PROJECT REPORT

FINANCIAL STATEMENT ANALYSIS OF TTK HEALTHCARE LTD

Submitted in partial fulfillment of the requirements for the award of the degree of

B.B.A. (Bachelor of Business Administration)

By

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2016– 2019

CERTIFICATE

This is to certify that this Project Work is the bonafide work of **SIVA SIDDARTH C**, **UBAA1655**, in partial fulfillment for the award of Bachelor's Degree in Business Administration of **Ramakrishna Mission Vivekananda (Evening) College (Autonomous)**, **affiliated to the University of Madras**, **Chennai**.

Signature of the Guide　　　　　　　　Signature of the Head of the Department

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Submitted for the Autonomous **VIVA-VOCE** Examination to be held in APRIL 2019 at **Ramakrishna Mission Vivekananda (Evening) College (Autonomous)**, **affiliated to the University of Madras**, **Chennai**.

Name & Signature of the Internal Examiner

Name & Signature of the External Examiner

DECLARATION

I **SIVA SIDDARTH C**, **UBAA1655**, hereby declare that the Project Report for the partial fulfillment of the degree of Bachelor of Business Administration entitled "**FINANCIAL STATEMENT ANALYSIS OF TTK HEALTHCARE LTD**" is my original work and this Project Work has not formed the basis for the award of any degree, associate-ship, fellowship or any other similar titles.

Place: Chennai

Date: Signature Of The Student

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This is to certify that this Project Work is the bonafide work of **BHARATHKUMAR R**, **UBAA1643**, in partial fulfillment for the award of Bachelor's Degree in Business Administration of **Ramakrishna Mission Vivekananda (Evening) College (Autonomous)**, **affiliated to the University of Madras**, **Chennai**.

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ACKNOWLEDGEMENT

This Project Report could not have been prepared if not for the support & guidance of a number of people.

Our Head of the Department, **Mr**. **R**. **Sriram**, for his overall support & guidance.

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CHAPTER -I

INTRODUCTION

INTRODUCTION

Financial statement analysis is a method of reviewing and analysing a company's accounting reports (financial statements) in order to measure its past, present or projected future performance. The process of reviewing financial statement allows for better economic decision making.

Globally, publicly listed companies are required by law to file their financial statements with the relevant authorities. Firms are also obligated to provide their financial statement in the form of annual report and share it with their stakeholders. As financial statements are prepared in order to meet business requirements, the next step in the process is to analyse them effectively so that profitability and cash flows can be forecasted.

Therefore, the main purpose of financial statement analysis is to utilize information about the past performance of the company in order to predict how it will succeed in the future. Another important purpose of the analysis of financial statement is to identify potential problem of the business areas troubleshoot those.

Financial statement record financial data; however, this information must be evaluated through financial statement analysis to become more useful to investors, shareholders, managers and other interested parties.

It is prepared and presented for the external users of accounting information. As these statements are used by investors and financial analysts to examine the firm's performance in order to make investment decisions, they should be prepared very carefully and contain as much investment decisions, they should be prepared very carefully and contain as much investment decisions, they should be prepared very carefully and contain as much information as possible. 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.

Meaning of finance

Finance is very essential for smooth running of business. It is a word which describes the management, creation and study of money, banking, investments, assets and liabilities that make up financial systems, as well as the study of those financial instruments. Some people prefer to divide finance into three distinct categories: public finance, corporate finance and personal finance. Right from the very beginning i.e., conceiving an idea to business, finance is needed to promote or establish the business, acquire fixed assets, make investigations such as market surveys etc., develop product, keep men and machines at work, encourage management to make progress.

Functions of finance:

- **Investment decision:**

One of the most important finance functions is to intelligently allocate capital to long term assets. Otherwise it will adversely affect the financial position of the firm. This activity is also known as capital budgeting. It is important to allocate capital in those long term assets so as to get maximum yield in future.

Investment decision not only involves allocating capital lo long term assets but also involves decision of using funds which are obtained by selling those assets which become less profitable and less productive. It wise decisions to decompose depreciated assets which are not adding value and utilize those funds in securing other beneficial assets. An opportunity cost of capital needs to be calculating while dissolving such assets. The correct cut off rate is calculated by using this opportunity cost of the required rate of return (RRR)

- **Financial decision:**

Financial decision is yet another important function which a finance manager must perform. It is important to make wise decisions about when, where and how should a business acquire funds. Funds can be acquired through many ways and channels.

Broadly speaking a correct ratio of an equity and debt has to be maintained. This mix of equity capital and debt is known as a firm's capital structure.

A sound financial structure is said to be one which aims at maximizing shareholders return with minimum risk. In such a scenario the market value of the firm will maximize and hence an optimum capital structure would be achieved. Other than equity and debt there are several other tools which are used in deciding a firm capital structure.

- **Dividend decision:**

Earning profit or a positive return is a common aim of all the businesses. But the key function a financial manger performs in case of profitability is to decide whether to distribute all the profits to the shareholder or retain all the profits or distribute part of the profits to the shareholder and retain the other half in the business.

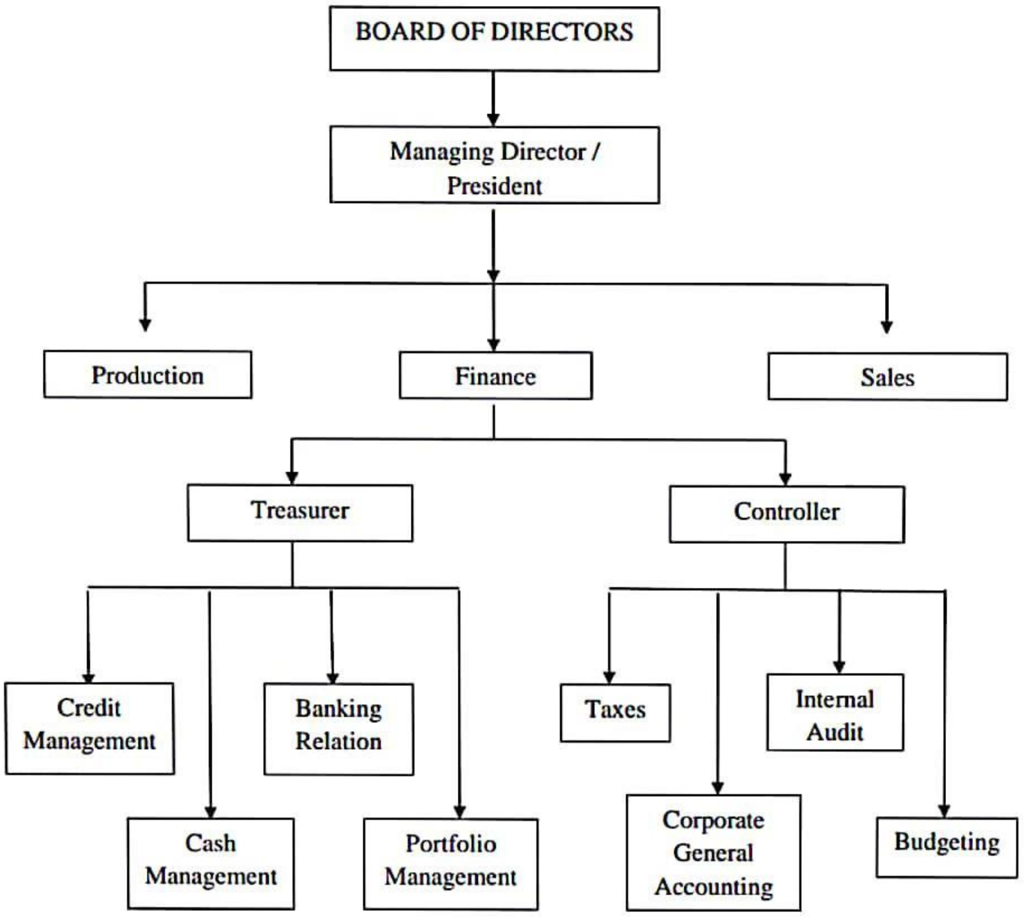
It's the financial manager's responsibility to decide an optimum dividend policy which maximizes the market value of the firm. Hence an optimum dividend pay-out ratio is calculated. It's a common practice to pay regular dividends in case of profitability another way is to issues bonus shares to existing shareholders.

- **Liquidity decision:**

It is very important to maintain a liquidity position of a firm to avoid in solvency. Firm's profitability, liquidity and risk all are associated with the investment in current assets. In order to maintain a trade-off between profitability and liquidity it is important to invest sufficient funds in current assets. But since current assets do not earn anything for business therefore a proper calculation must be done before investing in current assets.

Current assets should properly be valued and disposed of from time to time once they become non profitable. Currents assets must be used in times of liquidity problems and times of insolvency.

Organisational Chart of Finance Function:



Financial management:

Financial management refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objective of the organisation. It is the specialized function directly associated with the top management.

Definition:

SOLOMON Financial management is concerned with the efficient use of an important economic resource, namely capital funds, PHILLIOPPATUS financial management is concerned with the managerial decisions that results in the acquisition and financing of short term and long term credits for the firm.

Importance of financial management:

- The financial managements help in indicating whether the firm will generate enough funds to meet its various obligations.
- It helps in monitoring the effective deployment of fund in fixed assets and in working capital.
- Finance manager must realize that when a firm makes a major decision, the effect of the action will be felt throughout the enterprise.
- The importance of financial management cannot be overemphasized. In every organisation, where funds are involved, sound financial management is necessary.
- Sound financial management is essential in both profit and non-profit organisations.
- Financial management also helps in ascertaining how the company would perform in future.

Meaning of financial statement:

Financial statement for business usually include income statement, balance sheets, statement of retained earnings and cash flow. It is standard practice for business to present financial statement that adhere to generally accepted accounting principles (GAAP) to maintain continuity of information and presentation across international borders. Financial statements are often audited by agencies, accountants, firms, etc. to ensure accuracy and for tax, financing or investing purposes.

Definition:

AICPA (American Institute of Certified Public Accountants) says “financial statements are prepared for the Purpose of presenting periodical review or report on the progress by the management and deal with

1. The status of investments in the business and

2. The results achieved during the period under review”.

Importance of Financial Statements:

- The financial statement determines if a business has to ability to repay loans, if it has the cash flow to meet bills and purchase stock.
- The financial statement tells if the business is profitable, if it will stay profitable and if there are any large problems appearing, such as a continuous drop in sales over time.
- While Reading the financial statement, it will give an overall view of the condition of the business and if there are any warnings signs of possible future problems.
- A bank or other such institution will look to the financial statement as the first indicator of how the business is performing and if there is a need for further investigation.

Types of Financial Statements:

The four main types of financial statements are:

1. Statement of Financial Position:

Statement of Financial Position, also known as the Balance Sheet, presents the financial position of an entity at a given date. It is comprised of the following three elements:

❖ Assets: Something a business owns or controls.

❖ Liabilities: Something a business owes to someone.

❖ Equity: What the business owes to its owners. This represents the amount of capital that remains in the business after its assets are used to pay off its outstanding liabilities. Equity therefore represents the difference between the assets and liabilities

2. Income Statement:

Income Statement, also known as the Profit and Loss Statement, reports the company's financial performance in terms of net profit or loss over a specified period. Income Statement is composed of the following two elements:

❖ Income: What the business has earned over a period.

❖ Expense: The cost incurred by the business over a period.

Net profit or loss is arrived by deducting expenses from income.

3. Cash Flow Statement:

Cash Flow Statement, presents the movement in cash and bank balances over a period. The movement in cash flows is classified into the following segments:

❖ Operating Activities: Represents the cash flow from primary activities of a business.

❖ Investing Activities: Represents cash flow from the purchase and sale of assets other than inventories.

❖ Financing Activities: Represents cash flow generated or spent on raising and repaying share capital and debt together with the payments of interest and dividends.

4. Statement of Changes in Equity:

Statement of Changes in Equity, also known as the Statement of Retained Earnings, details the movement in owners' equity over a period. The movement in owners' equity is derived from

The following components:

❖ Net Profit or loss during the period as reported in the income statement

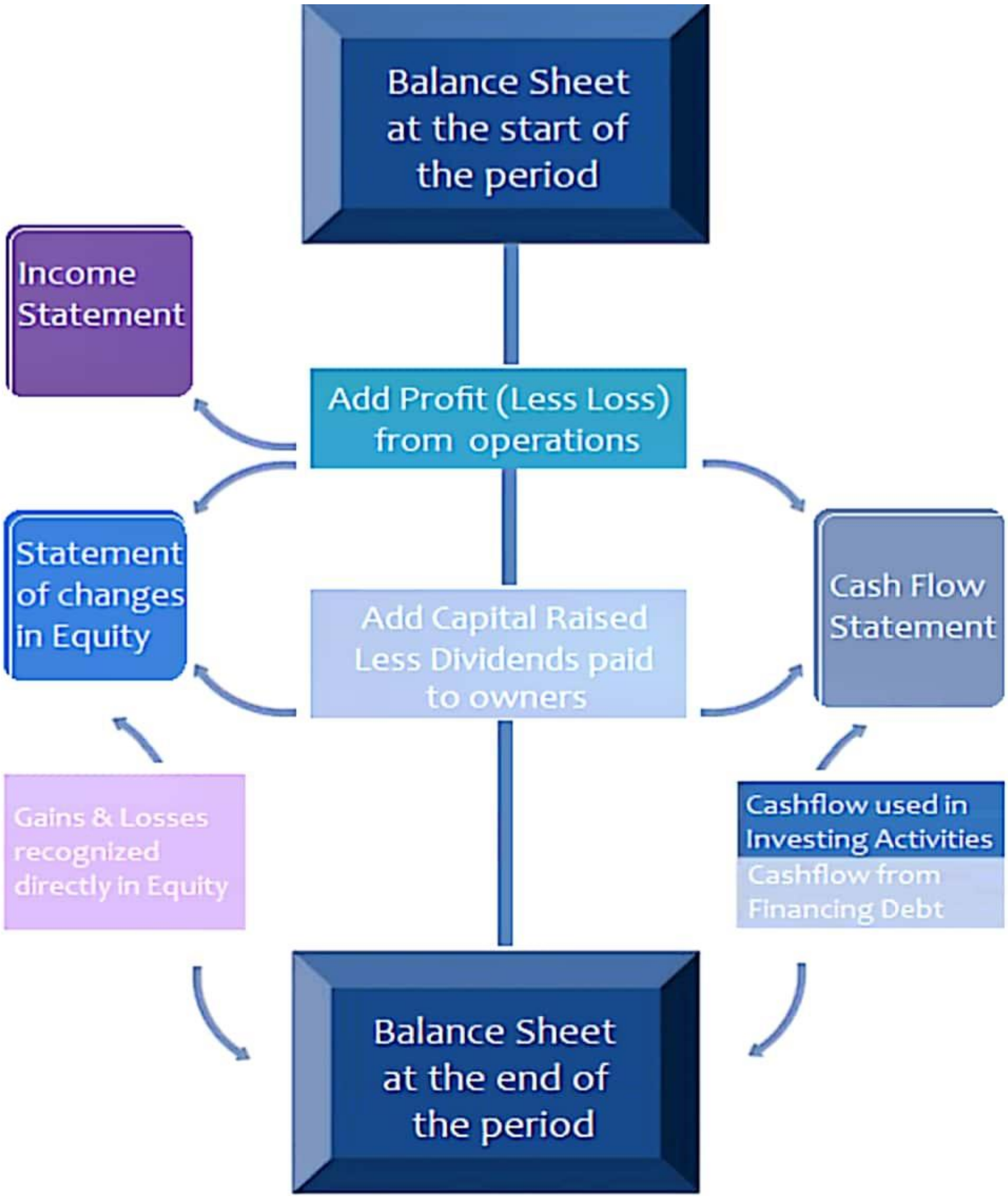
❖ Share capital issued or repaid during the period

❖ Dividend payments

❖ Gains or losses recognized directly in equity (e.g. revaluation surpluses

❖ Effects of a change in accounting policy or correction of accounting error.

Link between financial statements:



Definition of Financial Statement Analysis:

Study of the trend of these factors as shown in a series of statements."

Methods of Financial Statement Analysis

There are two main methods of analysing financial statements:

- ➢ Horizontal or trend analysis,
- ➢ Vertical analysis or static analysis.

Horizontal Analysis:

Horizontal analysis is the comparison of financial information of a company with historical financial information of the same company over a number of reporting periods. It could also be based on the ratios derived from the financial information over the same time span. The main purpose is to see if the numbers are high or low in comparison to past records, which may be used to investigate any causes for concern. For example, certain expenditures that are high currently, but were well under budget in previous years may cause the management to investigate the cause for the rise in costs; it may be due to switching suppliers or using better quality raw material. This method of analysis is simply grouping together all information, sorting them by time period: weeks, months or years. The numbers in each period can also be shown as a percentage of the numbers expressed in the baseline (earliest/starting) year. The amount given to the baseline year is usually 100%. This analysis is also called dynamic analysis or trend analysis.

Advantages and Disadvantages of Horizontal Analysis:

When the analysis is conducted for all financial statements at the same time, the complete impact of operational activities can be seen on the company's financial condition during the period under review. This is a clear advantage of using horizontal analysis as the company can review its performance in comparison to the previous periods and gauge how itsdoing based on past results. A disadvantage of horizontal analysis is that the aggregated information expressed in the financial statements may have changed over time and therefore will cause variances to creep up when account balances are compared across periods. Horizontal analysis can also be used to misrepresent results. It can be manipulated to show comparisons across periods which would make the results appear stellar for the company. For instance, if the profits for this month are only compared with those of last month, they may appear outstanding but that may not be the case if compared with the same month the previous year. Using consistent comparison periods can address this problem.

Vertical Analysis:

Vertical analysis is conducted on financial statements for a single time period only. Each team in the statement is shown as a base figure of another item in the statement, for a given time period, usually for year. Typically, this analysis means that every item on an income and loss statement is expressed as a percentage of gross sales, while every item on a balance sheet is expressed as a percentage of total assets held by the firm. Vertical analysis is also called static analysis because it is carried out for a single time period.

Advantages and Disadvantages of Vertical Analysis:

Vertical analysis only requires financial statements for a single reporting period. It is useful for inter-firm or inter-departmental comparisons of performance as one can see relative proportions of account balances, no matter the size of the business or department. Because basic vertical analysis is constricted by using a single time period, it has the disadvantage of losing out on comparison across different time periods to gauge performance. This can be addressed by using it in conjunction with timeline analysis, which shows what changes have occurred in the financial accounts over time, such as a comparative analysis over a three-year period. For instance, if the cost of sales comes out to be only 30 percent of sales each year in the past, but this year the percentage comes out to be 45 percent, it would be a cause for concern.

Users of Financial Statement Analysis:

There can be classified into internal and external users, internal users refer in the management of the company who analysis financial statement in under to make decisions related to the operations of the company. On the other hand, external users do not necessarily belong to the company but still hold some sort of financial interest. These include owners, investors, creditors, government, employees, customers, and the general public. These users are elaborated on below:

1. Management:

The managers of the company users their financial statement analysis to made intelligent decisions about their performance. For instance, they may gauge cost per distribution channel, or how much cash they have left from their accounting reports and make decisions from these analysis results.

2. Owners:

Small business owner need financial information from their operations to determine whether they business is profitable. It helps in making decisions like whether to continue operating they business whether to improve business strategies or whether to give up on the business altogether.

3. Investors:

People who have purchased stock or shares in a company need financial information to analyse the way the company is performing. They use financial statement analysis to determine what to do with their investment in the company. So depending on how the company is doing, they will either hold onto their stock, sell it or buy more.

4. Creditors:

Creditors are interested in knowing if a company will be able to honourable its payments as they become due. They use cash flow analysis of the company's accounting records to measure the company's liquidity, or its ability to make short-term payments.

5. Government:

Governing and regulation bodies of the state look at financial statement analysis to determine how the economy is performing in general so they can plan their financial and industrial policies. Tax authorities also analyse a company's statement to calculate the tax burden that the company has to pay.

6. Employees:

Employees need to know if their employment is secure and if there is a possibility of a pay raise. They want to be abreast of their company's profitability and stability. Employees may also be interested in knowing the company's financial position to see whether there may be plans for expansion and hence, career prospects for them.

7. Customers:

Customers need to know about the ability of the company to service its clients into the future. The need to know about the company's stability of operating is heightened if the customer is dependent wholly on the company for its supplies.

8. General public:

Anyone in the general public, like students, analysts and researchers, may be interested in using a company's financial statement analysis. They may wish to evaluate the effects of the firm on the environment, or the economy or even the local community. For instance, if the company is running corporate social responsibility programs for improving the community, the public may want to be aware of the future operations of the company.

CHAPTER-II

HISTORY AND PROFILE OF COMPANY

Company Introduction:

TTK Healthcare's most significant contribution to healthcare is the manufacture and distribution of India's first indigenous heart valve prosthesis - the tilting-disc TTK Chitra Heart Valve. This is the only Indian-made heart valve and is the most price-friendly in the world. So far, over 50,000 TTK Chitra Heart Valves have been successfully implanted in patients.

TTK Chitra valves:

Design and Development

Unique in design, construction and fabrication, the TTK Chitra Heart Valve Prosthesis is one of the extensively researched, tested and clinically evaluated device in India.

1. Heart value:

Initially conceived in 1978, the heart valve being a critical implant, went through the most painstaking development for 12 years at the prestigious Chitra Tirunal Institute for Medical

Sciences and Technology (SCTIMST), Trivandrum, India - an autonomous Institute under the Department of Science and Technology, Government of India. The development also followed international protocols applicable to heart valve prosthesis.

Designed for long life, the development of the TTK Chitra Heart Valve was based on accelerated durability tests, amply confirmed by measurement of wear of valves explanted after many years of animal implantation. It is no mean achievement that the projected durability of the TTK Chitra Heart Valve far exceeds the life span of even the youngest recipient.

2. Personal care:

TTK Healthcare Ltd. (TTKHC) is a part of the TTK Group. Incorporated in 1958, TTKHC has presence in numerous industry segments including consumer products, pharmaceuticals, bio-medical devices, foods and maps.

The Consumer Products Division (CPD) operates in baby care, personal care and home care segments. CPD manufactures and markets leader brands like Woodward's and Eva.

3. Pharmaceuticals:

TTK Healthcare's Pharmaceuticals Division has several achievements under their belt including being...

• The first Pharmaceutical Company in India to be awarded ISO certification by BIS

• The first company to launch technology driven life’s saving products like UROKINASE and DOPAMINE.

• The first to develop a product based on traditional knowledge - LACTARE for Lactationthe Pharmaceuticals Division's product range comprises many path-breaking medicines like:

• Programmed release products like RABULCER D for gastric reflux and ulcer

• Anti-inflammatory products like Nimulase and Dolobest OD based on special coating technology

- TEFROLIV FORTE for hepatic disorders.
- ELCARIM for proper growth and development of babies.
- DELIVERA for dry skin.
- ARTHRID for arthritis.

The Division has also developed products based on the ancient and traditional knowledge of Ayurveda.

The Pharmaceuticals Division is backed by a formidable strength of over 600 well trained field staff who form the interface between the medical fraternity and the pharmaceutical industry. TTK Healthcare's Pharmaceutical products enjoy unsolicited patronage from all segments of doctors. A highly efficient distribution network, with depots across all the states ensures that TTK Healthcare's pharmaceutical products are made available to every nook and corner of India.

4. Orthopaedic implants:

Precision is the hallmark of high-quality orthopaedic implants. TTK Healthcare is focused on bringing a high level of precision into their orthopaedic manufacturing process.

The Ortho Division is engaged in the manufacture of quality orthopaedic implants and instruments under the brand name "Altius".

TTK Healthcare Ltd acquired the orthopaedic business of M/s. Invicta Meditek Ltd. in July 2009 to consolidate their medical devices business.

5. Foods:

TTK Ready-to-fry Snack Pellets are available in a variety of flavors, shapes, colours and designs.

TTK manufactures Potato and Cereal based pellets in its state-of -the-art facility, for markets in India and abroad. The production unit is designed not only to assure the highest quality but also to ensure consistency in quality.

The Cereal and Potato based pellets come in various shapes, such as Wheels (mini & penta), Tubes (mini, short, long & square), Sticks, 3 Rings, Ribbed, Star, Checks, Chips, Drops etc besides Onion Rings.

The customer base for TTK Ready-to-fry Snack Pellets includes multinationals and the trade in India. The Exports division services the foreign countries and the products are regularly exported to the overseas markets.

BOARD OF DIRECTORS:

Chairman	Mr TT Jagannathan
Vice-Chairman	Mr TT Raghunathan
Director	Mr RK Tulshan
Director	Mr BN Bhagwat
Director	Mr K Shankaran
Director	Dr (Mrs) Vandana R Walvekar
Director	Mr Girish Rao
Director	Mr S Balasubramanian
Director	Mr N Ramesh Rajan
Director	Mr S Kalyanaraman

CHAPTER-III

OBJECTIVES, SCOPE AND LIMITATIONS OF THE STUDY

OBJECTIVES OF THE STUDY

The objectives of the study are furnished below:

Primary Objective

➢To analyse the financial performance of TTK HEALTHCARE LTD.

➢To evaluate the financial soundness and stability of the company.

Secondary Objectives

✓To learn about income statement, Balance sheet and different type of Assets and Liabilities.

✓To study about the earning capacity of the firm.

✓To find out the operating strengths and weakness of the firm.

Scope of the Study

✓The management of the company can easily identify the existing financial problems & further identify the causes for those problems.

✓The study is based on the accounting information of the TTK HEALTHCARE ltd.

✓The study covers the period of 201 to 201 for analyzing the financial statement such as income statements and balance sheet.

✓Considering the availability of time, information and sources of study is confined the performance of the TTK HEALTHCARE ltd, this study aims at analyzing the overall.

Limitations of Study

✓ Figures for the analysis are taken from the annual reports.

✓Financial statements may not be realistic because they are prepared by certain concepts & conventions.

✓ Balance sheet of concern is a static document as it discloses the financial position of a concern on a

particular date.

✓ Information disclosed by profit and loss account may not be real profit.

✓Financial statement of one company may not be comparable as such with the statement of other companies because the entity uses various accounting policies.

Research Methodology:

Methodology is usually a guideline system for solving a problem, with specific components such as phases, tasks, methods, techniques and tools. It can be defined also as follows

1. “The analysis of the principles of methods, rules and postulates employed by a discipline.”

2. “The systematic study of methods that are, can be, or have been applied within a discipline”.

3. “The study or description of methods”.

A methodology can be considered to include multiple methods, each as applied to various facets of the whole scope of the methodology. The research can be divided between two parts. They are qualitative research and quantitative research.

Primary Data

Data that has been collected from first-hand-experience is known as primary data. Primary data has not been published yet and is more reliable, authentic and objective. Primary data has not been changed or altered by human beings, therefore its validity is greater than secondary data.

Importance of Primary Data

• Primary data can’t be neglected.

• A research can be conducted without secondary data. But a research is based on only Secondary data is least reliable and may have biases.

• In statistical surveys it is necessary to get information from primary sources and work on Primary data.

Secondary Data

Data collected from a source that has already been published in any form is called as secondary data. The review of literature in any research is based on secondary data (i.e., books, journals and periodicals).

Importance of Secondary Data

- Secondary data can be less valid but its importance is still there.
- Sometimes it is difficult to obtain primary data.
- In these cases getting information from secondary sources is easier and possible.
- Sometimes the primary data is present but the respondents are not willing to reveal it.

Purpose:

The main purpose of this study is to study the financial performance of TTK HEALTHCARE ltd.

Method of Data Collection

The information needed for this study was collected from the Company in the form of secondary data.

Tools Used in Analysis

Ratio analysis

Period of Study

The study covers the period from 2013-2014 to 2017-2018

CHAPTER-IV

RATIO ANALYSIS

Ratio Analysis:

The analysis of the financial statements and interpretations of financial results of a particular period of operations with the help of 'ratio' is termed as "ratio analysis."

Ratio analysis used to determine the financial soundness of a business concern. Alexander Wall designed a system of ratio analysis and presented it in useful form in the year 1909.

Meaning:

The term 'ratio' refers to the mathematical relationship between any two inter-related variables. In other words, it establishes relationship between two items expressed in quantitative form.

Definition:

According to J. Batty, Ratio can be defined as "the term accounting ratio is used to describe significant relationships which exist between figures shown in a balance sheet and profit and loss account in a budgetary control system or any other part of the accounting management." Ratio can be used in the form of percentage, Quotient and Rates. In other words, it can be expressed as a to b; a: b (a is to b) or as a simple fraction, integer and decimal. A ratio is calculated by dividing one item or figure by another item or figure.

Advantages of Ratio Analysis

Ratio analysis is necessary to establish the relationship between two accounting figures to highlight the significant information to the management or users who can analyze the business situation and to monitor their performance in a meaningful way. The following are the advantages of ratio analysis:

- It facilitates the accounting information to be summarized and simplified in a required form.
- It highlights the inter-relationship between the facts and figures of various segments of business. Ratio analysis helps to remove all type of wastages and inefficiencies.
- It provides necessary information to the management to take prompt decision relating to business.
- It helps to the management for effectively discharge its functions such as planning, organizing, controlling, directing and forecasting.

- Ratio analysis reveals profitable and unprofitable activities. Thus, the management is able to concentrate on unprofitable activities and consider to improve the efficiency.
- Ratio analysis is used as a measuring rod for effective control of performance of business activities.
- Ratios are an effective means of communication and informing about financial soundness made by the business concern to the proprietors, investors, creditors and other parties.
- Ratio analysis is an effective tool which is used for measuring the operating results of the enterprises.
- It facilitates control over the operation as well as resources of the business.
- Effective co-operation can be achieved through ratio analysis.
- Ratio analysis provides all assistance to the management to fix responsibilities.
- Ratio analysis helps to determine the performance of liquidity, profitability and solvency position of the business concern.

Limitations of Ratio Analysis

Ratio analysis is one of the important techniques of determining the performance of financial strength and weakness of a firm. Though ratio analysis is relevant and useful technique for the business concern, the analysis is based on the information available in the financial statements.

There are some situations, where ratios are misused; it may lead the management to wrong direction. The ratio analysis suffers from the following limitations:

- Ratio analysis is used on the basis of financial statements. Number of limitations of financial statements may affect the accuracy or quality of ratio analysis.
- Ratio analysis heavily depends on quantitative facts and figures and it ignores qualitative data.
- Ratio analysis is a poor measure of a firm's performance due to lack of adequate standards laid for ideal ratios.
- It is not a substitute for analysis of financial statements. It is merely used as a tool for measuring the performance of business activities.
- Ratio analysis clearly has some latitude for window dressing.
- It makes comparison of ratios between companies which is questionable due to differences in methods of accounting operation and financing.

- Ratio analysis does not consider the change in price level, as such, these ratios will not help in drawing meaningful inferences.

Classification of Ratios:

Accounting Ratios are classified on the basis of the different parties interested in making use of the ratios. A very large number of accounting ratios are used for the purpose of determining the financial position of a concern for different purposes. Ratios may be broadly classified in to:

- Classification of Ratios on the basis of Balance Sheet.
- Classification of Ratios on the basis of Profit and Loss Account.
- Classification of Ratios on the basis of Mixed Statement (or) Balance Sheet and Profit and Loss Account.

This classification further grouped in to:

- Liquidity Ratios
- Profitability Ratios
- Turnover Ratios
- Solvency Ratios
- Overall Profitability Ratios

Classification of Ratios on the basis of Balance Sheet:

The Balance sheet ratios are which establish the relationship between two balance sheet items. For example, Current Ratio, Fixed Asset Ratio, Capital Gearing Ratio and Liquidity Ratio etc.

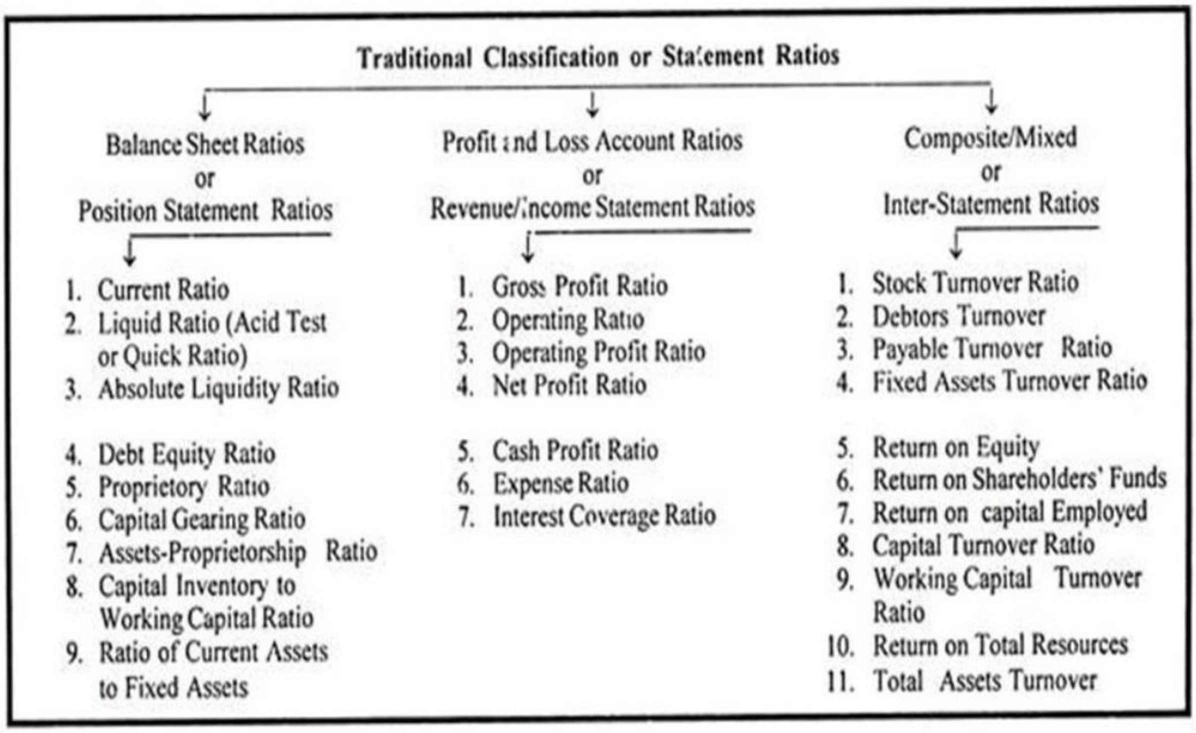
Classification on the basis of Income Statements:

These ratios deal with the relationship between two items or two group of items of the income statement or profit and loss account. For example, Gross Profit Ratio, Operating Ratio, Operating Profit Ratio, and Net Profit Ratio etc.

Classification on the basis of Mixed Statements:

These ratios are also known as Composite or Mixed Ratios or Inter Statement Ratios. The inter statement ratios which deal with relationship between the item of profit and loss account and item of balance sheet. For example, return on Investment Ratio, Net Profit to Total Asset Ratio, Creditor's Turnover Ratio, Earning per Share Ratio and Price earnings Ratio etc.

A chart for classification of ratios by statement is given below showing clearly the types of ratios may be broadly classified on the basis of Income Statement and Balance Sheet.



CHAPTER-V

DATA ANALYSIS AND INTERPRETATION

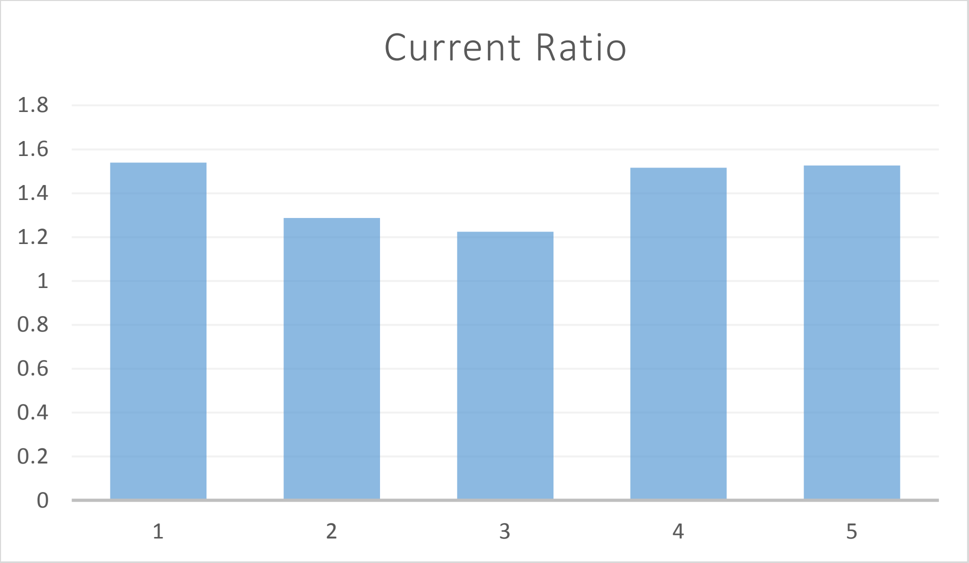
Current Ratio:

Current ratio is a liquidity ratio that measures ability of the enterprise to pay its short-term financial obligations, i.e., liabilities. It is a relationship of current assets and current liabilities. Current ratio indicates whether the enterprise will be able to meet its short-term financial obligations when they become due for payment. Thus, current ratio is a measurement of financial health of the enterprise**.**

Formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

PARTICULARS/YEARS	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018
Current Assets	**16287.33**	**16609.97**	**18356.45**	**17695.12**	**25561.37**
Current Liabilities	**10578.30**	**12905.99**	**14994.13**	**11669.85**	**16752.3**
Current Ratio	**1.53**	**1.28**	**1.22**	**1.51**	**1.52**



Observation:

- The company’s current ratio is in fluctuating trend.
- The current position is favourable for the company to attain its current obligations easily.

Inference:

- The company is suggested to maintain or increase its current assets in this level.

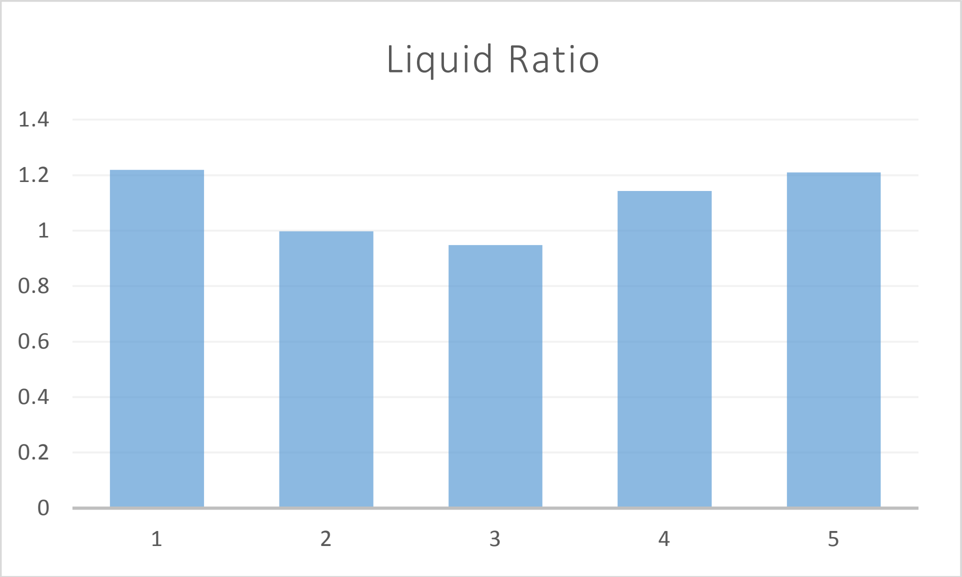
Liquid Ratio:

Quick Ratio, also known as Acid Test or Liquid Ratio, is a more rigorous test of liquidity than the current ratio. The term ‘liquidity’ refers to the ability of a firm to pay its short-term obligations as and when they become due. The two determinants of current ratio, as a measure of liquidity, are current assets and current liabilities. Current assets include inventories and prepaid expenses which are not easily convertible into cash within a short period. Quick ratio may be defined as the relationship between liquid assets and current liabilities. An asset is said to be liquid if it can be converted into cash within a short period without loss of value.

Formula:

$$\text{Liquid Ratio} = \frac{\text{Liquid Asset}}{\text{Current Liabilities}}$$

PARTICULARS/YEARS	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018
Liquid assets	**12892.24**	**12872.23**	**14211.19**	**13332.05**	**20271.86**
Liquid liabilities	**10578.3**	**12905.99**	**14994.13**	**11669.85**	**16752.3**
Liquid Ratio	**1.21**	**0.99**	**0.94**	**1.14**	**1.21**



Observation:

- The company's liquidity ratio is in fluctuating trend.
- The current position is favourable for the company to attain its current obligations easily as ratio is more 1 i.e., 1:1 for last two years.

Inference:

- The company can efficiently payback its current liabilities if the company maintain its same level.

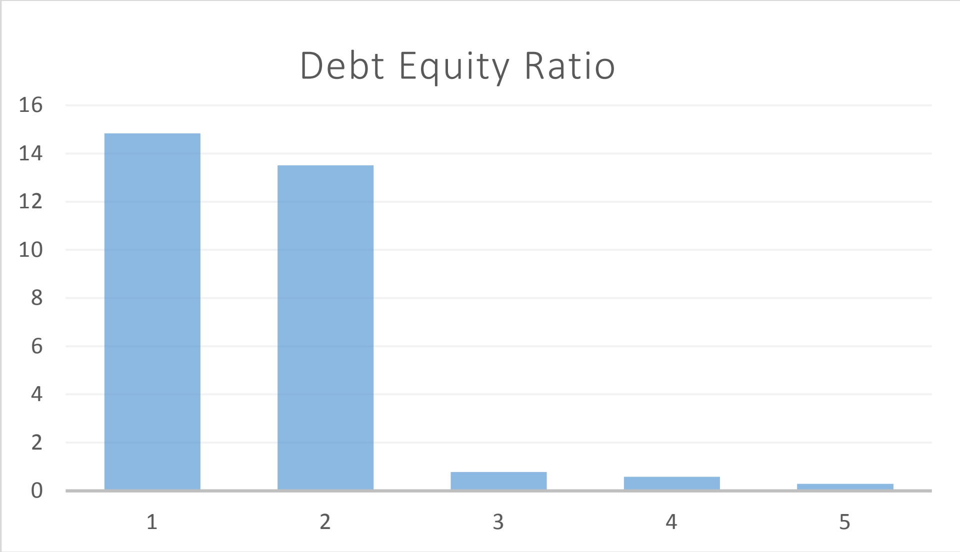
Debt to Equity Ratio:

Debt-Equity Ratio is calculated to measure the relative claims of outsiders and the owners (i.e., shareholders) against the firm's assets. The ratio expresses the relationship between long term external debts and internal equities (i.e., shareholder`s funds) of the enterprise. It is also computed to assess long-term financial soundness of the enterprise.

Formula:

$$\text{Debt to Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Shareholders' Funds}}$$

PARTICULARS/YEARS	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018
Long Term Debt	**1586.6**	**1598.36**	**106.09**	**86.85**	**65.93**
Shareholder's funds	**10692.63**	**11827.04**	**13621.2**	**15083.25**	**23297.44**
Debt Equity Ratio	**0. 1483**	**0. 1351**	**0.0077**	**0.0057**	**0.0028**



Observation:

- The debt to equity ratio of company has to be maintain in the ratio 2:1. But company's debt to equity ratio is in decreasing trend as the usage of debt is very low.

Inference:

- The company is suggested to increase the usage of outsider's fund than shareholders fund which will be helpful to increase return on capital.

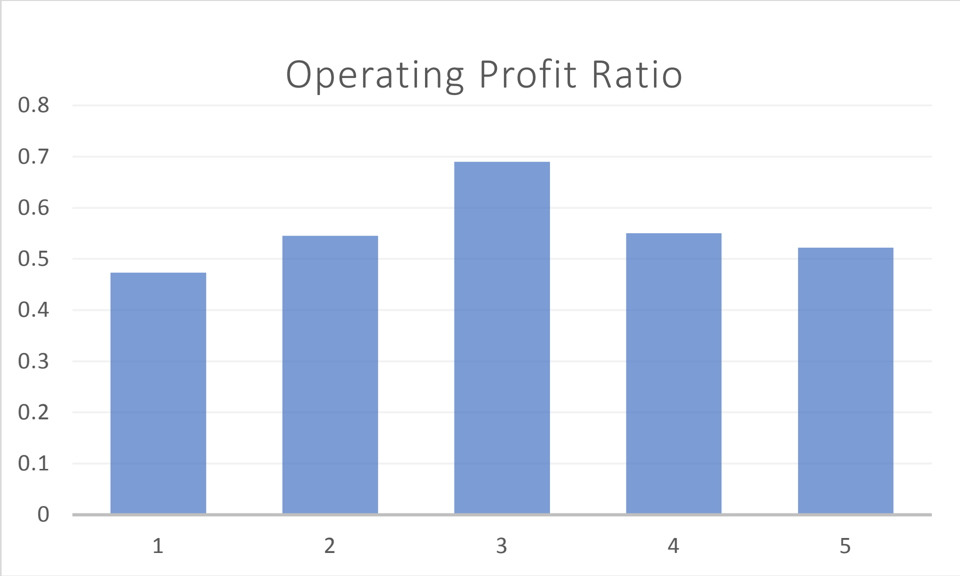
Operating Profit Ratio:

Operating profit Ratio measures the relationship between operating Profit and revenue from operation (i.e., net sales). Operation Profit Ratio is computed by dividing operating profit but Revenue from operations (Net Sales) and is expressed as percentages.

Formula

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$$

PARTICULARS/YEARS	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018
Operating Profit	**1966.56**	**2633.46**	**3552.74**	**2917.75**	**3014.71**
Net Sales	**4156.89**	**4827.62**	**5150.29**	**5304.29**	**5775.46**
Operating Profit Ratio	**0.47**	**0.54**	**0.68**	**0.55**	**0.52**



Observation:

- The company's operating profit ratio is in fluctuating trend as it is increased in 2015 to 2016 due to due to decrease in Cost of Goods Sold and ratio decrease in 2016 to 2018 due to increase in Cost of Goods Sold.

Inference:

- The company is suggested to increase the operational efficiency to increase operating profit ratio.

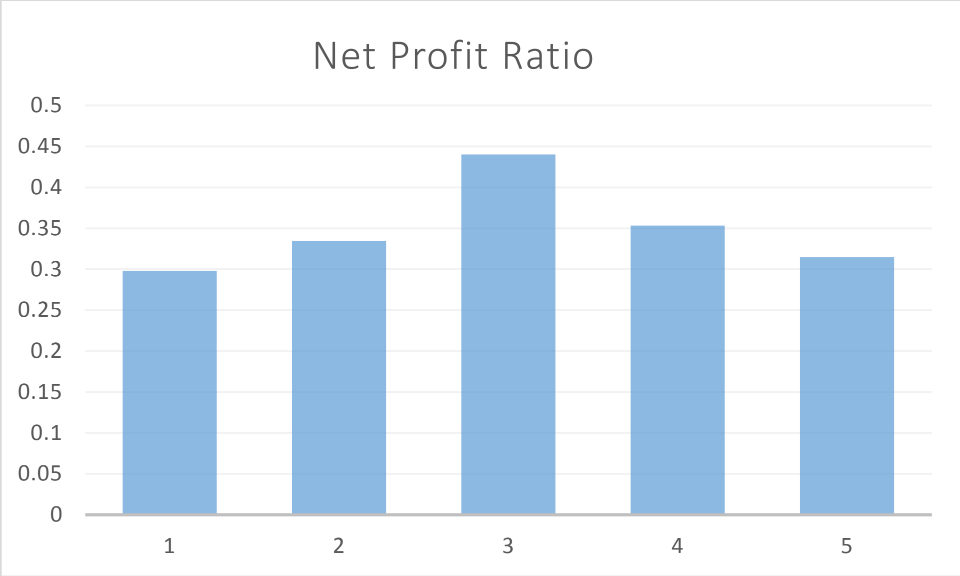
Net Profit Ratio:

Net profit ratio establishes a relationship between net profit (after taxes) and sales, and indicates the efficiency of the management in manufacturing, selling, administrative and other activities of the firm. This ratio is the overall measure of firm`s profitability. The two basic elements of the ratio are net profits and sales. This ratio indicates the firm's capacity to face adverse economic conditions such as price competition, low demand, etc.

Formula

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

PARTICULARS/YEARS	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018
Net Profit	**1238.87**	**1615.52**	**2266.53**	**1873.98**	**1816.53**
Net Sales	**4156.89**	**4827.62**	**5150.29**	**5304.29**	**5775.46**
Net Profit Ratio	**0.29**	**0.33**	**0.44**	**0.35**	**0.31**



Observation:

- The company's operating profit ratio is in fluctuating trend as it is increased in 2015 to 2016 due to controlled expenses and ratio decrease in 2016 to 2018 due lack of controlled expenses efficiently.

Inference:

- The company is suggested to increase its net profit to increasing the net profit ratio.

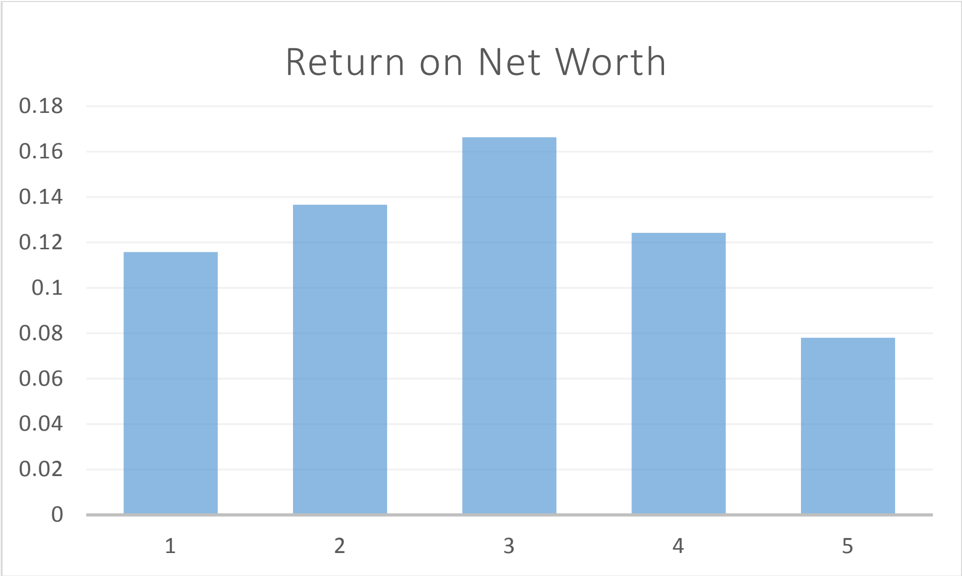
Return on Shareholders' Investment or Net Worth:

The two basic components of this ratio are net profits and shareholders' funds. Shareholders' funds include equity share capital, preference share capital, free reserves such as share premium, revenue reserve, capital reserve, retained earnings and surplus, less accumulated losses, if any. Net profits are visualized from the viewpoint of owners, i.e. shareholders. Thus, net profits are arrived at after deducting interest on long-term borrowings and income-tax, because those will be the only profits available for shareholders.

Formula

$$\text{Return on Net Worth} = \frac{\text{Net Profit after Tax} - \text{Preference Dividend}}{\text{Shareholders' Fund}}$$

PARTICULARS/YEARS	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018
Net Profit After Tax	**1238.87**	**1615.52**	**2266.53**	**1873.98**	**1816.53**
Shareholders' Fund	**10692.63**	**11827.04**	**13621.2**	**15083.25**	**23297.44**
Return on Net Worth	**0.11**	**0.13**	**0.16**	**0.12**	**0.07**



Observation:

- The company's return on net worth is in fluctuating trend as it is increased in 2015-2016 and decreased in 2016-2018.

Inference:

- The reason for decrease in net worth 2016-2018 is due to high rate of increase in net worth the net profit. The reason for increase in net worth is due to less dividend pay-out. The company is suggested to issue dividend to increase the internal net worth.

Earnings per Share:

Earnings per Share is a small variation of return on equity capital and is calculated and dividing the net profit after taxes and preference dividend by the total number of equity shares. Thus, the earnings per share is a good measure of profitability and when compared with E.P.S. of similar other companies, it gives a view of the comparative earnings or earnings power of a firm.

E.P.S. calculated for a number of years indicates whether or not earning power of the company has increased.

Formula

$$\text{Earnings per Share} = \frac{\text{Net Profit after Tax – Preference Dividend}}{\text{No. of Equity Shares}}$$

PARTICULARS/YEARS	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018
Net Profit After Tax	**1238.87**	**1615.52**	**2266.53**	**1873.98**	**1816.53**
No. of Equity Shares	**7765983**	**7765983**	**7765983**	**7765983**	**6364350**
Earnings per Share	**15.9525**	**20.802**	**29.1854**	**24.1306**	**28.5423**

Observation:

- The Earnings per share of the company is in decreasing trend.

Inference:

- The company has to increase the Earning per share and then only market value of share increases accordingly.

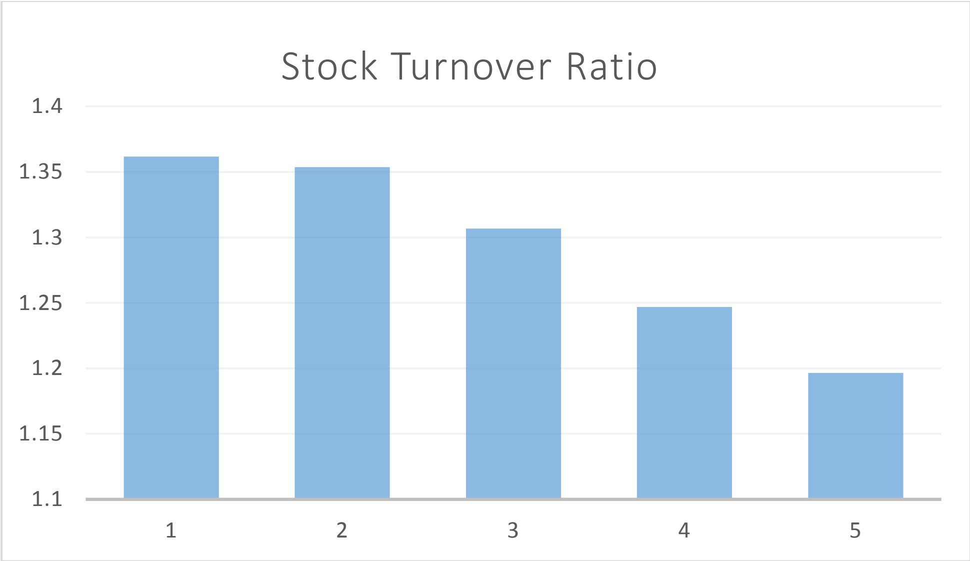
Stock Turnover Ratio:

Inventory Turnover Ratio is an activity as well as efficiency ratio and it measures the number of times an enterprise sells and replaces its inventory, i.e., the number of times inventory was converted into sales during the period. Inventory Turnover Ratio establishes relationship between Cost of Revenue from Operations, i.e., Cost of Goods Sold and average inventory arrived during that period.

Formula

$$\text{Stock Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Inventory}}$$

PARTICULARS/YEARS	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018
Net Sales	**4156.89**	**4827.62**	**5150.29**	**5304.29**	**5775.46**
Average Inventory	**3052.38**	**3566.42**	**3941.5**	**4254.17**	**4826.29**
Stock Turnover Ratio	**1.36**	**1.35**	**1.30**	**1.24**	**1.19**



Observation:

- Stock turnover of company shows the operational efficiency of the company. The company's turnover ratio is in decreasing trend.

Inference:

- The company is suggested to increase the skills in inventory management thereby efficiently converting inventory into sales.

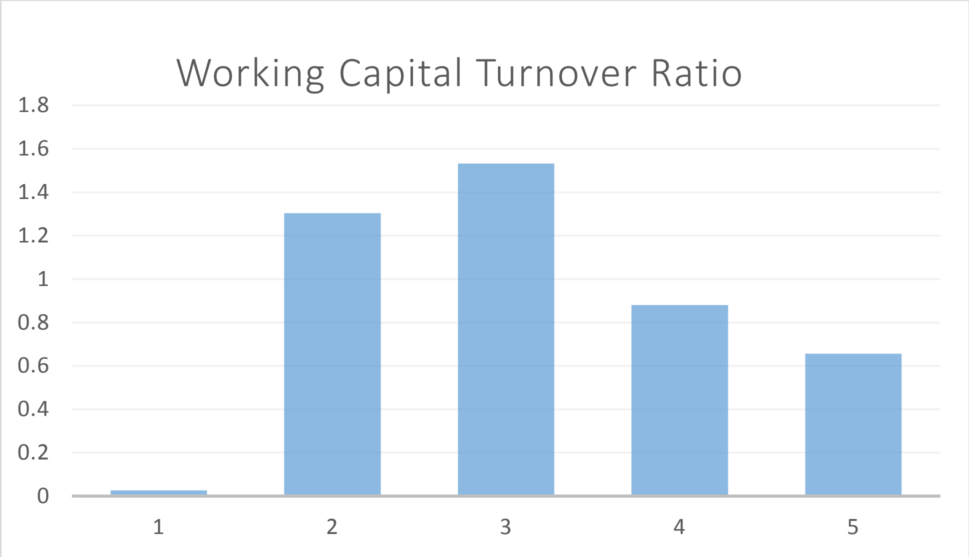
Working Capital Turnover Ratio:

A higher ratio is an indicator of better utilization of current assets and working capital and vice-versa (a lower ratio is an indicator of poor utilization of current assets and working capital) it is calculated by dividing sales by working capital.

Formula:

$$\text{Working Capital Turnover Ratio} = \frac{\text{Total Sales}}{\text{Working Capital}}$$

PARTICULARS/YEARS	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018
Sales	**4156.89**	**4827.62**	**5150.29**	**5304.29**	**5775.46**
Working Capital	**152295.02**	**3703.98**	**3362.32**	**6025.26**	**8809.07**
Working Capital turnover Ratio	**0.027**	**1.30**	**1.53**	**0.88**	**0.65**



Observation:

- The working capital ratio of the company is in fluctuation trend as it is increased in the year 2015 to 2016 and decreased in the year 2016 to 2018.

Inference:

- A low ratio may indicate that a business is investing in too many accounts receivable and inventory to support its sales. Which could lead to an excessive amount of bad debts or obsolete inventory.
- A high turnover ratio shows that management is being very efficient in using a company's short-term assets and liabilities for supporting sales.
- The company is suggested to increase its sales so that they can increase the working capital ratio.

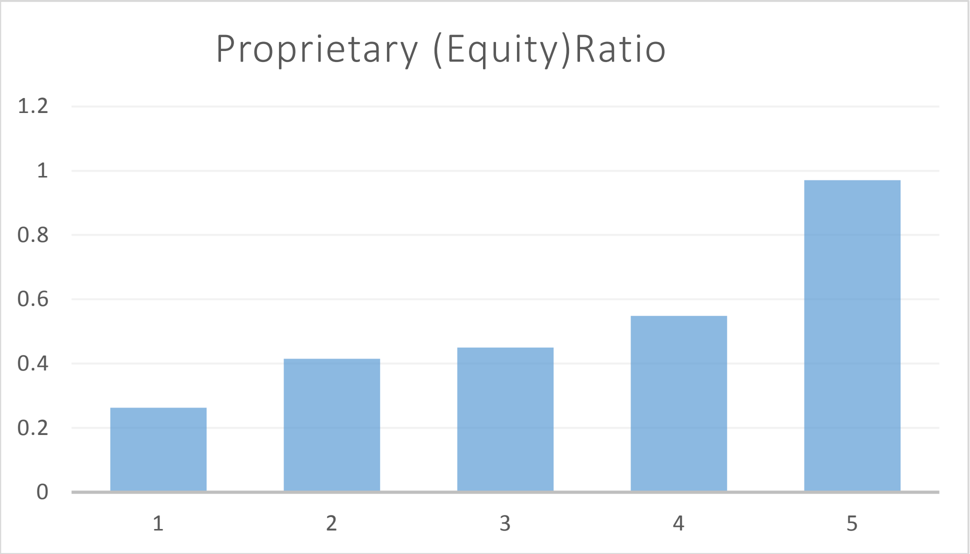
Proprietary (Equity) Ratio:

The ratio indicates the proportion of total assets financed by owner. It is calculated by dividing proprietor (Shareholder) funds by total assets.

Formula:

$$\text{Proprietary (Equity) Ratio} = \frac{\text{Shareholder's funds}}{\text{Total asset}}$$

PARTICULARS/YEARS	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018
Shareholders' Fund	**10692.63**	**11827.04**	**13621.2**	**15083.25**	**23297.44**
Total assets	**40729.05**	**28490.36**	**30252.76**	**27519.64**	**23994**
Proprietary (Equity) Ratio	**0.26**	**0.41**	**0.45**	**0.54**	**0.97**



Observation:

- The proprietary ratio of the company is in increasing trend.

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Inference:

- The company is having sufficient amount of equity to support the functions of business.

CHAPTER-VI

CONCLUSION

CONCLUSION:

The financial performance analysis identifies the strength and weakness of the firm by establishing the relationship between the items of the balance sheet and profit and loss account. The project suggests to focus on the fluctuations of liquidity position of the company and try to reduce it. The company can increase the usage of outsider fund than the shareholders fund through borrowing long term debt or issuing debentures. Optimum capital structure of the company will increase the value of the firm and also increase market value of share. The study has found that the Earning capacity of the company is increased from the past years by adopting various strategies in the business. Further, the study is useful to identify existing financial problems and also identify the causes for those problems. The company is advised to rectify those problems in future. This study helped me a lot to learn and improve my knowledge.

Findings:

- The company is suggested to maintain or increase its current assets in this level.
- The company can efficiently payback its current liabilities if the company maintain its same level.
- The company is suggested to increase the usage of outsider's fund than shareholders fund which will be helpful to increase return on capital.
- The company is suggested to increase the operational efficiency to increase operating profit ratio.
- The company is suggested to increase its net profit to increasing the net profit ratio.
- The reason for decrease in net worth 2016-2018 is due to high rate of increase in net worth the net profit. The reason for increase in net worth is due to less dividend pay-out. The company is suggested to issue dividend to increase the internal net worth.
- The company has to increase the Earning per share and then only market value of share increases accordingly.
- The company is suggested to increase the skills in inventory management thereby efficiently converting inventory into sales.
- A low ratio may indicate that a business is investing in too many accounts receivable and inventory to support its sales. Which could lead to an excessive amount of bad debts or obsolete inventory.
- A high turnover ratio shows that management is being very efficient in using a company's short-term assets and liabilities for supporting sales.
- The company is suggested to increase its sales so that they can increase the working capital ratio.
- The company is having sufficient amount of equity to support the functions of business.

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