

to Miss Mahima is that Company Z's current position is good.

Case: A for Ace

An investor wants to invest in Company A based on his analysis of the balance sheet and the income statement. The details are given in Table 11.19 and Table 11.20.

Table 11.19 Balance sheet of Company A (2009)
(₹ in lakh)

Current assets	400
Fixed assets	1000
Total assets	1400
Current liabilities	200
Long-term liabilities (@ 9% interest)	600
Net worth	600
Total liabilities and net worth	1400

Table 11.20 Income statement of Company A

	2009	2008
	(₹ in lakh)	
Sales	1,920	1,740
Less: Cost of goods sold	1,200	1,000
Gross profit	720	740
Less: Operating expenses	640	600
EBIT	80	140

Assume that Company A pays ₹54 lakh per year as interest expense, is in the 30 per cent tax bracket and pays out 40 per cent of its after-tax earnings as cash dividends. Carry out the financial analysis and find out the answer for the following questions:

- (a) What is the reason for the fall in EBIT in 2009?
- (b) What is the rate of growth of earnings if the company does not raise capital externally?