Some Fact, some fiction

When it comes to company ads of quarterly results, often, what you see is not what you get

In how they are calculated and presented, quarterly numbers can be used to manipulate public opinion about a company's stock

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Good corporate performance should, typically, lead to a buoyant stock market. But, conversely, should a booming market lead to rising corporate profits? It shouldn't, but it is happening and being played up right in front of your eyes. Every quarter-end, come results season, a deluge of financial ads hit the print and visual media.

While most big, reputed companies release boring, typographical ads, scores of small, unknown companies release ads that are a visual treat and, more often than not, report a dramatic improvement in performance. Many of these companies even advertise on business channels, using catchy slogans and visuals. The nature of these ads, their timing and the bending of the rules raises the suspicion that these companies are simply trying to cash in on a bullish market.

Market manipulation

It's possible some of these performances are genuine. Even so, why should a company spend lakhs of rupees on fancy ads trumpeting its performance when a simple, clear presentation of facts will do? On many occasions, it's meant to enable its promoters and their market operator friends to make big money on the side. Many of these companies have seen their stocks appreciate 100-1,000 per cent -- that is, up to 10 times -- in a short period of time.

It's all planned. To start with, the promoters/operators start buying the company's shares. They trade among themselves and jack up the share price. Then, the company declares 'spectacular' numbers or unravels ambitious business plans, which makes the stock look 'cheap' still. Small investors, oblivious to the fact that these might be either exaggerated or even non-existent, get enticed. As they start buying, the promoters and operators turn sellers, and the stock goes into a freefall.

Problems in presentation…

Part of the problem is how the financial information is presented. Many ads don't follow the format prescribed by stock exchanges -- they carry only some select figures like sales and profits. Some give information that is not mandatory -- holdings of mutual funds and FIIs in their company, financial projections, expansion programmes, list and logos of clients, bagging of large contracts, strategic stake sale and launch of new products.

Sometimes, even if the information is correct, there are glaring inconsistencies in presentation. Comparison of performance is done on different time scales. Some compare their latest quarter numbers with that for the corresponding quarter of the previous year, some with the preceding quarter. Some companies report standalone numbers, some give consolidated. Some highlight growth in per cent, some who don't have significant growth rates highlight absolute figures. Some calculate EPS (earnings per share) for the quarter, some annualise it.

Almost all print ads highlight key performance indicators in a reverse bold box or though arrows. They also have headlines, visuals, baselines, body copy. Headlines range from enticing ("success brings its rewards", "cashing in on the infrastructure boom") to meaningless ("a legacy of compassion, discovery and innovation").

Market regulator Sebi has elaborate guidelines on advertising by companies making public issues. It doesn't allow, for example, the use of visuals, headlines, models, among other things. The same logic needs to be extended to financial result ads. Moreover, the format prescribed under the listing agreement should be enforced.

…and calculation

The other problem with quarterly data, which is unaudited, is reliability of data. In many cases, the revenue and profit numbers declared by a company are inflated beyond the margin of error allowed. An analysis of quarter-on-quarter figures for the last four quarters for some companies will throw up huge discrepancies. Moreover, notes to the accounts are rarely carried in such ads, thereby giving an incomplete picture of the company's performance.

Then, there are unusual ads about corporate actions. These announce the intention of a company to hold a board meeting to consider issuing new shares (rights, bonus or preferential issues, private placement), declaring interim dividends, splitting shares, increasing the FII investment limit to 49 per cent, forging new business alliances.

As per the listing agreement, companies are required to inform stock exchanges about their forthcoming board meetings to discuss above-mentioned matters. The exchanges then disseminate this information to the market through their websites and circulars. All financial newspapers also carry a summary of such notices. That is what it should be limited to.

Allowing companies an open advertising canvas is like giving them a license to manipulate public opinion. All financial scams to attract small investors have their origins in public media, including advertising, as that is the only way companies can reach them and lure them. Remember the campaigns by plantation companies in the 90s. Financial advertising by many listed companies is in the same genre. We need sanity here. Why should a small investor doubt that a widely-released ad contains lies or half-truths? We need a proactive system in place on an on-going basis to curb this malpractice.

No advantage
Be wary of investing in companies that resort to such gimmicks in their quarterly ads:

- Use of Visuals, headlines, body copy and arrows
- Declaring annualised EPS
- Intent to declare Bonus, Rights or Dividends
- Intent to split shares
- Intent to up FII investment limit