

A STUDY ON FINANCIAL PERFORMANCE ANALYSIS

C.Revanth¹, S.Mohammed Al Basidh²

Department of Master Of Business Administration

¹ PG Scholar, PRIST UNIVERSITY

² PHD, Assistant Professor, PRIST UNIVERSITY

I. INTRODUCTION

Financial statements are primarily prepared for decision-making. They play a dominant role in setting the framework of managerial decision. The published financial statements of business may be of considerable interest to present the same to their respective potential shareholders, managers, moneylenders, industry's, financial institutions, trade organization and many others.

MEANING OF FINANCIAL STATEMENT ANALYSIS

Financial analysis is the process of identifying the financial strengths and weakness of firm by properly establishing relationship between the items of the balance sheet and profit and loss account. The purpose of financial analysis is to diagnose the information contained in the financial statements so as to judge the profitability and financial soundness of the firm. A financial analyst, analyses the financial statements with various tools of analysis before commenting upon the financial position of the enterprises. Finance is regarded as the life blood of a business enterprise. In the modern oriented economy, finance is one of the basic foundations of all kinds of economic activities. Finance statements are prepared primarily for decision-making. They play a dominant role in setting the framework and managerial conclusion and can be drawn from these statements is of immense use in decision-making through analysis and interpretation of financial statements. As said earlier finance is said to be life blood of any business. Every business undertaking needs finance for its smooth working. It has to raise funds from the cheapest and risky source to utilize this in most effective manner. So every company will be interested in knowing its financial performance.

The project entitled "Financial performance analysis of throw light on overall financial performance of the company. Finance is a life blood of business it is required from the establishment of the business to liquidity or winding up of a business, so financial institutions played a very important role on the operation of the business. In the early days industry business was confined to receiving of deposits and lending of money. But now modern industries undertake wide variety of functions to assist their customers. They provide

various facilities to customers which makes the transaction easy and comfortable.

Finance is that business activity which is concerned with the organization and conversation of capital funds in meeting financial needs and overall objectives of a business enterprise."- Wheeler Financial management is that managerial activity which is concerned with the planning and controlling of a firm financial reserve. Financial management as an academic discipline has undergone fundamental changes as regards its scope and coverage. In the early years of its evolution it was treated synonymously with the raising of funds. In the current literature pertaining to this growing academic discipline, a broader scope so as to include in addition to procurement of funds, efficient use of resources is universally recognized. Financial analysis can be defined as a study of relationship between many factors as disclosed by the statement and the study of the trend of these factors. The objective of financial analysis is the pinpointing of strength and weakness of a business undertaking by regrouping and analyzing of figures obtained from financial statement and balance sheet by the tools and techniques of management accounting. Financial analysis is as the final step of accounting that result in the presentation of final and the exact data that helps the business managers, creditors and investors.

Financial performance is an important aspect which influences the long term stability, profitability and liquidity of an organization. The Evaluation of financial performance using Comparative Balance Sheet Analysis, Ratio Analysis had been taken up for the study with "SRI KARPAGAM ORGANIC COTTON INDUSTRY AT KARUR" as the project. Analysis of Financial performance is of greater assistance in locating the weak spot sat the

II. REVIEW OF LITERATURE

Literature Review was done by referring previous studies, articles and books to know the areas of study and analyze the gap or study not done so far. There are various studies were conducted relating to operational performance of the company from which most relevant literatures were reviewed.

- ❖ **Kennedy and Muller (1999)**, has explained that “The analysis and interpretation of financial statements are an attempt to determine the significance and meaning of financial statements data so that the forecast may be made of the prospects for future earnings, ability to pay interest and debt mat urines (both current and long term) and profitability and sound dividend policy.”
- ❖ **T.S.Reddy and Y. Hari Prasad Reddy (2009)**, have stated that “The statement disclosing status of investments is known as balance sheet and the statement showing the result is known as profit and loss account”
- ❖ **Peeler J. Patsula (2006)**, he define that a sound business analysis tells others a lot about good sense and understanding of the difficulties that a company will face. We have to make sure that people know exactly how we arrived to the final financial positions. We have to show the calculation but we have to avoid anything that is too mathematical. A business performance analysis indicates the further growth and the expansion. It gives a physiological advantage to the employees and also a planning advantage.
- ❖ **I.M.Pandey (2007)**, had stated that the financial statements contain information about the financial consequences and sources and uses of financial resources, one should be able to say whether the financial condition of a firm is good or bad; whether it is improving or deteriorating. One can relate the financial variables given in financial statements in a meaningful way which will suggest the actions which one may have to initiate to improve the firm’s financial condition.
- ❖ **Chidambaram Rameshkumar & Dr. N. Anbumani (2006)**, he argue that Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. To do this compare your ratios with the average of businesses similar to yours and compare your own ratios for several successive years, watching especially for any unfavorable trends that may be starting. Ratio analysis may provide the all-important early warning indications that allow you to solve your business problems before your business is destroyed by them.
- ❖ **Jae K.Shim & Joel G.Siegel (1999)**, had explained that the financial statement of an enterprise present the raw data of its assets, liabilities and equities in the balance sheet and its revenue and expenses in the income statement. Without subjecting these to data analysis, many fallacious conclusions might be drawn

concerning the financial condition of the enterprise. Financial statement analysis is undertaken by creditors, investors and other financial statement users in order to determine the credit worthiness and earning potential of an entity.

- ❖ **Susan Ward (2008)**, emphasis that financial analysis using ratios between key values help investors copewith the massive amount of numbers in company financial statements. For example, they can compute the percentage of net profit a company is generating on the funds it has deployed. All other things remaining the same, a company that earns a higher percentage of profit compared to other companies is a better investment option.

III. RESEARCH DESIGN

Research Design is the arrangement of condition for collection and analysis of data in manner that aims to combine relevance to the research purpose with the economy in procedure. Research Design is important primarily because of the increased complexity in the market as well as marketing approaches available to the researchers. A research design specifies the methods and procedures for conducting a particular study.

TYPE OF RESEARCH

ANALYTICAL RESEARCH

In this type of research has to use facts or information already available, and analyze these to make a critical evaluation of the material. The researcher depends on existing data for his research work. The analysis revolves round the material collected or available.

SOURCE OF INFORMATION

Basically there are two sources of information. The researcher has collected secondary data for his study.

PRIMARY DATA

Information was collected through this source comprises of discussions with the personnel of **SRI KARPAGAM ORGANIC COTTON INDUSTRY AT KARUR**

SECONDARY DATA

The data was collected from sources like magazine, journals, company reports and industrial magazines (annual reports).

SELECTION OF SAMPLES

The study has been carried out on the micro-level, as it is not possible for the researcher to conduct it on the macro-level. The

population of the study consists of all types of the companies having different operations of business and totally different nature of industries.

As the study is to be carried out by the individual researcher it is not easy to select all the companies as the samples for the study. So, selection based upon growth aspect of companies from Indian industry in present scenario.

PERIOD OF STUDY

The study was conducted for a period of five years from the year financial year 2012- 2017

HYPOTHESIS OF THE STUDY

On the basis of data collection, the researcher identified the following broader hypothesis for the study:

NULL HYPOTHESIS

There would be no significant difference in means score of Financial Performance in selected units, before and after merger and acquisition.

ALTERNATE HYPOTHESIS

There would be significant difference in means score of Financial Performance in selected units, before and after merger and acquisition

TOOL USED FOR ANALYSIS

The data collected from the annual reports of the bank were subjected to analysis using tool relevantly.

The following are major tools used in analysis and interpretation.

- ✓ Ratio analysis
- ✓ Comparative balance sheet statement.

IV. DATA ANALYSIS AND INTERPRETATION

COMPARATIVE BALANCE SHEET IN THE YEARS OF 2012-2013 AND 2013-2014

	2012-2013	2013-2014	Absolute Change (Increase/Decrease)	Percentage (Increase/Decrease)
	A	B	C=B-A	C/A*100
SOURCES OF FUNDS				
Total Share Capital	514.05	570.6	56.55	11.00
Equity Share Capital	514.05	570.6	56.55	11.00
Share Application Money	0	0	0	0

Preference Share Capital	0	0	0	0
Reserves	11,855.15	14,208.55	2353.4	19.85
Revaluation Reserves	25.07	24.63	-0.44	1.755
Net worth	12,394.27	14,803.78	2409.51	19.44
Secured Loans	5,251.65	7,742.60	2490.95	47.43
Unsecured Loans	7,913.91	8,883.31	969.4	12.24
Total Debt	13,165.56	16,625.91	3460.35	26.28
Total Liabilities	25,559.83	31,429.69	5869.86	22.96
Application Of Funds				
Gross Block	13,905.17	18,416.81	4511.64	32.44
Less: Accum. Depreciation	6,259.90	7,212.92	953.02	15.22
Net Block	7,645.27	11,203.89	3558.62	46.54
Capital Work in Progress	6,954.04	5,232.15	1721.89	24.76
Investments	12,968.13	22,336.90	9368.77	72.244
Inventories	2,229.81	2,935.59	705.78	31.65
Sundry Debtors	1,555.20	2,391.92	836.72	53.80
Cash and Bank Balance	638.17	612.16	26.01	4.07

Total Current Assets	4,423.18	5,939.67	1516.49	34.28
Loans and Advances	5,909.75	5,248.71	661.04	11.18
Fixed Deposits	503.65	1,141.10	637.45	126.56
Total CA, Loans & Advances	10,836.58	12,329.48	1492.9	13.77
Differed Credit	0	0	0	0
Current Liabilities	10,968.95	16,909.30	5940.35	54.15
Provisions	1,877.26	2,763.43	886.17	47.20
Total CL & Provisions	12,846.21	19,672.73	2826.52	22.00
Net Current Assets	-2,009.63	-7,343.25	5333.62	265.40
Miscellaneous Expenses	2.02	0	2.02	100
Total Assets	25,559.83	31,429.69	5869.89	22.96
Contingent Liabilities	5,433.07	3,708.33	1724.74	31.74
Book Value (Rs)	240.64	259.03	18.39	7.64

INTERPRETATION

- ❖ The capital of industry increased by 11% in 2012-2013, 11% in 2013-2014; this shows that there is fluctuation in the rate of increase in the capital.
- ❖ There is a huge fluctuation in the rate of increase in reserves and surplus also. This shows that industry is effectively utilizing its reserves and surplus.
- ❖ In 2012-2013 and 2013-2014 fixed deposits increase by 126.69 %, deposits fall by this shows that the industry has repayed its deposits in this year.

- ❖ The borrowings are also showing a fluctuating rate of increase in 2012-2013 the borrowings have increased at a very low rate. This shows that industry has repaid a large amount of borrowings in this year and thereby reducing the dependence on outside debt.

COMPARATIVE BALANCE SHEET IN THE YEARS OF 2014-2015 and 2015-2016

	2014-2015	2015-2016	Absolute Change (Increase/Decrease)	Percentage (Increase/Decrease)
			C=B-A	C/A*100
Sources Of Funds				
Total Share Capital	634.65	634.75	0	0
Equity Share Capital	634.65	634.75	0	0
Share Application Money	3.06	0	3.06	0
Preference Share Capital	0	0	0	0
Reserves	19,351.40	18,709.16	642.24	3.31
Revaluation Reserves	24.19	23.75	0.44	1.81
Net worth	20,013.30	19,367.66	646	3.22
Secured Loans	7,766.05	6,915.77	850.28	10.94
Unsecured Loans	8,132.70	4,095.86	4036.84	49.63
Total Debt	15,898.75	11,011.63	4886.89	30.73
Total Liabilities	35,912.05	30,379.29	5532.76	15.40
Application Of Funds				

Gross Block	21,883.32	27,111.76	5228.38	23.89
Less: Accum. Depreciation	8,466.25	9,965.87	1499.62	17.71
Net Block	13,417.07	17,145.89	3728.82	27.79
Capital Work in Progress	4,058.56	2,073.96	1984.6	48.89
Investments	22,624.21	20,493.55	2130.66	9.41
Inventories	3,891.39	4,588.23	696.84	17.90
Sundry Debtors	2,602.88	2,708.32	150.44	5.77
Cash and Bank Balance	638.79	1,115.08	476.29	74.54
Total Current Assets	7,133.06	8,411.63	1278.57	17.92
Loans and Advances	5,852.42	6,400.65	548.23	9.36
Fixed Deposits	1,790.13	725.88	1064.25	59.45
Total CA, Loans & Advances	14,775.61	15,538.16	762.55	5.16
Differed Credit	0	0	0	
Current Liabilities	15,740.69	21,271.45	5530.76	35.13
Provisions	3,222.71	3,600.82	378.11	11.73
Total CL & Provisions	18,963.40	24,872.27	5908.87	31.15
Net Current Assets	-4,1	-9,3	5146.32	122.88

	87.79	34.11		
Miscellaneous Expenses	0	0	0	0
Total Assets	35,912.05	30,379.29	5532.76	15.40
Contingent Liabilities	4,798.83	3,284.12	1514.71	31.56
Book Value (Rs)	314.93	60.95	253.98	80.64

INTERPRETATION

- ❖ The capital of industry decreased by 0% in 2014-2015 and 2015-2016 ; this shows that there is fluctuation in the rate of increase in the capital.
- ❖ There is a huge fluctuation in the rate of increase in reserves and surplus also. This shows that industry is effectively utilizing its reserves and surplus.
- ❖ In 2014-2015 and 2015-2016 fixed deposits increase by 56.87 %, deposits fall by this shows that the industry has replayed its deposits in this year.
- ❖ The borrowings are also showing a fluctuating rate of increase in 2014-2015 and 2015-2016 the borrowings have increased at a very low rate. This shows that industry has repaid a large amount of borrowings in this year and thereby reducing the dependence on outside debt.
- ❖ The investments are also decreasing but with lower rates compared to the preceding years Similarly advances rose by 9.41% in 2014-2015 and 2015-2016
Three has been a consistent decline in the fixed assets over years in total current assets in the years of 2014-2015 and 2015-2016 decreased by 17.92 %. This is mainly due to increase in the rate of depreciation in the subsequent years.
- ❖ A huge fluctuation is revealed from net current assets. It increased by 122.88 % in 2014-2015 and 2015-2016 rate of increase rose to .this shows that the industry is effectively utilizing its working capital. This is mainly due to the repayment of deposits in the years 2014-2015 and 2015-2016.

FINDINGS, INTERPRETATION AND REFERENCE

FINDINGS

1. The current ratio has shown in a fluctuating trend as 7.41, 2.19, 4.48, 1.98, and 3.82 during 2012 of which indicates a continuous increase in both current assets and current liabilities.
2. The quick ratio is also in a fluctuating trend throughout the period 2012-2017 resulting as 7.41, 1.65, 4.35, 1.9, and 3.81. The company's present liquidity position is satisfactory.
3. The absolute liquid ratio has been decreased from 3.92 to 1.18, from 2012-2017.
4. The proprietor ratio has shown a fluctuating trend. The proprietary ratio is increased compared with the last year. So, the long term solvency of the firm is increased.
5. The working capital increased from 0.72 to 1.13 in the year 2012-2017.
6. The fixed assets turnover ratio is in increasing trend from the year 2012-2017. (1.26, 1.82, 4.24, 3.69, and 6.82). It indicates that the company is efficiently utilizing the fixed assets.
7. The capital turnover ratio is increased form 2012-2015017. (0.98, 1.01, and 1.04) and decreased in 2016 to 0.98. It increased in the current year as 1.00.
8. The current assets to fixed assets ratio is increasing gradually from 2012-2017 as 2.93, 3.74, 4.20, 6.07 and 8.17. It shows that the current assets are increased than fixed assets.
9. The net profit ratio is in fluctuation manner. It increased in the current year compared with the previous year from 2012-2017 0.33 to 0.42.
10. The net profit is increased greater in the current year. So the return on total assets ratio is increased from 0.17 to 0.31.
11. The Reserves and Surplus to Capital ratio is increased to 4.19 from 2.02. The capital is constant, but the reserves and surplus is increased in the current year.
12. The earnings per share was very high in the year 2012 i.e., 101.56. That is decreased in the following years because number of equity shares are increased and the net profit is decreased. In the current year the net profit is increased due to the increase in operating and maintenance fee. So the earnings per share is increased.

CONCLUSION

2. In the study of Financial Performance of **SRI KARPAGAM ORGANIC COTTON INDUSTRY**,

it is clear that the company's financial performance is satisfactory. The company has stable growth and it shows a greater efficiency in all the areas it works.

3. If the company utilizes its working capital then the company can go heights which it wanted to achieve. The comparative income statement shows increase in the current year of net profit and it depict the company's current profit position. To improve the efficiency the company will strive for better performance and increase the market share the company.
4. The suggestions provided through the study will help the company to improve the operational performance efficiently. The suggestions provided through the study will help the company to improve the operational performance efficiently. The company's overall position is at a very good position. The company achieves sufficient profit in past four years. The long term solvency position of the company is very good. The company maintains low liquidity to achieve the high profitability. The company distributes dividends every year to its shareholders. The profit of the company decreased in the last year due to maintaining the comparatively high liquidity. The net working capital of the company is maximum in the last year shows the maximum liquidit

REFERENCES

- [1] Financial management (ninth edition), author I'm pander published by visas publishing house put ltd.
- [2] Financial management (second edition), author p periasamy published by mc grew hill publishing.
- [3] Financial service, author M Y KHAN, Fifth edition M.C. Grew Hill Publishing.
- [4] M Y Khan and P K Jain, Financial Management Fourth Edition 2006, Tata McGraw-Hill Publishing Company Limited, New Delhi.
- [5] Robert C Higgins, Analysis for Financial Management Eighth Edition 2009Tata McGraw-Hill Publishing Company Limited, New Delhi.