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A STUDY ON RATIO ANALYSIS

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ABSTRACT

This project financial ratio analysis involves the selection, evaluation and interpretation of financial data and other pertinent information to assist in evaluating the operating performance and financial condition of a company. The operating performance of a company is a measure of how well a company has used its resources -its asset, both tangible and intangible-to produce a return on inventiveness. The financial condition of a company is a measure of its ability to satisfy on its obligations, such as the analysis of financial information. These tools include financial ratio analysis and quantitative analysis. The analyst must understand how to use these tools, along with economics and accounting information, in the most effective manner.

Keywords: Ratio Analysis, Financial Analysis, Accounting Information, Financial condition

INTRODUCTION

When we observed the financial statement comprising the balance sheet and profit or loss account is that they do not give all the information related to financial operations of firm, they can provide some extremely useful information to the extent that the balance sheet shows the financial position on a particular date in terms of structure of assets, liabilities and owner's equity and profit or loss account shows the results of operation during the year. Thus the financial statements will provide a summarized view of the firm. Therefore in order to learn about the firm the careful examination of a valuable reports and statements through financial analysis or ratio is required.

Ratio analysis is one of the powerful techniques which are widely used for interpreting financial statements. This technique serves as a tool for assessing the financial soundness of the business. It can be used to compare the risk and return relationship of firms of different sizes. The term ratio refers to the numerical or quantitative relationship between two items variables.

STATEMENT OF PROBLEM

Ratios are very useful to draw the conclusion so management wants to know what are the factor contributing for the future growth and also wants to maintain the same in the longerrun and also improve the profitability and liquidity of the organization.

Research problem

To know the financial performance of the organization through ratio analysis, by comparing years financial performance of the company.

Purpose of the study

A company's balance sheet and profit & loss accounts are valuable information sources for identifying risk taking and assessing risk management effectiveness. Although amounts found on these statements does not provide valuable insights of performance so ratio analysis is required for determining good or bad performance of company and also for determining its causes.

The study includes the calculation of different financial ratios. It compares five years financial statements of the company to know its performance in these different years

NEED OF THE STUDY

- It helps to make short term and long-term planning.
- Measurement and evaluation of financial performance.
- Study of financial trends.
- Decision making for investment and operations
- Diagnosis of financial skills
- It is beneficial to top management of the company by providing picture regardingimportant aspects like liquidity, leverage, activity and profitability·
- To be done to well understand the performance of various operations identifies theshort coming in management and to suggest for improvement in those areas.

OBJECTIVES:

- To know the financial performance of the organization.
- To study the financial position based on different ratios.
- To determine the profitability and liquidity of the company through ratiosanalysis
- To know the various turnover positions.
- To calculate the long-term solvency position.
- To compare the present and previous year's performance.

SCOPE OF THE STUDY

- The scope of the study is limited to collect financial data published in theannual reports of the company every year.
- The analysis is done to suggest the possible solution throughcalculated ratio for the organization.
- The study is carried out for 3 Months

REVIEW OF LITERTURE

Mylyono.S.,D jurnahir.D.& Ratnawati.K.,(2018) The Effect of Capital Working Management On The Profitability. The purpose of this study is to examine the effect of working capital management on firm's profitability. Mc study isbased on a sample of 164 manufacturing firm listed on the main board of bursa Malaysia, covering a span of five years from 2007 to 2011.A discriminatory panel regression and Pearson correlation are used to test the hypotheses, The empirical evidence found that there isexigency of significant positive relationship between exogenous variables, the average collection period. Inventory conversion period and firm's size and its endogenous variable, which is a firm profitability T findings also show a significant inverse relationship between debt ratio (leverage) And firm's profitability, but the firm's capability to translate working capital into cash promptly, as proxy in log cash conversion cycle has no impact on firm's profitability.

Godswill.0.,Aile men II. L. & Osabohivn.R..t2018) Oriong Capital Management and Bank Performance. The objective of' this study is to examine how profitability of bank can be enhanced through the working capital management. To empirically carry out the analysis, panel data which consists of ten (10)deposit money bank in Nigeria for seven years (2010-2016)employing the panel fixed effect, panel random effect and the pooled OLS for the two models, which were used as proxies for bank profitability, which includes return on asset(ROA) and return on equity(ROF) to examine the best measure for bank profitability, with the indicators of working capital; net interest income, current ratio, profit after tax, and monetary policy rate. Results of the study showed that working capital management has a significant effect on the Profitability of the selected banks and that return on asset is a better measure for bank Profitability

Rebecca Abraham, Judith harris, Joel Auerbach Huizenga (2017)Earnings Yield AsA Predictor of Return on Assets, Return On Equity, Economic Value Added And Equity Multiplier. This study identifies earning yields as a measure of financial performance that is based on a firm's ability to sell profitable goods. It excludes the irrationality that can confound market-based measures of financial performance by emphasizing a fan's ability to cam profits as the indicator of superior performance. For the full sample, the differential effects of earnim4 yield on return on assets return on equity, stock return, economic value added and the equity multiplier are determined for firms of different size and volatility. The analysis is conducted both across industries and within the oil and gas, computer software, biotechnology and retail industries. For the full sample of NASDAQ stock from 2010-2014, earning yield significantly explained return on assets, return on equity, stock return. Economic value added and the equity multiplier beyond book value and book to market. The influence of earnings yield on return on assets was predictable with linear relationships and auto correlated residuals, while that for small firms was unpredictable with nonlinear relationships between earnings yield and all outcomes with heteroscedastic residuals. In the oil and gas industry, small producers with low market risk and high firm-specific risk i.e., drillers in new location with existing technology, found that earnings yield was related to all outcome measures, while large, high market risk films, or drillers using the new shale rock techniques strove for operational efficiency through higher return on assets and return on equity. Market risk demarcates small biotechnology firms with those with low market risk demonstrating the explanation of return on assets by earnings yield, while earning yield is significantly related to economic value added for high market risk firms. In large biotechnology firms, earning yield was significantly related to all outcomes. Similar results were obtained for the computer software industry. Retail is in retrenchment with small retailers selling traditional product lines emphasizing return on assets.

Afrifa .G.A.(2016)NET WORKING CAPITAL, CASH FLOW. The result indicates a strong concave relationship between net working capital and Performance in the absence of cash flow; however, the relationship becomes convex after taking cash flow into consideration. The results further shows that firms with cash flow below the sample median exhibit lower investment in working capital, but firms with cash flow above the sample median have higher investment in working capital. The result suggests that managers should consider their firms cash flow when determining the appropriate investment to be made in working capital, so as to improve performance.

Kumar Mohan M.S., Vasu.V., &Narayana. (2016)RATIOS The study has been made through using different ratio. Mean standard deviation and Alman's Z score approach to study the financial health of the company. The study reveals there is a positive correlation between liquidity and profitability ratio except return on total assets as well as Z score value indicate good health of the company.

Jothi .K., & Geethalakshmi.A., (2016) PROFITABILITY RATIO This study tries to evaluate the profitability and financial position of selected companies of Indian automobile industry using statistical tools like, ratio analysis, mean, standard deviation, correlation. The study reveals the positive relationship between profitability, short term and long term capital.

RESEARCH GAP

Ratio is a powerful test of financial analysis. In financial analysis, ratios are helpful as a Benchmark for evaluating the financial position and performance of a firm. The absolute financial figures reported in the financial statements do not provide a meaningful understanding of the performance of financial position of a firm. Therefore, a financial figure when related to another figure conveys a meaningful understanding. As for example, 5 million net profit earned in a financial year look impressive and also sound well; but do not bear testimony to the good financial position

DIFFICULTY IN COMPARISON

Inter-firm comparison is one of the main techniques of comparative analysis of ratios. But, each inter-firm comparison faces the following main difficulties:

(i) Difference arisen in the basis of inventory valuation

(ii) Differences arisen in the methods of depreciation like straight line, reducing balance, accelerated etc.

(iii) Differences arisen in estimating working life of fixed assets like plant and machinery and equipment

(iv) Differences arisen in amortization of intangible assets like goodwill, patents etc.

(v) Differences arisen in amortization of deferred revenue expenditures like preliminary expenses, discount on issue of shares etc.

(vi) Differences arisen in capitalization of lease

(vii) Differences arisen in the treatment of extra-ordinary items of income and expenditure. Diagnostic

RESEARCH METHODOLGY:

❖ A systematic search for an answer to question or a solution to a problem is called research.

❖ Research is the process of systematic and in the study or search for any particular topic, subject area of investigation, collection, presentation and interpretation of relevant details of data.

❖ Any effort which is directed to study of the strategy needed to identify the problem

Types of research

1. **Quantitative Research:** As the name suggests, Qualitative research relies on quantifying a Certain amount or quantity of a specific phenomenon.
2. **Qualitative Research:** It refers to the non-numerical elements in the research. Qualitative Research comes to the rescue when the researcher cannot grasp the information or data regarding Numbers.
3. **Descriptive Research:** Descriptive research is a type of analysis that outlines the features of the Population or issues under study. This type of methodology focuses more on the "what" of the research problem.

RESEARCH DESIGN:

Research design is the specification of methods and procedures for acquiring the information needed to structure or to solve problem.

The Exploratory from of research method is adopted the study. The nature and characteristics of the financial statement have been described in this study.

DATA ANALYSIS AND INTERPETATION

TABLE -1- THE TABLE SHOWING GROSS PROFIT RATIO

Gross Profit Ratio = (Gross Profit / Net sales) *100

Year	Gross Profit	Net Sales	Gross ProfitRatio (%)
2022	244.83	938.49	26.09%
2021	162.36	800.94	20.27%
2020	86.36	585.39	14.75%
2019	113.28	269.59	42.02%
2018	57.74	178.38	32.39%

Interpretation:

From the above table it is inferred that, the Gross Profit Ratio of the company from 2018 to 2022 shows fluctuations and it was high i.e 42.02% during and it was low 14.75% during 2020.

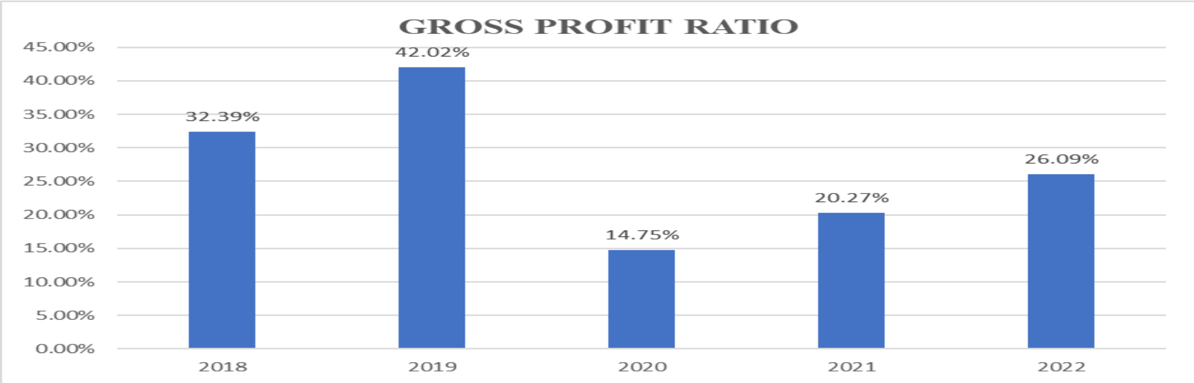

CHART-1- THE TABLE SHOWING GROSS PROFIT RATIO

TABLE-2-THE TABLE SHOWING NET PROFIT RATIO

Net Profit Ratio = (Net profit / Net sales) *100

YEAR	NET PROFIT	NET SALES	NET PROFIT RATIO (%)
2022	198.1	938.49	21.19%
2021	115.8	800.94	14.46%
2020	58.5	585.39	9.99%
2019	108.75	269.59	40.34%
2018	54.76	178.38	30.70%

Interpretation:

From the above table it is inferred that, the Net profit of the company from 2018 to2022 shows fluctuations and it was high i.e 40.34% during 2019 and it was low 9.99% during 2020.

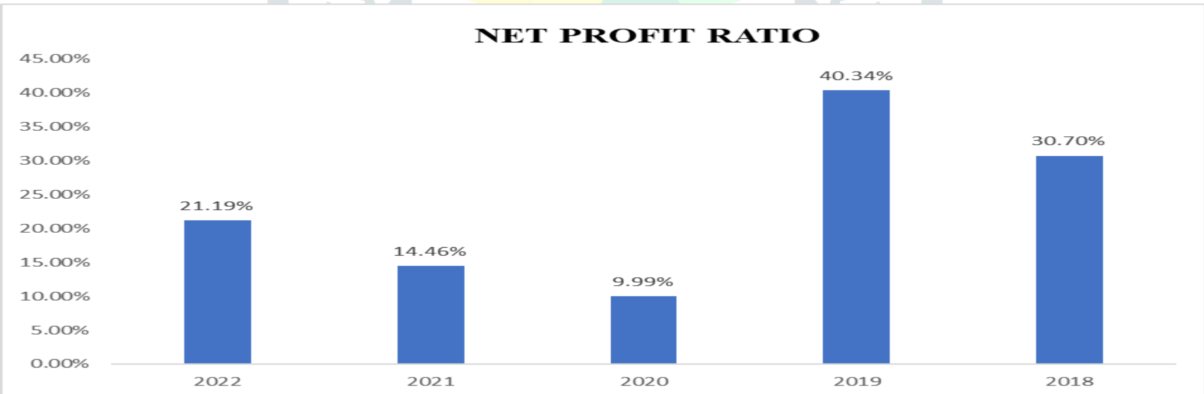

CHART-2-THE TABLE SHOWING NET PROFIT RATIO

TABLE-3-THE TABLE SHOWING OPERATING PROFIT RATIO

Operating Profit Ratio = (Operating profit / net sales) *100

Year	Operating Profit	Net Sales	Operating ProfitRatio (%)
2022	262.17	938.49	27.94%
2021	178.23	800.94	22.25%
2020	98.18	585.39	16.77%
2019	122.17	269.59	45.31%
2018	65.92	178.38	36.95%

Interpretation:

From the above table it is inferred that, the Operating profit Ratio of the company from 2018 to 2022 shoes fluctuations and it was high i.e 45.31% during 2019 and it was low 16.77%during 2020.

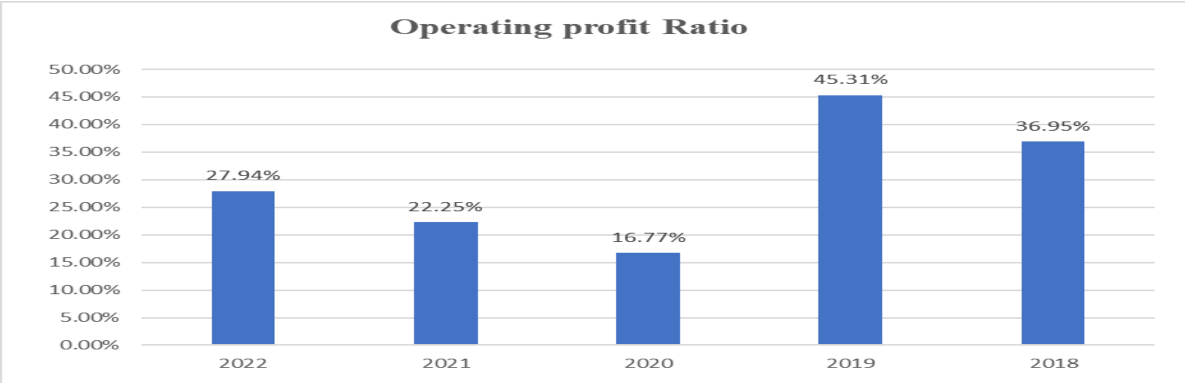

CHART-3- THE TABLE SHOWING OPERATING COST RATIO

TABLE-4-THE TABLE SHOWING OPERATING COST RATIO

Operating Cost Ratio = (Operating Cost / net sales) *100

Year	Operating Cost	Net Sales	Operating CostRatio (%)
2022	683.05	938.49	72.78%
2021	624.64	800.94	77.99%
2020	489.27	585.39	83.58%
2019	148.1	269.59	54.94%
2018	113.21	178.38	63.47%

Interpretation:

From the above tables it is inferred that, the Operating cost of the company from 2018 to 2022 shows fluctuations and it was high i.e 83.58% during 2020 and it was low 54.94% during 2019.

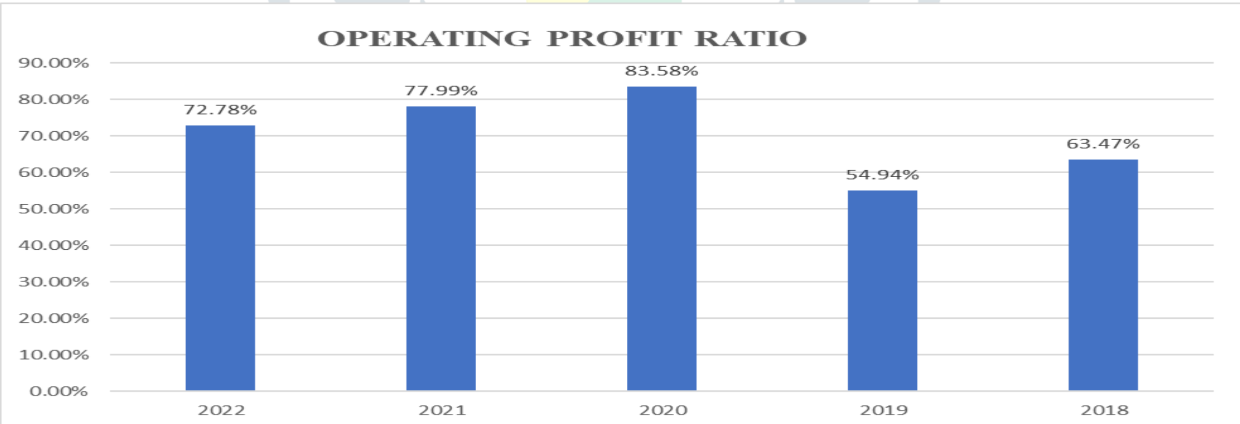

CHART-4-THE TABLE SHOWING OPERATING COST RATIO

TURNOVER RATIOS

TABLE-5-THE TABLE SHOWING THE WORKING CAPITAL TURNOVER RATIO

Working capital turnover ratio = Net sales / Working Capital

Year	Net Sales	WorkingCapital	Working CapitalTurnover Ratio in Times
2022	938.49	316.14	2.97
2021	800.94	177.09	4.52
2020	585.39	114.15	5.13
2019	269.59	62.98	4.28
2018	178.38	53.98	3.31

Interpretation:

From the above table it is inferred that, the working capital turnover ratio of the companyfrom 2018 to 2022 shows inconsistency and it was increasing 3.31, 4.28, 5.13 during 2018, 2019 and 2020 then it was decreased 4.52 to 2.97 during from 2021 to 2022.

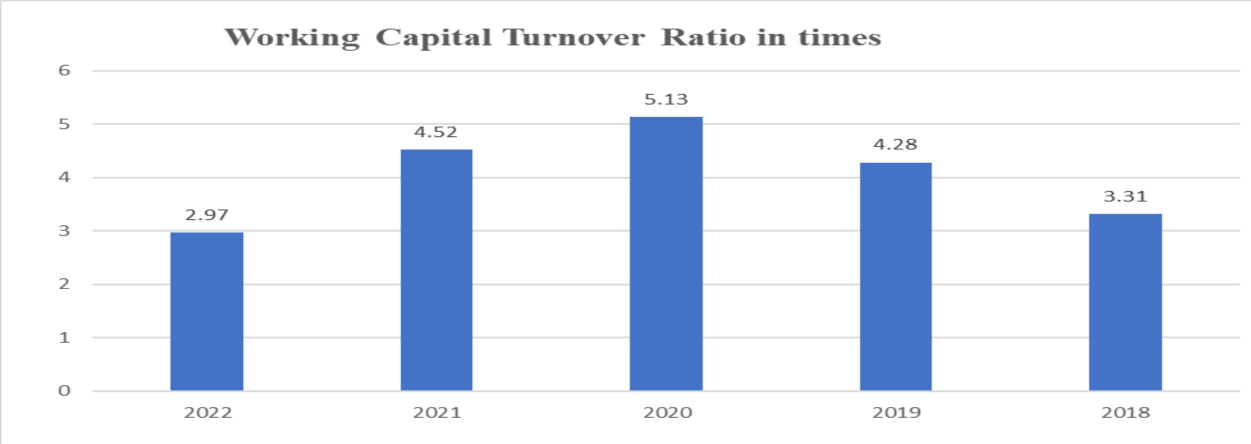

CHART-5-THE CHART SHOWING WORKING CAPITAL TURNOVER RATIO

FINDINGS

✓ The Gross Profit Ratio of the company from 2018 to 2022 shows fluctuations and it was high i.e 42.02% during and it was low 14.75% during 2020.

✓ The Net profit of the company from 2018 to 2022 shows fluctuations and it was high i.e 40.34% during 2019 and it was low 9.99% during 2020.

✓ The Operating profit Ratio of the company from 2018 to 2022 shoes fluctuations and it was high i.e 45.31% during 2019 and it was low 16.77% during 2020.

✓ The Operating cost of the company from 2018 to 2022 shows fluctuations and it was high i.e 83.58% during 2020 and it was low 54.94% during 2019.

✓ The working capital turnover ratio of the company from 2018 to 2022 shows inconsistency and it was increasing 3.31, 4.28, 5.13 during 2018, 2019 and 2020 then it was decreased 4.52 to 2.97 during from 2021 to 2022.

✓ The fixed asset turnover ratio of the company from 2018 to 2022 shows inconsistency and it was increasing from 2.5 to 12.11 during 2018 to 2020 then it was decreased to 2.3 till 2022.

SUGGESTIONS

✓ Company has to concentrate on increasing gross profit since from 2018 to 2019. Which shows decreased trends?

✓ Company has to concentrate on increased net profit ratio

✓ Company can maintain the same level of current ratio in future periodalso.

✓ Company can maintain the same level of liquid ratio in future periodalso.

✓ The company has to increase the investment of money on fixed assets to reach the standard ratio of fixed assets ratio.

✓ The company has to increase in maintaining cash balance to manage uncertaintiesand ensure the solvency position in the future period.

✓ The company has to restrict the further investment of money on tangible assets inthe future period since it has been maintained heavily for the past 5 years.

CONCLUSION

The study on ratio analysis of the company was underwith a view to explore the scope for management a number of suggestions has been made the conclusion of the study. 1 is sure that a conclusion and suggestion will contribute for improving the effectiveness and efficiency of the present ratio analysis. The company has toreduce the issue of the equity share to raise the capital. Organization has to take necessary steps to increase the profit, which increase the gross profit and net profit. Sales have to increase through proper marketing. Maintain cash in hand to increase the solvency. Invest in fixed assets for more productivity. The company can achieve the highest with full- fledged effort of top management and its employees their commitment and sincerity towards goals.

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