

## A STUDY ON RATIO ANALYSIS FOR DECISION MAKING

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### ABSTRACT

This paper outlines a financial statement analysis for use in equity valuation. Standard profitability analysis is incorporated, and extended, and is complemented with an analysis of growth. The perspective is one of forecasting payoffs to equities. So financial statement analysis is presented first as a matter of pro forma analysis of the future, with forecasted ratios viewed as building blocks of forecasts of payoffs. The analysis of current financial statements is then seen as a matter of identifying current ratios as predictors of the future ratios that drive equity payoffs. The financial statement analysis is hierarchical, with ratios lower in the ordering identified as finer information about those higher up. To provide historical benchmarks for forecasting, typical values for ratios are documented for the periods, along with their cross-sectional variation and correlation. And, again with a view to forecasting, the time series behavior of many of the ratios is also described and their typical "long-run, steady-state" levels are documented.

In this paper, we compare ratio analysis with the data envelopment analysis approach. It is shown that using ratio analysis implies that a one multidimensional space is projected onto other subspaces many times. As a result, significant distortion of the performance assessment of units takes place. Our theoretical results are validated by computational experiments on the data taken from financial accounts.

Financial statements are used as a management tool primarily by company executives and investor's in assessing the overall position and operating results of the company.

Analysis and interpretation of financial statements help in determining the liquidity position, long term solvency, financial viability and profitability of a firm. Ratio analysis shows whether the company is improving or deteriorating in past years. Moreover, Comparison of different aspects of all the firms can be done effectively with this. It helps the clients to decide in which firm the risk is less or in which one they should invest so that maximum benefit can be earned.

Mining industries are capital intensive; hence a lot of money is invested in it. So before investing in such companies one has to carefully study its financial condition and worthiness. Unfortunately very limited work has been done on analysis and interpretation of financial statements of Indian for mining companies. An attempt has been carried out in this project to analyze and interpret the financial statements of five coal and non- coal mining companies.

### I. INTRODUCTION

Financial statements are prepared primarily for decision-making. They play a prominent role in setting the framework of managerial decisions. But the information provided in the financial statements is not an end in itself as no meaningful conclusions can be drawn from these statements alone. However, the information provided in financial statements is of immense use in making decisions through analysis and interpretation of financial statements. A firm communicates financial information to the users through financial statements, and reports the financial statement contains summarized information of the firm's financial affairs. Organized and systematic preparation of the financial statement is the responsibility of top management.

Financial forecasting is an integral part of financial planning. Forecasting uses past data to estimate the future financial requirements. Ratio analysis is a powerful tool of financial analysis. A

ratio is used as a benchmark for evaluating the financial position and performance of financial data and to make qualitative judgment about the firm's financial performance.

With the help of ratios, one can determine:

- The ability of the firm to meet its current obligations.
- The extent to which the firm has used its long-term solvency by borrowing funds.
- The efficiency with which the firms is utilizing its assets in generating sales revenue.
- The overall operating efficiency and performance of the firms.

Analysis and interpretation of various accounting ratios gives a skilled and experienced analyst, a better understanding of financial condition and performance of the firm.

**Ratio analysis** is used to evaluate relationships among financial statement items. The ratios are used to identify trends over time for one company or to compare two or more companies at one point in time. Financial statement ratio analysis focuses on three key aspects of a business: liquidity, profitability, and solvency.

#### **NEED OF THE STUDY**

- The study has great significance and provides benefits to various parties whom directly or indirectly interact with the company.
- It is beneficial to management of the company by providing crystal clear picture regarding important aspects like liquidity, leverage, activity and profitability.
- The study is also beneficial to employees and offers motivation by showing how actively they are contributing for company's growth.
- The investors who are interested in investing in the company's shares will also get benefited by going through the study and can easily take a decision whether to invest or not to invest in the company's shares.

#### **SCOPE OF THE STUDY**

The scope of the study is limited to collecting financial data published in the annual reports of the company every year. The analysis is done to suggest the possible solutions. The study is carried out for 5 years (2020 – 25). Using the ratio analysis, firms past, present and future performance can be analyzed and this study has been divided as short term analysis and long term analysis. The firm should generate enough profits not only to meet the expectations of owner, but also to expansion activities.

#### **OBJECTIVES OF THE STUDY:**

The major objectives of the resent study are to know about financial strengths and weakness of BAJAJ through **FINANCIAL RATIO ANALYSIS**.

- To evaluate the performance of the company by using ratios as a yardstick to measure the efficiency of the company.
- To understand the liquidity, profitability and efficiency positions of the company during the study period.
- To evaluate and analyze various facts of the financial performance of the company. To make comparisons between the ratios during different periods.
- To study the present financial system at Genting Lanco.
- To determine the Profitability, Liquidity Ratios.
- To analyze the capital structure of the company with the help of Leverage ratio.
- To offer appropriate suggestions for the better performance of the organization.

#### **II. RESEARCH METHODOLOGY:**

The information is collected through secondary sources during the project. That information was utilized for calculating performance evaluation and based on that, interpretations were made.



### **Sources of secondary data:**

- Most of the calculations are made on the financial statements of the company provided statements.
- Referring standard texts and referred books collected some of the information regarding theoretical aspects.
- Method- to assess the performance of the company method of observation of the work in finance department is followed.

### **LIMITATIONS OF THE STUDY:**

- The study provides an insight into the financial, personnel, marketing and other aspects of BAJAJ AUTO. Every study will be bound with certain limitations.
- The below mentioned are the constraints under which the study is carried out.
- One of the factors of the study was lack of availability of ample information. Most of the information has been kept confidential and as such as not assessed as part of policy of company. Time is an important limitation. The whole study was conducted in a period of 60 days, which is not sufficient to carry out proper interpretation and analysis.

### **III. REVIEW OF LITERATURE**

**TITLE:** A STUDY OF RATIO ANALYSIS AS A TECHNIQUE OF FINANCIAL PERFORMANCE EVALUATION PARVESH KUMAR GOYAL

**AUTHORS:** Assistant Professor, Department of Commerce, Dayanand Post Graduate College, Hisar

#### **ABSTRACT**

In today's financial world, financial performance is significant for various stakeholders, be the management, lenders, owners and investors. Measurement of Financial performance is crucial for taking financial decisions. Hence, it is of the paramount importance for taking financial decisions effectively. The annual financial reports provided by the accounting system, is considered the main source for information for decision-makers especially the investors. Therefore, the validity and accuracy of the decisions depend on the proper analysis of financial statements. Despite, the fact that there are other factors affecting investment decisions, such as, economic, political and social considerations, but still the financial analysis factors constitute the main tool in attracting investment. The objective of this paper is to identify the role of ratio analysis indicators in investors' decisions.

**TITLE:** A STUDY OF RATIO ANALYSIS AS A TECHNIQUE OF FINANCIAL PERFORMANCE EVALUATION

**AUTHOR:** PARVESH KUMAR GOYAL

JUL-DEC2016/VOL-3/ISS-2-A5 ISSN: 2349 – 2589

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**TITLE: A TOOL FOR MEASURING ORGANIZATION PERFORMANCE USING RATIO ANALYSIS**

**AUTHOR: ELIJAH ADEYINKA ADEDEJI**

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Vol.5, No.19, 2014

**ABSTRACT**

Ratio analysis has served as a veritable means of monitoring, measuring and improving performance in an organization. Hence, the study examines a tool for measuring organization performance using ratio analysis. It also ascertains the relevance of internal and external financial reports during ratio analysis for the purpose of establishing key relationships and results in order to appraise financial performance. The study confirmed that there is significant relationship between ratio analysis and organizational performances as well as financial ratios highlight the importance of effective management of an organization. Based on the findings of this study, it was recommended that financial ratios should be computed periodically to reveal areas of strengths and weaknesses, as well as, ratio analysis should be used to measure performance in terms of profitability.

**TITLE: ROLE OF RATIO ANALYSIS IN BUSINESS DECISIONS**

**AUTHOR: MOHAMMED NUHU**

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**Abstract**

Accounting information provided by means of financial statements- The income statement and the Balance Sheet are often in summarized form. Viewed on the surface, the truths about the results and the financial position of a business hidden in them remain veiled. To be of optimal benefit and as well enable the users make well – informed decisions, financial statements need to be analyzed by means of ratios. Therefore, in order to establish the role of ratio analysis in business decisions, this research is carried out; using NBC Maiduguri Plant was use as the Case study. The researcher made use of both primary and secondary sources of data collection. However, for the former, questionnaires were administered, whereas for the later, relevant were received. The data Collected via the primary data sources were analyzed using simple averages and percentages.

**TITLE: THE RELATIONSHIP BETWEEN FINANCIAL RATIO ANALYSIS AND CORPORATE PROFITABILITY**

**AUTHOR: ENEKWE, CHINEDU**

Vol.3, No.2, pp.17-34, December 2015

**ABSTRACT:**

The title of this work is the relationship between financial ratio analysis and corporate profitability: a study of selected quoted oil and gas companies in Nigeria. The issue of deciding on an effective financial ratio analysis for corporate profitability has been a major problem of most oil and gas companies in Nigeria. The successful selection and use of appropriate planning tool is one of the key elements of a firm's financial strategy. Therefore, proper care and attention need to be given while such decision is taken.

Thus, financial ratio analysis relationship has been discovered as having immense potentials to help organization in improving their revenue generation ability as well as minimization of costs. The purpose of this study is to examine the relationship between financial ratio analysis and corporate profitability of Nigeria oil and gas industry over a period of five (5) years (2008-2012).

This work employed five (5) financial ratio analysis such as total assets turnover ratio (TATR),



debt equity ratio (DER), debtor’s turnover ratio (DTR), interest coverage (IC) and creditors’ turnover ratio (CTR) in determining their relationship and effect on corporate profitability (Return on assets) of oil and gas companies in Nigeria.

The ex-post facts research design was used in this study. Corporate profitability as a dependent variable is represented by return on assets (ROA) while financial ratio analysis stand as TATR, DTR, DER, IC and CTR for independent variables. The data were obtained from the financial account and annual reports (both statement of comprehensive income and statement of financial position) of the selected quoted oil and gas companies on the Nigeria stock exchange (NSE). Descriptive statistics, Pearson correlation and regressions were employed to find out the relationship between the variables and their effect on corporate profitability.

The results of the analysis shows that total assets turnover ratio (TATR), debtor’s turnover ratio (DTR) and interest coverage (IC) have positive relationship and statistically significant with corporate profitability while debt equity ratio (DER) and creditor’s turnover ratio (CTR) have negative relationship and statistically insignificant with corporate profitability in the Nigeria oil and gas industry. The analysis also revealed that the debtor’s turnover ratio (DTR) has positive relationship and statistically significant with total assets turnover ratio (TATR) and IC have effect on corporate profitability while DTR, DER and CTR have no effect on corporate profitability in quoted oil and gas companies in Nigeria. The results further suggested that only 46.9% of the variations on the dependent variable were caused by the independent variables in our model suggesting that 53.1% of the variations in corporate profitability were caused by other factors outside our model. Based on the other findings, the researcher recommends that the management should not make use of debt finance in the performance of their growth.

The study also recommend that creditor’s and purchases must be equal in order to take the advantage of credit facility and any discount associated with prompt payment for products to increase the corporate profitability. Management should utilize its assets efficiently in order to generate more income for the company.

**IV. DATA ANALYSIS AND INTERPRETATION**  
**LIQUIDITY RATIO**

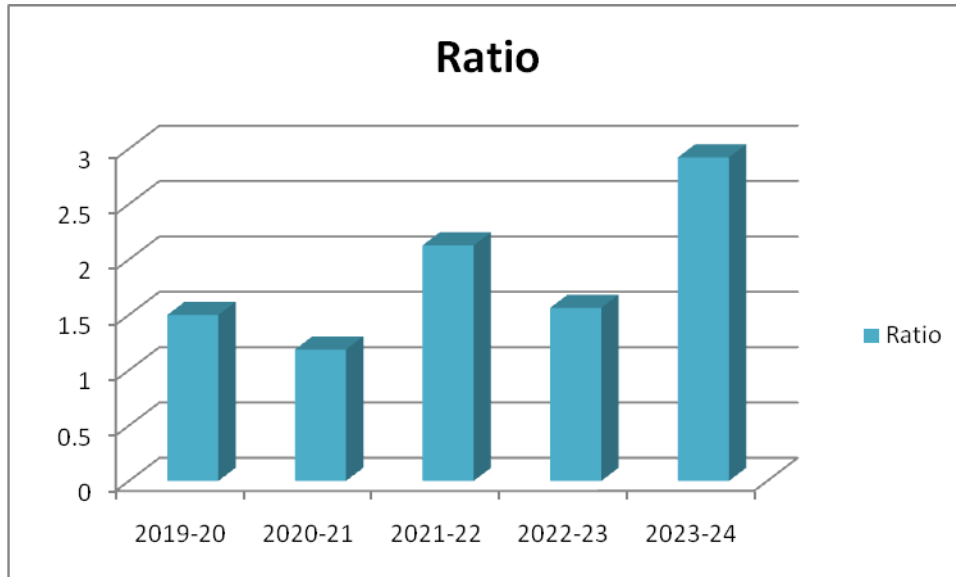
**1. CURRENT RATIO**

(Amount in Rs.)

**TABLE4.1**

<b>Current Ratio</b>			
<b>Year</b>	<b>Current Assets</b>	<b>Current Liabilities</b>	<b>Ratio</b>
<b>2019-20</b>	6198.08	4133.63	1.499
<b>2020-21</b>	5616.63	4730.24	1.187
<b>2021-22</b>	9526.27	4476.79	2.128
<b>2022-23</b>	4618.25	2953.02	1.564
<b>2023-24</b>	9391.37	3212.58	2.923

**GRAPHICAL REPRESENTATION**



**GRAPH4.1**

**Interpretation**

As a rule, the current ratio with 2:1 (or) more is considered as satisfactory position of the firm. When compared with 2020-21, there is an increase in the provision for tax, because the debtors are raised and for that the provision is created. The current liabilities majorly included Baja Auto Limited for consultancy additional services.

The sundry debtors have increased due to the increase to corporate taxes.

In the year 2020-21, the cash and bank balance is reduced because that is used for payment of dividends. In the year 2021-22, the loans and advances include majorly the advances to employees and deposits to government. The loans and advances reduced because the employees set off their claims. The other current assets include the interest attained from the deposits. The deposits reduced due to the declaration of dividends. So the other current assets decreased. The huge increase in sundry debtors resulted an increase in the ratio, which is above the benchmark level of 2:1 which shows the comfortable position of the firm.

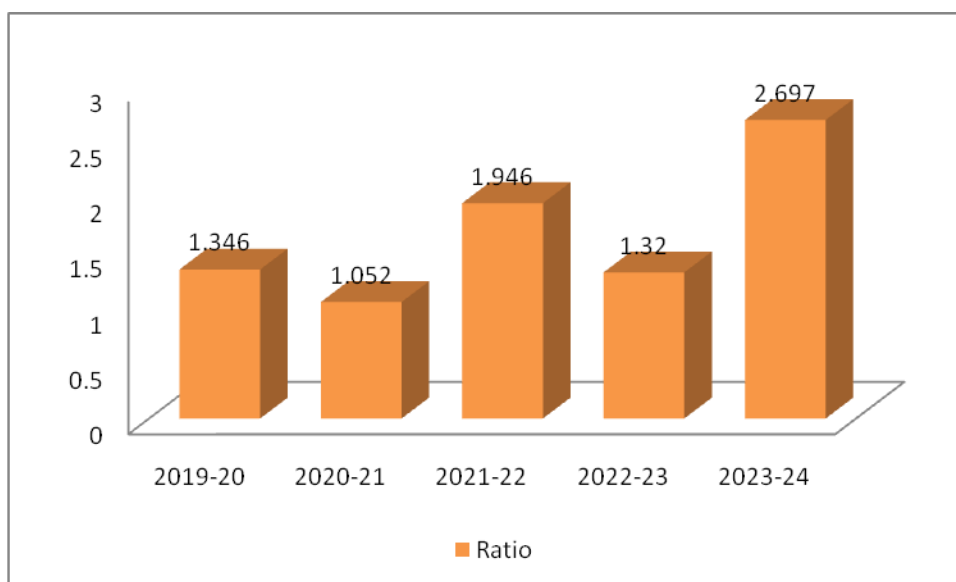
**2. QUICK RATIO**

**TABLE4.2**

**(Amount in Rs.)**

<b>Quick Ratio</b>			
<b>Year</b>	<b>Quick Assets</b>	<b>Current Liabilities</b>	<b>Ratio</b>
<b>2019-20</b>	5561.8	4133.63	1.346
<b>2020-21</b>	4976.91	4730.24	1.052
<b>2021-22</b>	8712.12	4476.79	1.946
<b>2022-23</b>	3899.18	2953.02	1.320
<b>2023-24</b>	8662.99	3212.58	2.697

**GRAPHICAL REPRESENTATION**



**GRAPH4.2**

**Interpretation**

Quick assets are those assets which can be converted into cash within a short period of time, say to six months. So, here the sundry debtors which are with the long period does not include in the quick assets.

Compare with 2022-23, the Quick ratio is increased because the sundry debtors are increased due to the increase in the corporate tax and for that the provision created is also increased. So, the ratio is also increased with in the year 2023-24.

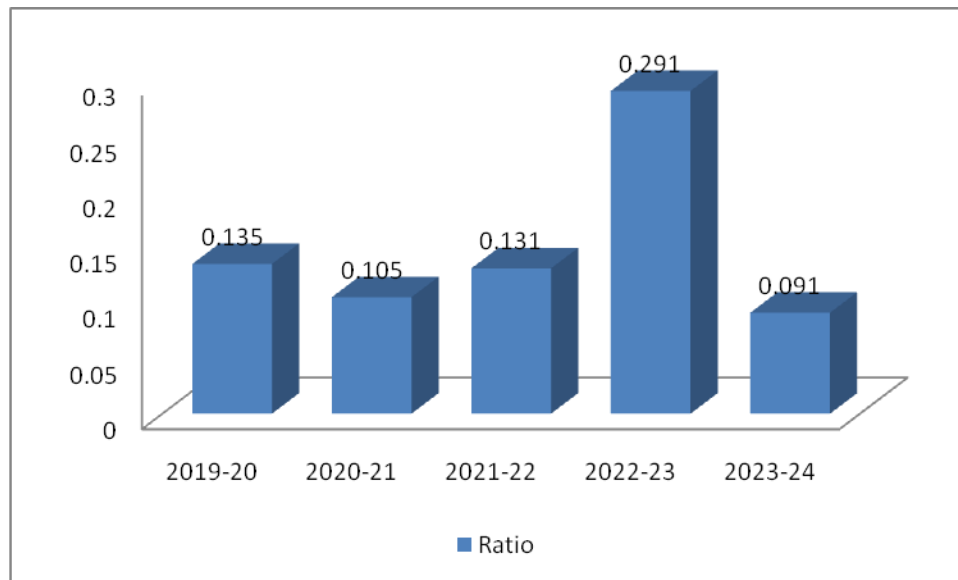
**3. ABOSULTE LIQUIDITY RATIO**

(Amount in Rs.)

**TABLE4.3**

Absolute Cash Ratio			
Year	Absolute Liquid Assets	Current Liabilities	Ratio
2019-20	558.86	4133.63	0.135
2020-21	495.48	4730.24	0.105
2021-22	586.15	4476.79	0.131
2022-23	859.52	2953.02	0.291
2023-24	293.68	3212.58	0.091

## GRAPHICAL REPRESENTATION



**GRAPH4.3**

### Interpretation

The current assets which are ready in the form of cash are considered as absolute liquid assets. Here, the cash and bank balance and the interest on fixed assets are absolute liquid assets.

In the year 2022-23, the cash and bank balance is decreased due to decrease in the deposits and the current liabilities are also reduced because of the payment of dividend. That causes a slight increase in the current year's ratio.

### V. FINDINGS

1. The current ratio has shown in a fluctuating trend as 7.41, 2.19, 4.48, 1.98, and 3.82 during 2019-2024 of which indicates a continuous increase in both current assets and current liabilities.
2. The quick ratio is also in a fluctuating trend through out the period 2020 – 25 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 2022 – 23.
4. The proprietary 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 2022 – 23.
6. The fixed assets turnover ratio is in increasing trend from the year 2022 – 23 (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 from 2022 – 23 (0.98, 1.01, and 1.04) and decreased in 2024 to 0.98. It increased in the current year as 1.00.
8. The current assets to fixed assets ratio is increasing gradually from 2020 – 25 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 0.33 to 0.42.
10. The net profit is increased greaterly 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 2020 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 are increased.

13. The operating profit ratio is in fluctuating manner as 0.99, 0.51, 0.41, 0.57 and 0.69 from 2020 – 2025 respectively.

14. Price Earnings ratio is reduced when compared with the last year. It is reduced from 3.09 to 2.39, because the earnings per share is increased.

15. The return on investment is increased from 0.32 to 0.42 compared with the previous year. Both the profit and shareholders funds increase cause an increase in the ratio.

#### **VI. SUGGESTIONS**

1) After the analysis of Financial Statements, the company status is better, because the Net working capital of the company is doubled from the last year's position.

2) The company profits are huge in the current year; it is better to declare the dividend to shareholders.

3) The company is utilising the fixed assets, which majorly help to the growth of the organisation. The company should maintain that perfectly.

4) The company fixed deposits are raised from the inception, it gives the other income i.e., Interest on fixed deposits.

#### **VII. CONCLUSION**

The company's overall position is at a good position. Particularly the current year's position is well due to raise in the profit level from the last year position. It is better for the organization to diversify the funds to different sectors in the present market scenario.

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