

# How to Read a Balance Sheet

Like a Business Owner, Not a Trader.





# Disclaimer

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This report is prepared strictly for educational purposes. It does not constitute investment advice or stock recommendations. The author is not a SEBI-registered Research Analyst. Investors should conduct independent due diligence before making financial decisions.



# The Investor's Blind Spot

## The Wrong Approach (Most Investors)

- Focus on Revenue Growth
- Focus on Profit Growth
- Focus on P/E Ratio
- Focus on Share Price

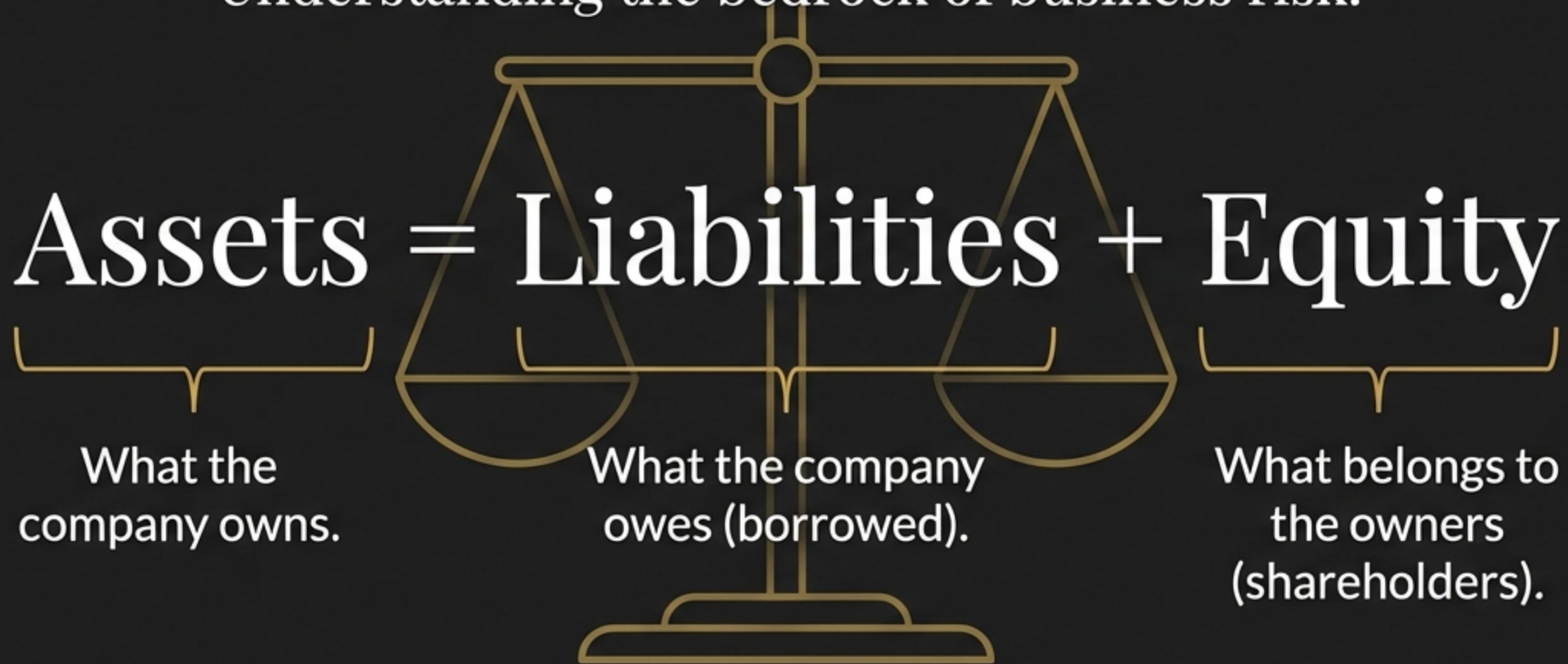
## The Business Owner's Approach (Correct)

- ✓ Focus on Survival Strength
- ✓ Focus on Debt Management
- ✓ Focus on Real vs. Accounting Profit
- ✓ Focus on Capital Efficiency

A Balance Sheet tells you how strong the company is internally.

# The Fundamental Equation

Understanding the bedrock of business risk.



*If you understand this equation deeply, you understand business risk.*



# Assets: Quality Matters More Than Size

## Part 1: Current Assets (Cash, Inventory, Receivables)

### Business Owner Audit

- Are receivables rising faster than sales?
- Is inventory getting stuck?
- Is the cash position stable?

### FinReason Insight Box

If Receivables increase faster than Revenue, cash may be stuck. Profit might not be fully real. If sales are rising but money isn't coming in, profit exists only on paper.



# Fixed Assets & Productivity

Part 2: Plant, Machinery, Property, Equipment

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## Critical Questions

- Are these assets generating a sufficient return?
- Is expansion funded by debt or sustainable means?
- Is asset growth productive?



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**Size is irrelevant. Productivity is everything.**



# Liabilities: The Hidden Risk Layer

Distinguishing between leverage and burden.

## Debt Analysis Framework

- **Debt-to-Equity Ratio:** Balance between borrowed funds and owner funds.
- **Interest Coverage Ratio:** Ability to pay interest from current profits.
- **3-Year Trend:** Is the company deleveraging or sinking deeper?

### FinReason Insight Box

Debt is not inherently dangerous. Unproductive debt is dangerous.

- If borrowing increases earnings → Good Sign.
- If borrowing only increases expenses → Danger.

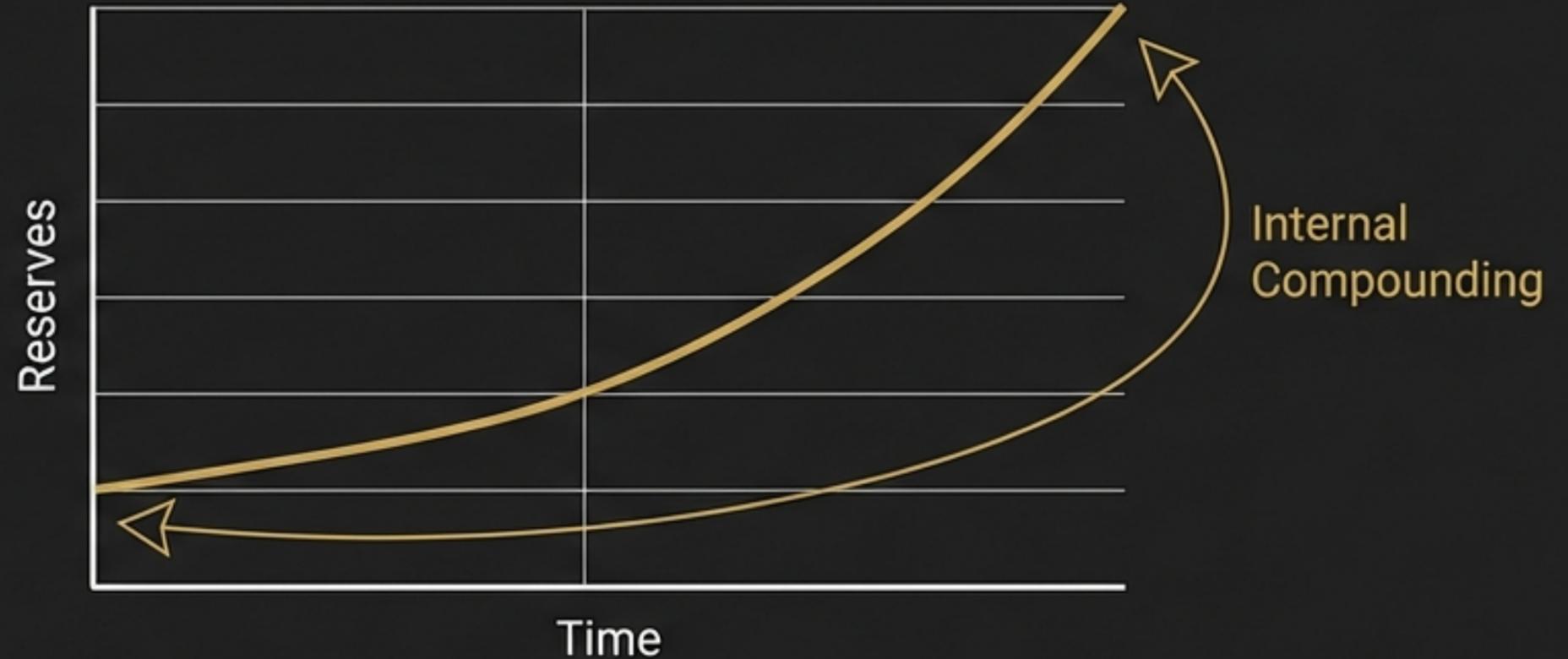


# Shareholder Equity: The Engine of Ownership

Share Capital

Reserves

Retained Earnings



Rising reserves mean the company is plowing earnings back into the business—the hallmark of a healthy, compounding entity.



# The FinReason 5-Step Balance Sheet Framework™



# Case Study: Yashtej Industries (India) Ltd

## Financial Snapshot (₹ Crore)

Year	Revenue	PAT	Net Worth	Borrowing
FY23	12.00	(0.58)	(0.48)	—
FY24	59.25	1.13	8.05	33.91
FY25	324.96	11.57	19.62	43.85

# Analyzing the Case

## Liquidity

Revenue grew significantly (12cr to 324cr), but rapid growth demands disciplined working capital management.

## Leverage

Pre-IPO Debt/Equity: 2.23

Post-IPO Debt/Equity: 0.40



Insight: The IPO fixed the capital structure.

## Equity Strength

Net worth improved sharply. Post-IPO ROE normalized around 10–12%.

## Risk Flags

- ⚠️ Commodity price volatility.
- ⊖ Manufacturing execution risk.

# Critical Lessons from the Case

1

**Growth % can be misleading.** When the base is small, percentages look huge.

2

**Dilution Matters.** Always check ratios post-dilution (after the IPO).

3

**Sector Specifics.** Manufacturing businesses require much stronger balance sheets than service businesses.

4

**The IPO Effect.** IPO capital can temporarily 'mask' weak ratios or artificially improve them.

*Don't invest on growth alone. Decisions are incomplete without understanding the Balance Sheet structure.*

# The Final Business Owner Model

## The Ultimate Stress Test



Traders look at price. Business owners look at survival strength.

# FinReason Research Fellowship

Advanced Structured Company Evaluation

- Live Case Breakdowns
- Forensic Balance Sheet Sessions
- Valuation Workshops
- Risk Intelligence Training

