get annual reports from company website under investor relation section, BSE/NSE website and will receive in post / email if you are shareholder of a company*

Listed companies come out with their reports highlighting annual performance to its shareholders. These reports are primary source of information for an investor to understand the company, sector, management views and analyse the financials.

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**10 important things to analyse while reading an annual report are as follows:**

### **1) Vision and mission statements of the company**

In this section, you will get to read vision and mission statement, values and goals of the company. These statements are general in nature. Take a look at vision and mission statements of Infosys:

Vision: "We will be a globally respected corporation."

Mission: "Strategic Partnerships for Building Tomorrow's Enterprise."

Some companies also set a vision like "To touch revenues of Rs 5000 crore in 5 years."

*Value of the information: Low to medium (since these statements are generic in nature)*

### **2) Corporate information**

In this section, you will get details of directors, bankers, auditors and registered and corporate office. Key things to look is designation of each board members, incase auditors are reputed they provide additional comfort to the company you are investing.

*Value of the information: Medium*

### **3) Products overview and financial highlights in last 5 to 10 years**

Get details of products being manufactured by a company, segment wise performance in last two years, key raw materials consumed, etc. Some companies publish financial highlights of 5 to 10 years in annual reports. You will get to analyse trend of revenue, earnings before interest, tax, depreciation and amortization (EBITDA), profit after tax (PAT/Net income / loss) from income (profit and loss) statement and also get a glimpse on shareholders equity, assets, debtors, liability and total debt from balance sheet over the years. Important ratios are also presented in charts over 5 to 7 years time line.

*Value of the information: Medium*

#### **4) Director's report**

This section provides brief summary on financials, explanation of the financial results, key developments in the company. Key things to look in here are operational parameters of the company such as capacity additions, capex plan / executed during the year, order book as on financial year end, average length of stay, occupancy rates, average revenue per occupied bed, average revenue per user, etc. Terms used to discuss operation of the company varies depending on sectors so get some knowledge about industry terms or use glossary to get better insights. Read the past 3 to 5 years director report to see whether management has achieved the set revenue target over the years, whether strategies adopted over the years were favorable for company and did management able to perform during roller coaster ride of an economy. Also, look at the tone of the director report while reading annual report. Ideally, it sounds positive in good years and negative in bad years of the company performance.

*Value of the information: High*

#### **5) Management discussion and analysis (MDA)**

This section provides information on trends in the industry, SWOT analysis of the company, insights on key line items of financial statements and risk factors/concerns affecting the company performance. You will get relevant information to understand the industry while reading this section. It's appreciated to read at least 3-5 years of MDA to understand trends of the company in different economy scenario.

*Value of the information: High*

#### **6) Report on Corporate governance**

This section gives insight on corporate governance followed by a company, composition of board of directors, brief background information on directors and independent directors of the company, attendance of directors in board meetings and annual general meetings, remuneration of directors, re-appointment of directors after completing the term, composition of sub-committees, etc. Key things to look here is composition of board of directors, sub committees and attendance records of directors during meetings, relate remuneration paid to directors with profits earned by the company. Analyse whether profile of independent directors match with the requirement of company as per sector of a company.

*Value of the information: High*

#### **7) Information on shares of the company**

This section provides information on historical performance of share price, share holding

pattern of the company, pledging of shares by promoters during the year, split of shares, bonus shares distributed, etc.

*Value of the information: Medium*

## **8) Auditors report**

This section gives information on comments by auditors on the financials of the company. You look out who are the auditors for the company and any qualifications by the auditors on internal processes. The information on change in accounting policy if any will be highlighted in this section.

*Value of the information: High*

## **9) Financial statements**

This section provides detailed information on profit and loss accounts (income statement), balance sheet as on year end, cash flow statement and schedules of the financials for two years. Analyzing numbers from this section help us to check financial health of the company. We will explain in other article key things to look in financial statements for fundamental analysis of a company.

*Value of the information: High*

## **10) Notes to accounts**

In this section you will get information on accounting policy followed by a company, depreciation method, forex losses / gains, segmental reporting, inventories, liabilities, leases, etc. It will be helpful if you read notes to account section of last 3 to 5 years. This will help to get information on any change in accounting year or accounting policy which can inflate revenues or profits of the company, trend in segmental revenues / profitability, contingent liabilities over the years, related party transactions, etc.

*Value of the information: High*

You may find reading an annual report is tedious exercise for the first time. However, it's an advice to analyse at least 2 to 3 years past annual reports of a company to understand in and out about operations of the company, financials and management's view/stand in various economic trends. A corporate and analyst presentation available on company website are useful sources of information with reading an annual report then take a decision of buy, sell or hold of stocks with your understanding.

*(Business Standard)*