

Financial Analysis- A Case Study

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ABSTRACT

The Ratio Analysis technique is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance-sheet and the profit and loss account because the figures recorded in the financial statements are absolutely incapable of revealing the soundness or otherwise of a Company's financial position or performance. Thus the technique of Ratio Analysis has been used which is supposed to be powerful tool for financial statements.

Accounting ratios supportive to analyze the financial locus of a company. Financial analysis aids to evaluate the financial health of a firm. Accounting ratios are intended for a number of years which demonstrates the changes. Ratios are useful tool for various stakeholders like management, financiers, shareholders and creditors etc. In order to analyze the financial performance of Visa Steel Limited, the accounting ratios are used. Secondary data is used from the Published Annual Reports of the company for time period 2016-17 to 2018-19. The final result of the paper in accordance to the financial performance of Visa Steel Limited shows that the financial performance of the company is poor after 2015-16 and directors should pay more attention to revive the company.

1. Introduction

Financial statement analysis is largely a study of the relationship among the various financial factors in a business as disclosed by single set of statements and the study of the trend of these factors as shown in series of statement. Analysis of financial statement is the systematic numerical calculation of the relationship between one fact with the other to measure the profitability, operational, efficiency, solvency and the growth potential of the business."

A ratio is a simple mathematical expression of the relationship of one number to another. "A ratio is an expression of the quantitative relationship between two numbers". In short it can be defined as the indicated quotient of two mathematical expressions. The ratios can be expressed in 1) Percentages 2) fraction and 3) Proportion of numbers.

Ratio Analysis is a technique of analysis and interpretation of financial statements. it is defined as the systematic use of ratios to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performances and current financial condition can be determined. There are a number of ratios which can be calculated from the information given in the financial statements, but the analysts has to select the appropriate date and calculate only a few appropriate ratios from the same keeping in mind the objectives of analysis.

The interpretation of ratios is an important factor. Though calculation of ratios is also important but it is only a clerical task whereas interpretation needs skill, intelligence and foresightedness. The impacts of factors such as price level changes, change in accounting policies, window dressing etc should be kept in mind when attempting to interpret ratios. The interpretation of ratios can be made in following ways: -

1. Intra firm comparison: - Here the ratios of one organization may be compared with the ratios of the

same organization for the various years either the previous years or the future years.

2. Inter firm comparison: - The ratios of one organization may be compared with the ratios of the other organization in the same industry and such comparison will be meaningful as the various organization, in the same industry may be facing similar kinds of financial problems.
3. The ratios of an organization may be compared with some standards, which may be supposed to be the thumb-rule for the evaluation of the performance

2. Review of literature

Prasanta Paul (2011) stated on the Financial Performance Evaluation – Some of the selected NBFCs are taken for the comparative study. In the study, five of the listed NBFCs are considered for the analyzation of comparative financial performance. Different type of statistical tools like standard deviation, arithmetic mean, correlation etc. are used extensively.

Sheela Christina (2011) reported on Financial Performance of Wheels India Ltd. Secondary data collection method is used for the analytical type of research design. Before conducting the study, validity and reliability is checked for the past five years where the researcher used this for the purpose of study.

Ried Edwardj and Srinivasan Suraj (2010) made an investigation to check whether the special items presented by the managers' in the financial statements reflected in the economic performance or opportunism.

Gaur Jighyasu (2010) focuses on the measurement of financial performance of business group companies of nonmetallic mineral products industries of India. This study uses the 57 business group companies' financial data of

nonmetallic mineral products industries of India such as glass, cement, jewellery and gems, ceramic tiles, refractories etc. Amalendu Bhunia (2010) took the analysis of pharmaceutical company's financial performance to understand how the management of finance playing a crucial role in the growth. For a period of twelve years the study has undertaken from 1997-98 to 2008-09.

3. Objectives of the study

1. To obtain a true insight into financial position of the company.
2. To make comparative study of financial statements of different years.
3. To draw the correct picture of the financial operations of the company in terms of liquidity, solvency, turnover, profitability etc.
4. To find out the reasons for unsatisfactory results.
5. To find out profitability, liquidity, solvency position of the company.
6. To find out total asset, capital, and liability position of the company.

4. Scope of the study

1. Profitability for the organisation to minimise cost and to maximise return.
2. Liquidity the ability to meet its operating activities.
3. Safety or security to overcome under risk.
4. Investment decision to include short term working capital management and long term capital budgeting.
5. Financing decision include decision about fixing financing mix and determining capital structure.
6. Dividend decisions are about dividend policy, zero, residual, constant, stable dividend policies

5. Advantages of ratios

1. Ratios simplify the comprehension of financial statements. They tell the whole story as a heap of financial data is condensed in them. They indicate the changes in the financial condition of the business.
2. They act as an index of the efficiency of enterprise. As such they serve as an instrument of management control. It is an instrument for diagnosis of the financial health of an enterprise. The efficiency of the various individual units similarly situated can be judged through inter-firm comparisons.

The ratio analysis can be if invaluable aid to management in the discharge of its basic functions of forecasting, planning, co-ordination, communication and control. A study of the trend of strategic ratio may help the management in this respect.

7. Data analysis and interpretation

1) What is the Current Ratio Of the year 2017, 2018, and 2019?

PARTICULAR	YEAR		
	2017	2018	2019
CURRENT ASSET	10,00,000	7,50,000	8,25,000
CURRENT LIABILITIES	4,00,000	3,70,000	3,75,000
CURRENT RATIO	2.5	2.02	2.2

Past ratios indicate trends in cost, sales, profit and other relevant facts.

The ratio analysis provides data for inter-firm comparison or intra-firm comparison. Comparison cannot be made with absolute figures. Net profit of one firm cannot be compared with the net profit of the other firm. But the percentages of net profits can be compared to evaluate the performance. Similarly performance and efficiency of different departments in the same firm can be compared with the help of ratios. Investment decisions can at times be based on the conditions revealed by certain ratios.

They make it possible to estimate the other figure when one figure is known.

6. Sources of data collection:

➤ **Primary data:-**

The Primary data used by the researcher is questionnaire. Examples are

- i) Direct interaction with the employees
- ii) By timely studying the happenings at the company.
- iii) A detailed study on the actual working processes of the company

➤ **Secondary Data:**

The secondary data used in this research are

- i) Books referred and
- ii) Websites

Period Of The Study:

The Ratio analysis at Kalyani Steel Pvt. Ltd. is made on the basis of information abstracted, from the financial statements of the company for the period of 3 years from the financial year 2017 to 2019. The research was done during the period from late January to late April 2019.

“The Paper Is Quantitative & Descriptive In Nature”

Research Method use in this research

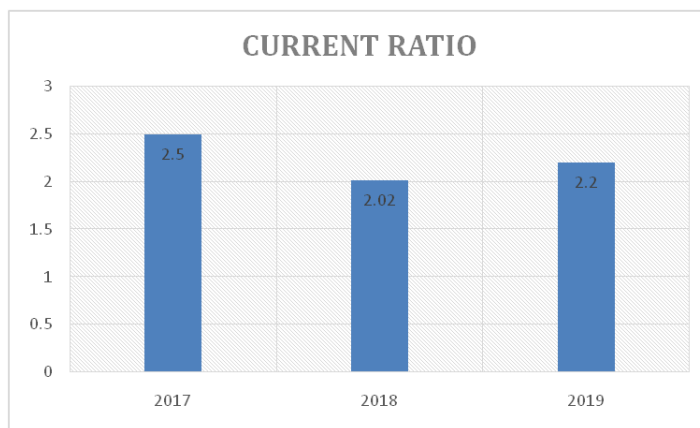
1. Statistical Research

Sample Size

“The Sample Size Of Project is Financial Statements Of The Company For The Period Of 3 Year From The Financial Year 2017 to 2019

Sample Design

Sampling is used to collect primary data and secondary data when the source of data. It is for too many to be exhausting handled. Sampling is the integral part of data collection process. The way of selecting a sample is known as sample design. It is the definite plan for abstaining a sample for a given population. It may as well lay down the numbers of items sample design is determined before data are collected.



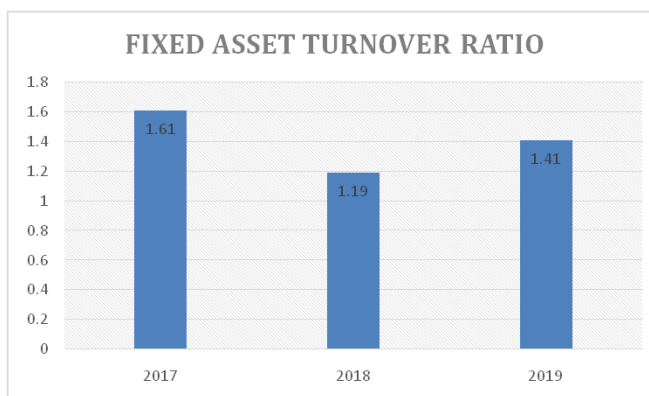
INTERPRETATION:-

This ratio indicates the coverage of current assets to the current liabilities. Similarly a very high current ratio will not

indicate a favourable position as it means that there is an excessive investment in current assets.

2) Which Year Fixed Asset Turnover Ratio Is High?

PARTICULAR	YEAR		
	2017	2018	2019
NET SALES	9,50,000	8,65,243	9,24,865
NET FIXED ASSET	5,87,612	7,26,594	6,54,231
FIXED ASSET TURNOVER RATIO	1.61	1.19	1.41

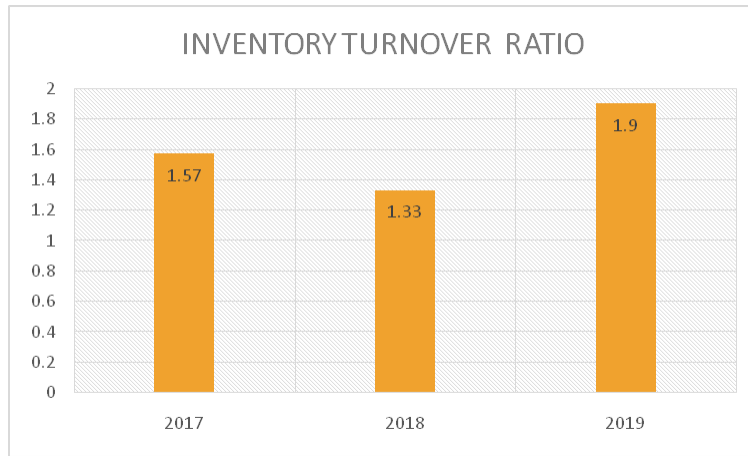


INTERPRETATION:-

This ratio indicates the amount of sales realised per rupee of investment in fixed asset. Fixed asset are those assets, which are not required for re-sale.

3) What Is The Inventory Ratio Of Current Year?

PARTICULAR	YEAR		
	2017	2018	2019
COST OF GOODS SOLD	7,32,895	8,32,459	9,98,642
AVERAGE INVENTORY	4,65,624	6,25,842	5,23,542
INVENTORY RATIO	1.57	1.33	1.90

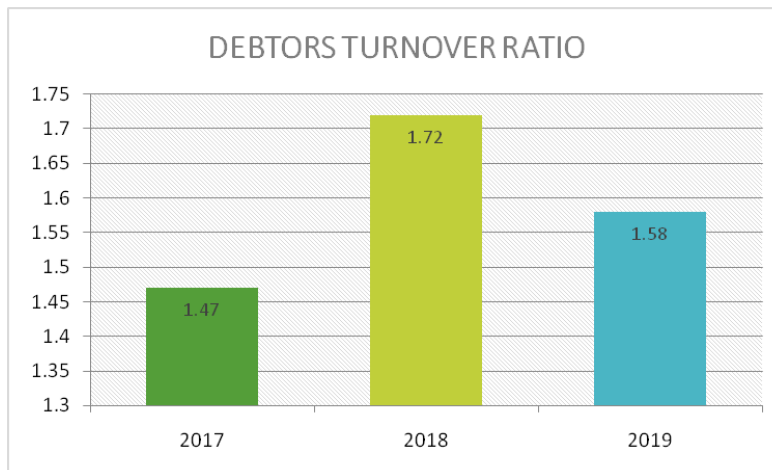


INTERPRETATION:-

This ratio establishes a relationship between the cost of goods sold during a given period and the average amount of inventory held during the period. The indication given by this ratio is the number of time the finished stock is turnover during accounting the period.

4) What Is The Debtors Turnover Ratio Of The Company?

PARTICULAR	YEAR		
	2017	2018	2019
CREDIT SALES	8,32,895	7,32,459	9,88,742
AVERAGE ACCOUNTS RECEIVABLES	5,65,624	4,25,842	6,23,542
DEBTORS TURNOVER RATIO	1.47	1.72	1.58

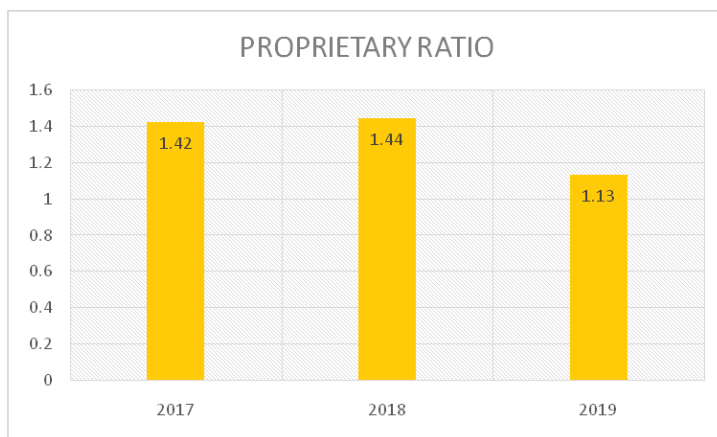


INTERPRETATION:-

One of the important decisions regarding financial management is about the credit to be granted to customer. There should be well defined credit policy, which should be followed carefully by a firm. The credit policy followed by a firm is indicated by the ratio.

5. Which Year Proprietary Ratio Is Low?

PARTICULAR	YEAR		
	2017	2018	2019
FUNDS	7,00,000	7,32,459	9,36,524
TOTAL ASSETS	4,90,000	5,06,235	8,23,242
PROPRIETARY RATIO	1.42	1.44	1.13

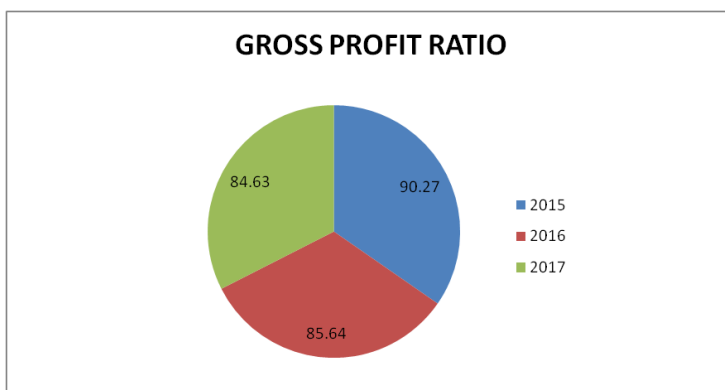


INTERPRETATION:-

This ratio indicates the proportion of proprietor's fund use for financing the total asset. a high ratio will indicate high financial strength but a very high ratio will indicate that the fund not using external funds adequately.

6. Which Year Gross Profit Ratio Is Increasing?

PARTICULAR	YEAR		
	2017	2018	2019
GROSS PROFIT	6,85,943	7,69,894	8,45,216
NET SALES	7,59,863	8,98,965	9,98,643
GROSS PROFIT RATIO	90.271931	85.6423	84.6365

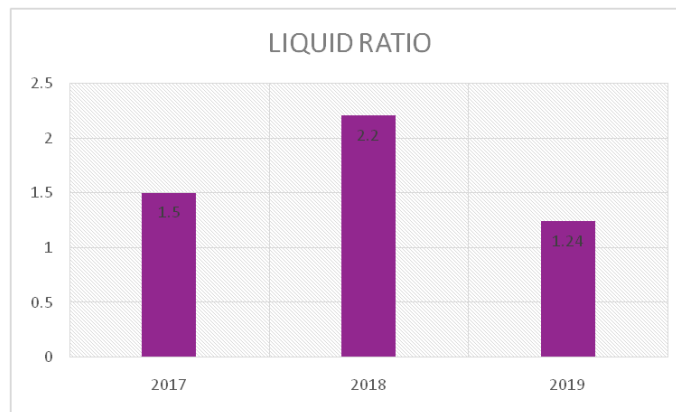


INTERPRETATION:-

Gross profit is difference between the net sales and the cost of goods sold. a high gross profit ratio means a high margin for covering other expenses like administrative, selling and distribution expenses.

7. What Is Liquid Ratio Of Current Year?

PARTICULAR	YEAR		
	2017	2018	2019
LIQUIDD CURRENT ASSET	720000	860000	910000
LIQUID CURRENT LIABILITIES	480000	390000	729000
LIQUID RATIO	1.50	2.20	1.24

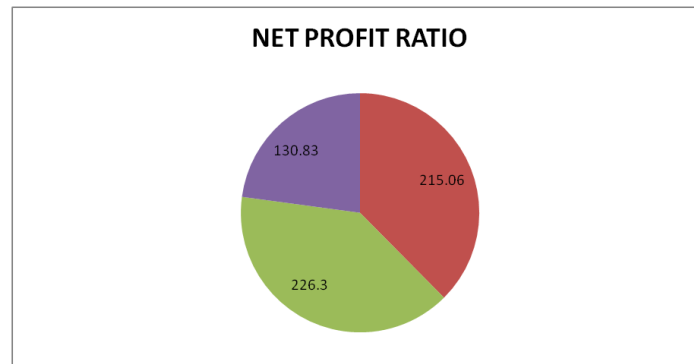


INTERPRETAION:-

This ratio is a better tool to measure the ability to honour day-to-day commitments. It is the ratio between the liquid asset and liquid liabilities. From the balance sheet, liquid asset are calculated by inventories and prepaid expenses from current assets.

8) What Is The Net Profit Ratio Of The Company?

s	YEAR		
	2017	2018	2019
NET PROFIT	7,85,000	9,65,200	7,24,800
SALES	3,65,000	4,26,500	5,54,000
NET PROFIT RATIO	215.0685	226.3072	130.8303

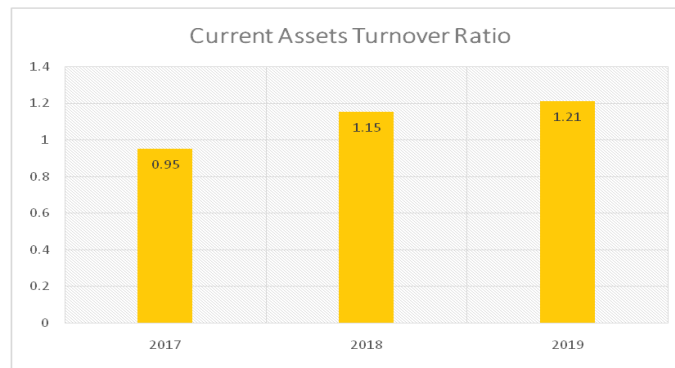


INTERPRETATION:-

This ratio shows the earning left for shareholders as a percentage of net sales. it measure overall efficiency of all the function of a business firm.

9. What is the Current Assets Turnover Ratio of the year 2017, 2018, and 2019?

PARTICULARS	YEARS		
	2017	2018	2019
SALES	9,50,000	8,65,243	9,24,865
CURRENT ASSETS	10,00,000	7,50,000	8,25,000
Current Assets Turnover Ratio	0.95	1.15	1.21

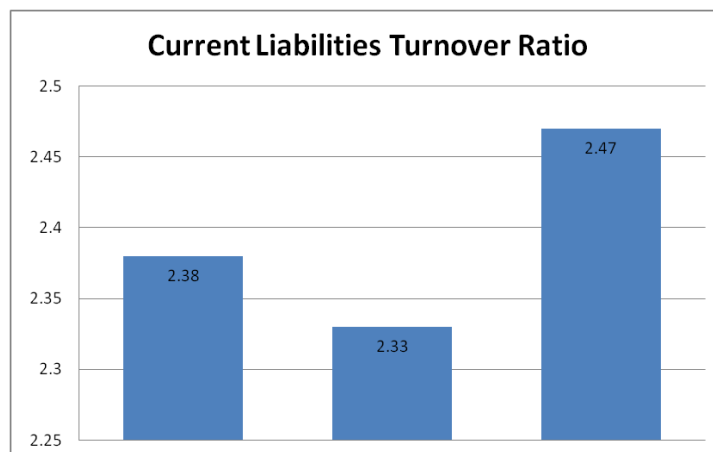


INTERPREATION:-

As per graph we can understand that to current assets turnover ratio of the kalyani sheet is compared of three years in 2015 it was 0.95% later in 2016 it increased to 1.15% and in last 2017 it again increased to 1.21%.

10. What is the Current Liabilities Turnover Ratio of the year 2017, 2018, and 2019?

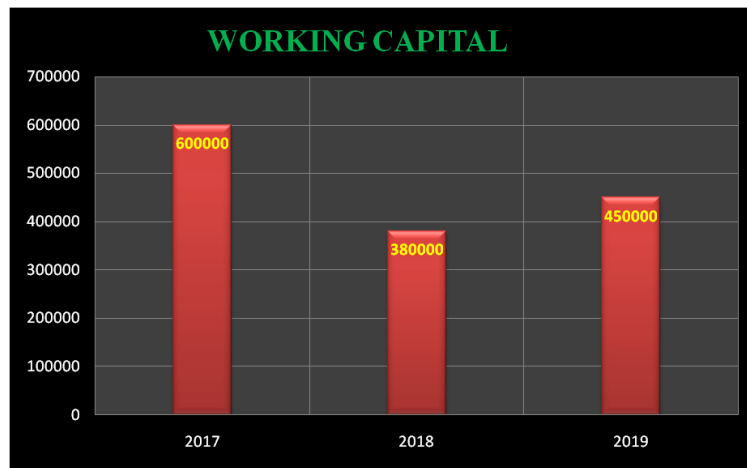
PARTICULARS	YEARS		
	2017	2018	2019
SALES	9,50,000	8,65,243	9,24,865
CURRENT ASSETS	4,00,000	3,70,000	3,75,000
Current Liabilities Turnover Ratio	2.375	2.33849	2.46631



INTERPREATION:- As per graph we can understand that to current liabilities turnover ratio of the kalyani sheet is compared of three years in 2015it was 2.375 % later in 2016it reduced to 2.338% and in last 2016it again increased to 2.466% it is very good for company

11. What is the Working Capital of the year 2017, 2018, and 2019?

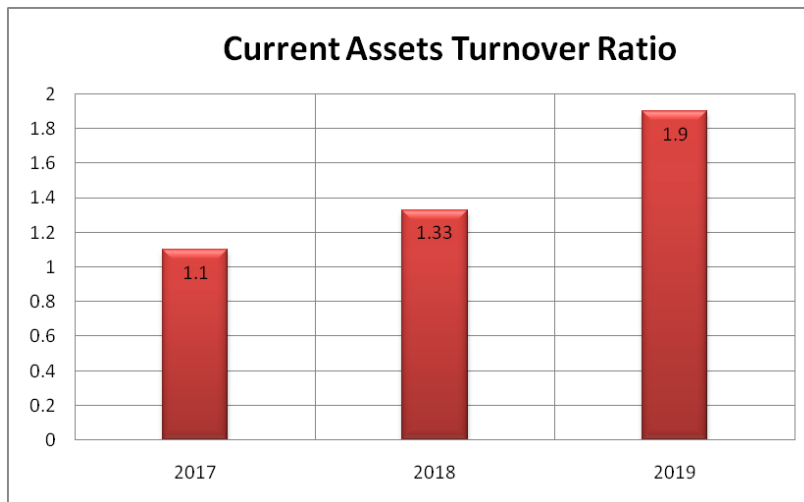
PARTICULARS	YEARS		
	2017	2018	2019
CURRENT ASSETS	10,00,000	7,50,000	8,25,000
CURRENT LIABILITIES	4,00,000	3,70,000	3,75,000
WORKING CAPITAL	6,00,000	3,80,000	4,50,000



INTERPREATION:- As per graph we can understand that to working capital of the kalyani sheet is compared of three years in 2015Rs 600000 later in 2016it reduced to 380000 and in last 2016it again increased to Rs 450000 it is very good for company

12. What is the Inventory Turnover Ratio of the year 2017, 2018, and 2019?

PARTICULARS	YEARS		
	2017	2018	2019
COST OF GOODS SOLD	7,32,895	8,32,459	9,98,642
INVENTORY	6,65,624	6,25,842	5,23,542
INVENTORY TURNOVER RATIO	1.10	1.33	1.90



INTERPREATION:- As per graph we can understand that to current assets turnover ratio of the kalyani sheet is compared of three years in 2015 was 1.1% later in 2017 it increased to 1.33% and in last 2017 it again increased to 1.9% it is very good for company

- 4) The proprietary ratio indicates around 60% of assets are financed by owners fund which indicates reasonable creditworthiness to the company.
- 5) The company has got excellent gross profit ratio and the trend is rising which is appreciable indicating efficiency in production cost.

8. Observation

- 1) The company had excellent turnover of various assets in the year 2016-2017 as the sales rose by 72% indicating better assets management policy.
- 2) The assets were efficiently employed to generate maximum sales. However for the year 2017-2018 the turnover ratios suffered because of fall in sales by 31.48% and also there was rise in activity as compared to past years.
- 3) Inventory turnover the year 2016-2017 was crucial as it had minimum investment in different inventories avoiding thus blockage of funds.

9. Finding

- 1. Gross profit is decreased during the period of study, which indicates that firms inefficient management in manufacturing and trading operation.
- 2. Liquid ratio of the firm is not better liquid position over the three year. it shows that the firm had not sufficient liquid asset.
- 3. The inventory turnover ratio of the firm the 2nd year has been sold very slow.

4. The fixed asset turnover ratio the firm has in 2016 is decreased.
5. Debtors for sale of assets have not been considered which has been duly mentioned in the schedules.
6. While considering long term loans for capital gearing ratio interest accrued on loans has not been considered.
7. While considering net sales, returns from sales has been deducted from gross Sales.
8. Gross profit is calculated by deducting manufacturing expenses from Net Sales.
9. The collection of information is based on secondary probe.
10. The information has been collected to various books margins and annual report of kalyani steel pvt ltd.

10. Conclusion

- 1) The company has strong short term liquidity position as both the liquidity ratios are favourable and appreciable which concludes that company has got sufficient assets to pay off short term debts as and when they fall due.
- 2) The company has strong solvency position as all the solvency ratios are favourable. Debt-equity ratio is favourable indicating equal share of owners and creditors.
- 3) The working capital indicates the company has funded for working capital through long term funds which represents accepted finance policy.
- 4) The company has excellent overall profitability ratios indicating effective use of funds provided be shareholders and creditors.

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