

A group of people are silhouetted against a large window that looks out onto a sunset. The people are seated in a row, facing away from the camera towards the window. The sun is low on the horizon, creating a bright, warm glow that fills the room. The silhouettes of the people and their chairs are clearly visible against the bright light from the window. The overall mood is professional and contemplative.

# Discussion on MD&A

23 June 2023

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MD&A briefly - the what and why

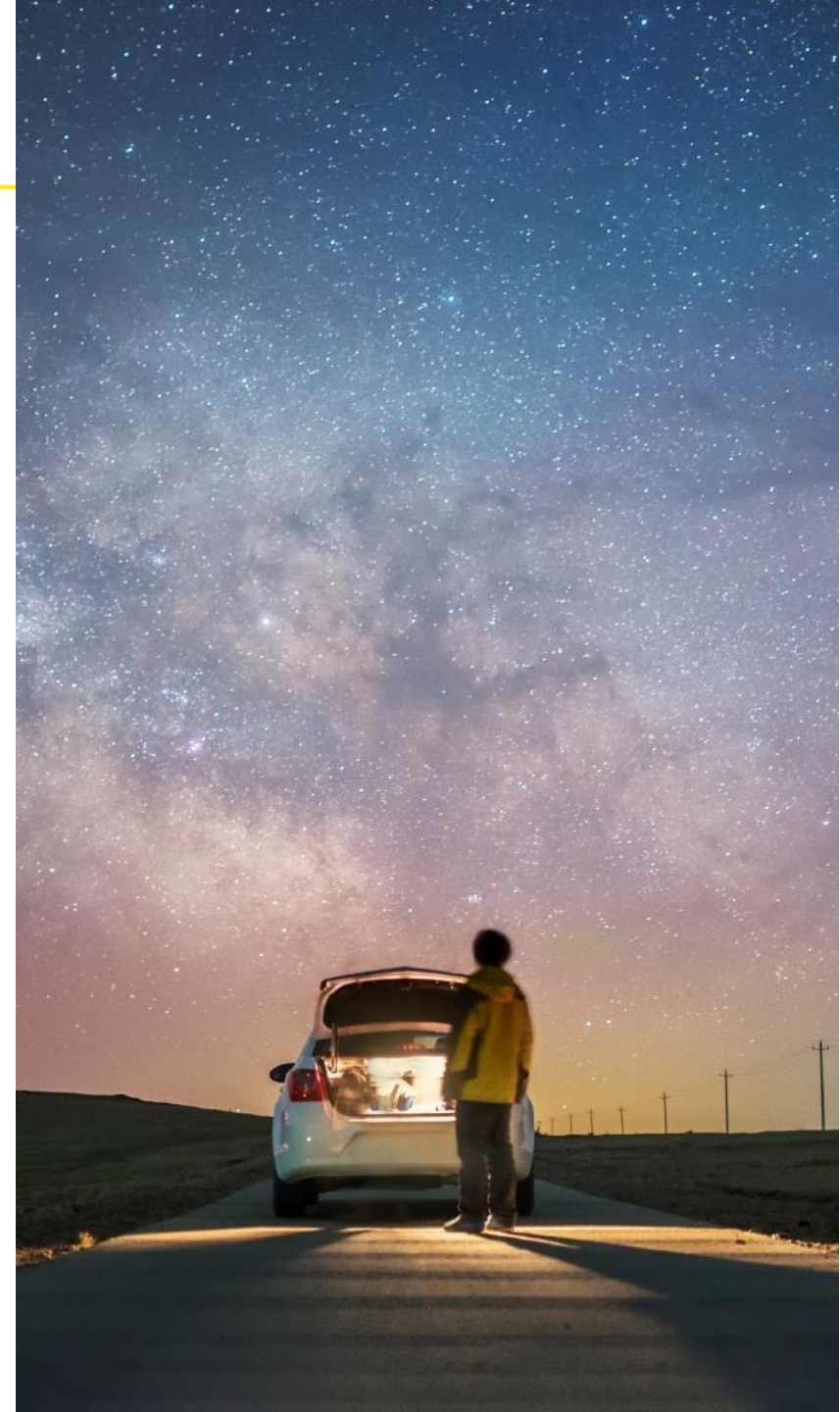
Statutory reference

- Companies Act
- Listing Agreement
- LODR

MD&A - Decoded

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# MD&A briefly – The What and Why

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A section in the annual report in which the company's management discusses the Company's performance in the current year, outlook



Uses qualitative and quantitative measures which allow investors an insight into details that otherwise wouldn't be available



Includes macro-economic performance that could affect the industry and thereby the company, its strategy and vision, key financial indicators, rationale and analysis



It's not just about the financial performance, but every factor fundamental to the company – from HR to operations

In Nutshell, lets the Management 'Speak Up'

# MD&A – Statutory References

- ▶ **Section 134 of the Act** deals with important reports and documents required in a company like financial statements, board reports, directors' responsibility statement, etc
- ▶ **Regulation 34(2) of SEBI LODR** provides that the annual report shall contain the Management Discussion and Analysis – either as a part of directors' report or addition thereto.
- ▶ According to **Schedule V of the Listing Agreement**, the Management Discussion and Analysis should include discussion on the above-mentioned matters within the limits set by the listed entity's competitive position.
- ▶ **Listing Agreement** stipulates that Audit Committee shall mandatorily review the MD&A of financial condition and results of operations;

The MD&A Report should be a part of the Board report or annexed to it.

The MD&A Report should either form a part of the Board's Report or be given as an addition thereto in the annual report to the shareholders

MD&A Report should be considered in the meeting of the Board and not through resolution passed by circulation.

It is desirable that MD&A Report is signed in the same manner as in the case of the Board's Report



# Regulation 34 (2) of LODR

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The annual report shall contain the following:

- (a) audited financial statements i.e. balance sheets, profit and loss accounts etc ; ,and Statement on Impact of Audit Qualifications as stipulated in regulation 33(3)(d), if applicable;
- (b) consolidated financial statements audited by its statutory auditors;
- (c) cash flow statement presented only under the indirect method as prescribed in Accounting Standard-3 or Indian Accounting Standard 7, as applicable, specified in Section 133 of the Companies Act, 2013 read with relevant rules framed thereunder or as specified by the Institute of Chartered Accountants of India, whichever is applicable;
- (d) directors report;
- (e) management discussion and analysis report - **either as a part of director's report or addition thereto**;
- (f) for the top one thousand listed entities based on market capitalization, a Business Responsibility and Sustainability Report on the environmental, social and governance disclosures, in the format as may be specified by the Board from time to time:

# Schedule V of SEBI LODR

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This section shall include discussion on the following matters within the limits set by the listed entity's competitive position:

- ▶ Industry structure and developments (Includes economic overview)
- ▶ Opportunities and Threats
- ▶ Segment-wise or product-wise performance
- ▶ Outlook (business outlook)
- ▶ Risks and concerns
- ▶ Internal control systems and their adequacy (archaic requirement with no relevance given we have risk management and internal financial control or IFC)
- ▶ Discussion on financial performance with respect to operational performance
- ▶ Material developments in Human Resources / Industrial Relations front, including number of people employed

# Schedule V of SEBI LODR

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- ▶ Details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations therefor, including:
  - ✓ Debtors Turnover
  - ✓ Inventory Turnover
  - ✓ Interest Coverage Ratio
  - ✓ Current Ratio
  - ✓ Debt Equity Ratio
  - ✓ Operating Profit Margin (%)
  - ✓ Net Profit Margin (%) or sector-specific equivalent ratios, as applicable
  - ✓ details of any change in Return on Net Worth as compared to the immediately previous financial year along with a detailed explanation thereof

## 2. Disclosure of Accounting Treatment:

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction.

# Schedule V of SEBI LODR

## Debtors Turnover

$$\text{Accounts Receivable Turnover} = \frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$$





## Interest Coverage Ratio

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Expense}}$$

## Debt / Equity Ratio

$$\text{Debt to Equity Ratio (D/E)} = \frac{\text{Total Debt}}{\text{Total Shareholders Equity}}$$

## Inventory T/o Ratio

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventories}}$$


## Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

## Operating Profit Ratio

$$\text{Operating Margin (\%)} = \frac{\text{EBIT}}{\text{Revenue}}$$

## Net Profit Margin Ratio

$$\text{Net Profit Margin (\%)} = \frac{\text{Net Income}}{\text{Revenue}}$$

## Return on NW

It is expressed as:-

$$\text{RONW} = \frac{\text{Net Income}}{\text{Shareholder's Equity}} \times 100$$



# Why is the MD&A important

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A communication straight from the management to shareholders



A bird's eye view of the entire business ecosystem



A narrative of the company and industry in which it operates



Allows investors to ascertain the company's performance and its likely growth



One of the most relevant sections in the annual report that allows investors a chance at analysing the company



An opportunity to offer unique insight into the company for current and future stakeholders

# How will you approach an MD&A draft?

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Go back to the whiteboard



Recap on year gone by & way forward



CSR, ESG initiative



Discuss, discuss, discuss with the management



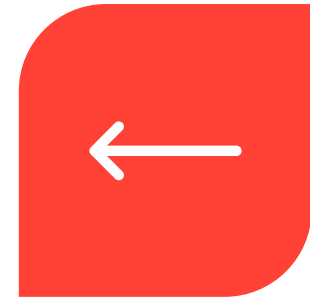
Highlights key developments



Understand aspects that affect or influence the business



Read, Re-read



Keep the Ctrl + X and Ctrl + V at bay

# Don'ts

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Repetition

Cut + Paste

Old data from  
industry reports

Political undertones

Flowery language

Over-promise

Linking to other  
documents

Stating the obvious

Avoid negative  
commentary

Divulge any  
confidential  
contractual  
information

Supress important  
update &  
information

Address un-useful  
media coverage

# What you should focus on instead

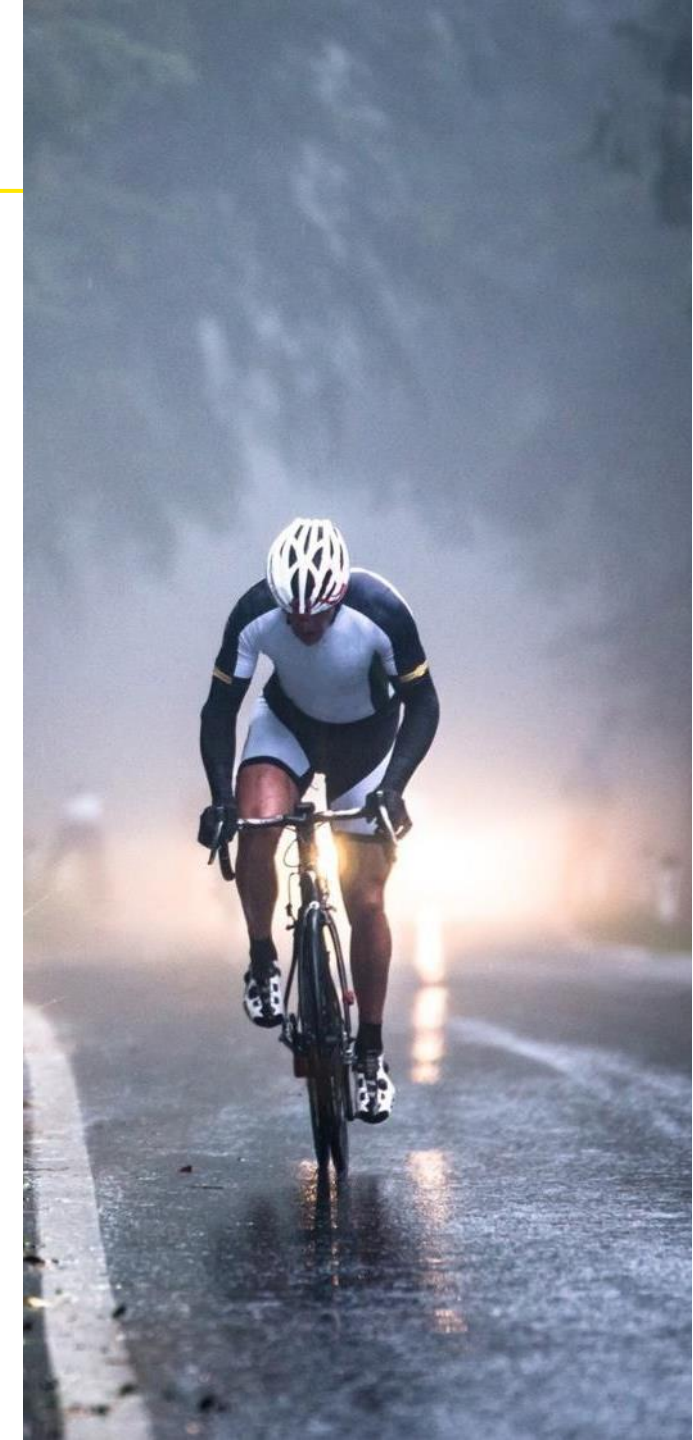
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- ▶ **Speak** with the **management** on what **needs to be communicated** (also what needn't be)
- ▶ Keep a **structure ready in advance** – no last minute rush jobs (except financials)
- ▶ Use **simple, grammatically correct English**
- ▶ Keep **continuity** and **consistency** in communication – don't change your goalpost every year
- ▶ Every **MD&A** is different
- ▶ Ensure you **disclose sources** everywhere
- ▶ **Balance** text and infographics

# Best Annual Reports 2022

## The winners of FPJ India's Best Annual Reports Award 2022:

Consumer Goods (FMCGS)	Dabur India Limited.
Banking & Financial Services Industry	
a) Public Sector Banks	State Bank of India
b) Private Sector	Kotak Mahindra Bank
c) Financial services & insurance	Aditya Birla Capital
Energy	Tata Power Limited
Metals and Mining	Hindalco Industries
Automobiles	Maruti Suzuki Limited
Information technology (IT/ ITES)	LTI-Mindtree



A person is snowboarding down a sand dune at sunset. The person is in mid-air, having just taken a jump, and is kicking up a large, billowing cloud of sand behind them. The sun is low on the horizon, creating a warm, golden glow. The sky is filled with soft, white clouds. The sand dune in the foreground has distinct, wavy ripples. Two vertical green bars are positioned on either side of the text.

Thank You