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A Study on Ratio Analysis of Bajaj Finserv with Reference to Srirambajaj, Tirupati

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ABSTRACT:

Ratio analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm, or by parties outside the firm, viz. Owners, creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst. This study explains the importance of ratio analysis and study of ratio analysis of bajaj finserv.

Keywords: Ratio analysis**,** current ratio, net profit ratio

Introduction

Ratio analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm, or by parties outside the firm, viz. Owners, creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst.

Ratio analysis is in respect of the following aspects;

I. Liquidity position

II. Long-term solvency

III. Operating efficiency

IV. Overall profitability

V. Inter-firm comparison

VI. Financial ratios for supporting budgeting

Several ratios, calculated from the accounting data, can be grouped into various classes. According to financial activity or function to be evaluated. The parties interested in financial analysis are short-term and long-term creditors, owners and management. Short- Term creditors main interest in the liquidity position or the short-term solvency of the Firm. Long-term solvenacy and profitability of the firm. Similarly, owners concentrate on the firm's profitability and financial condition. Management is interested in evaluating every aspect of the firm's performance. They have to protect the interests of all parties and see that the firm grows profitability.

In view of the requirements of the various users of ratios, we may classify them into the following four important categories:

1. Liquidity Ratios
2. Leverage Ratios
3. Activity Ratios
4. Profitability Ratios

Absolute figures expressed in monetary terms in financial statements themselves are meaningless. These figures often do not convey much meaning unless expressed in relation to other figures. Thus, we can say that the relationship between two figures expressed in arithmetical terms is called a 'ratio'.

Advantages of Ratio Analysis

Financial statements i.e. Profit & loss account & Balance sheet prepared at the end of the year do not always convey to the reader the real profitability & financial health of the business. They contain various facts & figures & it is for the reader to conclude, whether these facts indicate a good or bad managerial performance. Ratio analysis is the most important tool of analysing these financial statements. It helps the reader in giving tongue to the mute heaps of figures given in financial statements. Some important objects & advantages are as follow:

- Helpful in analysis of financial statements
- Simplification of accounting Data
- Helpful in locating the weak spot of the Business
- Fixation of Ideal Standards

Limitations of Ratio Analysis

Ratio analysis is a very important tool of financial analysis. But despite its being indispensable; the ratio analysis suffers from a number of limitations. These limitations should be kept in mind while making use of the ratio analysis.

- False accounting data gives False Ratios
- Ratio Analysis becomes less effective due to price level changes.
- Comparison not possible if different firms adopt different Accounting Policies.
- Lack of proper Standards Window-Dressing

Objectives of ratios:

- Performance (past ,present and future)
- Strength & weaknesses of a firm
- And can take decisions in relation to the firm
- Hence, an accounting ratio is defined as quantitative relationship between two or more items of the financial statements.
- 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.

Review of Literature:

On the other hand, Vijay S & Mehta, B (2012) concluded in their study that ratio analysis and the financial performance of the company is impacted by the various subsidies provided by the government from time to time and that this is likely to impact the overall financial health of the company.

According to Penman &Nissim (2001) during their study for the analysis of ratio analysis and equity valuation for the period comprising of 1996 to 1999 concluded that the ratio analysis depicted certain trends and patterns when they are deployed for the purpose of forecasting.

On the other hand, Carl B, Collier (2004) in their study concluded that financial ratio analysis is complicated and is dependent on the type of the industries in which the business unit is operating. They based their conclusion while studying the financial analysis for Motorola corporation.

Objectives of the study:

The study is primarily intended to scan the financial health condition of **Bajaj Motors,** through financial analysis and evolve package of measures for their betterment. The following specific objectives set for the study.

- To study the Liquidity Position of the company
- To study the Profitability position of the company
- To study the solvency position of the company
- To study the activity position of the company

RESEARCH METHODOLOGY

The study through 'secondary data' was collected from different websites and Research articles.

SCOPE OF THE STUDY

The study confines itself to the financial performance of **Bajaj Motors.** The study therefore excludes the non-financial areas such as production, marketing, personnel form its previews.

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 analysis the financial position of a firm.

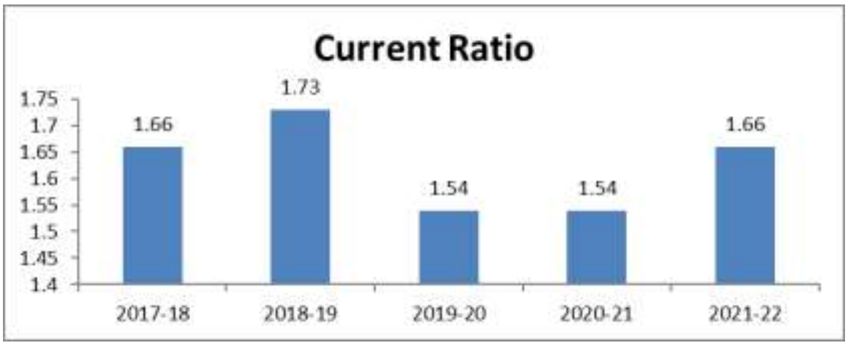
Data Analysis:

1. 1. CURRENT RATIO

Current Ratio $= \frac{Current\ assets}{Current\ liabilities}$

(Rs in crs.)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2017-18	296.41	178.37	1.66
2018-19	349.72	201.94	1.73
2019-20	403.14	261.28	1.54
2020-21	355.73	231.47	1.54
2021-22	411.14	247.10	1.66



INTERPRETATION:

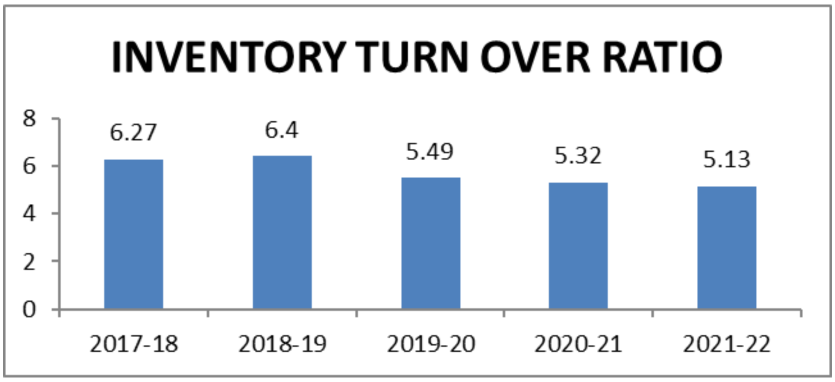
The current ratio is in increasing and decreasing trend from the last five years, the firm is not maintaining standard current ratio but it is near to ideal current ratio i.e., 2:1

INVENTORY TURNOVER RATIO:

Inventory turnover ratio $= \frac{\text{Cost of goods sold}}{\text{Avg.Inventory}}$

(Rs in Crs.)

YEAR	COST OF GOODS SOLD	AVG.INVENTORY	INVENTORY TURN OVER RATIO
2017-18	593.91	702.07	6.27
2018-19	699.22	109.17	6.40
2019-20	781.95	142.39	5.49
2020-21	833.17	156.56	5.32
2021-22	849.97	165.66	5.13



INTERPRETATION:

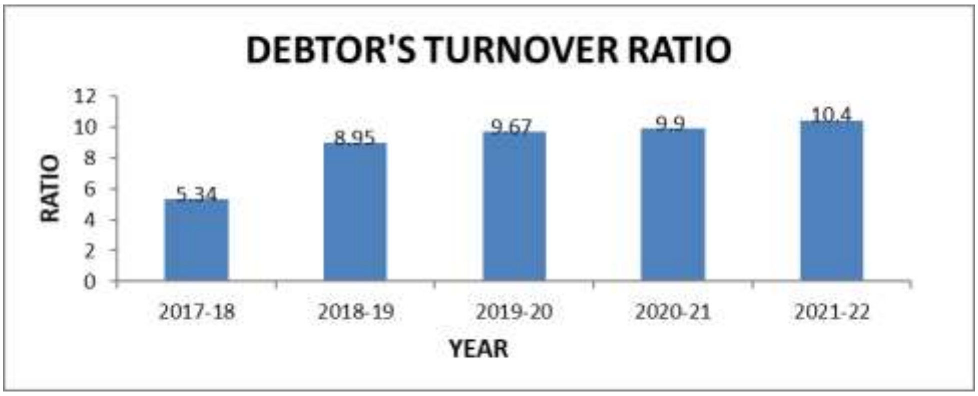
From the year 2017 inventory turnover ratio is decreased and hence the ratio is fluctuating. Hence the overall turnover is not that efficient, company is not utilizing their Inventory properly.

DEBTORS TURNOVER RATIO:

Debtors turnover ratio = $\frac{Sales}{Avg.Debtors}$

(Rs in Crs.)

YEAR	SALES	AVG. DEBTORS	DEBTOR TURNOVER RATIO
2017-18	711.17	824.54	5.34
2018-19	792.93	88.51	8.95
2019-20	906.60	93.74	9.67
2020-21	945.09	95.39	9.90
2021-22	941.61	90.54	10.4



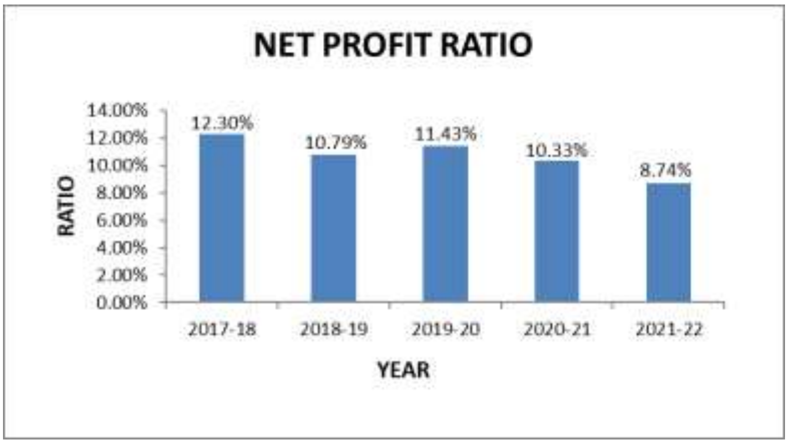
INTERPRETATION:

The debtor's turnover ratio was 8.95 in the year 2018 and it increased to 10.4 in the year 2021, this represents that the company has a good credit recovery policy. The company can convert its debtors into cash easily.

NET PROFIT RATIO:

Net profit ratio=$\frac{profit\ after\ tax}{sales} * \mathbf{100}$

YEAR	NET PROFIT	SALES	NET PROFIT RATIO
2017-18	87.51	711.17	12.30%
2018-19	85.63	792.93	10.79%
2019-20	103.63	906.60	11.43%
2020-21	97.67	945.09	10.33%
2021-22	82.32	941.61	8.74%



INTERPRETATION:

The net profit margin of the company was 12.30% in the year 2018; The net profit margin of the company has been good for all the periods and it represents that they have enough control over their operating expenses.

Findings:

- During the study period the current ratio is in increasing and decreasing trend but they are near to ideal ratio.
- Liquidity ratio reveals that the company has enough funds to meets their obligations
- The inventory turnover ratio is in fluctuating trend and it has been decreasing from the past three years, Shows Company is not efficiently using its inventory.
- The debtor's turnover ratio is in increasing trend, it reveals that the credit sales are quickly converted in cash, it shows efficient debtors management.
- Net profit is decreasing from last year and it is fluctuating if we take overall five years.

Suggestions:

- The firm should maintain standard current ratio 2:1 by reducing liabilities or by maintaining current assets by increasing current investments like giving loans and advances etc.
- The firm should enhance inventory turnover by using the proper inventory control techniques like increasing their product marketing activities and increasing demand of product in the market.
- The firm should maintain debt in its capital in order to get tax advantage.
- The firm should reduce cost of goods sold i.e. reducing manufacturing time labour and material cost etc in order to enhance gross profit.

Conclusion:

From the above study on the key ratios, the current ratio is in standard position, debtors turnover ratio is efficient and by studying all ratios it is concluded that, the financial performance of the company, Bajaj Motors, has in standard position.

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