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A Study on Ratio Analysis in Shiva Shakthi Dairy (Pvt.)

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ABSTRACT

Ratio Analysis is one of the powerful tools of the financial analysis. A ratio can be defined as "The indicated quotient of two mathematical expressions" and as "the relationship between two or more things". Ratio is thus, the numerical or an arithmetical relationship between two figures". It is expressed where on figure is divided by another. In finance analysis ratio is used as a benchmark of a firm.

A ratio is the relationship between two accounting items expressed mathematically. Ratio analysis helps the analyst to make quantitative judgment with regard to concern's financial position and performance. This relationship can be expressed as a percentage or as quotient.

Ratio analysis is the systematic use of ratio to interpret the financial statements so that the strengths and weakness of a firm as well as its historical performance and current financial position can be determined. Undisputedly the ratio analysis occupies place of prime importance.

MEANING OF DEFINITION

According to Prof. Spring field, Prof. Mass & Merrimu, a ratio is defined as "The indicated quotient of two mathematical impression" and as "The relationship between two (or) more things"

SIGNIFICANCE OF RATIO ANALYSIS

Ratio analysis is of great help of commercial bankers, trade creditors and institutional lenders. They judge the ability of borrowing enterprises by observing various ratios like the current ratio, acid test ratio, and turnover of receivables, inventory turnover, and coverage of interest by the level of earnings.

Ratio analysis also helps long term creditors in knowing the ability of a borrowing enterprises to pay interest principal in case earnings decline they find valuable the ratios of total debt to equity and total debt to total assets.

Investors in shares judge the performance of the company by observing the per share into ratios like earnings per share, book value per share, market price per share, dividends per share etc.

Lastly, ratio analysis is of great use of the management of the firm. Management of the firm is interested in every aspect of ratio analysis as it is their overall responsibility to see that the resources of the firm are used most efficiently and effectively and that the firms financial conditions is sound.

STANDARDS FOR COMPARISON

For making a proper use of ratios, it is essential to have fixed standard for comparison. A ratio by itself has very little meaning unless it is compared to some appropriate standard. Selection of proper standards of comparison is a most important element is ratio analysis. The four most common standard used in ratio analyses are as follows:

1. Absolute	2. Historical
3. Horizontal	4. Budgeted

1. Absolute: -

Absolute standards are those, which become generally recognized as being desirable regardless of the type of the company, the time, stage of business cycle, or the objectives of the analyst.

2. Historical: -

Historical standards involve comparing a company's own past performance as a standard for the present or future. But this standard may not provide sound basis for judgment, as the historical figure a may not have represented an acceptable standard.

3. Horizontal: -

In case of horizontal standards one company is compared with another or with average of other companies of the same nature. It is also called as intra-firm comparison.

4. Budgeted: -

The budgeted standard is arrived at after preparing the budget for a period. Ratios developed from actual performance are compared to the planned ratios in the budget to examine the degree of accomplishment to the anticipated targets of the firms.

NEED FOR THE STUDY

Financial statements are prepared for the purpose of presenting a periodical review Sor report by the management and deal with the state of investment in business and result achieved during the period under review. They reflect a combination of recorded facts, accounting conventions and personal judgments.

The Ratio Analysis is the most powerful tool of the financial analysis. These people use rations to determine those financial characteristics of the firm in which they are interested. 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 along-term solvency by borrowing funds.
- The efficiency with which the firm is utilizing its assets in generating sales revenue.
- The overall operating efficiency and performance of the firm.

OBJECTIVES OF THE STUDY

- To assess the liquidity and profitability of **SHIVASHAKTHI DAIRY PVT. LTD.**
- To study financial position of the **SHIVASHAKTHI DAIRY PVT. LTD.**
- To analyses the turn over efficiency of The **SHIVASHAKTHI DAIRY PVT. LTD.**
- To know the impact of liquidity solvency and turnover efficiency on the shareholders of The **SHIVASHAKTHI DAIRY PVT. LTD.**
- To suggest feasible solution to improve the overall efficiency of The **SHIVASHAKTHI DAIRY PVT. LTD.**

SOURCES OF DATA

Primary Data

The primary data was collected mainly with the interactions and discussions with the company's Executives.

Secondary Data

Most of the calculations are made on the financial statement of the company and the company provided financial statements for 5 years.

- Referring standards texts,
- Reference books
- And Internet collected some of the information regarding to the theoretical aspects.

PERIOD OF STUDY

The study period covers the inventory management of integral coach factory during the three-year period commencing.

SCOPE OF THE STUDY

- This project is as a reference guide or as a source of information. It gives the idea about the financial analysis of a firm.
- The study aims to study the liquidity position of the firm. Ratio Analysis has been used to analyses the financial position of a firm.
- It deals with analysis an interpretation of data collected through the sources primary and secondary data. Graphs and diagrams and tabulation method are used to analyze and interpret the data collected.

LIMITATIONS OF THE STUDY

- The information used is primarily from historical reports available to the public and the same doesn't indicate the current situation of the firm.
- Detailed analysis could not be carried for the project work because of the limited time span.
- Since financial matters are sensitive in nature these same could not be acquired easily.

DATA ANALYSIS AND INTERPRETATION

CURRENT RATIO

This ratio is a barometer of general measures of liquidity and state of trading current ratio shows the firm's commitment to meet its shot-term liabilities. It expresses the relationship between current assets and current liabilities.

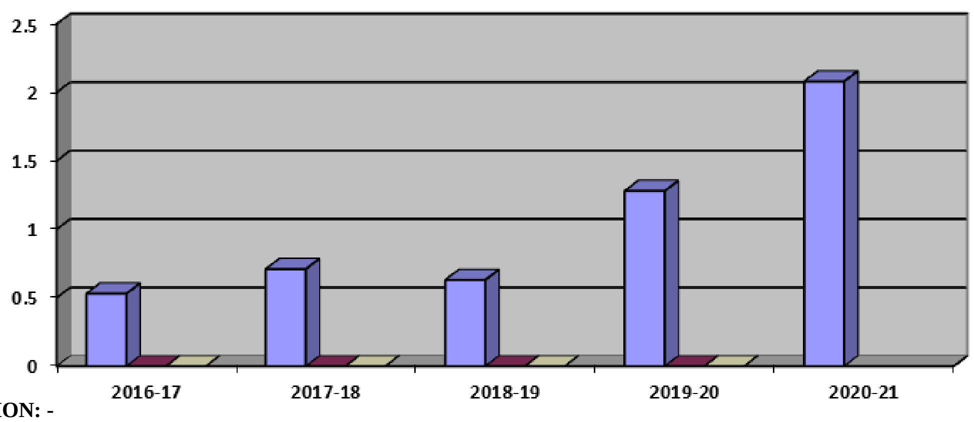
Current ratio = $\frac{Current\ Assets}{Current\ Liabilities}$

Year Wise Current Assets and Current Liabilities of THE SHIVA SHAKTHI DAIRY PVT. LTD.

TABLE

Year	Current assets	Current liabilities	Ratio
2016-2017	11405087	10791949	1.05
2017-2018	13922432	12005681	1.15
2018-2019	18173935	14165732	1.28
2019-2020	20640425	7149051	2.88
2020-2021	1458971	282154	5.17

CURRENT RATIO



INTERPRETATION: -

Current ratio measures the firm's short-term solvency. The standard norm for current ratio is (2:1). It is evident that in the year 2019-20 & 2020-21 Current Ratio is satisfactory. In remaining years current ratio is less then 2 is not satisfactory. There fore it can be calculated that the liquidity performance of the company is poor.

QUICK RATIO

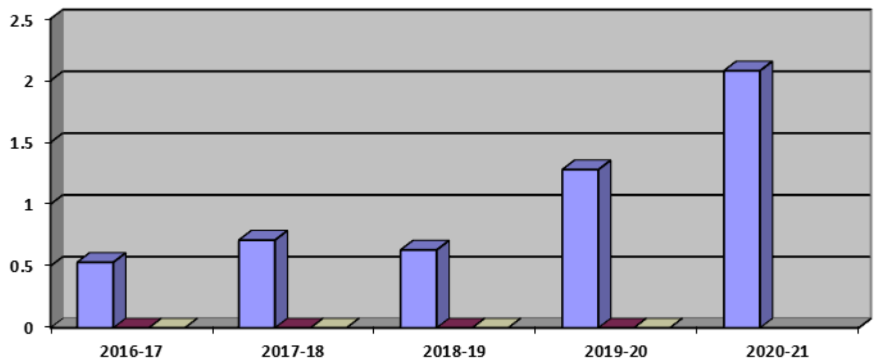
This ratio is also called as "acid test ratio". Quick ratio is the real index of the liquidity or the short-term solvency of a concern. Quick ratio generally expressed as a pure, i.e.., as a promotion between quick assets and quick liabilities.

Quick ratio = $\frac{Quick\ Assets}{Quick\ Liabilities}$

TABLE

Year	Super Quick assets	Current liabilities	Ratio
2016-2017	5801648	10791949	0.53
2017-2018	8542212	12005681	0.71
2018-2019	9001221	14165732	0.63
2019-2020	9189751	7149051	1.28
2020-2021	589295	282154	2.08

QUICK RATIO



INTERPRETATION: -

This is the more penetrating test of liquidity than the current ratio. Generally a quick ratio is 1:1 it considered to represent a satisfactory current financial condition. The quick ratio has never exceeded the standard ratio. Empirically the quick ratio in the year 2017-18 to 2018-19 satisfactory. In remaining years quick ratio is less than 1 is not satisfactory. Therefore it can be calculated that the liquidity performance of the company is poor.

CASH RATIO

Cash is important and sensitive current assets. It is viewed as the most liquid assets. When the proportion of cash in current assents is more then it is said that the company had more liquid. High proportion of cash in current assets also indicates the good stock in receivables. This ratio indicates the cash proportion in current assets.

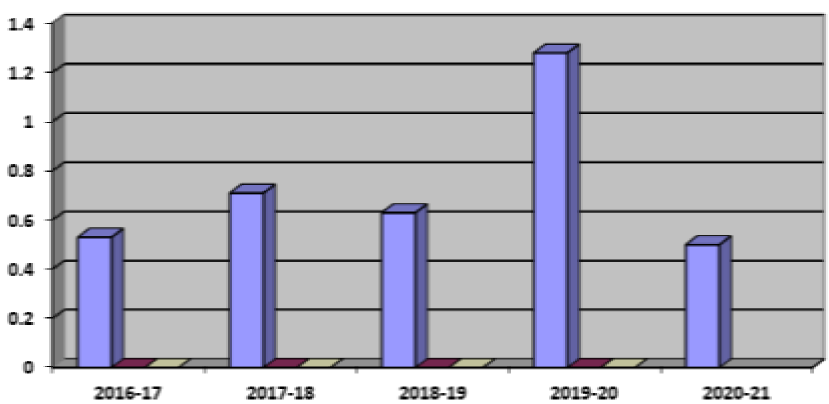
Cash ratio = $\frac{\textit{Cash and bank balance}}{\textit{Current liabilities}}$

Year Wise Cash and Current Liabilities of The SHIVA SHAKTHI DAIRY PVT. LTD.

Table

Year	Cash and bank balance	Current liabilities	Ratio
2016-2017	5801648	10791949	0.53
2017-2018	8545512	12005681	0.71
2018-2019	9001221	14165732	0.63
2019-2020	9189751	7149051	1.28
2020-2021	589295	1176817	0.50

CASH RATIO



INTERPRETATION: -

The desirable norm for cash ratio is 1:2. The cash ratio is very low in 2020-21 year. There after it is increased slightly on the years 2016-17 to 2017-18 respectively and declined in 2018-19 and 2020-21. Anyway finally the company failed in keeping sufficient cash and bank balance and marketable securities.

FINDINGS

- The standard cash ratio is 0.50:1. The company is not able to maintain sufficient cash at bank and cash in hand. In 2020-2021 company is having the ratio 0.50 perfectly.
- The SS Dairy Pvt Ltd. is not maintaining the sufficient working capital. It is more fluctuating in net working capital ratio.
- Lenders have contributed more funds than owners. Lender's contribution is 1.10 times of owner contribution.
- Total Liabilities have increased year by year except in 2016-17. The total Liability is 1.65 times more than the total asset.

SUGGESTIONS

- The SS Dairy Pvt Ltd. has to increase its current asset such as cash in hand and cash at bank etc. By disposing off the unutilized assets such as old machinery and thereby increase its liquidity position. The company has to maintain standard liquidity ratios to meet the liquidity obligation.
- The company is maintaining the lower equity fund. But the SS Dairy Pvt Ltd having the insolvency position for increasing the debt fund. It is suggested that the company has to convert the reserves to assets.

CONCLUSION

After Analyzing the financial statements of Shiva Sakthi Dairy Pvt.Ltd., during the last five financial years, it is clear that the financial position of the company is stable. However, the management needs to focus more on the ratio analysis finally .it would include with the observation that the company is finally strong and management practices followed by the financial department is also being done on a systematic basis.

Reference

S. No	Title	Name of the author	Publishing & Edition
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3.	Research Methodology	Maheswari S.N	Wishwa Prakash am 2nd edition
4.	Financial Management	Prasanna Chandra	Tata McGraw-Hill Publishing 3rd edition