

**FINANCIAL  
MANAGEMENT  
F-SWOT Analysis  
&  
Financial Analysis  
Techniques**

**Dr. Pratibha Jain**

*M.Com., M.B.A., Ph.D. (Commerce)*

Former Assistant Professor  
Sai Sinhgad Business School  
Dept. of Finance & Accounts  
Savitribai Phule University  
Pune, Maharashtra, INDIA

# **FINANCIAL MANAGEMENT : F-SWOT ANALYSIS & FINANCIAL ANALYSIS TECHNIQUES**

Copyright© : Dr. Pratibha Jain  
Publishing Rights© : VSRD Academic Publishing  
*A Division of Visual Soft India Pvt. Ltd.*

**ISBN-13: 978-93-91462-37-6**  
**FIRST EDITION, OCTOBER 2021, INDIA**

*Printed & Published by:*  
**VSRD Academic Publishing**  
*(A Division of Visual Soft India Pvt. Ltd.)*

**Disclaimer:** The author(s) are solely responsible for the contents compiled in this book. The publishers or its staff do not take any responsibility for the same in any manner. Errors, if any, are purely unintentional and readers are requested to communicate such errors to the Authors or Publishers to avoid discrepancies in future.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the Publishers & Author.

*Printed & Bound in India*

**VSRD ACADEMIC PUBLISHING**  
*A Division of Visual Soft India Pvt. Ltd.*

## **REGISTERED OFFICE**

154, Tezab mill Campus, Anwarganj, KANPUR–208003 (UP) (IN)  
Mb: 9899936803, Web: [www.vsrdpublishing.com](http://www.vsrdpublishing.com), Email: [vsrdpublishing@gmail.com](mailto:vsrdpublishing@gmail.com)

## **MARKETING OFFICE**

340, FF, Adarsh Nagar, Oshiwara, Andheri(W), MUMBAI–400053 (MH) (IN)  
Mb: 9956127040, Web: [www.vsrdpublishing.com](http://www.vsrdpublishing.com), Email: [vsrdpublishing@gmail.com](mailto:vsrdpublishing@gmail.com)

## **P R E F A C E**

Financial Management plays one of the most crucial roles that can assist the firm in achieving its goal. Ultimately, finance is the lifeblood of any company. Students should understand that financial management ideas and practices apply to all types of businesses, from the largest multinational corporations to the tiniest sole proprietorships, including families. Recent financial affairs have highlighted the need of comprehending financial decision-making, investment decision-making, dividend policy decision-making, and financial and investment management techniques. We present an introduction to these concepts in the field of finance in this book.

The modern corporate environment is extremely complex and intricate. The most efficient use of a company's resources is essential to its success. This entails assessing the company's strengths and weaknesses in light of environmental threats and opportunities, as well as adopting necessary actions to capitalise on opportunities or combat threats, and formulating strategies as a result. The "Financial SWOT Analysis" provides an overall assessment of the firm's financial health and identifies long-term goals.

The book is principally envisioned for undergraduate and postgraduate students enrolled in B. Com., M. Com., B.B.A., M.B.A., and other professional courses at various universities. It is intended that the book will serve as a guide covering several illustrations with interpretations, for everyone interested in financial management of any kind. In the learners' market, there are a number of books on the subject of financial management, but they do not match the needs of students studying financial management in terms of financial SWOT analysis and financial analysis techniques. In order to meet the special needs of readers and practitioners of this field, this book takes a modern and innovative approach to the study of financial management.

In terms of organization, the book is divided into ten chapters that are well-organized. The First Chapter introduces the concept and significance of the F-SWOT analysis, in which S represents financial strength, W financial weakness, O financial opportunity, and T represents financial threat. The Second Chapter describes the F-SWOT study as well as the firm's growth, including the sustainable growth rate. The tools and techniques for assessing financial statements using financial SWOT analysis are covered in the next eight chapters. Chapter Three dwells on various financial ratios highlighting their uses and computations. Chapter Four presents trend and common-size statement analysis which indicates direction of change of financial data over a period of time. Chapter Five describes the need for working capital and its computation for continuous operations of business. Chapter Six provides information that any company's financial status can be better understood with the use of a cash flow statement and a fund flow statement. Capital budgeting analysis techniques have been lucidly described in Chapter Seven. In Chapter Eight, cost of various components of capital have been explained and illustrated. In Chapter Nine, leverage and EBIT-EPS analysis demonstrates the level of risk involved in capital structure of a company. Chapter Ten has been exclusively devoted to dividend policy analysis using different ratios and models.

All of the topics covered in the book are presented in simple and lucid language. I made every effort to ensure that the text was free of errors. Nonetheless, I do not rule out the chance that there are still some flaws or misprints. I will be grateful if the reader can point out such errors from time to time.

I shall feel amply rewarded, if the book proves to be useful in the development of legitimate financial management research. Any constructive criticism or useful recommendations from all readers, particularly from experienced scholars and professors, will be sincerely welcomed and greatly appreciated in order to improve the subject content and presentation of this work.

***Dr. Pratibha Jain***

## **A C K N O W L E D G E M E N T**

Writing a book is both more difficult and more enjoyable than I had anticipated. First and foremost, I want to express my gratitude to my spouse Pankaj Jain and my daughter Manasi Jain for supporting me in my pursuit of dream of writing and publishing a book. I owe a great debt of gratitude to Dr. R.L. Tamboli, who mentored me throughout my Ph.D. study. His teachings have proven to be quite beneficial in the writing of this book.

I would like to express my gratitude to the senior faculty members from various colleges and management institutes who guided and encouraged me to write this book. I am also grateful to all of the people whose literatures and works aided me in this writing. I am indebted to the reviewer of this book's manuscript, who provided highly helpful ideas and so helped to improve the book's quality.

I must concede that I could not have written this book without the support, encouragement, and inspiration of my family and elders. For their blessings and well wishes, I owe a great deal to my elders, especially my parents, Mr. Ashok and Mrs. Asha Kothari, in-laws, Late Shri Manak Lal and Smt. Maya Devi Jain, and all other family members. I am also grateful to my son Devaggya Jaiin, who made significant emotional and social sacrifices for this effort. Aside from that, I would want to thank my friend Dr. Megha Mehta for her help with my work.

Finally, I would like to express my gratitude to the entire publishing team of VSRD Academic Publishing for ensuring that the work was typeset correctly and attractively.



# **C O N T E N T S**

## **PART 1 : FINANCIAL SWOT ANALYSIS**

### **CHAPTER-1** **1 - 8** **CONCEPT AND SIGNIFICANCE OF F-SWOT ANALYSIS**

- 1.0 INTRODUCTION *1*
- 1.1 CONCEPT OF F-SWOT ANALYSIS *1*
  - 1.1.1 Meaning of Financial SWOT Analysis *2*
  - 1.1.2 When to Use Financial SWOT Analysis *5*
  - 1.1.3 Process of Financial SWOT Analysis *5*
  - 1.1.4 Objectives of F-SWOT Analysis *7*
  - 1.1.5 Rules of Financial SWOT Analysis *7*
- 1.2 SIGNIFICANCE OF F-SWOT ANALYSIS *7*

QUESTIONS *8*

### **CHAPTER-2** **9-17** **F-SWOT ANALYSIS AND GROWTH OF THE FIRM**

- 2.0 INTRODUCTION *9*
  - 2.1 FINANCIAL SWOT MATRIX: AN INTERCHANGING PHENOMENA OF THE F-SWOT ANALYSIS *9*
  - 2.2 INTER-FIRM AND INTRA-FIRM COMPARISON *11*
  - 2.3 SUSTAINABLE GROWTH RATE *12*
- QUESTIONS *17*

## **PART 2 : TOOLS AND TECHNIQUES** **19**

### **CHAPTER-3** **21-60** **FINANCIAL RATIO ANALYSIS**

- 3.0 INTRODUCTION *21*
- 3.1 CONCEPT OF RATIO ANALYSIS *21*
  - 3.1.1 Types of Ratios *22*
    - 3.1.1.1 Short-term Solvency or Liquidity Ratios *23*
    - 3.1.1.2 Long-term Solvency Ratios *27*
    - 3.1.1.3 Profitability Ratios *35*

3.1.1.4 Activity Ratios	49
3.2 APPLICATIONS OR USES OF RATIO ANALYSIS	59
QUESTIONS	60
<b>CHAPTER-4</b>	<b>63-81</b>
<b>TREND AND COMMON-SIZE STATEMENT ANALYSIS</b>	
4.0 INTRODUCTION	63
4.1 TREND ANALYSIS	63
4.1.1 Types of Trends	64
4.1.2 Computation of Trend	65
4.1.3 Importance of Trend Analysis	72
4.2 COMMON-SIZE STATEMENT ANALYSIS	73
4.2.1 Types of Common-size Statement Analysis	73
4.2.2 Other Types of Common-size Statement Analysis	75
4.2.3 Importance of Common-size Statement Analysis	80
4.2.4 Difference between common-size and comparative financial statement analysis	81
QUESTIONS	81
<b>CHAPTER-5</b>	<b>83-105</b>
<b>WORKING CAPITAL ANALYSIS</b>	
5.0 INTRODUCTION	83
5.1 COMPONENTS OF WORKING CAPITAL	84
5.2 TYPES OF WORKING CAPITAL	84
5.2.1 Balance Sheet Perspective of Working Capital	84
5.2.2 Operating Cycle Perspective of Working Capital	85
5.3 CALCULATION OF WORKING CAPITAL	86
5.3.1 Applying Current Ratio Formula	86
5.3.2 Applying Working Capital Formula	88
5.3.2 Using Operating Cycle Concept	89
5.3.4 Calculating Length of Working Capital Cycle	97
5.4 APPROACHES OF WORKING CAPITAL	101
5.4.1 Matching Approach	101
5.4.2 Conservative approach	102
5.4.3 Aggressive Approach	103
5.5 WORKING CAPITAL MANAGEMENT	104
QUESTIONS	105

**CHAPTER-6** **107-131**  
**FUND FLOW AND CASH FLOW ANALYSIS**

6.0 INTRODUCTION	107
6.1 FUND FLOW ANALYSIS	107
6.1.1 Objectives of Fund Flow Statement	108
6.1.2 Importance or Benefits of Fund Flow Statement	109
6.1.3 Preparation of Fund Flow Statement	109
6.2 CASH FLOW ANALYSIS	119
6.2.1 Cash Flow Statement Components	119
6.2.2 General Format of Cash Flow Statement	120
6.2.3 Methods of Preparation of Cashflow Statement	121
6.2.3.1 Direct Method of Cash Flow Statement	122
6.2.3.2 Indirect Method of Cash Flow Statement	122
6.2.4 Difference between Direct and Indirect Method of Cash Flow Statement	128
6.2.5 Uses of Cash Flow Statement	129
6.3 DIFFERENCE BETWEEN FUND FLOW STATEMENT AND CASH FLOW STATEMENT	130
QUESTIONS	131

**CHAPTER-7** **134-163**  
**CAPITAL BUDGETING ANALYSIS**

7.0 INTRODUCTION	134
7.1 CONCEPT OF CAPITAL DUDGETING	134
7.1.1 Characteristics of Capital Budgeting	135
7.1.2 Process of Capital Budgeting	135
7.1.3 Capital Budgeting Decisions	136
7.2 METHODS OF CAPITAL BUDGETING	137
7.2.1 Traditional or Non-discounted Cash Flow Method	137
7.2.2 Discounted Cash Flow Method	144
7.2.2.1 Discounted Cash Flow Formula	144
7.2.2.2 Uses of the Discounted Cash Flow Method	146
7.2.2.3 Types of Discounted Cash Flow Method	147
7.3 SIGNIFICANCE OF CAPITAL BUDGETING	162
QUESTIONS	163

## **CHAPTER-8**

**166-193**

### **COST OF CAPITAL ANALYSIS**

- 8.0 INTRODUCTION 166
  - 8.1 CONCEPT OF COST OF CAPITAL 167
    - 8.1.1 Factors that Influence the Cost of Capital 167
    - 8.1.2 Components of Cost of Capital 168
  - 8.2 METHODS OF CALCULATION OF COST OF CAPITAL 168
    - 8.2.1 Calculation of Specific Cost of Capital 168
      - 8.2.1.1 Cost of Debt 169
      - 8.2.1.2 Cost of Preference Capital 176
      - 8.2.1.3 Cost of Equity Capital 180
      - 8.2.1.4 Cost of Retained Earnings 185
    - 8.2.2 Computation of Weighted Average Cost of Capital (WACC) 189
  - 8.3 IMPORTANCE OF COST OF CAPITAL 192
- QUESTIONS 193

## **CHAPTER-9**

**195-222**

### **LEVERAGE AND EBIT-EPS ANALYSIS**

- 9.0 INTRODUCTION 195
  - 9.1 LEVERAGE 195
    - 9.1.1 Types of Leverage 196
      - 9.1.1.1 Operating Leverage 196
      - 9.1.1.2 Financial Leverage 202
      - 9.1.1.3 Combined Leverage 208
    - 9.1.2 Significance of Leverage 214
  - 9.2 EBIT-EPS ANALYSIS 215
    - 9.2.1 EBIT-EPS Indifference Point 216
    - 9.2.2 EBIT-EPS Analysis Graph 217
    - 9.2.3 Advantages and Disadvantages of EBIT-EPS Analysis 221
- QUESTIONS 222

**CHAPTER-10****DIVIDEND POLICY ANALYSIS**

10.0 INTRODUCTION	225
10.1 DEFINITION OF 'DIVIDEND'	225
10.2 TYPES OF DIVIDENDS	226
10.3 DIVIDEND POLICY	227
10.3.1 Types of Dividend Policies	228
10.3.2 Dividend Policy Ratios	229
10.3.2.1 Dividend Pay-out Ratio (DPR)	229
10.3.2.2 Dividend Coverage Ratio (DCR)	234
10.3.2.3 Dividend Yield	236
10.3.2.4 Price to Earnings Ratio (P/E Ratio)	239
10.4 DIVIDEND MODELS	240
10.4.1 Dividend Relevance Theory	241
10.4.1.1 Walter's Model	242
10.4.1.2 Gordon's Model	243
10.4.2 Dividend Irrelevance Theory	244
10.4.2.1 Miller and Modigliani Hypothesis or MM Approach	245
QUESTIONS	246

