DEEP DIVE

How to read profit & loss statements?

Let's learn from a hypothetical example of a company that sells cars.

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Revenue

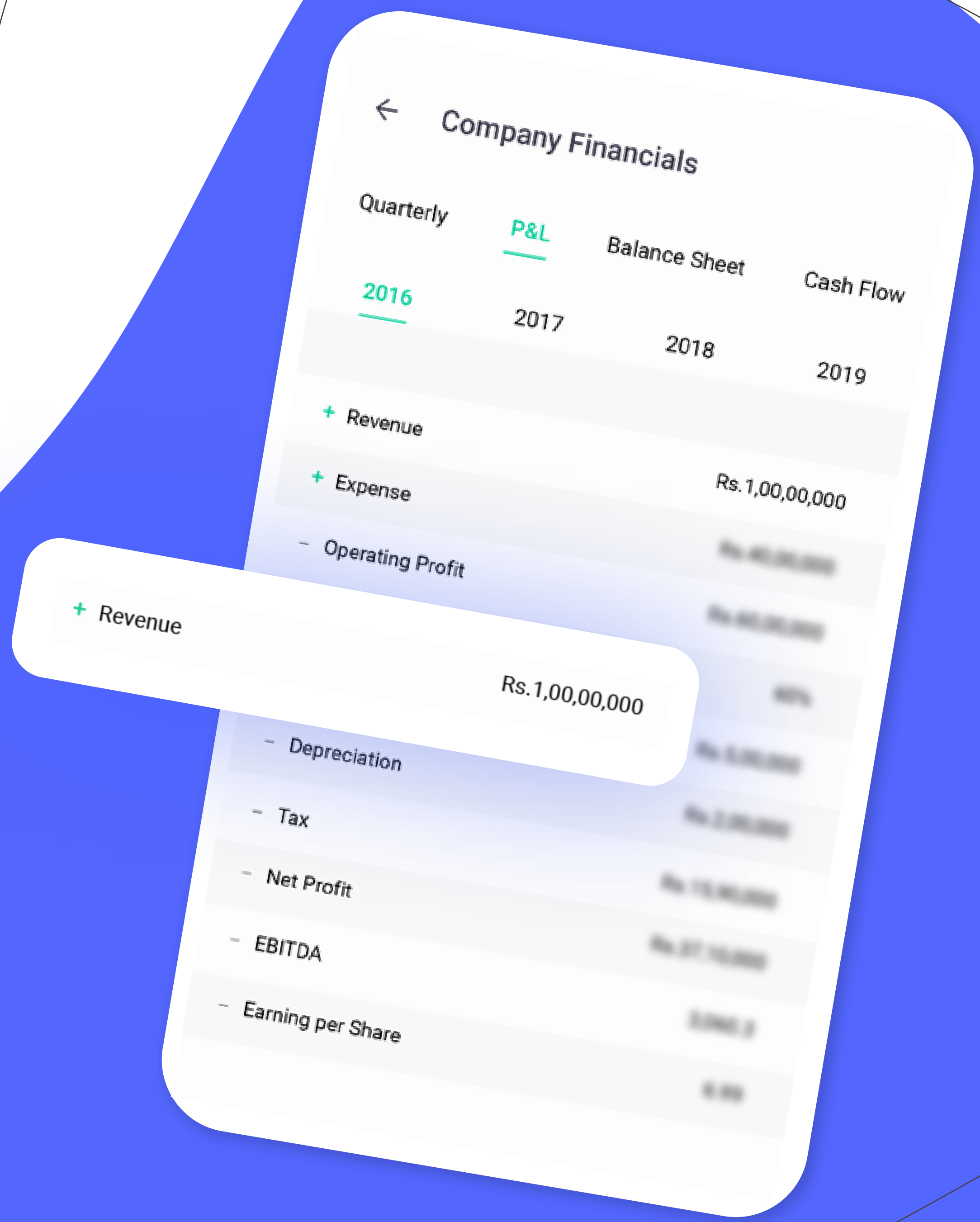
1

The total amount of sales made by a company during a given quarter/year.

EXAMPLE

No. of cars sold = 100
Price of each car = Rs.1,00,000

Revenue = Rs.1,00,00,000



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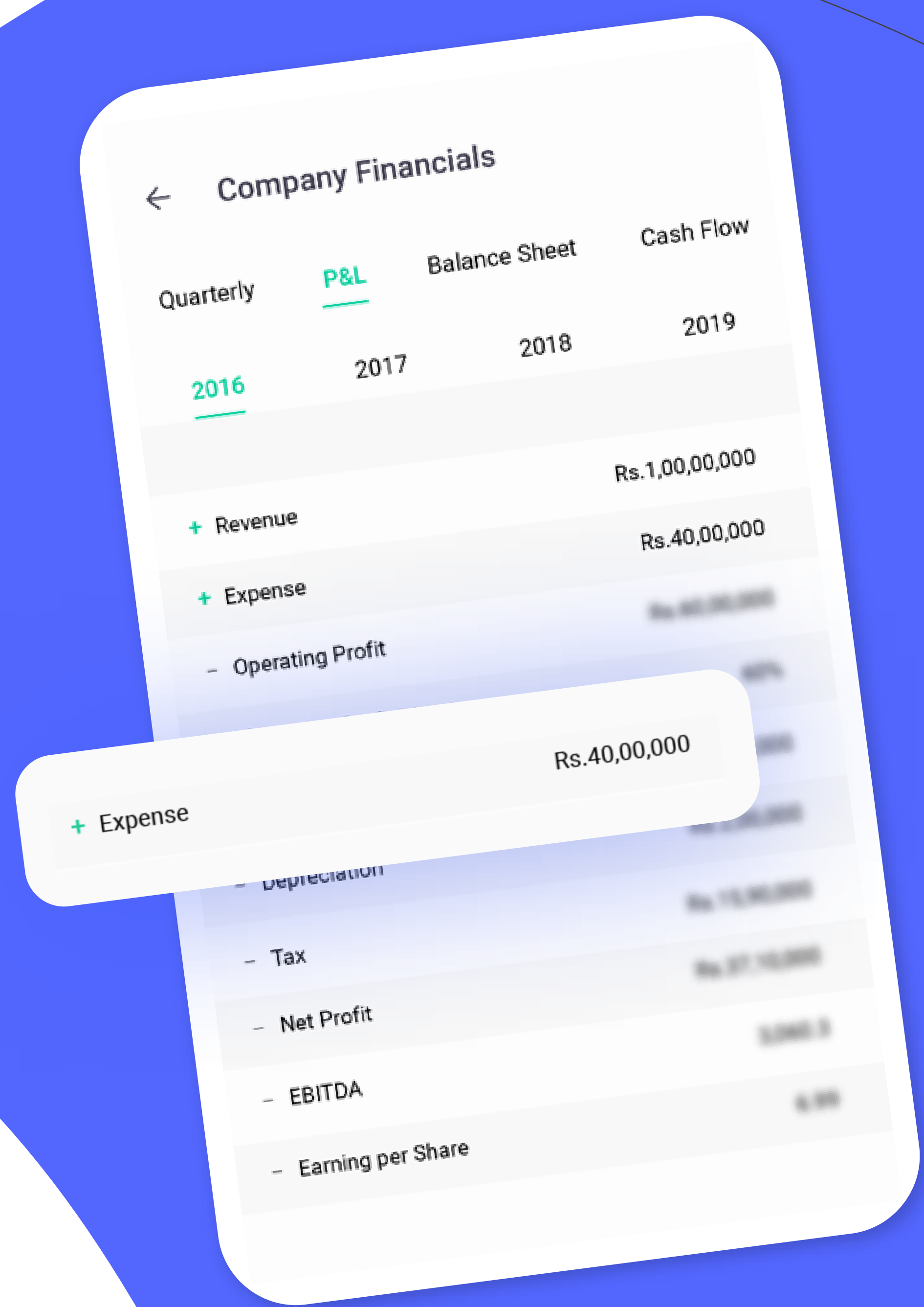
2 Expenses

How much the company spent for producing the goods (manufacturing, transport, human resources, rent) that were sold in that quarter/year.

EXAMPLE

No. of cars sold = 100
Price of producing 100 cars i.e.

Expenses = Rs.40,00,000



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3

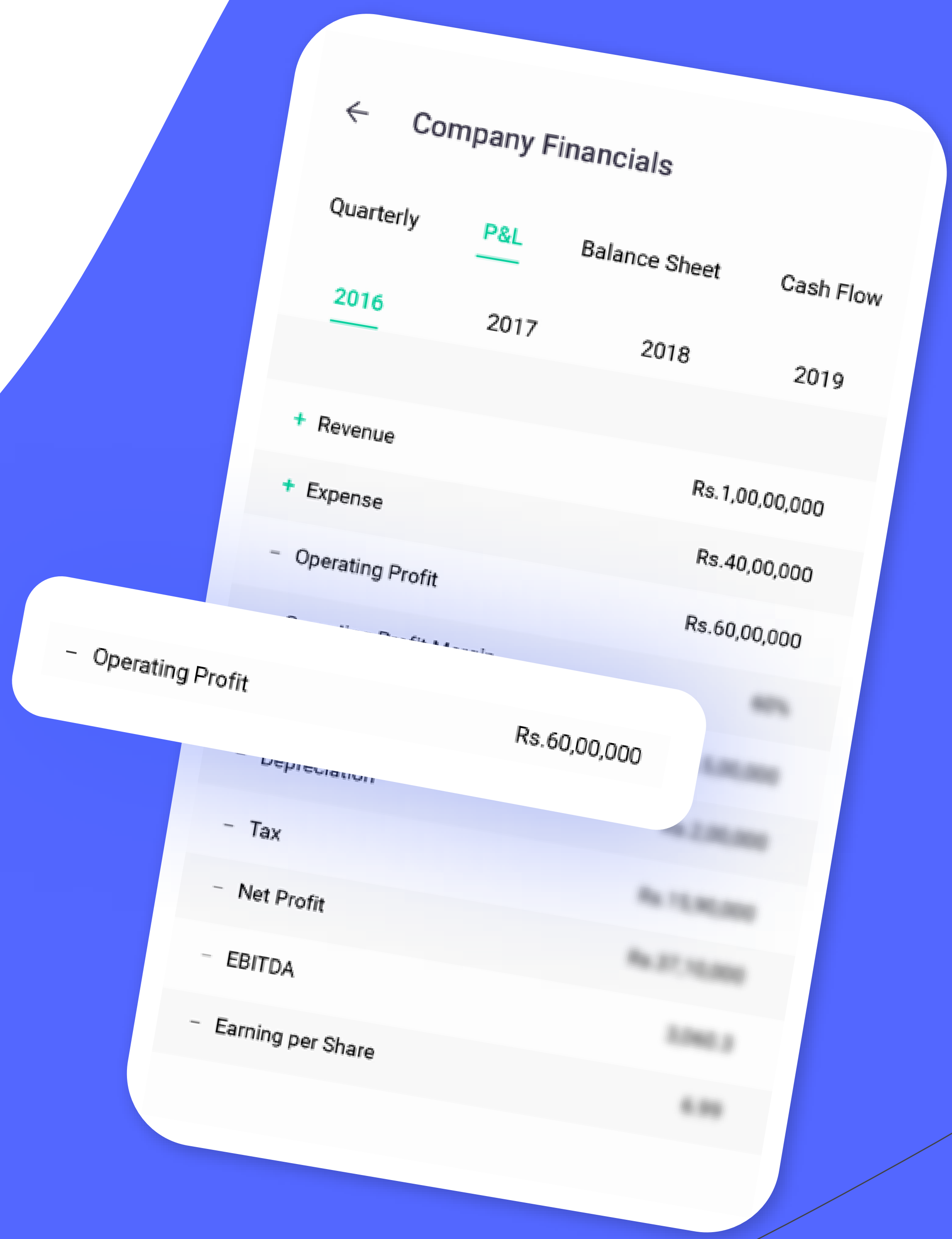
Operating profit

The amount you get after deducting the expenses (used only for the company's operations) from the revenue in that quarter/year.

EXAMPLE

No. of cars sold = 100
Revenue = Rs.1,00,00,000
Expenses = Rs.40,00,000

Operating profit = Rs.60,00,000



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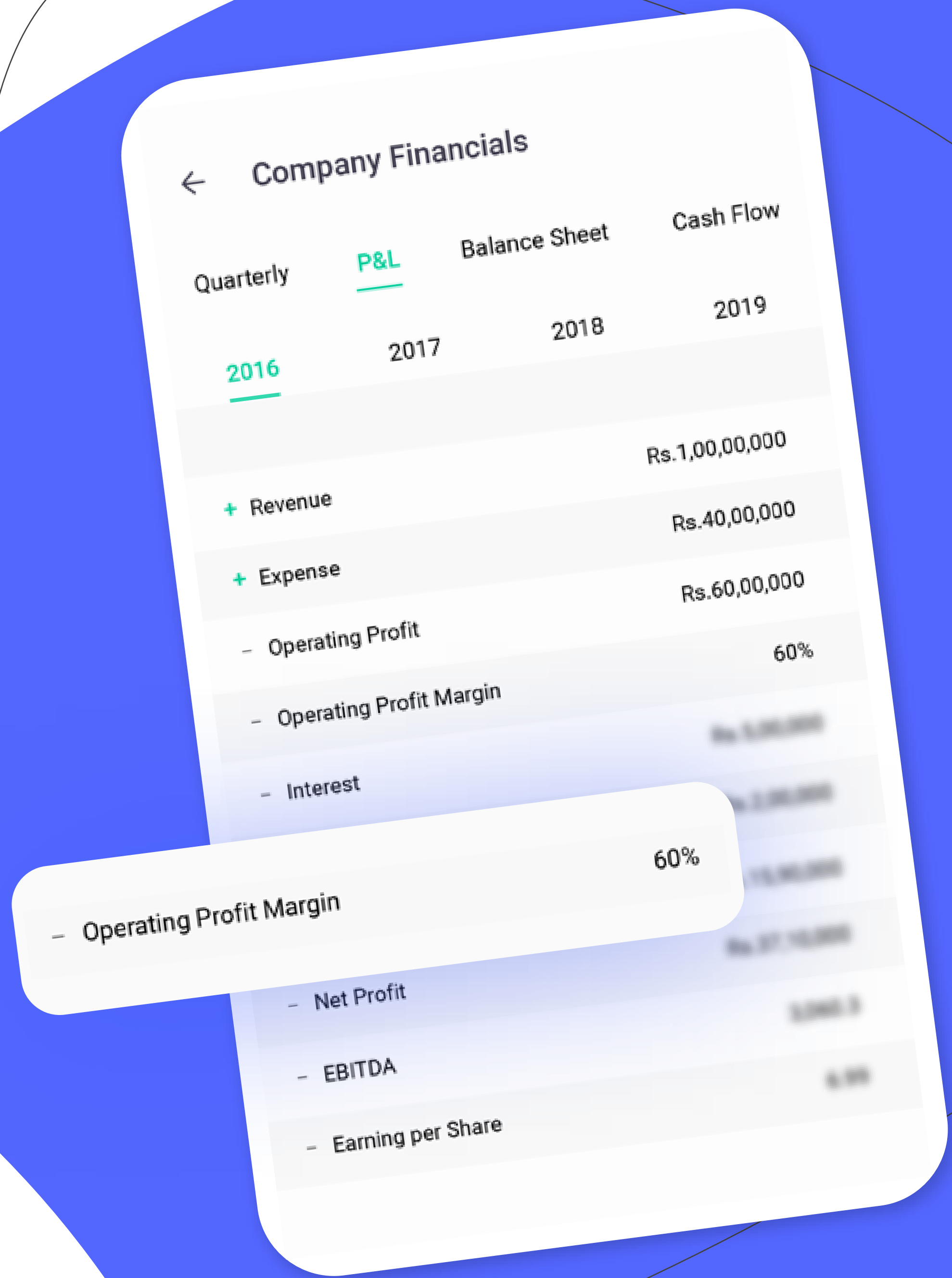
Operating profit margin

Compare this margin with its previous quarter/year to understand how well the company has been using its resources to generate profits



EXAMPLE

No. of cars sold = 100
Revenue = Rs.1,00,00,000
Expenses = Rs.40,00,000
Operating profit = Rs.60,00,000

Operating profit margin
= (Operating profit/Revenue) x 100
= 60%

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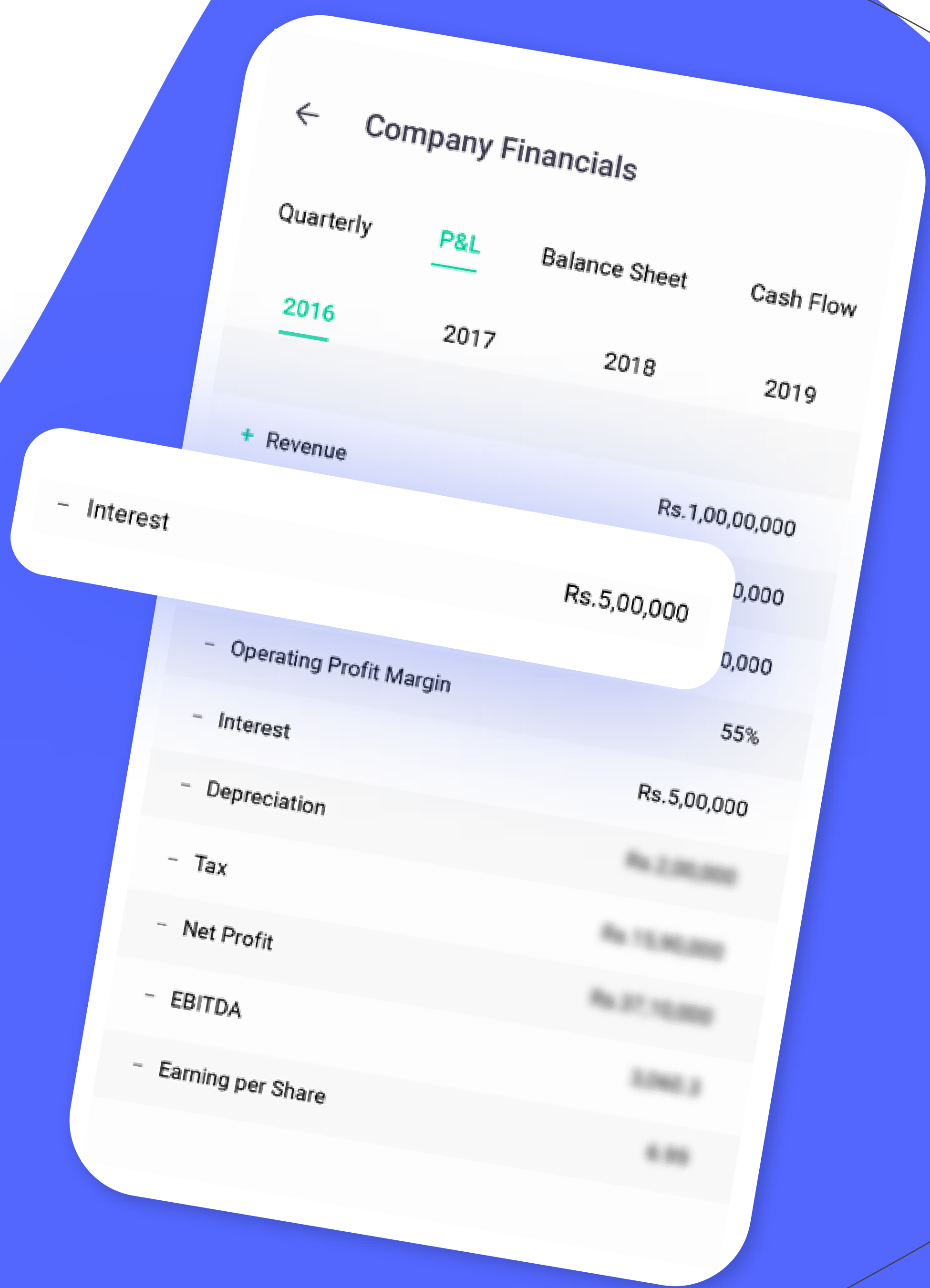
5 Interest

If a company has taken debt, assess the interest section. Compare with the previous quarter/year to check if it has increased or decreased. Higher the interest, higher the debt— impacting its profits.



EXAMPLE

Loan taken by the company = Rs.50,00,000
Rate of interest = 10%

Interest = Rs.5,00,000

Operating profit becomes = Rs.55,00,000

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6

Depreciation

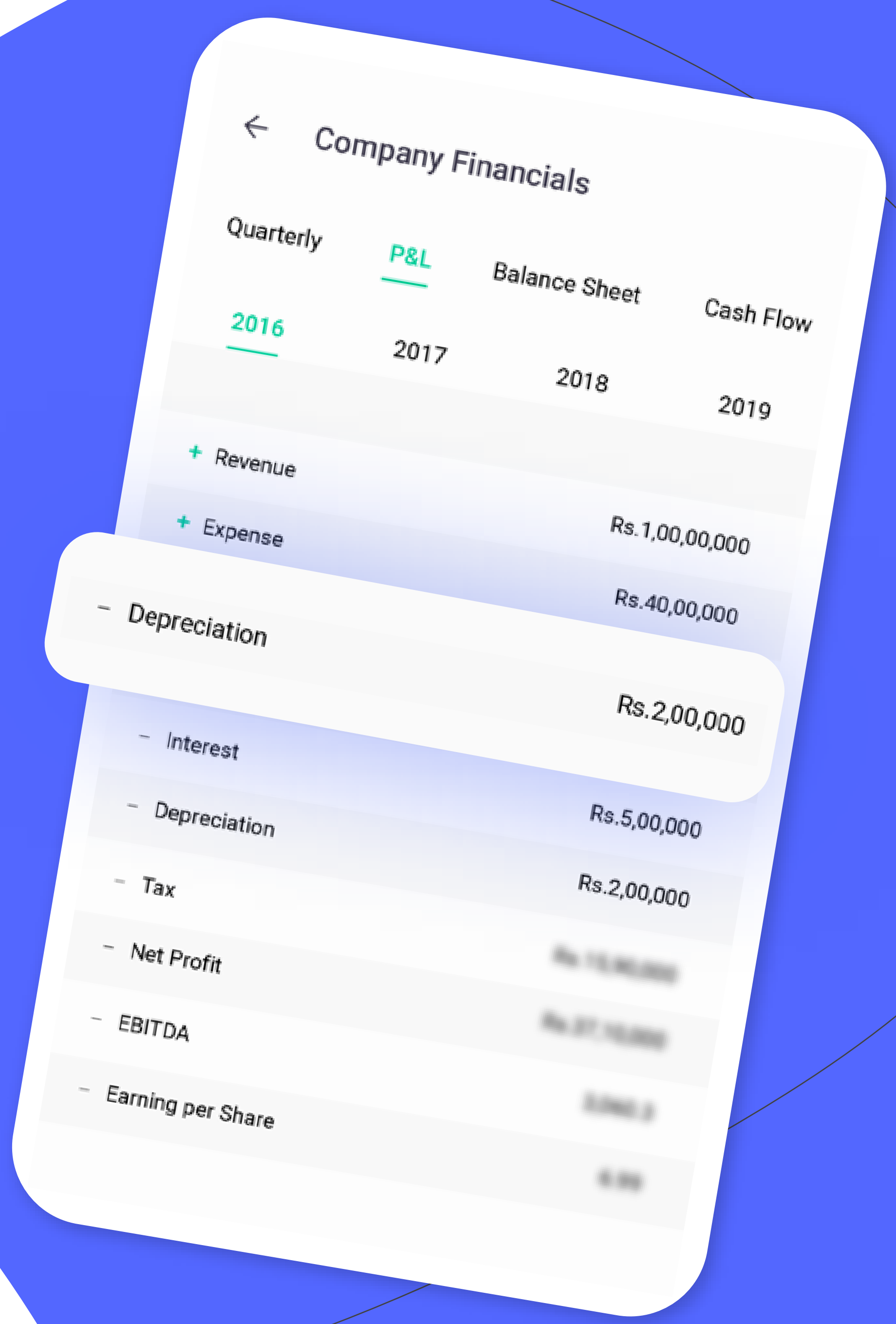
This is the non-cash expense that means reduction in the value of a company asset over time.

EXAMPLE

The company buys a car manufacturing machine
Price of the machine = 20,00,000
Lifespan = 10 years
Depreciation per year = 10%

Depreciation per year = Rs.2,00,000

Operating profit becomes = Rs.53,00,000



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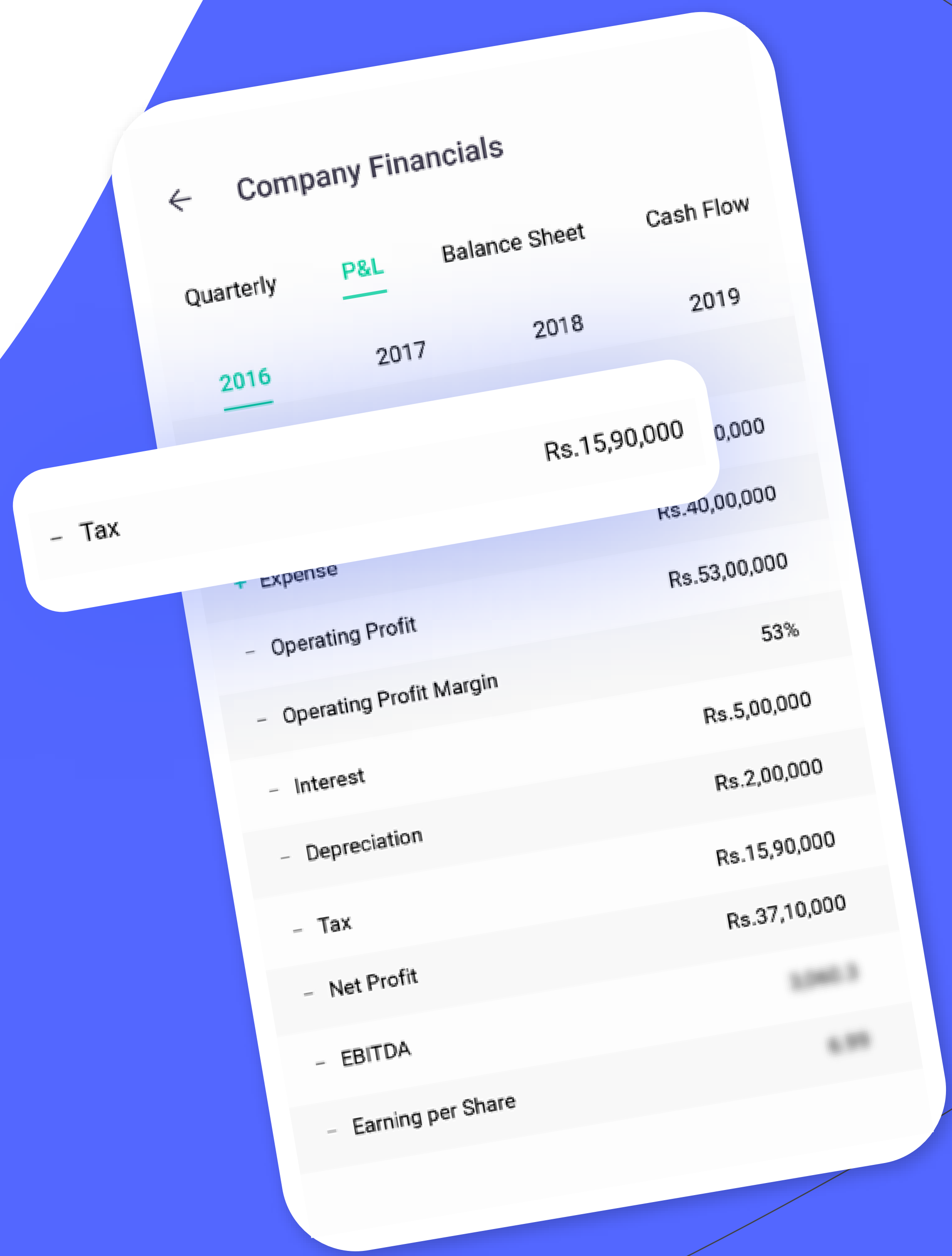
Tax

This is the amount of income tax payable by the company on its earnings.

EXAMPLE

Operating profit = Rs.53,00,000
Tax rate = 30%
Tax liability = 30% x Rs.53,00,000
= Rs.15,90,000

Net profit = Operating profit - Tax liability
= Rs.37,10,000



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