AN ANALYSIS OF FINANCIAL PERFORMANCE APPLYING RATIO ANALYSIS OF DRISH SHOES PVT LTD

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ABSTRACT:

The analysis paper of AN ANALYSIS OF FINANCIAL PERFORMANCE APPLYING RATIO ANALYSIS OF "DRISH SHOES PRIVATE LIMITED" is enabled to study and evaluate the company's financial performance and its position in shoe industry by applying ratio analysis. The company's financial performance has been thoroughly examined during the years from 2015-2019. The company's data gathered from the secondary sources. The study includes analysing the profit and loss account and balance sheet for the five years periods. It intimates the company's financial position during the year which is useful for correct decision making. It assists to change the company into very right direction towards profit. This paper gives the guiding principle about the Liquidity Ratios, Solvency Ratios , Coverage Ratios, Activity Ratios and Profitability Ratios analysis of Drish shoes Pvt Ltd, Village- Rajpurateh Nalagarh, District-Solan, Himachal Pradesh.

KEYWORDS:

Accounting Ratios, Financial position , Financial Performance and Drish Shoes Private Limited

INTRODUCTION:

Analysis of Ratio is one of the methodology and powerful tool of financial analysis where it is used as a yardstick for evaluating the financial conditions and performance of a company. It is used as a device to examine in detail and elucidate the financial health of a company. Ratio analysis of financial statements assists the management in right decision making and proper control. Ratio analysis is the universally accepted tool for evaluation of efficiency and profitability of the business, financial condition. Hence, the ratio analysis is beneficial from the following objects:

- Short- term planning and long- term planning
- Measurement of financial presentation and assessment of financial performance
- Analyse based on the financial trends
- Conclusion making for operations and investments
- Financial problems must be analysed.
- Providing the valuable appreciation into company's picture or financial position

OBJECTIVES:

Objectives of the study are given below

- To do better financial analysis of the company
- To determine liquidity of the company
- To decide operational efficiency of the company
- To determine profitability of the company

STATEMENT OF PROBLEM:

The principal aim of a business pledge is to create profits. Profit earning is taken into account most vital for the continuity of the business enterprises. A business needs profits not just for its existence however conjointly for growth and diversification. The investors want a adequate returns on their investment in addition to workers and creditors. A business company can execute its responsibility to various segments of the society only through earning of good profit. Financial performance is prepared to review the state of investment in a business and result achieved throughout a specific period of financial performance. The evaluations are also of great significance to the financial lenders.

REVIEW OF LITERATURE:

- **Jothi, K. & Geethalakshmi, A. (2016)** This analyse tries to examine the profitability & financial position of selected companies of Indian automobile industry using statistical tools such as ratio analysis, mean standard deviation and correlation.
- **Maheswari, V. (2015)** Tried to analyse the financial strength of the Hero Honda motors limited have recognised three factors, i.e. Solvency position Liquidity position and profitability position based on the study of period of nine years using ratio analysis.
- **Krishnaveni , M. & Vidya, R (2015)** Writer has picked 87 companies out of 242 companies in capital line database to debate the standard current ratio of automobile industry is harmonised with tractor and four sectors such as engine parts, lamps, gears and ancillaries with norms of standard.
- **Idhayajothi, R et al (2014)** the main idea behind this study is to analyse the financial performance of Ashoka Leyland ltd. at Chennai. The outcome shows that financial performance is healthy and also suggested to improve financial performance by reducing the various expenditures.
- **Dhole Madhavi (2013)** Investing the influence of price movement of share on selected company execution. It guides due investors think about various factors before selecting the better portfolio. Emotional factors do play a role in price movement only in short term but in long run annual performance is sole factor responsible for price movement.

RESEARCH METHODOLOGY:

RESEARCH: Research is the systematic investigation into and study of materials and sources so as to establish facts and reach conclusions.

Methodology: Methodology is a set of methods and principles used to perform in a particular area of study or activity.

In preparing of this analyse, the data is collected from the sources of the following:

- Primary Data:
  Not applicable for this analyse..
- Secondary Data:
  The source of data is collected from the Ministry of Corporate Affairs- India website.
  - Balance Sheet of Drish Shoes Pvt Ltd.

- Profit and Loss account of five years for period from 2015 to 2019

SAMPLING DESIGN:

- Sampling Unit: Financial statements
- Sampling Size : Preceding five years financial statements

STUDY PERIOD: This analyse covers for the periods of five years data from 2014-15, 2015-16, 2016-17, 2017-18, 2018-19 mean an accounting year of the company comprising of 365 working days.

TOOLS USED:

- Accounting Ratios.

LIMITATIONS:

The following are the restrictions of the analysis

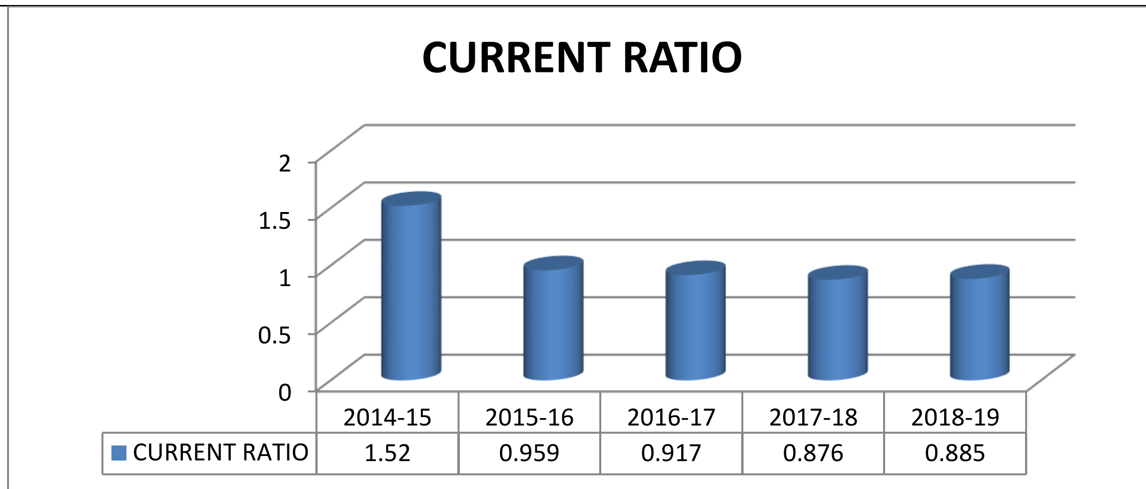
- The study is limited to solely five years of data.
- The study is purely based on data which is collected from Ministry of Corporate Affairs' website.
- There is not any set industry standard for comparison and hence interpretation is made on general standards.
- The ratio is calculated from the past financial statements and these aren't yardstick for future.

DATA ANALYSIS AND INTERPRETATION:

LIQUIDITY RATIO

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

YEAR	CURRENT ASSET	CURRENT LIABILITIES	CURRENT RATIO
2014-15	1,85,01,81,410	1,21,70,18,300	1.52:1
2015-16	99,19,63,022	1,03,46,16,564	0.959:1
2016-17	91,23,98,520	99,46,83,879	0.917:1
2017-18	97,92,11,514	1,11,76,52,946	0.876:1
2018-19	99,59,88,594	1,12,52,91,918	0.885:1



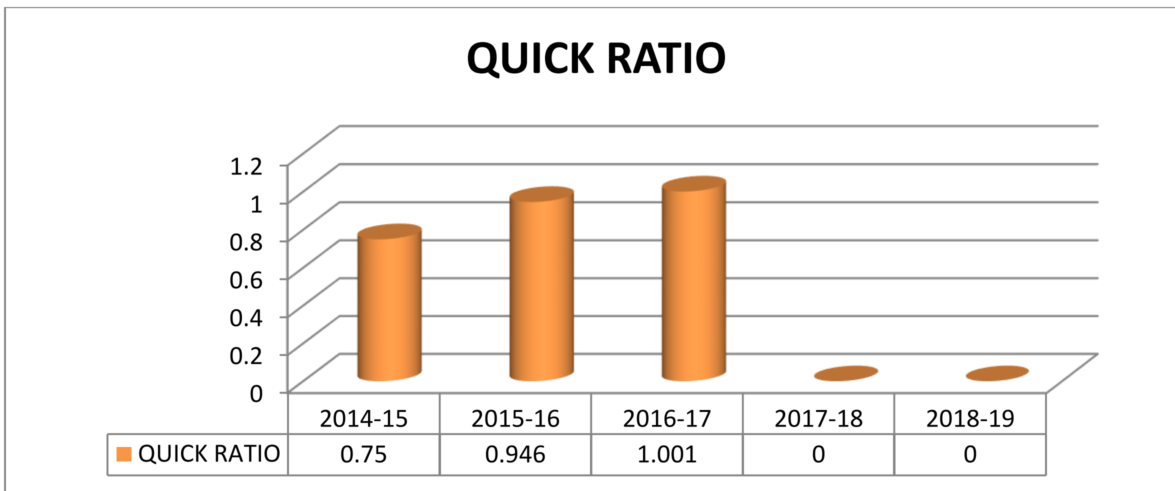
INTERPRETATION:
The standard norm for current ratio 2:1. During the year 2014-15 is 1.52 and further years 2016 -17, 2017-18 and 2018-19 gradually decreases. The current ratio is not standard norms in any of the five years. Hence, the Current Ration is not adequate.

QUICK RATIO = **QUICK ASSETS**

CURRENT LIABILITIES

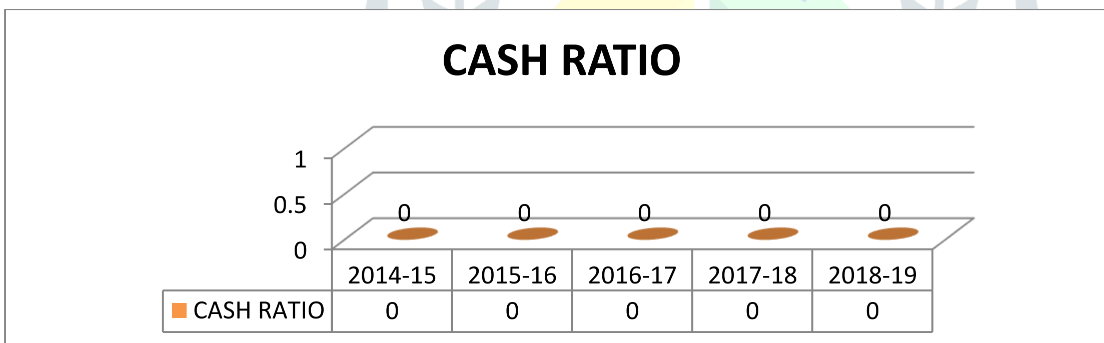
YEAR	QUICK ASSET	CURRENT LIABILITIES	QUICK RATIO
2014-15	1,34,58,68,578	1,21,70,18,300	1.106:1
2015-16	53,40,76,259	1,03,46,16,564	0.516:1
2016-17	39,92,43,296	99,46,83,879	0.401:1
2017-18	33,09,64,140	1,11,76,52,946	0.296:1
2018-19	30,47,98,512	1,12,52,91,918	0.271:1

INTERPRETATION:
The standard norm for Quick ratio 1:1. During the year 2014-15 is 1.106 and further years 2016 -17, 2017-18 and 2018-19 gradually decreases. The Quick ratio is standard norms in the year 2014-15 is just above the standard norms but after that during year 2015-16 50% reduced and further years gradually decreases . Hence, the Quick Ration is not adequate.



CASH RATIO = $\frac{\text{CASH + BANK+ MARKETABLE SECURITIES}}{\text{CURRENT LIABILITIES}}$

YEAR	CASH+MARKETABLE SECURITES	CURRENT LIABILITIES	CASH RATIO
2014-15	17,81,17,506	1,21,70,18,300	0.146:1
2015-16	7,17,91,929	1,03,46,16,564	0.069:1
2016-17	64,83,514	99,46,83,879	0.007:1
2017-18	33,14,732	1,11,76,52,946	0.003:1
2018-19	42,66,207	1,12,52,91,918	0.004:1



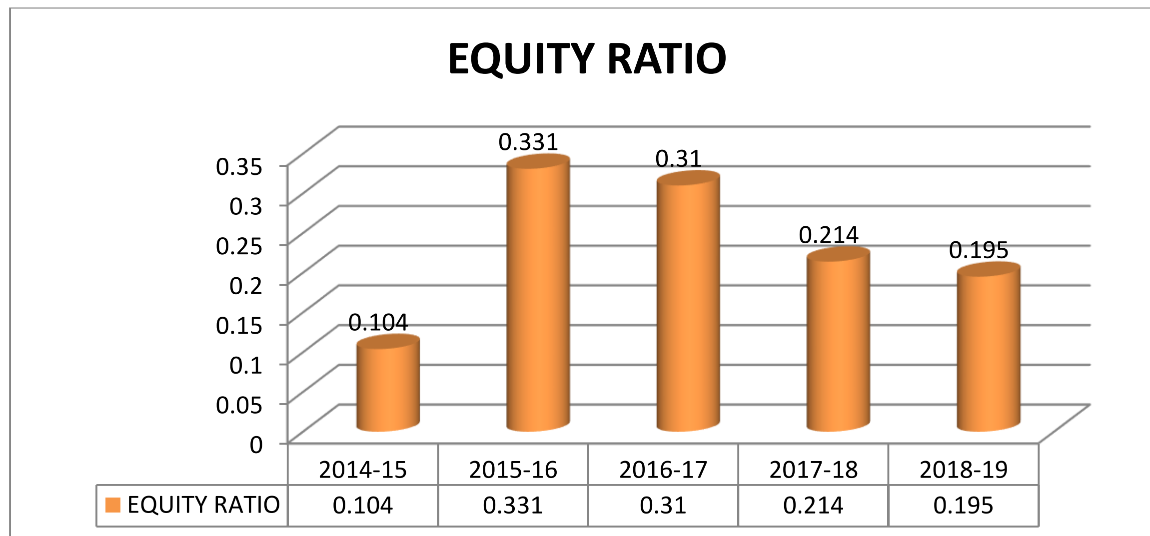
INTERPRETATION:

In all the above years i.e. from 2014-15 to 2018-19 the quick ratio is zero. The standard norm for Absolute Quick ratio 1:2. The company has totally failed in keeping sufficient cash and bank balances and marketable securities.

SOLVENCY RATIO

EQUITY RATIO = $\frac{\text{SHARE HOLDERS EQUITY}}{\text{NET ASSETS}}$

YEAR	SHAREHOLDERS EQUITY	NET ASSETS	EQUITY RATIO
2014-15	9,06,28,000	87,46,31,743	0.104:1
2015-16	9,06,28,000	27,38,83,699	0.331:1
2016-17	9,06,28,000	29,23,01,299	0.31:1
2017-18	9,06,28,000	42,40,53,694	0.214:1
2018-19	9,06,28,000	46,50,59,446	0.195:1

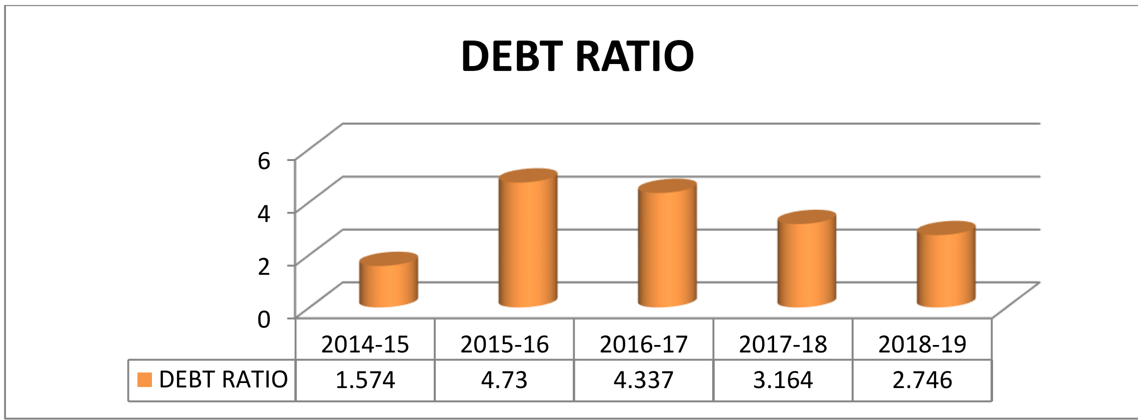


INTERPRETATION:

In all the above year i.e. from 2014-15 to 2018-19 the Equity ratio is below 50%. During the year 2015-16, the equity is 0.331. This means that creditors rather than investors are currently funding more assets. 0.331 percentages of the company's assets are owned by creditors and not by shareholders. This is not a healthy ratio.

DEBT RATIO = $\frac{\textbf{TOTAL DEBT}}{\textbf{NET ASSETS}}$

YEAR	TOTAL DEBT	NET ASSET	DEBT RATIO
2014-15	1,37,65,67,989	87,46,31,743	1.574:1
2015-16	1,29,54,99,306	27,38,83,699	4.73:1
2016-17	1,26,77,41,875	29,23,01,299	4.337:1
2017-18	1,34,17,37,879	42,40,53,694	3.164:1
2018-19	1,27,70,09,940	46,50,59,446	2.746:1

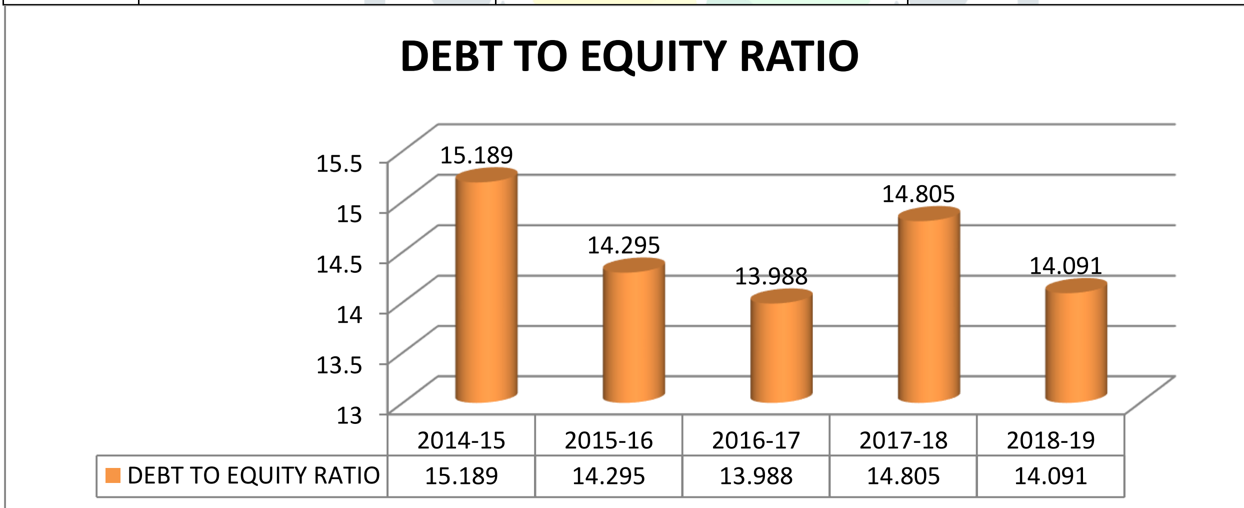


INTERPRETATION:

In all the above years, the Debt ratio is above 100%. During the year 2015-16 and 2016-17, the debt is more than 400%. Again 2017-18 and 2018-19 is reduced and finally above 200% during the year 2018-19. Even though, debt ratio is towards lowering, the risk is at high. The financial health is at risk level.

$$\textbf{DEBT TO EQUITY RATIO} = \frac{\textbf{TOTAL DEBT}}{\textbf{TOTAL SHARE HOLDERS EQUITY}}$$

YEAR	TOTAL DEBT	SHAREHOLDER EQUITY	DEBT TO EQUITY RATIO
2014-15	1,37,65,67,989	9,06,28,000	15.189:1
2015-16	1,29,54,99,306	9,06,28,000	14.295:1
2016-17	1,26,77,41,875	9,06,28,000	13.988:1
2017-18	1,34,17,37,879	9,06,28,000	14.805:1
2018-19	1,27,70,09,940	9,06,28,000	14.091:1

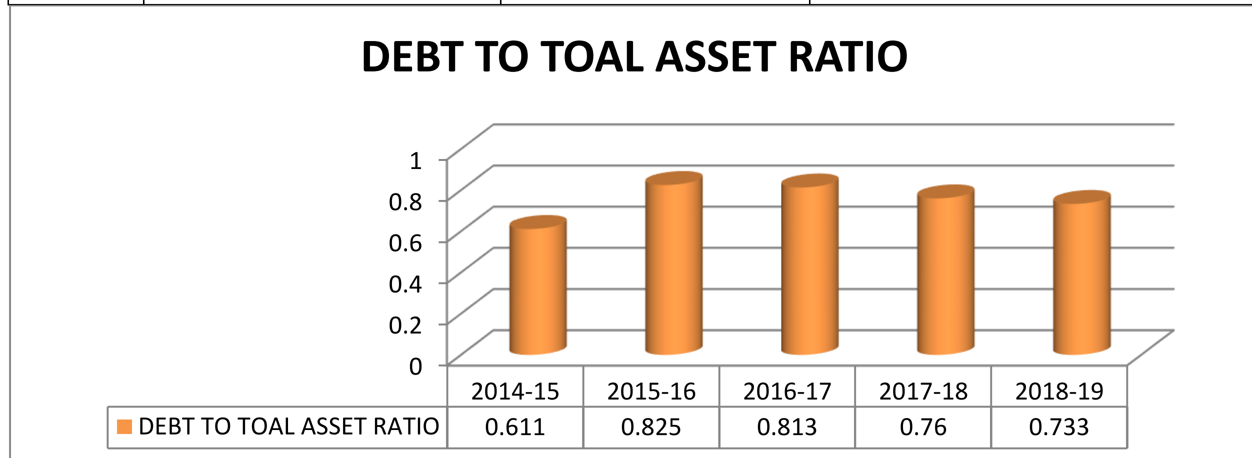


INTERPRETATION:

Debt to equity ratio has dramatically risen from 13 to 15. This indicates that the company's truculent growth programme being funded by debt. But, in Covid-19 like shut down situation, the company is very risk for borrowing cost and may lead to bankruptcy.

$$\textbf{DEBT TO TOTAL ASSET RATIO} = \frac{\textbf{TOTAL DEBT}}{\textbf{TOTAL ASSETS}}$$

YEAR	TOTAL DEBT	TOTAL ASSETS	DEBT TO TOAL ASSET RATIO
2014-15	1,37,65,67,989	2,25,11,99,732	0.611:1
2015-16	1,29,54,99,306	1,56,93,83,005	0.825:1
2016-17	1,26,77,41,875	1,56,00,43,174	0.813:1
2017-18	1,34,17,37,879	1,76,57,91,573	0.76:1
2018-19	1,27,70,09,940	1,74,20,69,386	0.733:1



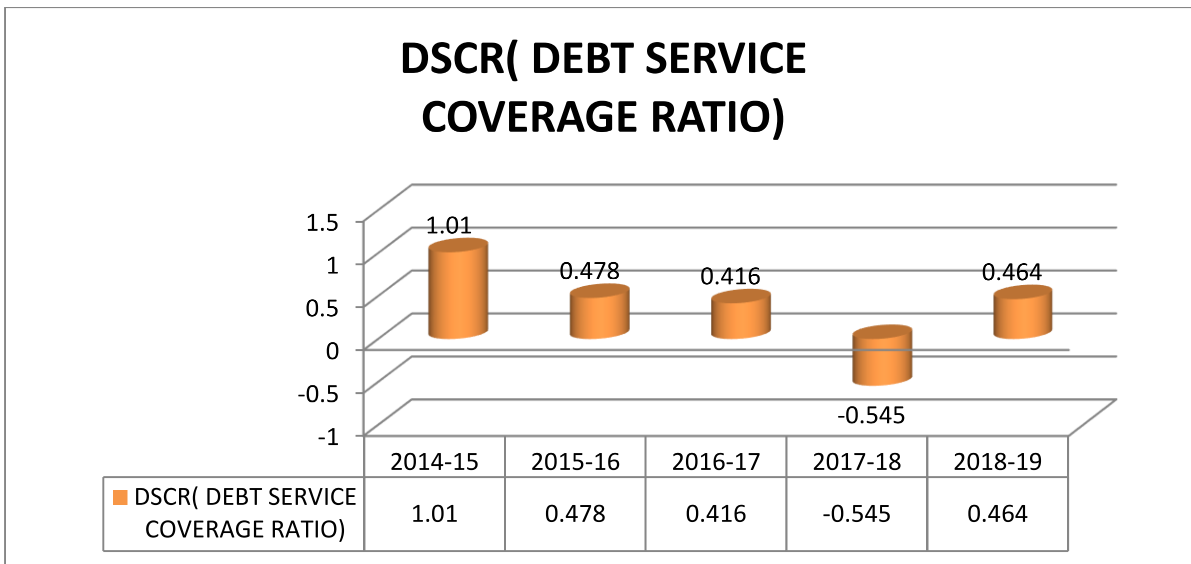
INTERPRETATION:

Debt to total asset ratio is less than one for all five years. Hence, the company is at less risk towards debt to total assets point of view.

COVERAGE RATIO

$$\text{DEBT SERVICE COVERAGE RATIO} = \frac{\text{EARNINGS AVAILABLE FOR DEBT SERVICE}}{\text{TOTAL INTEREST EXPENSES}}$$

YEAR	EARNINGS AVAILABLE FOR DEBT SERVICE	TOTAL INTEREST EXPENSES	DSCR(DEBT SERVICE COVERAGE RATIO)
2014-15	7,22,89,398	7,15,98,052	1.01:1
2015-16	2,59,83,574	5,43,57,702	0.478:1
2016-17	2,44,06,483	5,86,81,959	0.416:1
2017-18	-3,88,79,609	7,13,57,861	-0.545:1
2018-19	3,89,78,582	8,40,54,824	0.464:1

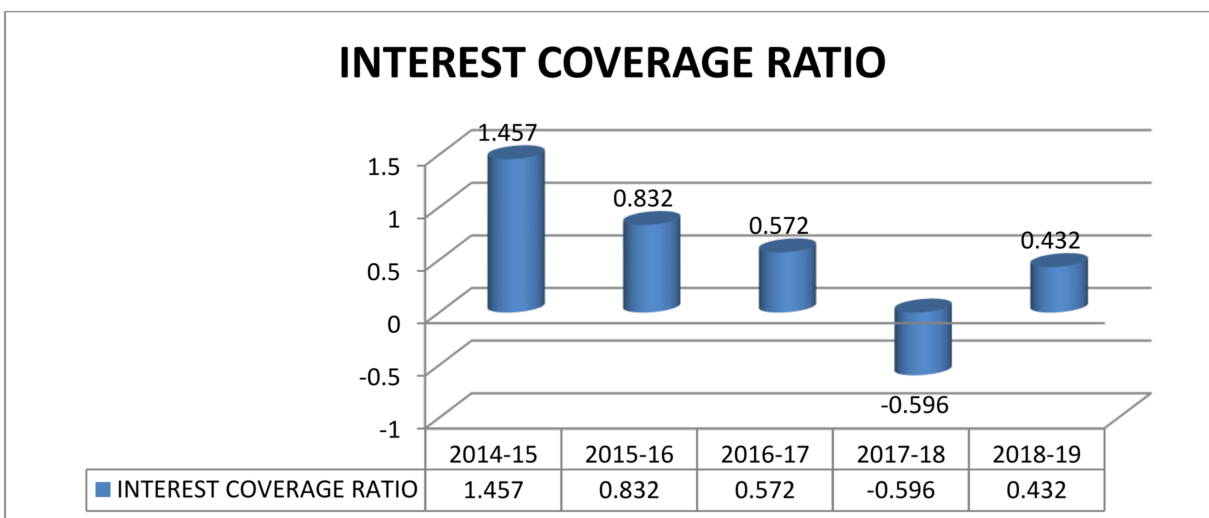


INTERPRETATION:

During the year 2014-15, the ratio is 1 and after that it is reduced 50%. But during the year 2017-18 drastically ratio reduced to -0.545 and after that in the year 2018-19 increased to 0.464. This shows the company ability to current debt obligation is 46%.
This may be due to more debts for company truculent growth strategy but have to watch further years growth of ratio and should achieve the required ratio criteria.

$$\text{INTEREST COVERAGE RATIO} = \frac{\text{EBIT (EARNINGS BEFORE INTEREST \& TAXES)}}{\text{TOTAL INTEREST EXPENSES}}$$

YEAR	EBIT	INTEREST	INTEREST COVERAGE RATIO
2014-15	10,43,23,662	7,15,98,052	1.457:1
2015-16	4,52,51,732	5,43,57,702	0.832:1
2016-17	3,35,82,132	5,86,81,959	0.572:1
2017-18	-4,24,97,401	7,13,57,861	-0.596:1
2018-19	3,62,69,949	8,40,54,824	0.432:1

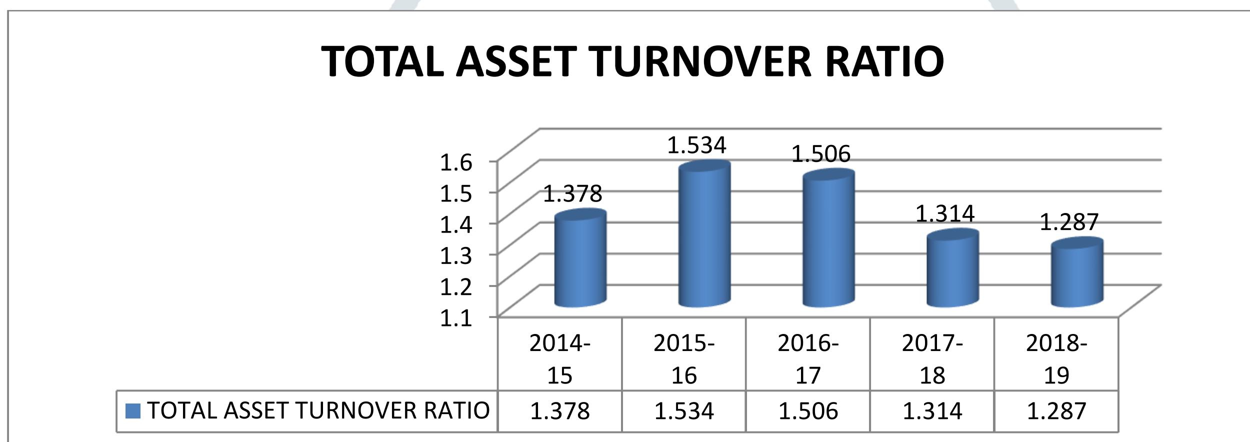


INTERPRETATION:

During the year 2014-15, the ratio is 1.5 but after that gradually decreased and particularly in the year 2017-18 goes to negative. Hence, interest coverage ratio is not satisfactory.

TOTAL ASSET TURNOVER RATIO = SALES / TOTAL ASSETS

YEAR	SALES	TOTAL ASSETS	TOTAL ASSET TURNOVER RATIO
2014-15	3,10,26,07,522	2,25,11,99,732	1.378:1
2015-16	2,40,69,72,959	1,56,93,83,005	1.534:1
2016-17	2,34,88,56,219	1,56,00,43,174	1.506:1
2017-18	2,31,96,69,989	1,76,57,91,573	1.314:1
2018-19	2,24,29,05,644	1,74,20,69,386	1.287:1



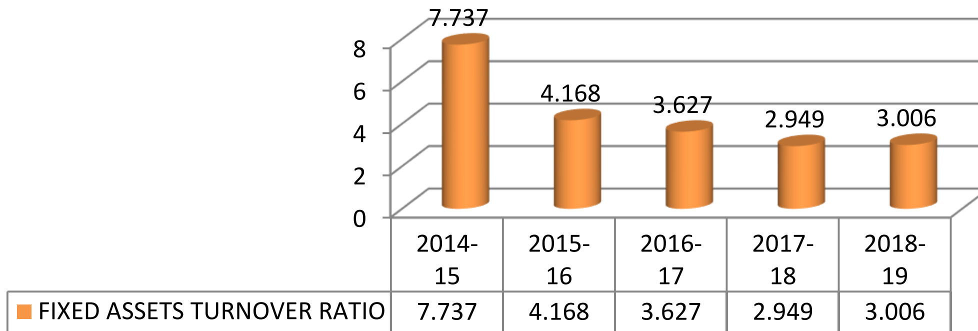
INTERPRETATION:

If the asset turnover ratio is higher, then the company is capable and efficient. Since, higher ratios imply that the company is generating lot of revenue per rupee of assets.

During all the years, the turnover ratio is above 1. Even though, it is satisfactory after year 2016-17 gradually decreasing and should not be below one.

FIXED ASSETS TURNOVER RATIO = SALES / FIXED ASSETS

YEAR	SALES	FIXED ASSETS	FIXED ASSETS TURNOVER RATIO
2014-15	3,10,26,07,522	40,10,18,322	7.737:1
2015-16	2,40,69,72,959	57,74,19,983	4.168:1
2016-17	2,34,88,56,219	64,76,44,654	3.627:1
2017-18	2,31,96,69,989	78,65,80,059	2.949:1
2018-19	2,24,29,05,644	74,60,80,792	3.006:1

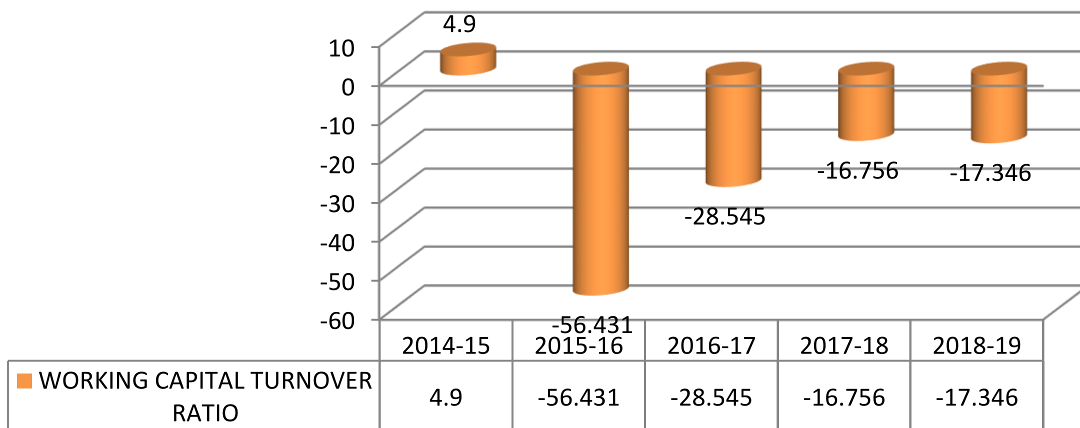


INTERPRETATION:

Generally, the norms of an asset turnover ratio of 2.5 or more could be expressed as good. However, it is more probably to target for an asset turnover ratio which is between 0.25 and 0.5.
During the year 2014-15, ratio is 7.737 it is very good and after that gradually reduced and in 2018-19 the ratio is 3.006. It is satisfactory.

WORKING CAPITAL TURNOVER RATIO = SALES / WORKING CAPITAL

YEAR	SALES	WORKING CAPITAL (CA-CL)	WORKING CAPITAL TURNOVER RATIO
2014-15	3,10,26,07,522	63,31,63,110	4.9:1
2015-16	2,40,69,72,959	-4,26,53,542	-56.431:1
2016-17	2,34,88,56,219	-8,22,85,359	-28.545:1
2017-18	2,31,96,69,989	-13,84,41,432	-16.756:1
2018-19	2,24,29,05,644	-12,93,03,324	-17.346:1

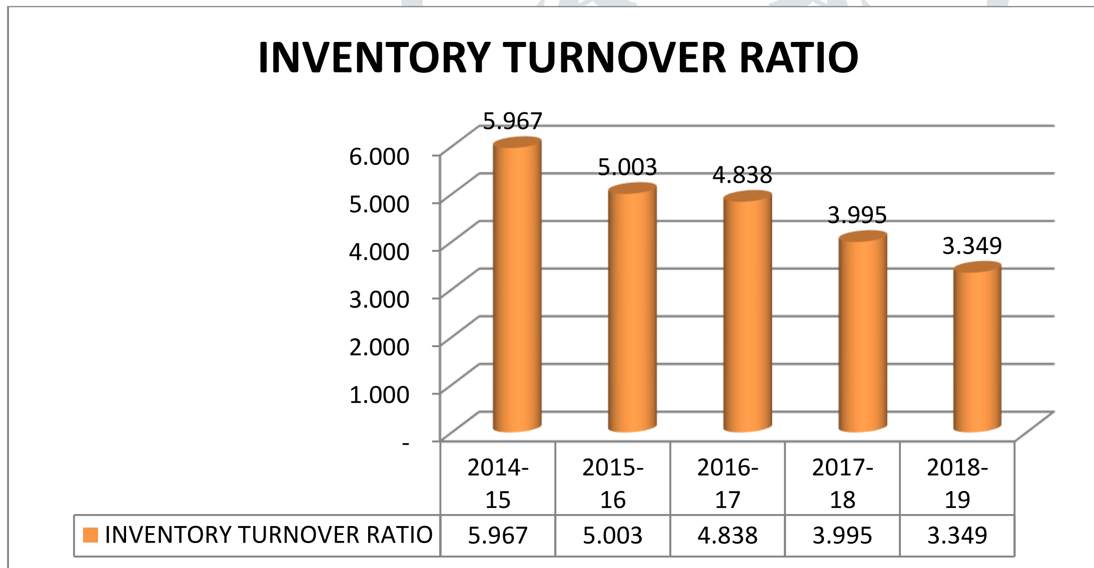


INTERPRETATION:

In the year 2014-15, the working capital turnover ratio is 4.9 which is positive and high which reflected the company effectiveness of working capital management and sales done for this period. But further years go highly negative. Negative means that the company has not sufficient short term funds for fulfilling the sales done for that period. This will cause a shortage of funds and a business to run out of money. This is alarming to the business. This is not satisfactory.

$$\text{INVENTORY TURNOVER RATIO} = \frac{\text{SALES}}{\text{AVERAGE INVENTORY}}$$

YEAR	SALES	AVERAGE INVENTORY	INVENTORY TURNOVER RATIO
2014-15	3,10,26,07,522	51,99,56,794	5.967:1
2015-16	2,40,69,72,959	48,10,99,798	5.003:1
2016-17	2,34,88,56,219	48,55,20,994	4.838:1
2017-18	2,31,96,69,989	58,07,01,299	3.995:1
2018-19	2,24,29,05,644	66,97,18,728	3.349:1



INTERPRETATION:

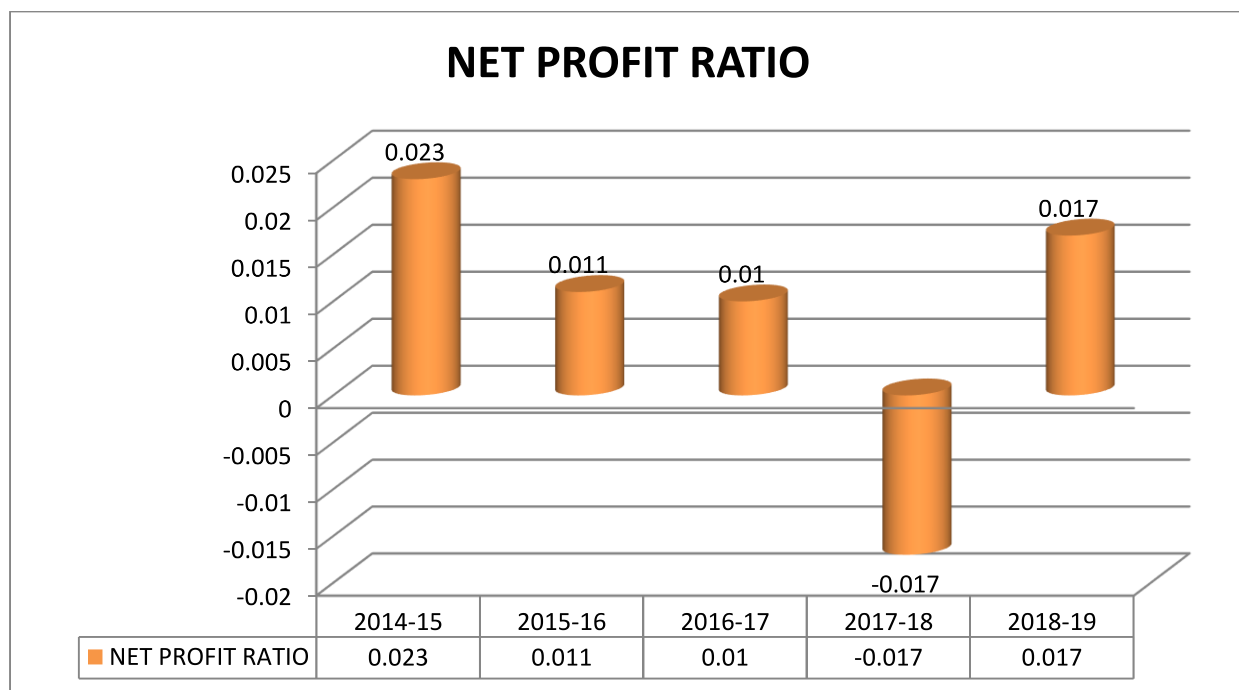
A fine inventory turnover ratio is between 5 and 10 for most of the companies, which tells us that you trade and restock your inventory every one to two months.

During the year 2014-15 and 2015-16, the ratio is about 6 and 5 and is good and satisfactory. But in the further years, it is gradually decreasing and year 2018-19, it shows 3.349 which are low of general norms. This implies that weak sales and possible excess inventory and also known as overstocking. It could imply a problem with the goods being offered for sale or be a result of very low marketing.

PROFITABILITY RATIO

$$\text{NET PROFIT RATIO} = \frac{\text{NET PROFIT}}{\text{SALES}}$$

YEAR	NET PROFIT	SALES	NET PROFIT RATIO
2014-15	7,22,89,398	3,10,26,07,522	0.023:1
2015-16	2,59,83,574	2,40,69,72,959	0.011:1
2016-17	2,44,06,483	2,34,88,56,219	0.01:1
2017-18	-3,88,79,609	2,31,96,69,989	-0.017:1
2018-19	3,89,78,582	2,24,29,05,644	0.017:1

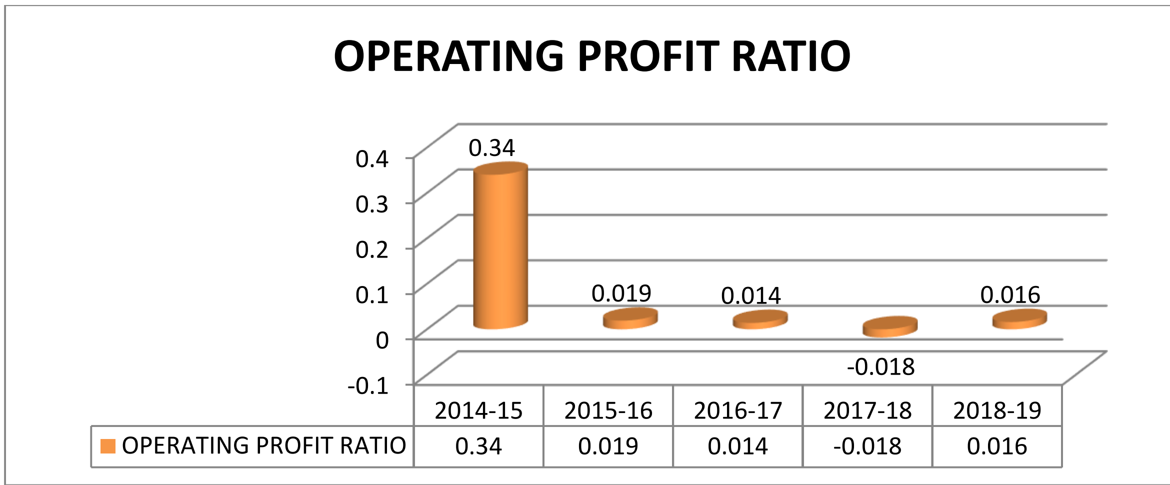


INTERPRETATION:

During all the years, the ratio shows 0.02 to 0.01 which is 1% to 2% which is very low.
This low ratio indicates that the company uses an ineffective cost structure and /or poor pricing strategies. This also shows inefficient management. It also indicates high costs (expenses) and weak pricing strategies.

$$\text{OPERATING PROFIT RATIO} = \frac{\text{EBIT}}{\text{SALES}}$$

YEAR	EBIT	SALES	OPERATING PROFIT RATIO
2014-15	10,43,23,662	3,10,26,07,522	0.034:1
2015-16	4,52,51,732	2,40,69,72,959	0.019:1
2016-17	3,35,82,132	2,34,88,56,219	0.014:1
2017-18	-4,24,97,401	2,31,96,69,989	-0.018:1
2018-19	3,62,69,949	2,24,29,05,644	0.016:1

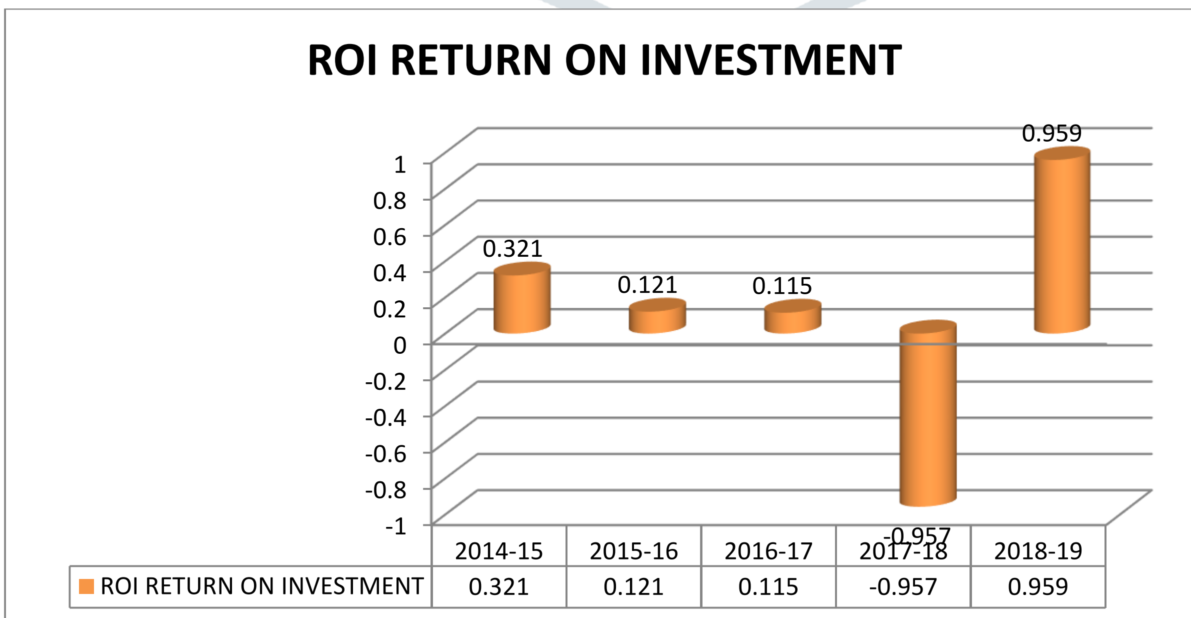


INTERPRETATION:

The operating profit is gradually reduced from 3.4% to 1% which is not satisfactory. During the year 2017-18, the ratio is negative, which is an indication of company's inability to control costs. However, this may be the common of sector-wide or macro-economic struggling out of hand of company's management.

RETURN ON INVESTMENT RATIO = PROFIT / INVESTMENT

YEAR	PROFIT	INVESTMENT	ROI RETURN ON INVESTMENT
2014-15	7,22,89,398	22,49,21,212	0.321:1
2015-16	2,59,83,574	21,53,50,967	0.121:1
2016-17	2,44,06,483	21,31,36,709	0.115:1
2017-18	-3,88,79,609	4,06,28,027	-0.957:1
2018-19	3,89,78,582	4,06,28,027	0.959:1



INTERPRETATION:

During the year 2014-15, the return is 32% which is good and after that reduced to 12 % to 11%. In the year 2017-18 this is negative. This refers to a loss, either on an investment or on invested projects. But in the year 2018-19 the return is 95% which is very high and satisfactory.

FINDINGS:

From the above analysis, it clearly tells us that

The liquidity of the company is in decreasing position and not satisfactory. The Operation efficiency is also not the anticipated standard. The profitability is poor.

Liquidity Ratios:
The current ratio is beneath the ratio's standards of 2:1 in all five years and not at the satisfactory level. The quick ratio is found too low in all the years. The cash ratio is lower than the standard ratio of 1:1

Solvency Ratios:

Debt to assets turnover ratio at the lowest level as it indicates not the well-organized use of funds. Debt-equity ratio is not favourable and indicates risk. Interest coverage ratio is in decline and negative also come which isn't absolutely satisfactory.

Activity Ratios:

Inventory turnover ratio is initially good but further low of general norms which means weak sales. Total Asset turnover ratio is even though satisfactory but shows gradual decrease and should not be below standard norms. Fixed assets to turnover ratio is initially very good and gradually reducing however in satisfactory level.

Profitability Ratios:

Net profit ratio is extremely low which indicates incapable of management. Operating profit ratio isn't satisfactory and also negative shows inability to control costs. Return on investment ratio is very satisfactory however in the year 2017-18 negative refers loss.

SUGGESTIONS:

- The company could decrease its inventory turnover on basis of the order for sales and market potential. The company may diminish the variable expenses of raw material consumed, power and fuel, employee expenses, administration, and selling & distribution expenses. It will lead to more operating profit. So as to raise the profitability of the company. It is recommended to manage the cost of goods sold and operating expenses The management would try to accept cost diminishing techniques in their company to get rid of this crucial situation.
- The company could ceaselessly maintain its proper planning and control techniques in order to regulate and optimize the use of cash balance. The company may be maintained in the current assets properly so that it will lead to a stronger position of working capital. The company may lessen the creditor's position by repaying the loans in short-period and may in healthier position in the forthcoming.
- The company would attempt to suit the amount of working with the sales trends. If there is a deficit of working capital, they would attempt to build on an adequate amount of working capital. If there is an exorbitant working capital, it would be invested either in marketable securities or would be accustomed to repay borrowings.

- The management should try to utilise their production capacity absolutely so as to diminish factory overheads and to utilise their fixed assets properly. To vitalise the financial ability, long-term funds have to be used to finance vital current assets and a part of temporary current assets. It is better if the company can reduce the oversized short-term loans and an advance eliminates the risk of arranging finance regularly.

CONCLUSION:

Financial performance is a basic instrument which provides all information regarding the financial position and operational efficiency of the company. The current ratio, quick ratio, net profit may increase in this respect. It is concluded that the overall financial performance was not satisfactory as per analysis. The company has to take appropriate steps to control the cost, raise the volume of sales, profit in the forthcoming years. So, proper planning should be made. The company ought to try and use properly their operating assets and should try to minimize their non-operating expenses.