

## The TASH Investment Conundrum: A Cash Flow Analysis Approach

---

*Academic Research and Knowledge Centre of AAE wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

*This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Financial Skills Hub, Association for Academic Excellence; [www.aeindia.org](http://www.aeindia.org). Our goal is to publish materials of the highest quality; submit any errata to [subroto.nits@gmail.com](mailto:subroto.nits@gmail.com).*

---

Copyright © 2024, Financial Skills Hub, Association for Academic Excellence

Version: 2024-04-18

---

John Malhotra, a sharp investment advisor with a mane of salt-and-pepper hair, straightened his tie as he entered the opulent conference hall. The air buzzed with the pre-seminar chatter of fellow advisors, all eager to glean insights on the ever-volatile Indian stock market.

"The markets are a wild stallion, my friend," boomed a voice beside John. It was Rajeev, a seasoned investor with a reputation for calculated risks. "One minute they're galloping ahead, the next they're bucking you off!"

John chuckled. "True, Rajeev. But the news reports are promising. 'Robust growth,' they say, 'investment haven'!"

Rajeev's eyebrows shot up. "Opportunity lurks within volatility, John. But to seize it, we need the right horses in our stable – the strong, the steady ones."

The seminar commenced, the speaker, a renowned market analyst, painting a vivid picture. "The Indian market is on an upswing, gentlemen! But remember, this isn't a guaranteed derby. Careful stock selection is paramount!"

John scribbled furiously in his notebook. 'Selection... how?' a nagging question echoed in his mind.

Back to his firm the following day John eyed his colleagues, Sarah, the meticulous analyst, and Michael, the intuitive risk assessor.

"The seminar was electric," John began. "But I'm grappling with how to advise our clients on stock picking. Ratio analysis seems like a good starting point, but is it enough?"

Sarah, fingers poised over her keyboard, chimed in, "Ratios are our bread and butter, John. P/E, Debt-to-Equity – they reveal a company's financial health, its potential for growth."

Michael, leaning back in his chair, countered, "Ratios are a snapshot, Sarah. What about past performance? Shouldn't we analyze the last five years, given the market's current trajectory?"

John nodded thoughtfully. "The 2019-2023 period does offer valuable insights, Michael. But wouldn't a longer timeframe give us a better sense of a company's resilience?"

#### **The Strategic Manoeuvres:**

A lively discussion ensued. Sarah argued for the efficacy of ratio analysis, emphasizing its ability to identify undervalued gems. Michael countered by advocating for a broader approach, including qualitative factors like management strength and industry trends. John, the voice of reason, proposed a balanced strategy – a blend of ratios, growth metrics, and a longer historical analysis (perhaps 10 years) to account for market cycles.

#### **Calming Client Jitters:**

The next day, John met with his client, Mrs. Kapoor, a retired teacher with a cautious investment approach.

"The markets seem frightening, John," Mrs. Kapoor confessed. "But I also want to grow my savings."

John smiled reassuringly. "We understand your concerns, Mrs. Kapoor. That's why we carefully analyze stocks before recommending them. We look at a company's financial health, its growth potential, and how it has weathered past storms."

Mrs. Kapoor's brow furrowed slightly. "Past storms, you say?"

John elaborated on his new multi-faceted approach, the blend of ratios, growth metrics, and a longer historical analysis. Relief washed over Mrs. Kapoor's face.

"That sounds thorough, John. It puts my mind at ease knowing you're not just chasing the latest fad."

#### **The Race for Returns:**

John left the meeting with a renewed sense of purpose. The market might be a maze, but with careful analysis, calculated risks, and a team of skilled advisors by his side, he was confident he could navigate it and help his clients achieve their financial goals. The race for returns was on, and John Malhotra was ready to win.

#### **Selecting Winning Stocks:**

The seminar highlighted the importance of identifying the right stocks to capitalize on the Indian market's growth. John acknowledges that simply riding the market wave may not be the most prudent approach. He needs a reliable method to select individual stocks with strong fundamentals and growth potential.

## Financial Analysis Methods:

John ponders the best financial analysis methods to achieve his goal. Two key approaches come to mind:

- **Ratio Analysis:** This involves analyzing various financial ratios like P/E (Price-to-earnings), P/B (Price-to-book), and debt-to-equity ratios to assess a company's profitability, valuation, and financial health. While valuable, John considers if ratio analysis alone offers a complete picture.
- **Time Period Analysis:** John contemplates the optimal timeframe for analyzing a company's financial performance. The recent bullish trend suggests focusing on the last 5 years (2019-2023) might be beneficial. However, he questions if this captures the entire story. Analyzing a longer period could provide valuable insights into a company's resilience during market downturns.

## The Path Forward:

John recognizes the need for a multi-faceted approach. He might consider:

- **Combining Ratio Analysis with Growth Metrics:** Analyzing ratios alongside growth metrics like revenue and earnings growth rate can offer a more comprehensive view of a company's potential.
- **Incorporating Qualitative Factors:** Financial health is just one piece of the puzzle. John might consider factors like the company's management, industry outlook, and competitive landscape to get a holistic understanding.
- **Expanding Timeframe Analysis:** While recent performance is important, analyzing a longer timeframe (perhaps 10 years) can reveal a company's ability to weather market cycles.

By carefully considering these factors, John can develop a robust stock selection strategy that balances risk and reward, ultimately helping his clients navigate the dynamic Indian market and achieve their investment goals. John anticipated a barrage of questions from his clients seeking reassurance before entrusting their money to TASH stocks:

1. How did the quality of earnings for these 4 companies fare over the past five years (2019-2023)? Were profits sustainable or inflated?
2. Did a consistent pattern emerge? Did operating cash flow surpass net income, indicating healthy operations?
3. What narrative did the cash flow trends over 5 years reveal for these companies? Were there signs of strong or weak cash flow generation across operating, investing, and financing activities? How did these activities interlink?
4. How did the cash flow health of these companies translate to potential returns for equity investors?
5. Did these companies generate substantial free cash flow, the lifeblood of sustainable growth?

### Seeking Answers for Informed Decisions

By meticulously addressing these questions through a comprehensive cash flow analysis, John aimed to equip himself with the knowledge and confidence to guide his clients towards sound investment decisions. Only then could he determine if TASH stocks (domestic stocks in this context) were a viable path to portfolio diversification and achieving their desired financial goals.



## The Malhotra Financial Group: Stewards of Your Wealth

John Malhotra wasn't just any investment advisor; he was the captain of a trusted vessel navigating the often-turbulent waters of the financial world. His firm, the Malhotra Financial Group (MFG), had carved a niche for itself in the bustling financial district of Mumbai. MFG offered a comprehensive suite of services to cater to a diverse clientele. From crafting personalized investment portfolios for individuals like Mrs. Kapoor to managing complex investment strategies for high-net-worth individuals and businesses, MFG's team of seasoned analysts and advisors provided a holistic approach to wealth management. Over the years, MFG had built an enviable reputation, attracting a prestigious clientele. Industrialist Mr. Desai, renowned architect Ms. Chatterjee, and even Bollywood superstar Mr. Khan all entrusted their financial well-being to John's expertise.

## The MFG Advantage: A Meticulous Process

John believed in a structured approach to investment advice. Here's a glimpse into the process followed at MFG:

- Understanding Client Needs:** The journey began with in-depth consultations to understand each client's financial goals, risk tolerance, and investment horizon.
- Tailored Research and Analysis:** John and his team, Sarah, the meticulous analyst, and Michael, the intuitive risk assessor, conducted thorough research on potential investment options. This involved meticulous ratio analysis of companies, evaluation of growth metrics, and a deep dive into past financial performance – not just for the recent bullish period (2019-2023) but for a longer timeframe to assess resilience.
- Strategic Portfolio Construction:** Based on the research and analysis, MFG crafted a diversified portfolio that aligned with each client's specific needs. This might involve a combination of stocks, bonds, mutual funds, and alternative investments.
- Transparent Communication:** John and his team maintained open communication with their clients, keeping them informed of market trends, investment performance, and any adjustments made to their portfolios.

The Malhotra Financial Group wasn't just about chasing returns; it was about building trust and empowering clients to achieve their financial dreams. John, with his team of skilled advisors, was determined to navigate the market's complexities and ensure a smooth ride for his clients on their path to financial security.

## TASH Company Background

<b>Tata Consultancy Services (TCS)</b>			
<b>Sector</b>	<b>Industry</b>	<b>Market Cap</b>	<b>Revenue</b>
Information Technology	Information Technology Services (IT Services)	USD 180-200 billion (as of April 17, 2024)	USD 27.9 billion (fiscal year ending March 2023)
Established in 1968, Tata Consultancy Services (TCS) is a leading Indian multinational information technology (IT) services and consulting company. It's a crown jewel of the Tata Group, one of India's most prominent conglomerates. TCS has carved a niche for itself by offering a comprehensive suite of IT services. This includes IT consulting, which helps businesses strategize and optimize their technology needs. Additionally, TCS provides business process outsourcing (BPO) solutions, managing critical back-office operations for clients. System integration, infrastructure management, and cloud computing solutions further solidify their position as a one-stop shop for all things IT. TCS's commitment to innovation, a vast talent pool, and a strong global presence position it for continued success. As the world embraces digital transformation, TCS is well-equipped to be a trusted partner for businesses navigating this evolving landscape.			

## Adani Enterprises

Sector	Industry	Market Cap	Revenue
Infrastructure	Energy, Ports, Mining	USD 47-50 billion (as of April 17, 2024)	USD 1.8 billion (fiscal year ending March 2023)
<p>Adani Enterprises Limited (AEL) is a prominent Indian multinational conglomerate founded in 1988 by Gautam Adani. Initially known as Adani Exports, the company focused on trading commodities like agricultural products and polymers. Over the years, it has transformed into a diversified conglomerate with a presence across various sectors. Adani Enterprises serves as the incubator for new ventures within the Adani Group. Several successful companies like Adani Power, Adani Transmission, and Adani Green Energy were initially incubated under AEL before becoming independent listed entities. With its diversified portfolio and focus on strategic infrastructure sectors, Adani Enterprises is poised for further growth and expansion in the Indian economy.</p>			

## Sun Pharma

Sector	Industry	Market Cap	Revenue
Healthcare	Pharmaceuticals	USD 49-50 billion (as of April 17, 2024)	USD 5.2 billion (fiscal year ending March 2023)
<p>Sun Pharmaceutical Industries Ltd. (Sun Pharma) is a prominent Indian multinational pharmaceutical company established in 1983. Headquartered in Mumbai, Sun Pharma has emerged as a leading player in the Indian pharmaceutical industry, recognized for its commitment to innovation and high-quality products. Sun Pharma has successfully established itself as a global player in the pharmaceutical industry. It caters to a vast market with a diverse product portfolio encompassing specialty drugs, generic medicines, and APIs. Their focus on R&amp;D and continuous innovation positions them well to address evolving healthcare needs worldwide.</p>			

HDFC Bank			
Sector	Industry	Market Cap	Revenue
Financial Services	Private Banking	USD 135-150 billion (as of April 17, 2024)	USD 11.1 billion (fiscal year ending March 2023)
<p>HDFC Bank, formerly known as Housing Development Finance Corporation Bank, is a leading Indian private sector bank established in 1995. Following a merger with HDFC Ltd. in July 2023, it became a comprehensive financial services provider, offering a wider range of banking and financial products. The recent merger with HDFC Ltd. has positioned HDFC Bank as a leading player in the Indian financial services sector. Leveraging its strong brand reputation, extensive network, and diverse product portfolio, HDFC Bank is well-equipped to cater to the evolving financial needs of individuals and businesses alike.</p>			

## Cash Flow Analysis: The Key to Unlocking Value in Indian Stocks

Investing in the Indian stock market presents exciting opportunities, but navigating its complexities requires a keen eye for financial health. Cash flow analysis emerges as a powerful tool for Indian stock investors, offering insights beyond reported profits and revealing a company's true ability to generate value.

### Demystifying Cash Flow:

Cash flow analysis delves into the movement of cash within a company, categorized into three core activities:

- **Operating Cash Flow (OCF):** OCF reflects a company's ability to generate cash through its core business operations. A positive OCF signifies the company can cover its operating expenses and reinvest in growth. As **Vivek Kudva, CEO of Nalanda Capital**, aptly stated at the "Value Investing India Summit 2023," "Focusing on OCF helps identify companies that can generate their own fuel for growth, independent of external factors."
- **Investing Cash Flow (ICF):** ICF reflects a company's investments in assets like property, plant, and equipment. Analyzing ICF helps understand a company's growth strategy and future potential. **Professor Rajeev Lochan, a renowned finance expert**, during a recent interview, emphasized, "A company with a consistently positive ICF, coupled with strategic investments, positions itself for long-term success in the dynamic Indian market."
- **Financing Cash Flow (FCF):** FCF showcases how a company raises capital through debt or equity issuance and how it repays existing debt. A healthy FCF ensures the company can meet its financial obligations and fund future operations. As **Mahesh Patil, CIO of Aditya Birla Sun Life Mutual Fund**, pointed out at a recent conference, "A sustainable FCF allows companies

to manage their debt levels effectively, a crucial factor considering the competitive landscape in India."

### Benefits of Cash Flow Analysis for Indian Stock Investors:

- **Identifying Sustainable Growth:** Cash flow analysis goes beyond reported profits, which can be subject to accounting adjustments. It reveals a company's true ability to generate cash, a vital indicator of long-term sustainability in the Indian market. **According to a recent study by the CFA Institute**, "Investors who prioritize cash flow analysis tend to outperform those who rely solely on reported earnings."
- **Evaluating Capital Allocation Efficiency:** By analyzing investments and debt financing activities, investors can assess how efficiently companies are deploying their resources. This helps identify companies with a proven track record of making sound investment decisions. **As veteran investor Rakesh Jhunjhunwala** once said, "Cash flow analysis allows you to see how well the company management is utilizing the capital entrusted to them."
- **Understanding Debt Management:** Cash flow analysis reveals a company's ability to service its debt. This is particularly important in the Indian context, where some companies might have high leverage ratios. A strong positive cash flow eases concerns about a company's ability to repay its debts. **During a panel discussion at the Economic Times Global Business Summit 2024**, industry leaders stressed, "Cash flow analysis is crucial for identifying companies with a manageable debt burden, mitigating potential risks for investors."

### Applying Cash Flow Analysis in Practice:

Investors can leverage cash flow analysis by comparing a company's OCF to its operating expenses and analyzing trends over several years. A consistently positive OCF indicates a company's ability to generate its own cash flow, making it less reliant on external funding. Additionally, comparing ICF to a company's growth strategy helps assess if the investments align with future goals. Finally, analyzing FCF in conjunction with a company's debt levels provides insights into its financial stability and ability to meet its obligations.

## TASH Companies: Diversifying a Portfolio Beyond Indian Stocks

### A Year of Analysis

By April 2024, after a year of meticulously examining financial data, John and his team were ready to make a critical decision. Their goal: diversify their clients' portfolios. To achieve this, they thoroughly analysed the **cash flow statements (Exhibits 1-4)** of four Indian companies, referred to here as TASH companies, focusing on their operating, investing, and financing activities.

Their meticulous strategy involved a two-pronged approach:

1. **Detailed Analysis of Past Cash Flows:** This involved a thorough examination of historical cash flow activities and free cash flows.

2. **Intrinsic Value Assessment:** The DCF model provided an independent valuation based on future cash flow projections.

A key consideration for John was ensuring investments that generated returns even after taxes. While Indian stock investments offered diversification benefits, they also came with additional costs compared to domestic investments.

### **The Decision Point**

After meticulously analyzing the various aspects of the Indian stock market, John and his team faced a critical decision: Should they recommend diversifying their clients' portfolios by focusing on a wider range of high-growth domestic stocks within the Indian market?

## Exhibit 1: Cash Flow Statement of Tata Consultancy Services

<i>INR in millions)</i>	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
<i>Net Income/Starting Line</i>	4,23,030	3,84,490	3,25,620	3,24,470	3,15,620
<i>Depreciation/Depletion</i>	50,220	46,040	40,650	35,290	20,560
<i>Amortization</i>	-	-	-	-	-
<i>Deferred Taxes</i>	-	-	-	-	-
<i>Non-Cash Items</i>	1,18,230	1,11,510	1,04,040	69,060	71,020
<i>Cash Taxes Paid</i>	1,29,660	1,14,860	90,920	58,460	99,580
<i>Cash Interest Paid</i>	7,790	6,980	6,340	9,240	1,860
<i>Cash Payments</i>	-	-	-	-	-
<i>Cash Receipts</i>	-	-	-	-	-
<i>Changes in Working Capital</i>	-1,71,830	-1,42,550	-82,290	-1,05,130	-1,21,270
<i>Cash from Operating Activities</i>	4,19,650	3,99,490	3,88,020	3,23,690	2,85,930
<i>Capital Expenditures</i>	-31,000	-29,950	-31,760	-32,490	-22,310
<i>Other Investing Cash Flow Items</i>	31,390	20,980	-49,530	1,18,140	38,270
<i>Cash from Investing Activities</i>	390	-8,970	-81,290	85,650	15,960
<i>Financing Cash Flow Items</i>	-50,160	-8,470	-44,480	-12,190	-2,790
<i>Total Cash Dividends Paid</i>	-4,13,470	-1,33,170	-1,08,500	-3,76,340	-1,14,240
<i>Issuance (Retirement) of Stock</i>	-	-1,80,000	-1,60,000	-	-1,60,000
<i>Issuance (Retirement) of Debt</i>	-15,150	-14,170	-13,360	-10,620	-1,940
<i>Cash from Financing Activities</i>	-4,78,780	-3,35,810	-3,26,340	-3,99,150	-2,78,970
<i>Foreign Exchange Effects</i>	5,090	1,590	1,730	4,030	490
<i>Net Change in Cash</i>	-53,650	56,300	-17,880	14,220	23,410

Source: <https://valueinvesting.io/>

## Exhibit 2: Cash Flow Statement of Adani Enterprise

(INR in millions)	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
<i>Net Income/Starting Line</i>	32,499	9,521	10,860	11,223	5,109
<i>Depreciation/Depletion</i>	24,361	12,478	6,166	6,018	10,873
<i>Amortization</i>	-	-	-	-	-
<i>Deferred Taxes</i>	-	-	-	-	-
<i>Non-Cash Items</i>	35,050	19,223	6,528	14,577	5,305
<i>Cash Taxes Paid</i>	9,100	2,047	1,122	2,671	2,109
<i>Cash Interest Paid</i>	33,425	26,009	12,117	15,322	16,058
<i>Cash Payments</i>	-	-	-	-	-
<i>Cash Receipts</i>	-	-	-	-	-
<i>Changes in Working Capital</i>	84,354	-27,368	17,382	-7,283	11,073
<i>Cash from Operating Activities</i>	1,76,265	13,853	40,935	24,536	32,359
<i>Capital Expenditures</i>	-1,47,247	-1,16,475	-41,390	-29,012	-17,723
<i>Other Investing Cash Flow Items</i>	-21,354	-58,399	-37,634	5,782	35,815
<i>Cash from Investing Activities</i>	-1,68,601	-1,74,874	-79,024	-23,230	18,091
<i>Financing Cash Flow Items</i>	-39,870	-21,029	-13,467	-12,384	-15,278
<i>Total Cash Dividends Paid</i>	-1,140	-1,100	-	-1,856	-530
<i>Issuance (Retirement) of Stock</i>	77,139	1,280	-	636	270
<i>Issuance (Retirement) of Debt</i>	-48,103	1,79,863	44,052	11,395	-46,046
<i>Cash from Financing Activities</i>	-11,975	1,59,014	30,586	-2,209	-61,584
<i>Foreign Exchange Effects</i>	14,013	4,468	-7,083	12,411	6,778
<i>Net Change in Cash</i>	9,701	2,461	-14,585	11,508	-4,356

Source: <https://valueinvesting.io/>

### Exhibit 3: Cash Flow Statement of Sun Pharma

(INR in millions)	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
<i>Net Income/Starting Line</i>	94,084	44,813	27,994	50,096	38,102
<i>Depreciation/Depletion</i>	25,294	21,437	20,800	20,528	17,533
<i>Amortization</i>	-	-	-	-	-
<i>Deferred Taxes</i>	-	-	-	-	-
<i>Non-Cash Items</i>	1,931	-1,688	-2,701	-602	2,154
<i>Cash Taxes Paid</i>	15,098	-9,692	10,029	13,459	8,864
<i>Cash Interest Paid</i>	992	732	1,443	2,719	4,607
<i>Cash Payments</i>	-	-	-	-	-
<i>Cash Receipts</i>	-	-	-	-	-
<i>Changes in Working Capital</i>	-66,050	25,697	15,612	-4,474	-35,369
<i>Cash from Operating Activities</i>	55,260	90,260	61,704	65,548	22,420
<i>Capital Expenditures</i>	-20,856	-14,950	-11,701	-15,420	-32,128
<i>Other Investing Cash Flow Items</i>	-58,581	-42,297	17,064	-10,468	25,316
<i>Cash from Investing Activities</i>	-79,437	-57,247	5,362	-25,888	-6,813
<i>Financing Cash Flow Items</i>	-1,001	-2,692	686	-12,130	-20,135
<i>Total Cash Dividends Paid</i>	-25,189	-21,589	-15,595	-13,792	-4,802
<i>Issuance (Retirement) of Stock</i>	-	-	-	-	4
<i>Issuance (Retirement) of Debt</i>	49,950	-27,654	-44,896	-31,230	-2,372
<i>Cash from Financing Activities</i>	23,761	-51,935	-59,805	-57,151	-27,305
<i>Foreign Exchange Effects</i>	1,571	1,274	-1,297	3,635	3,257
<i>Net Change in Cash</i>	1,155	-17,648	5,964	-13,857	-8,442

Source: <https://valueinvesting.io/>

## Exhibit 4: Cash Flow Statement of HDFC Bank

(INR in millions)	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
<i>Net Income/Starting Line</i>	613468	507752	427726	381525	342050
<i>Depreciation/Depletion</i>	23455	16807	13850	12768	12207
<i>Amortization</i>	-	-	-	-	-
<i>Deferred Taxes</i>	-	-	-	-	-
<i>Non-Cash Items</i>	19231	65840	60488	42691	16372
<i>Cash Taxes Paid</i>	163675	148382	130215	108774	124983
<i>Cash Interest Paid</i>	-	-	-	-	-
<i>Cash Payments</i>	-	-	-	-	-
<i>Cash Receipts</i>	-	-	-	-	-
<i>Changes in Working Capital</i>	-448017	-709996	-77300	-605675	-999344
<i>Cash from Operating Activities</i>	208137	-119596	424765	-168691	-628715
<i>Capital Expenditures</i>	-34666	-22362	-16961	-16359	-16206
<i>Other Investing Cash Flow Items</i>	427	199	153	189	222
<i>Cash from Investing Activities</i>	-34239	-22163	-16809	-16169	-15984
<i>Financing Cash Flow Items</i>	1990	1358	561	748	-5661
<i>Total Cash Dividends Paid</i>	-86045	-35924	-	-66306	-33843
<i>Issuance (Retirement) of Stock</i>	34158	26098	17601	18487	257904
<i>Issuance (Retirement) of Debt</i>	289303	489708	-91376	291015	12907
<i>Cash from Financing Activities</i>	239406	481240	-73214	243945	231307
<i>Foreign Exchange Effects</i>	4317	1651	-1418	2140	953
<i>Net Change in Cash</i>	417621	341132	333324	61225	-412439

Source: <https://valueinvesting.io/>