

A Comparative Study On the Cash Flow Statements of Reliance Industries Ltd. and Adani Enterprises Ltd.

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ABSTRACT: Cash Flow Statement is very important tool to know the cash position of any business entity. It is compulsory for any business to prepare and present its cash flow statement with its annual reports. In this paper, a comparative study has been undertaken about the cash flow statements of two companies i.e. Reliance Industries Ltd. and Adani Enterprises Ltd. For this, some statistical tools like average, standard deviation and co-efficient variation have been used. By using these tools, researcher has found that performance of Reliance Co. is better than Adani Co. for operating activities. But as far as Investing and Financing activities are concerned, Performance of Adani Co. is better than the Reliance Co.

Key words: Operating activities, Investing activities, Financing activities, Cash equivalents

I. INTRODUCTION

Cash Flow Statement is prepared as per the Accounting Standard-3 issued by the Institute of Chartered Accountants of India (ICAI). In cash flow statement, cash inflows and cash outflows are presented during a particular period of time (normally for one year). Cash flow statement has been divided into three activities i.e. operating, investing and financing activities. It shows how much cash has been generated from operating activities of the business. It also shows how much cash has been invested in tangible assets and other non-current investments. It also shows how much cash has been generated in the form equity share, preference share and other non-current liabilities.

II. REVIEW OF LITERATURE

Allen K. Hunt, Linda M. Lovata and Michael L. Costigan (2008) had undertaken study "Characteristics of companies using different Cash Flow methods". They mentioned that it has been found that the Financial Accounting Standard Board (FASB) allows the use of both the direct and the indirect method in preparing a cash flow statement. In many cases however, it has been found that the FASB would like the use of the direct method because it has been found in the practice the indirect method gives less information than the direct method. Though this is the case, somehow or other it has been found that a majority of the companies select indirect method. Comparing the both, the resultant conclusion is that smaller firms with fewer branching segments are using the direct method. Companies with a happy cash flow within are more likely to use the direct method. It has been found that companies with a weaker cash flow become more accustomed to the indirect method.

In an article of the Institute of Chartered Accountants of India (2009) it was pertaining to analysis – AS-3 Vs. IAS-7 – Cash Flow Statements mentioned that there are some points of differences between AS-3 and IAS-7: (i) AS-3 covers all the business entities excluding some business entities in the Small and Medium Enterprises (SMEs) sector whereas IAS-7 includes all the entities. It has no such exemption. (ii) AS-3 includes only cash on hand and bank demand deposits whereas IAS-7 covers large physical areas which includes cash on hand, demand deposits with bank and borrowings from which may be repayable on demand. (iii) Under AS-3, payment of interest and dividends are recorded under financing activities whereas there is no such explanation under IAS-7. (iv) Under AS-3, extraordinary items are recorded separately under Operating, Investing or Financing activities whereas under IAS-7 no such specific disclosure is required for extra-ordinary items.

Mehdi Alinezhad Sarokolae and Zahra Asadzadeh conducted a survey on "Applying the Free Cash Flow to Equity Valuation Model in Iran Khodro". They mentioned that in this study, an example is given of how to apply the free cash flow to equity valuation model which was proposed by Damodaran in 2006. Damodaran said that the stock value is nothing but it is the present value of the future cash flow to discounted equity. In this study, to calculate the present value of the Iran Khodro, free cash flow to equity model and super-normal growth model are combined. Beyond this, for calculating free cash flow to equity, how the various factors such as growth rate, the long term growth rate, beta and cost of equity are calculated – is also explained in this study. Free cash flow to equity was determined for the period of 2001-2009 for meeting the various objectives and goals. For predicting the future value

of free cash flow to equity for a period of five years, the predictive growth rate was used. For calculating the present value of free cash flow was also predicted about the stock's discounted rate of Iran Khodro for the period of 2009-2013. At last, by using a total of five predicted free cash flow to equity and the value of the firm at $t=5$, the real value of the firm will be determined.

III. RESEARCH METHODOLOGY

➤ SAMPLE SELECTION

For the purpose of the study two (2) private sector companies i.e. Reliance Industries Ltd. and Adani Enterprises Ltd. have been selected.

➤ PERIOD OF STUDY

The study is conducted for a period of five (5) financial years i.e. from 2017-'18 to 2021-'22.

➤ DATA COLLECTION

In this study, mainly secondary data is collected. Secondary data has been obtained from the following sources:

- Published Annual Reports of the companies for the financial years 2017-'18 to 2021-'22.
- Mumbai Stock Exchange Directory
- of the Selected companies' websites
- Other related websites

➤ OBJECTIVES

Cash Flow Statement is made up of three important activities i.e. Operating, Investing and Financing activities. The analysis of all these activities is undertaken with the following objectives:

- (1) To undertake comparative study on Operating Activities of selected companies for the period of study.
- (2) To undertake comparative study on Investing Activities of selected companies for the period of study.
- (3) To undertake comparative study on Financing Activities of selected companies for the period of study.

➤ HYPOTHESIS

The following hypothesis were formed after considering the objectives of the study:

- (1) There is no significant difference between the means of Operating activities of the selected companies.
- (2) There is no significant difference between the means of Investing activities of the selected companies.
- (3) There is no significant difference between the means of Financing activities of the selected companies.

➤ STATISTICAL TOOLS AND TECHNIQUES

To analyze the Cash Flow Statements, the statistical analysis techniques have been selected. For this, following techniques have been used.

- (1) Mean
- (2) Standard Deviation
- (3) Co-efficient of Variation
- (4) Paired t-test

Table-1: COMPARATIVE STUDY

(Rs. in Crores)

YEAR	OPERATING ACTIVITIES		INVESTING ACTIVITIES		FINANCING ACTIVITIES	
	RELIANCE	ADANI	RELIANCE	ADANI	RELIANCE	ADANI
17-18	71,459.00	2,942.39	-68,290.00	-7,706.47	-2,001.00	-17,487.38
18-19	42,346.00	3,326.70	-95,128.00	1,809.13	55,906.00	-6,158.41
19-20	94,877.00	2,453.56	-72,520.00	-2,322.97	-2,541.00	-220.9
20-21	26,185.00	4,093.53	-141,634.00	-7,902.39	101,902.00	3,058.59
21-22	110,654.00	1,385.28	-110,103.00	-17,487.38	17,289.00	15,901.42

CHART-1: COMPARATIVE CHART FOR OPERATING ACTIVITIES

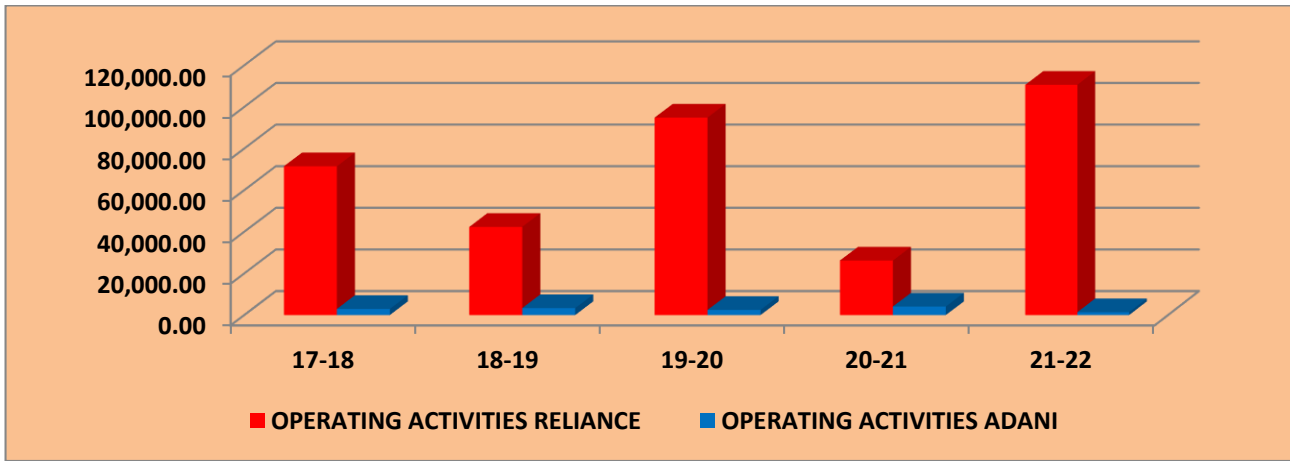


CHART-2: COMPARATIVE CHART FOR INVESTING ACTIVITIES

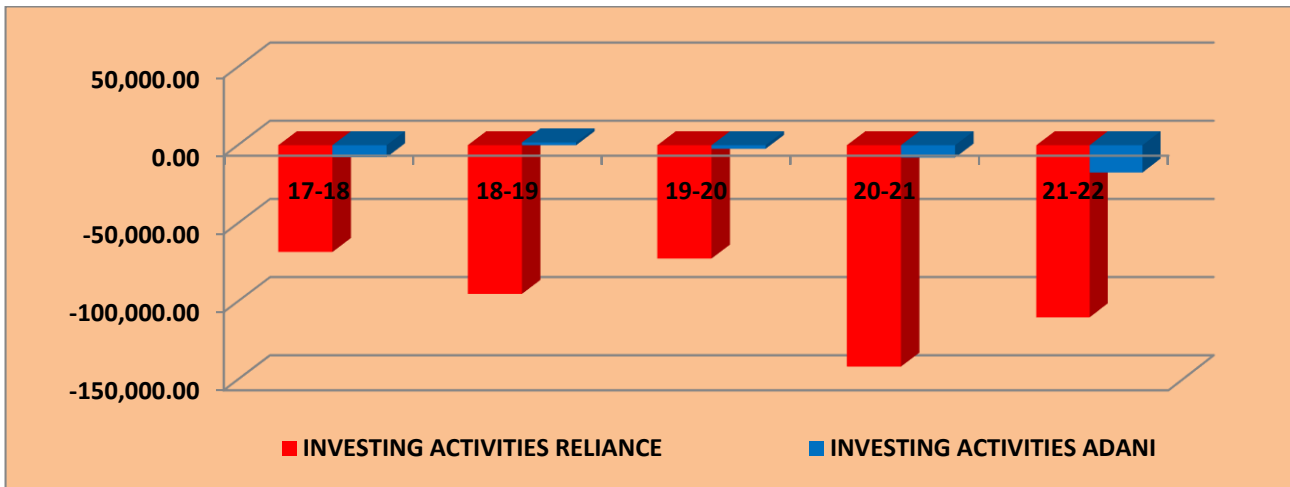
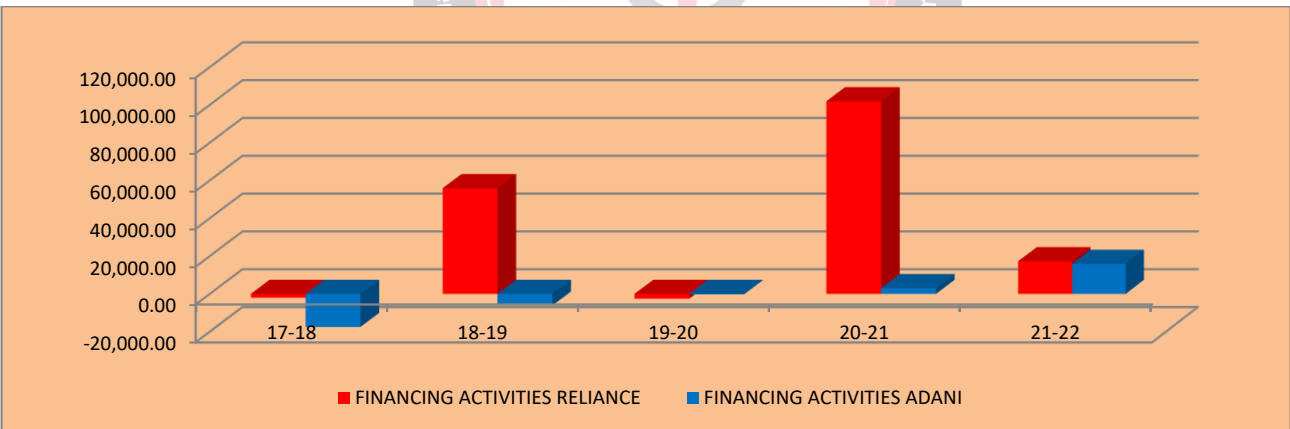


CHART-3: COMPARATIVE CHART FOR FINANCING ACTIVITIES



MEAN, STANDARD DEVIATION AND CO-VARIANCE

Table-2: OPERATING ACTIVITIES

COMPANY	Average (Mean)	Rank	Standard Deviation	Rank	Co-Variation	Rank
Reliance	69,104.20	1	35,193.14	2	50.93	2
Adani	2,840.29	2	1,010.48	1	35.58	1

Table-3: INVESTING ACTIVITIES

COMPANY	Average (Mean)	Rank	Standard Deviation	Rank	Co-Variation	Rank
Reliance	-97,535.00	2	29,956.18	2	-30.71	2
Adani	-6,722.02	1	7,252.37	1	-107.89	1

Table-4: FINANCING ACTIVITIES

COMPANY	Average (Mean)	Rank	Standard Deviation	Rank	Co-Variation	Rank
Reliance	34,111.00	1	44,724.34	2	131.11	2
Adani	-981.34	2	12,259.47	1	-1,249.26	1

IV. FINDINGS

(1) Average :

- Theoretically lower the average, lower the rank and vice versa.
- For Operating activities, average of Reliance Co. (Rs. 69,104.20 crore) is greater than Adani Co. (Rs. 2,840.29 crore). Accordingly, Reliance is given 1st rank and Adani is given 2nd rank.
- But, for Investing activities, average of Adani Co. (-6,722.02) is greater than the Reliance Co. (-97,535.00). So, Adani is given 1st rank and Reliance is given 2nd rank.
- For Financing activities, average of Reliance Co. (Rs. 34,111.00 crore) is greater than Adani Co. (Rs. -981.34 crore). So, Reliance is given 1st rank and Adani is given 2nd rank.

(2) Standard Deviation :

- Theoretically lower the Standard Deviation, higher the rank and vice versa.
- For Operating activities, standard deviation of Reliance Co. is 35,193.14 whereas for Adani Co. it is 1,010.48. It is lower in Adani Co. So, Adani is given 1st rank and Reliance Co. is given 2nd rank.
- For Investing activities, standard deviation of Reliance Co. is (29,956.18) is higher than Adani Co. (7,252.37). Accordingly, Adani is given 1st rank and Reliance is given 2nd rank.
- For Financing activities also, standard deviation of Reliance Co. is (44,724.34) is higher than Adani Co. (12,259.47). Therefore, Adani is given 1st rank and Reliance is given 2nd rank.

(3) Co – Efficient of Variation :

- Theoretically lower the Co-efficient of Variation, higher the rank and vice versa.

- For Operating activities, Co-efficient of Variation of for Adani Co. (35.58) is less than Reliance Co. (50.93). Accordingly, Adani is given 1st rank and Reliance is given 2nd rank.
- For Investing activities, co-efficient of variation of Adani Co. is (-107.89) is less than Reliance Co. (-30.71). Accordingly, Adani is given 1st rank and Reliance is given 2nd rank.
- For Financing activities also, co-efficient of variation of Adani Co. is (-1,249.26) is less than Reliance Co. (131.11). So, Adani is given 1st rank and Reliance is given 2nd rank.

V. OVERALL CONCLUSION

Level	Operating Activities	Investing Activities	Financing Activities
Best	Reliance	Adani	Adani
Poorest	Adani	Reliance	Reliance

Table-5: t-Test: Paired Two Sample for Means of Operating Activities

	Reliance	Adani
Mean	69104.2	2840.292
Variance	1238556795	1021060.947
Observations	5	5
Pearson Correlation	-0.963010586	
Hypothesized Mean Difference	0	
df	4	
t Stat	4.096815894	
P(T<=t) one-tail	0.007445892	
t Critical one-tail	2.131846782	
P(T<=t) two-tail	0.014891783	
t Critical two-tail	2.776445105	

Table-6: t-Test: Paired Two Sample for Means of Investing Activities

	Reliance	Adani
Mean	-97535	-6722.016
Variance	897372581	52596888
Observations	5	5
Pearson Correlation	0.33272064	
Hypothesized Mean Difference	0	
df	4	
t Stat	-7.1552877	
P(T<=t) one-tail	0.00100943	
t Critical one-tail	2.13184678	
P(T<=t) two-tail	0.00201886	
t Critical two-tail	2.77644511	

(3) For Financing activities also, calculated value of t for operating activities (1.79) is less than the table value (2.78), the hypothesis is accepted. It means that there is no significant difference between the means of financing activities of selected companies.

VII. LIMITATIONS OF THE STUDY

- (1) It is not possible to use other statistical tools and techniques as the information is collected from limited sources,
- (2) This study is based on secondary data and the secondary data has its own limitation.
- (3) This study is limited to two companies only. So, it cannot be applied to the whole industry.
- (4) Some external factors also could affect the efficiency of the company. But, these factors have not been taken into consideration.

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Table-7: t-Test: Paired Two Sample for Means of Financing Activities

	Reliance	Adani
Mean	34111	-981.336
Variance	2000266760	150294575
Observations	5	5
Pearson Correlation	0.20300567	
Hypothesized Mean Difference	0	
df	4	
t Stat	1.787103779	
P(T<=t) one-tail	0.074225259	
t Critical one-tail	2.131846782	
P(T<=t) two-tail	0.148450519	
t Critical two-tail	2.776445105	

Table-8: Hypothesis Testing

Activities	tc	tt	HYPOTHESIS ACCEPTED OR REJECTED
Operating	4.10	2.78	Rejected
Investing	-7.16	2.78	Accepted
Financing	1.79	2.78	Accepted

VI. HYPOTHESIS TESTING

(1) From the T-table, it is observed that the calculated value of t for operating activities (4.10) is greater than the table value (2.78), the hypothesis is rejected. It means that there is a significant difference between the means of operating activities of selected companies.

(2) For Investing activities, calculated value of t for operating activities (-7.16) is less than the table value (2.78), the hypothesis is accepted. It means that there is no significant difference between the means of investing activities of selected companies.