

"A man is
great by
deeds, not by
birth"

-Chanakya

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INDIAN INSTITUTE OF MANAGEMENT KOZHIKODE



Case Study

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**Financial Statement Modeling and Analysis of Growth
Alternatives at 'CityFashion'**

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Financial Statement Modeling and Analysis of Growth Alternatives at 'CityFashion'

Abstract:

CityFashion's growth has been consistent since it began operations in 2015, and it is now a prominent fashion retailer in South India. In April 2022, the company's CEO and CFO, Mr. Muthukumar and Mr. Aswin Agrawal, are evaluating two growth options: organic growth and the acquisition of Comfy Fashions. They believe that analysing the financial implications of the two alternatives is necessary for making an informed decision. They intend to use pro forma financial statements to forecast how each option will affect the financial performance of the company. Pro forma financial statements are financial projections based on specific assumptions. Pro forma financial statements present financial data in a manner that may describe a company's current or projected performance more accurately than annual reports, which are prepared in accordance with GAPP. This case presents a financial forecasting scenario in which a number of balance sheet and income statement items are assumed to be estimated as a percentage of sales. Moreover, management prefers debt financing and plans to reinvest the entire profit. Using forecasted statements, they can assess the potential risks and benefits of each alternative and make an informed decision. In addition to pro forma financial statements, the financial ratios of the company will be examined to determine the impact of the decisions on profitability, liquidity, efficiency, and leverage. The objective of this case study is to introduce students to the mechanics of financial statement modelling, financial statement analysis, and evaluation of growth alternatives. Students will comprehend the relationship between financial statements, financial planning, and significance of financial analysis. The 'CityFashion' case is ideal for a core course in financial accounting or can be used as an introductory material for an elective on financial statement analysis.

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