

Financial Performance of the Aditya Birla Stock Broking Companies

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ABSTRACT

Finance is the nerve centre and lifeline of any economic activity and is, therefore, omnipresent in every sphere of economic and business life. It plays an extremely crucial role in the continuity and growth of a business. Ratio analysis is one of the basic analysis for examining the financial position and performance of the selected stock broking companies. t-test is a statistical procedure used to examine the mean difference between the sample and the population mean. It can help to examine the existence of the significant difference between the years of the selected ratios during the study period from 2005-06 to 2014-15.

Indian security market has experienced significant growth over the years on the back of various economic reforms and liberalization of financial markets. However, in the wake of the global economic crisis, Indian stock markets remained passive. Global economic recovery, which started taking shape post the 2008 financial crisis, looked promising at one point but suffered a major setback in 2011. The increased role of financial intermediaries in recovering from the global financial market disorder has realigned the role of the broking industry in the financial sector. The financial performance analysis constitutes the approach to judge the effectiveness of the finance function of the institution. Financial analysis is the most useful technique which enables financial manager to take rational decisions from time to time, keeping in view the objectives of the company. It relies on the comparisons or relationships of the data that enhances the utility or the practical value of the accounting information. This analysis consists in applying various analytical tools and techniques to the financial data. Financial analysis provides for analyzing financial conditions and performance of a company. Financial statement analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. It helps the analyst to make a quantitative judgement with regard to company's financial position and performance.

1. Objectives of the study

- To analyze the financial performance of the Aditya Birla stock broking firm in India.

2. Hypotheses of the study

For the purpose of the analysis, the following hypotheses are framed:

- There is no significant difference between the years of the selected ratios of the Aditya Birla Stock Broking Company.
- There is no positive association between selected independent variables and dependent variable 'net profit ratio' in the Aditya Birla Stock broking companies.

3. Methodology of the study

Exploratory research design was adopted for present study to analyze and interpret the available information. The study covers ten financial years from 2005-2006 to 2014-2015. Further, the financial performance of the Aditya Birla stock broking companies is found through mean, standard deviation, co-efficient of variation, 't' test and ratio analysis. With a view to find the significant difference between the years among the

selected ratios of Aditya Birla stock broking companies, a hypothesis has been framed and tested by using 't' test analysis.

4. Findings of the study

Financial performance analysis

The financial structure is a challenging task for financial and non financial sectors, as they face complexities and lack efficiency in taking financial decisions in these sectors. Therefore many companies are encouraged to ensure sound knowledge over financial structure decisions. The major results of this research shown in the table 1 & 2, it provides an overview of financial structure status.

t- test Analysis

The data were analyzed by various financial ratios and appropriate statistical tools like mean, standard deviation, co-efficient variation, and 't' test. The respective mean value of Aditya Birla Money recorded a highest mean in debt-equity ratio, fixed assets to net worth ratio, fixed asset to long term ratio and total assets turnover ratio. The 't' test result indicates that the null hypothesis is accepted for working capital turnover ratio, Return on Total Assets, Gross Profit Ratio, Net profit ratio, Operating profit ratio, Earnings before interest and tax to

net sales, Earnings before interest and tax to total assets and Return on net worth.

Hence, there is no significant difference within the ten years of the above ratio at 1 percent and 5 percent level.

i. Liquidity Analysis

Current ratio and quick ratio of the company show significant difference within the ten years of the study period at 1 percent and 5 percent level of significance.

ii. Solvency Analysis

The findings display a significant difference in terms of debt equity ratio, fixed assets to net worth and fixed assets to long term funds within the study period of the stock broking company.

iii. Activity Analysis

The results of the debtor's turnover ratio and Total Assets Turnover Ratio shows that all the companies display a significant difference within the study period from 2005-06 to 2014-15. The ratios Return on Total Assets and Working Capital Turnover exhibits that there is no significant difference during the study period.

iv. Profitability Analysis

In Gross Profit Ratio, Net profit ratio, operating profit, earnings before interest and tax to net sales ratio, Earnings before interest and tax to total assets ratio return on net worth ratio null hypothesis is accepted for the company throughout the study period.

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Correlation analysis

Correlation analysis shows that among the fourteen independent variables, debt-equity ratio, gross profit ratio, operating profit ratio, Earnings before interest and tax to net sales ratio, Return on total assets, Earnings before interest and tax to total assets ratio and Return on Net worth are positively correlated with net profit ratio at 1 percent and 5 percent level of significance. On the other hand, Fixed assets to long term funds ratio is negatively correlated with net profit ratio at 1 percent level of significance. Further, the variables current ratio, quick ratio, Fixed assets to Net worth ratio, Debtors turnover ratio, Working capital turnover ratio and Total assets turnover ratio did not have any association with the Net Profit ratio of the company during the period. From the result of correlation analysis, it is noticed that the null hypothesis is accepted for current ratio, quick ratio, fixed asset to network ratio and fixed asset to long term fund ratio. On the other hand, remaining ratios have a positive association with net profit ratio.

5. Conclusion

India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The study explores that all ratios have a significant difference within the study period for all the companies. In correlation analysis, it is noticed that the null hypothesis is accepted for current and quick ratio for all the companies.

ANNEXURES

TABLE NO. 1
Ratio Analysis

(in Times)

Year	Current ratio	Quick ratio	Debt Equity ratio	Fixed Assets to Net worth	Fixed assets to Long term funds	Debtor's Turnover ratio	working capital turnover ratio	Total Assets Turnover Ratio	Return on Total Assets
Mean	1.05	1.05	4.57	0.65	0.51	1.51	-0.38	1.05	6.56
SD	0.34	0.34	2.89	0.18	0.19	0.79	6.04	0.26	15.81
CV (%)	32.10	32.10	63.26	26.84	37.63	52.29	-1582.01	24.21	240.86
't' Test	9.851	9.851	4.999	11.781	8.404	6.048	-0.200	13.064	1.313
'p' Value	0.000*	0.000*	0.001*	0.000*	0.000*	0.000*	0.846 ^{NS}	0.000*	0.222 ^{NS}

Year	Gross Profit Ratio	Net profit ratio	Operating profit ratio	Earnings before interest and tax to net sales	Earnings before interest and tax to total assets	Return on net worth
Mean	10.44	-0.18	10.44	8.34	10.22	4.75
SD	18.42	15.63	18.42	19.83	21.57	30.63
CV (%)	176.46	-8891.28	176.46	237.75	211.12	644.53
't' Test	1.792	-0.036	1.792	1.330	1.498	0.491
'p' Value	0.107 ^{NS}	0.972 ^{NS}	0.107 ^{NS}	0.216 ^{NS}	0.168 ^{NS}	0.635 ^{NS}

Source : Prowess Data

Note : * - Significant at 1% level; ** - Significant at 5% level; NS-Not Significant

TABLE NO. 2
Correlation Analysis

Variables	Aditya Birla Money
Current ratio	-0.22
Quick ratio	-0.22
Debt equity ratio	0.70*
Fixed assets to net worth	-0.03
Fixed assets to long term funds	-0.65*
Debtor's turnover ratio	0.07
Working capital turnover ratio	0.06
Total Assets Turnover Ratio	0.34
Gross Profit Ratio	0.96**
operating profit ratio	0.96**
earnings before interest and tax to net sales	0.97**
Return on Total Assets	0.93**
Earnings before interest and tax to total assets	0.91**
return on net worth	0.99**

Note : * - Significant at 1% level; ** - Significant at 5% level; NS-Not Significant

Source : Prowess Data