FINANCIAL ANALYSIS ON IMPAL

VADIVUKKARASI K, YUVASHREE.S,
SWETHA.N, PRIYANKA.A.PAREEK
Assistant Professor, Student, Student, Student
Department of B. Com (PA),
PSGR Krishnammal College for Women,
Coimbatore – 641004, India

ABSTRACT: The topic selected is "FINANCIAL ANALYSIS ON IMPAL" (IMPAL – Indian Motors, Parts and Accessories Limited). IMPAL is an automobile company which produces motor parts and distribute all over India. This study is on the audit report of Bangalore branch of IMPAL. The objective of the study is to measure the earning capacity, operational efficiency, managerial effectiveness, solvency, turnover and to make intra-firm comparison and common-size percentage of the company with the help of the company's five years of audit report which is from the accounting year of 2013-2014 to 2017-2018 by using the following tools like comparative statement of both balance sheet and profit &loss account, common-size statement of both balance sheet and profit & loss account and ratios for the five years for which audit report is collected and also the findings and suggestion for the company is given with the result arrived in this study.

KEYWORDS: IMPAL, automobile company, intra-firm comparison

1. INTRODUCTION

The aspect of an overall commercial finance function that comprises examining historical data to gain information about the current and future financial health of a company is financial analysis. Financial analysis can be applied in a wide variation of circumstances to give business managers the information they need to make critical verdicts. The capacity to recognise financial data is important for any business manager. Finance is the language of business. Business goals and purposes are set in financial terms and their outcomes are measured in financial terms. Among the assistances required to understand and manage a business is fluency in the language of finance the capability to read and understand financial data as well as present information in the form of financial reports.

The finance function in business involves assessing economic trends, setting financial strategy, and generating long-range tactics for business activities. It also includes applying a system of internal controls for the treatment of cash, the recognition of sales, the pay-out of expenses, the estimate of inventory, and the endorsement of capital expenditures. Reports on the internal control in the finance function systems through the preparation of financial statements, such as income statements, balance sheets, and cash flow statements.

Finally, finance involves scrutinizing the data contained in financial statements in order to offer valuable information for management decisions. In this way, financial analysis is only one part and very important of the overall function of finance. A great deal of information is contained in the company's accounts and statements. Discovering the full meaning enclosed in the statements is at the heart of financial analysis. Part of financial analysis is understanding how accounts relate to one another. Other part of the financial analysis involves using the numerical data contained in company statements to expose the patterns of activity that may not be apparent on the surface

2. OBJECTIVE

- To measure the earning capacity or profitability of the firm.
- To measure the operational efficiency and managerial effectiveness.
- To calculate the short term as well as long term solvency position of the firm.
- To assess the turnover of the company
- To make intra-firm comparison
- A study on common size percentage of a company indicates the structure of profit and loss account

3. STATEMENT OF THE PROBLEM

Financial analysis is used to study whether an entity is stable, solvent, liquid or profitable enough to warrant a monetary investment. When observing at a specific company, a financial analyst conducts analysis by concentrating on the income statement, balance sheet, and cash flow statement. Financial statements are used for both internal as well as external purposes so it is very important. It is used to determine the investment value of a business, stock or other asset. Income, balance sheet, and cash flow statements are typically used to extract ratios that reveal information such as solvency, price to earnings and return on equity. Ratio analysis plays a significant part in assessing position of a company. The company managers, investors, and creditors will look at these ratios for decision making purpose. Ratio analysis is a tool which is beneficial management and it will improve your understanding of financial outcomes and leanings over time, and provide key indicators of organizational performance. Managers will use ratio analysis to identify strengths and weaknesses from which strategies and initiatives can be formed. This ratio indicates how well the company is employing its equity investment. It is also important for minor business proprietors to know and use financial analysis because it provides one of the main methods of a company's success from the perspective of bankers, investors, and outside analysts.

Our aim is to financially analyse IMPAL with various tools such as ratios, comparative statement and common size statement

4. SCOPE OF THE STUDY

India is ordinarily designated and caricatured as a Developing Economy that still requires a higher degree of effective contemplation to match the expectations of stakeholders, and hence financial analysis tools like Ratio Analysis helps in assisting the economy. An informed analysis aid in better investment which subsequently results in better profits and therefore in a country like India, the restoration of the economy stands a better chance with the better tools at hand leading to the carving of a profitable investment.

For starters, Financial Analysis imply explicitly even to the professionals in the investing domain about the current position of the organisation regarding their capacity to pay short-term debts and liabilities in the company and by analysing the previous trends in their assets and liabilities the Current Ratios and Quick Ratios can correctly demonstrate. Similarly, Debt Ratios dictate the financial position of the company.

Here the accumulation of asset is laid down through the supporting pillar, i.e. debt. Which is critical and require monitoring to constrain it in the prescribed boundaries of company policy else the commotion is outraged due to the lack of knowledge towards thee thrusting debt, which eventually gave rise to massive hoarding of liabilities that put the company in a bankrupt mark which lays an impact in the growing economy. Hence the increasing division of the company's relevance and standards in the market is interconnected to the economic growth which further entails that the falling brick may move also put the existence of the whole castle into threat.

5. SOURCE OF DATA

Study is based on secondary data that has been collected The from different websites such as BSE, Wikipedia, etc. The sources also include books and magazines.

6. TOOLS USED

1. Comparative Statements
2. Common-size Statements
3. Ratio Analysis

6.1 COMPARATIVE STATEMENT

The comparative financial statements are reports of the financial position at different periods of time. The components of the financial position are shown in a comparative form so as to give an idea of financial position at two or more periods. The statements that are prepared in a comparative form will be covered in comparative statements. From the point of view when things are taken practical, generally, two financial statements (balance sheet and income statement) are prepared in comparative form for financial analysis purposes. Not only the comparison of the figures of two periods but also be connection between balance sheet and income statement.

COMPARATIVE BALANCE SHEET OF THE YEAR 2017-2018

PARTICULARS	2017	2018	Absolute Change	Percentage Change
I. ASSETS				
(1) Non-current assets				
(a) Property, Plant & Equipment	1258.71	1257.19	-1.52	0.12%
(b) Capital work-in-progress	-	28.49	28.49	
(c) Other intangible assets	94.98	66.34	-28.64	30.15%
(d) Financial assets				
(i) Investment	54503.92	68541.67	14037.75	25.76%
(ii) Long term loans & advances	85.26	84.01	-1.25	1.47%
TOTAL NON-CURRENT ASSETS	**55942.87**	**69977.7**	**14034.83**	**25.09%**
(2) Current Assets				
(a) Inventories	4510.13	5120.14	610.01	13.53%
(b) Financial Assets				
(i) Current Investment	12844.51	10828.54	-2015.97	15.70%
(ii) Trade Receivables	5798.08	6567.78	769.7	13.28%
(iii) Cash & Cash Equivalents	1431.56	2266.52	834.96	58.30%
(iv) Short term loans & advances	315.78	363.32	47.54	15.05%
(c) Current Tax Assets (net)	155.29	40.14	115.19	74,18%
(d) Other Current Assets	792.99	20.71	-772.28	97,39%
TOTAL CURRETN ASSETS	**25848.34**	**25207.15**	**-638.19**	**2,47%**
TOTAL ASSETS	**81791.21**	**95184.85**	**13393.64**	**16,38%**
II. EQUITYAND LIABILITIES				
(1) EQUITY				
(a) Equity Share Capital	831.96	831.96	-	
(b) Other Equity	73902.63	87024.19	13121.56	17.76%
TOTAL EQUITY	**74734.59**	**87856.15**	**87856.15**	**17.56%**
LIABILITIES				
(2) Non-Current Liabilities				
(a) Deferred Tax Liabilities (NET)	701.97	629.47	-72.5	10.33%
(b) Provisions	40.76	49.88	9.12	22.37%
TOTAL NON-CURRENT LIABILITIES	**742.73**	**679.35**	**63.38**	**8.53%**
(3) CURRENT LIABILITIES				
(a) Financial Liabilities				
(i) Borrowings	1205.84	1926.5	720.66	59.76%
(ii) Trade Payables	4235.69	4103.24	-132.45	3.13%
(b) Other Current Liabilities	872.36	619.61	-252.75	28.97%
TOTAL CURRENT LIABILITIES	**6313.88**	**6649.35**	**335.47**	**5.31%**
TOTAL LIABILITIES	**7056.62**	**7328.7**	**272.08**	**3.86%**
TOTAL EQUITY & LIABILITIES	**8179121**	**95184.85**	**13393.64**	**13.38%**

INTERPRETATION

The total value of the assets of the company have been decreased in the current year when compared to the previous year by Rs 638.91 (Rs in lakhs). Such negative changes due to the drastic increased value of the equity and liabilities of the company it is mainly by the increased value of other equity and borrowings of the company.

COMPARATIVE PROFIT AND LOSS A/C FOR THE YEAR 2017-2018

PARTICULARS	2017	2018	ABSOLUTE CHANGE	PERCENTAGE CHANGE
REVENUE				
Revenue from operations	51890.08	47550.79	-4339.29	8.36%
Other income	1145.85	935.23	-210.62	18.38%
TOTAL REVENUE	**53035.93**	**48486.02**	**-4549.91**	**8.58%**
EXPENSES				
Purchase of Stock-in-Trade	45325.19	41112.56	-4212.63	9.29%+
Changes in inventories - Stock-in-Trade	-389.77	-760.29	-370.52	124.51%
Employee benefits expense	1809.52	2033.39	223.87	12.37%
Depreciation and amortization expense	81.51	87.19	5.68	6.97%
Administrative and Other expenses	1621.62	1647.99	26.37	1.63%
TOTAL EXPENSES	**48448.07**	**44120.84**	**-4327.23**	**8.93%**
Profit before tax	4587.86	4365.18	-222.68	4.85%
Current tax	1316.09	1330.95	14.86	1.13%
Deferred tax	57.15	-72.51	-129.66	226.88%
Total Income tax expense	1373.24	1258.44	-114.8	8.36%
Profit for the year	**3214.62**	**3106.74**	**-107.88**	**3.35%**
Other comprehensive income				
(i) Item that will not be reclassified to Profit or Loss				
a) Change in Fair Value of Equity instruments	11030	10642.5	-387.5	3.51%
b) Remeasurement of defined benefit plan	-26.59	-26.89	-0.3	1.13%
c) Deferred tax relating to above	-238.26	0	238.26	100%
Net other comprehensive income not to be reclassified to profit or loss	10765.15	10615.61	-149.54	1.39%
Total comprehensive income for the year	**13979.77**	**13722.35**	**-257.42**	**1.84%**
Earnings per share				
Basic earnings per share (In rupees)	38.64	37.34	-1.3	3.36%
Diluted earnings per share (In rupees)	38.64	37.34	-1.3	3.36%

INTERPRETATION

In the year 2018 the company has occurred loss of Rs 257.42 (Rs in lakhs) that is 1.84% the previous year profit earned by the company. Both the revenue from operation and other income that have been earned by the company is lesser than the previous year and the expenses in the current year also lesser than the previous year. As the expenses incurred exceeds the revenue the company occurs a loss for this year.

6.2 COMMON-SIZE STATEMENT

The comparative balance sheet analysis is the study of the trend of the same items, collection of items and computed items in two or more balance sheets of the same business organisation on different dates. The changes in the items of the periodic balance sheet reflects on the conduct of a business. The variations can be observed by comparison of the balance sheet at the beginning and at the end of a period and these variations can help in forming an opinion about the progress of an enterprise. The comparative balance sheet contains two columns for the contents of the original balance sheets. A third column is used to show upsurges in figures. The fourth column may be provided in addition for displaying the changes in percentages.

COMMON SIZE BALANCE SHEET FOR THE YEAR 2017-2018

PARTICULARS	2017	PERCENTAGE CHANGE	2018	PERCENTAGE CHANGE
I. Assets				
(1) Non-current assets				
(a) Property, Plant & Equipment	1258.71	1.54%	1257.19	1.32%
(b) capital work-in-progress	-	-	28.49	0.04%
I Other intangible assets	94.98	0.12%	66.34	0.07%
(d) financial assets				
(i) Investment	54503.92	66.64%	68541.67	72.00%
(ii) Long term loans & advances	85.26	0.10%	84.01	0.09%
TOTAL NON-CURRENT ASSETS	55942.87	68.40%	69977.7	70.35%
(2) Current Assets				
(a) Inventories	4510.13	5.51%	5120.14	5.38%
(b) Financial Assets				
(i) Current Investment	12844.51	16%	10828.54	11.38%
(ii) Trade Receivables	5798.08	7.0%	6567.78	6.90%
(iii) Cash & Cash Equivalents	1431.56	1.74%	2266.52	2.38%
(iv) Short term loans & advances	315.78	0.38%	363.32	0.38%
I Current Tax Assets (net)	155.29	0.19%	40.14	0.04%
(d) Other Current Assets	792.99	0.96%	20.71	0.02%
TOTAL CURRENT ASSETS	25848.34	31.39%	25207.15	26.49%
TOTAL ASSETS	**81791.21**	**100.00%**	**95184.85**	**100%**
II.EQUITYAND LIABILITES				
(1) EQUITY				
(a) Equity Share Capital	831.96	1.02%	831.96	0.87%
(b) Other Equity	73902.63	90.36%	87024.19	91.43%
TOTAL EQUITY	74734.59	91.38%	87856.15	92.30%
LIABILITIES				
(2) Non-Current Liabilities				
(a)Deferred Tax Liabilities(NET)	701.97	0.86%	629.47	0.66%
(b) Provisions	40.76	0.05%	49.88	0.05%
TOTAL NON-CURRENT LIABILITIES	742.73	90.81%	679.35	0.71%
(3) Current Liabilities				
(a) Financial Liabilities				
(i) Borrowings	1205.84	1.47%	1926.5	2.02%
(ii) Trade Payables	4235.69	5.18%	4103.24	4.31%
(b) Other Current Liabilities	872.36	1.07%	619.61	0.65%

TOTAL CURRENT LIABILITIES	6313.89	7.72%	6649.35	6.99%
TOTAL LIABILITIES	7056.62	8.63%	7328.7	7.70%
TOTAL EQUITY & LIABILITIES	**81791.21**	**100%**	**95184.85**	**100%**

INTERPRETATION

From the table above, we can deduce that investments have increased by 72% of the total assets and so it has contributed in a major part when compared to the previous year. But then apart from this all other assets which are either constant or decreased have and still representing the positive output. In the liabilities section, we can deduce that reserves and borrowings represent 2.02%, and total equities 92.30%, of the total liabilities and though these provisions had increased there is a comparative fall in other liabilities. Thus, these are the items that had contributed to the major change for the increase in total value of asset.

COMMON SIZE PROFIT & LOSS A/C FOR THE YEAR 2017-2018

PARTICULARS	2017	PERCENTAGE CHANGE	2018	PERCENTAGE CHANGE
REVENUE				
Revenue from operations	51890.08	97.84%	47550.79	98.07
Other income	1145.85	21.61%	935.23	1.93
TOTAL REVENUE	**53035.93**	100%	**48486.02**	100%
EXPENSES				
Purchase of Stock-in-Trade	45325.19	85.46%	41112.56	84.80%
Changes in inventories - Stock-in-Trade	-389.77	0.73%	-760.29	1.57%
Employee benefits expense	1809.52	3.41%	2033.39	4.19
Depreciation and amortization expense	81.51	0.15%	87.19	0.18%
Administrative and Other expenses	1621.62	3.06%	1647.99	3.40%
TOTAL EXPENSES	**48448.07**	**91.35%**	**44120.84**	**91.00%**
Profit before tax	4587.86	8.65%	4365.18	9.00%
Current tax	1316.09	2.48%	1330.95	2.75%
Deferred tax	57.15	0.11%	-72.51	0.15%
Total Income tax expense	1373.24	2.59%	1258.44	2.60%
Profit for the year	**3214.62**	**6.06%**	**3106.74**	**6.41%**
Other comprehensive income				
(i) Item that will not be reclassified to P/L a/c				
a) Change in Fair Value of Equity instruments	11030	20.80%	10642.5	21.95%
b) Remeasurement of defined benefit plan	-26.59	0.05%	-26.89	0.06%
c) Deferred tax relating to above	-238.26	0.45%	0	
Net other comprehensive income not to be reclassified to profit or loss	10765.15	20.30%	10615.61	21.90%
Total comprehensive income for the year	13979.77	26.36%	13722.35	28.30%
Earnings per share				
Basic earnings per share (In rupees)	38.64	0.07%	37.34	0.08%
Diluted earnings per share (In rupees)	38.64	0.07%	37.34	0.08%

INTERPRETATION:

By looking at this income statement, we can see that in 2018, the Earnings per share (EPS) has reduced from 38.64% to 37.34%. The net operating income or earnings after interest and taxes represent 6.41% of the total revenues. The net income can be compared to the previous year's net income to see how the company's performance year-on-year that is to 6.06%. Thus, it shows the business is not up to the level so as to beat the profit of the previous year and it is a decline in the finance of the company.

6.3 RATIO ANALYSIS

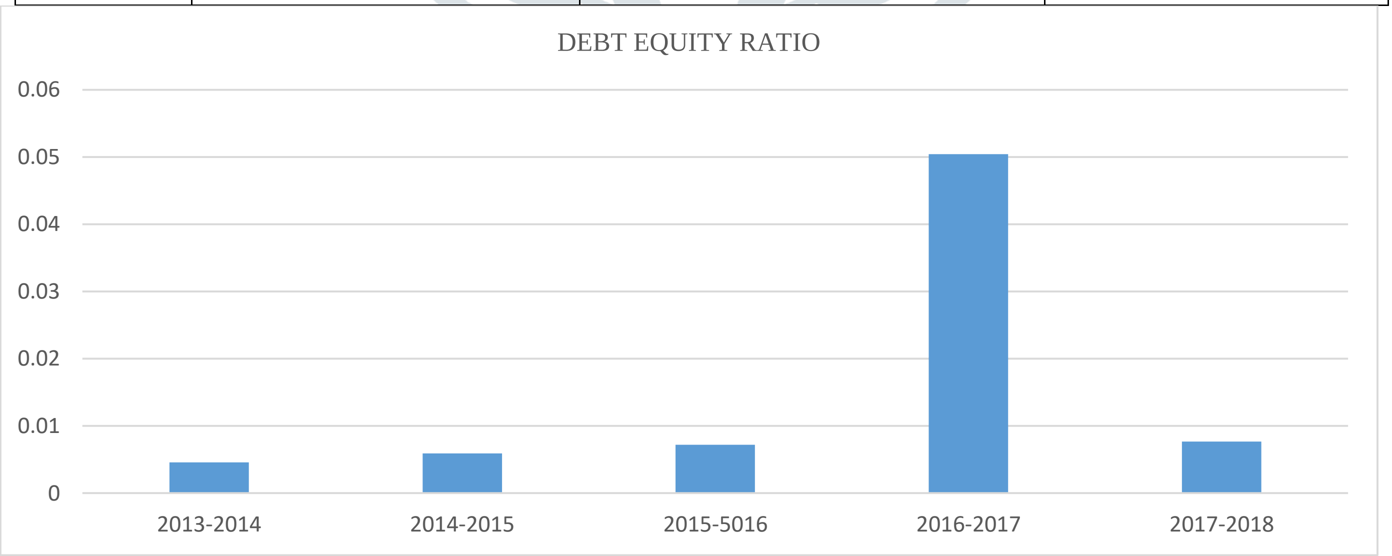
A ratio analysis is a measurable analysis of information enclosed in a company's financial statements. Ratio analysis is used to assess numerous aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency.

6.3.1 DEBT EQUITY RATIO

The debt equity ratio is a financial ratio which demonstrate the relative proportion of shareholder's equity and debt used to finance a company's assets. Closely connected to leveraging, the ratio is also known as risk, gearing or leverage. The two components are often taken from the firm's balance sheet or statement of financial position and the ratio may also be calculated using market values for both, if the company's debt and equity are openly traded, or using a combination of book value for debt and market value for equity financially.

DEBT EQUITY RATIO = TOTAL LONG TERM DEBTS/SHAREHOLDERS' FUND

YEAR	TOTAL LONG TERM DEBTS	SHAREHOLDERS' FUND	DEBT EQUITY RATIO
2013 – 2014	90.37	19683.54	**0.0046:1**
2014 - 2015	126.4	21383.69	**0.0059:1**
2015 - 2016	441.20	61255.48	**0.0072:1**
2016 – 2017	742.73	14734.59	**0.0504:1**
2017 – 2018	679.35	87856.15	**0.0077:1**



INTREPRETATION

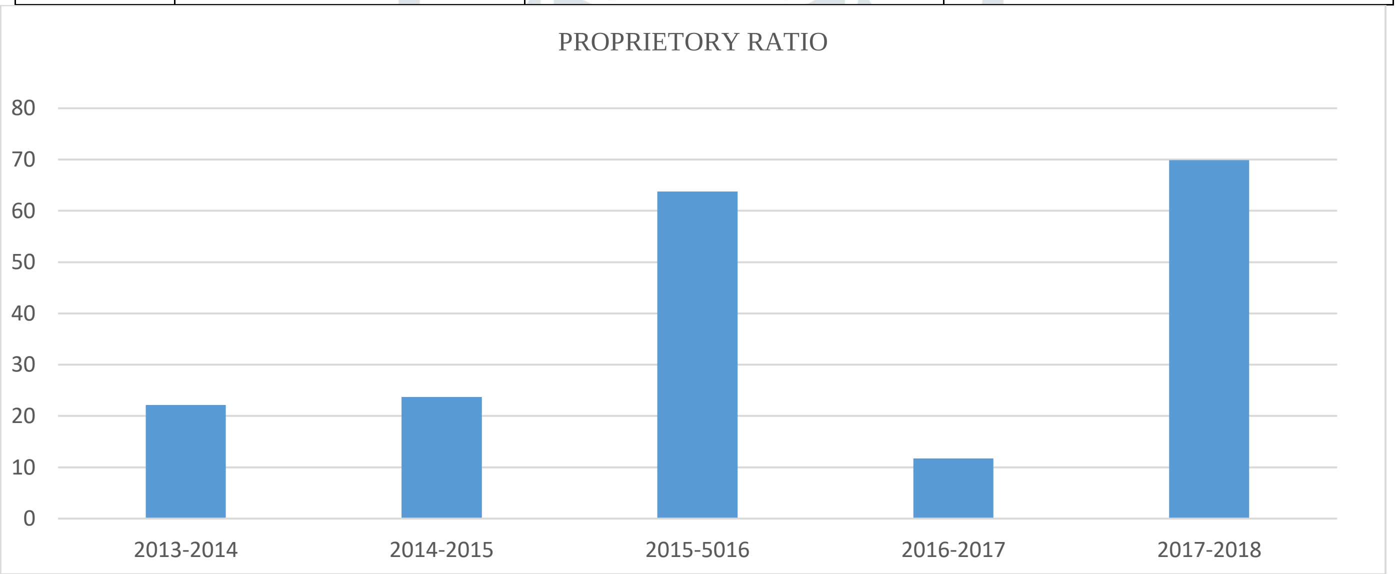
The long-term creditors will view this number as a measure of how aggressive the company is. If the company is levered up with debt, it may be reluctant to offer additional financing. As per the calculations, it shows that in the year 2016-2017, the company had a critical attention to repay the company's obligations. While examining the health of the company, it is critical to pay attention to debt equity ratio.

6.3.2 PROPRIETORY RATIO

The proprietary ratio is also known as equity ratio in which the proportion of shareholders' equity to total assets, and as such provides a rough estimate of the amount of capitalization currently used to support a business. Thus, the equity ratio is a common indicator of financial stability.

PROPRIETORY RATIO = SHAREHOLDERS' FUND / TOTAL TANGIBLE ASSETS

YEAR	SHAREHOLDERS' FUND	TOTAL TANGIBLE ASSETS	PROPRIETORY RATIO
2013 – 2014	19683.54	888.31	**22.1584:1**
2014 – 2015	21383.69	901.96	**23.7080:1**
2015-2016	61255.48	960.51	**63.7739:1**
2016 – 2017	14734.59	1258.71	**11.7061:1**
2017 – 2018	87856.15	1257.19	**69.8830:1**



INTREPRETATION

The proprietary ratio shows the stockholder's contribution in the total capital of the company. During the years 2013 - 2014, 2014 - 2015, 2016 - 2017 a low proprietary ratio shows, the company is already has been depending on debts for its operations. But, in the years, 2015 - 2016 and 2017 - 2018, there's a higher proprietary ratio a strong financial position of the company and greater security for creditors.

7. FINDINGS

- As per the comparative balance sheet of the year 2017-2018 which has been exhibited, it shows a negative change when compared to the previous year. This is due to the increased value of the equity and borrowings.
- As per the comparative profit & loss account of the year 2017-2018 the company has occurred loss as the company's expenses exceeds the revenue.

- As per the common size balance sheet for the year 2017-2018 the investments have been increased by 72% of the total assets.
- As per the common size profit and loss statement the net income of the year 2017-2018 has been reduced when compared to previous year and thus shows a decline in overall profit.
- As per the debt equity ratio calculations, it shows that in the year 2016-2017, the company had a critical attention to repay the company's obligations.