A Study On Financial Performance Analysis

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Abstract

The ratios are providing a clear view of the overall performance of the company. The company has a healthy liquidity position which means that it can rely on its current assets to finance the current liabilities and does not have to commit to long term debts. It has been recommended that the company should look into ways of improving sales in period of low demand to improve profitability and also increase financing to expand and grow the business. The sample of fifty companies selected from various areas of Chennai city. The data collection instrument used for the study was balance sheet. The paper concludes with a positive response of financial performance analysis.

Key words: Liquidity, Profitability, Turnover, Balance Sheet, Financial Performance.

Introduction

The financial results are used by investors and financial analysts to examine the firm’s performance in order to make investment decisions. The current and liquid ratio indicates the short term financial position of an organization whereas debt equity and proprietary ratios shows the long term financial position. They should be prepared very carefully and contain as much investment decisions. Preparation of the financial statement is the responsibility of top management. The financial statements are generally prepared from the accounting records maintained by the firm. Financial performance is an important aspect which influences the long term stability, profitability and liquidity of an organization. Usually, financial ratios are said to be the parameters of the financial performance.

Objectives

- To analyse the financial position of an organization
- To study the liquidity solvency position of the firm
- To understand the overall financial position of an organization

Review of Literature

Rajeswari (2014) stated that the Liquidity Management of Tamil Nadu Cement Corporation Ltd. the liquidity position of tancem was not stable. After the comparative analysis regarding liquidity ratios, she has found there was too much of liquidity in the first two years of the study period and also a very high degree of liquidity was also bad as idle assets earn nothing and affects profitability. Investigated that the liquidity management of tancem is poor and is not satisfactory.

In the view of Aggarwal and Singla (2012)(2) developed a single index of financial performance through the technique of Multiple Discriminate Analysis (MDA), by selecting 11 ratios and selected ratios used as inputs. They concluded that, the model has correctly classified 82.14 percent of units selected as profit making and loss marking.

According to Biswas and Ganguly(2010)(3) the Liquidity Management in Indian Private Sector Enterprises and the overall performance at Indal was better in terms of efficient utilization of short term funds, whereas Hindalco was unable to do so. They found that a very high degree of positive correlation between liquidity and profitability in case of both the companies was a notable feature, reflecting the favourable effect of liquidity on profitability.

Loundes (2009)(4) Stated that the Financial performance of Australian Government Trading Enterprises Pre and Post Reform revealed that the financial performance of government trading...
enterprises operating in electricity, gas, water, railways and ports industries as a result of these changes. He had concluded that that it did not appear to have been a noticeable enhancement in the financial performance of most of this business.

**Analysis and Interpretation**

Financial Performance Evaluation Using Ratio Analysis

**LIQUIDITY RATIOS**

**Current Ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Ratio Rs. in lakhs</th>
<th>Current Liabilities Rs. in lakhs</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 – 2014</td>
<td>9726.73</td>
<td>1154.12</td>
<td>8.43</td>
</tr>
<tr>
<td>2014 – 2015</td>
<td>9884.64</td>
<td>1501.76</td>
<td>6.56</td>
</tr>
<tr>
<td>2015 – 2016</td>
<td>11949.47</td>
<td>3905.45</td>
<td>3.06</td>
</tr>
</tbody>
</table>

**Interpretation:**

As a conventional rule, a current ratio of 2:1 is considered satisfactory. This rule is based on the logic that in a worse situation even if the value of current assets becomes half, the firm will be able to meet its obligation. The current ratio represents the margin of safety for creditors. The current ratio has been decreasing year after year which shows decreasing working capital.

**Quick Ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Ratio Rs. in lakhs</th>
<th>Current Liabilities Rs. in lakhs</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 – 2014</td>
<td>6629.47</td>
<td>1154.12</td>
<td>5.74</td>
</tr>
<tr>
<td>2014 – 2015</td>
<td>6210.06</td>
<td>1501.76</td>
<td>4.13</td>
</tr>
<tr>
<td>2015 – 2016</td>
<td>8287.01</td>
<td>3905.45</td>
<td>2.12</td>
</tr>
</tbody>
</table>

**Interpretation:**

As a quick ratio of 1:1 is considered satisfactory as a firm can easily meet all current claims. It is a more rigorous and penetrating test of the liquidity position of a firm. But the liquid ratio has been decreasing year after year which indicates a high operation of the business.

From the above statement, it is clear that the liquidity position of the Apt international limited is satisfactory. Because the entire three years liquid ratio is not below the standard ratio of 1:1.

**Cash ratio:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Ratio Rs. in lakhs</th>
<th>Current Liabilities Rs. in lakhs</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 – 2014</td>
<td>46.11</td>
<td>1154.12</td>
<td>0.04</td>
</tr>
<tr>
<td>2014 – 2015</td>
<td>34.43</td>
<td>1501.76</td>
<td>0.02</td>
</tr>
<tr>
<td>2015 – 2016</td>
<td>82.12</td>
<td>3905.45</td>
<td>0.02</td>
</tr>
</tbody>
</table>
Interpretation:

The acceptable norm for this ratio is 50% or 1:2. But the cash ratio is below the accepted norm. So the cash position is not utilized effectively and efficiently.

Activity Ratio

Average Collection Period

<table>
<thead>
<tr>
<th>Year</th>
<th>Days</th>
<th>Ratio Rs. in lakhs</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 – 2014</td>
<td>360</td>
<td>4405.70</td>
<td>0.08</td>
</tr>
<tr>
<td>2014 – 2015</td>
<td>360</td>
<td>3524.79</td>
<td>0.10</td>
</tr>
<tr>
<td>2015 – 2016</td>
<td>360</td>
<td>3667.52</td>
<td>0.10</td>
</tr>
</tbody>
</table>

Interpretation:

The shorter the collection period, the better the quality of debtors. Since a short collection period implies the prompt payment by debtors. Here, collection period decrease from 2013-2014 and increased slightly in the year 2015-2016. Therefore the average collection period of Apt international Ltd for the three years are satisfactory

Inventory Turnover Ratio:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost of goods sold Rs. in lakhs</th>
<th>Inventory Rs. in lakhs</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 – 2014</td>
<td>13708.36</td>
<td>3537.44</td>
<td>3.88</td>
</tr>
<tr>
<td>2014 – 2015</td>
<td>12609.33</td>
<td>3385.92</td>
<td>3.72</td>
</tr>
<tr>
<td>2015 – 2016</td>
<td>17543.71</td>
<td>3668.52</td>
<td>4.78</td>
</tr>
</tbody>
</table>

Interpretation:

A higher turnover ratio is always beneficial to the concern. In this thenumber of times the inventory is turned over has been increasing from one year to another year. This increasing turnover indicates immediate sales. And in turn activates production process and is responsible for further development in the business. This indicates a good inventory policy of the company.

Findings

- The same level of current assets and current liabilities may be maintained at appropriate level since the current assets are less profitable, when compared to fixed assets.

- The liquid ratio is 1 in all the three years, it is preferable to improve upon the situation. This may be due to the fact that the stock is major composition of current assets, which excludes liquid assets. The firm should try to clear the stocks.

- The cash ratio is decreasing year after year. So it shows that the cash position is not utilized effectively and efficiently.

- The average collection period is decreasing year after year so it shows the better is the quality of debtors as a short collection period and implies quick payment by debtors.

- The inventory turnover ratio for the analysis indicated a good inventory policy and efficiency of business operations of the company.
Suggestion

- The liquidity position of the company can be utilized in a better or other effective purpose. The company can use the credit facilities provided by the creditors.

- The debt capital is not utilized effectively and efficiently. So the company can extend its debt capital.

- Efforts should be taken to increase the overall efficiency in return out of capital employed by making used of the available resource effectively.

- The company can increase its sources of funds to make effective research and development system for more profits in the years to come.

Conclusion

The financial performance of the company for the five years is analyzed and it is proved that the company is financially sound. The comparative balance sheet of the company reveals during 2005, that there has been a decrease in the fixed assets of Rs.(1429.34) lakhs, which indicates sale of fixed assets and an inflow of cash. This cash is utilized in meeting out long term liabilities as such the loan amount has reduced by Rs.(747.45) lakhs. Current assets have been increased by Rs.157.91 lakhs, which indicates that its working capital position is good, but the debtors have decreased, by Rs.(880.91) lakhs which indicates by Rs.347.64 lakhs, which indicates that the liabilities have not paid within the stipulated period. The investment has increased by Rs.4700.27 lakhs, which indicates an outflow of fund and a timely investment by the company. So the overall financial position of the company for the year is satisfactory.

References


5. www.financial performace.com