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A Study on Financial Performance of Electrosteel Castings Pvt Ltd, at Srikalahasthi

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ABSTRACT

The study entitled the financial performance analysis an Company. The objective of this study is to compare the current financial performance with last five years and to study the existing financial position of Company. The data used in this study is secondary data through annual report. The data that used in this study, comparative balance sheet, common size balance sheet, comparative balance sheet analysis ,that the current liabilities is higher than the current asset in every year and it is to be suggest that the company can concentrate on their increasing the level of the current asset. So the company improves this financial position. The study of financial performance on The Company has revealed the great deal of their various financial aspects for five years. The comparative analysis unlocks the overall performance methodology

INTRODUCTION TO FINANCIAL PERFORMANCE

Financial statements are prepared primarily for decision-making. They play a dominant role in setting the framework of managerial decision. But the information provided in the financial statements is not an end in itself as on meaningful conclusion can be drawn from these statements is of immense use in making decision through analysis and interpretation of financial statements. Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. There are various methods or techniques used in analyzing financial statement, such as comparative statements schedule of changes in working capital common-size percentages, funds analysis, trend analysis and ratio analysis. The Financial Performance is the most powerful tool of financial analysis.

REVIEW OF LITERATURE

Financial management is planning, organizing, directing and controlling of various financial activities of the organization. In order to perform all the managerial functions effectively and efficiently, a proper analysis and understanding of the relationship between the elements of financial statements plays a crucial role. This relationship can be derived and better understood from ratio analysis.

Main purpose of Financial Performanceis establishing a significant relationship between the items of financial statements to provide a meaningful understanding of the performance and financial position of a company.

A substantial portion of information required in financial decision – making is Financial statements also help in forecasting the financial effects of planning.

Financial Performancerefers to the process of the critical examination of the financial information contained in the financial statements. The process of dissection, establishing relationship and interpretation thereof to understand the working and financial position of a company is termed as the ratio analysis. Even it is a process of establishing and identifying the financial weaknesses and strength of the company.

NEED FOR STUDY

- The choice of area of the study for the project work was given after initial study of company's operations and the system of working.
- With the help of financial performance to evaluate the pattern of the firm.
- The financial performance reveals clearly the cause fo the financial difficulties of the company
- With the financial performance can utilizing its assets in generating sales revenue

SCOPE OF STUDY

The scope of the study is defined below in terms of concepts adopted and period under focus:

1. First the study on Financial Performance is confined only to the Electrosteel Casting Ltd**.**
2. Secondly, the study is based on the annual reports of the company for a period of four years from 2016 to 2021. The reason for restricting the study of this period is due to time constraint.

Thus on the whole the purpose of the project is to analyze the past and present performance of Electrosteel Casting Ltd on various financial areas like –

- Liquidity Ratios.
- Solvency Ratios.
- Activity Ratios.
- Profitability Ratios.

OBJECTIVE OF STUDY

The following specific objectives of my study to debtors ebility to pay of current obligations with out raising external capital

- To determine liquidity or short term solvency
- Activity ratios are used to determine the organisations in utilizing its assets for generating cash and revenue
- To evaluate company edility to generate income as compared to its expenses and other cost asscociated with the generation of income during a particular period.

METHODOLOGY OF STUDY

RESEARCH:

Research is a process in which the researcher wishes to find out the end result for a given problem and thus the solution helps in future course of action. The research has been defined as "A careful investigation or enquiry especially through search for new facts in branch of knowledge"

RESEARCH DESIGN:

The methods of research utilized in descriptive research are survey methods of all kinds, including comparative and correlation methods. Where as in analytical research, on the other hand the researcher has to use facts or information already available and analyze these to make critical evaluation of the material.

SOURCES OF DATA COLLECTION:

PRIMARY DATA:

Primary data comprises of information obtained during discussions with the officers and staff in the financial department.

SECONDARY DATA:

Secondary data comprises of information obtained from Financial Performance and Financial Performance estimates of other financial statements files and other important documents maintained by the organization are also the helpful.

TOOLS OF THE ANALYSIS:

- ✓ Liquidity Ratios
- ✓ Solvency Ratios
- ✓ Activity Ratios
- ✓ Profitability Ratios

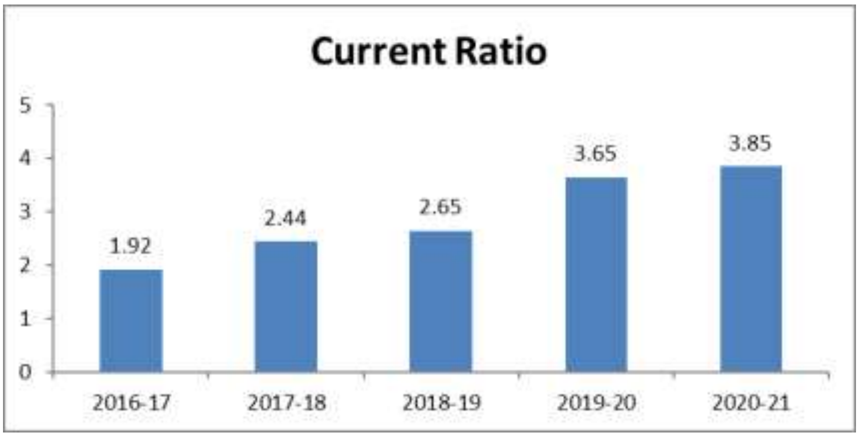
DATA ANALYSIS

CURRENT RATIO:

The current establishes the relationship between the current assets and current liabilities. The object of the computing is this ratio is to measure the ability of the firm to meet its short-term financial strength/solvency of a firm. The satisfactory current ratio.

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

Years	Current Assets	Current Liabilities	Current Ratio
2016-17	18321.76	9556.53	1.92
2017-18	26196.83	10726.59	2.44
2018-19	26616.98	10030.68	2.65
2019-20	35973.84	14436.48	3.65
2020-21	30463.18	7920.68	3.85



INTERPRETATION:

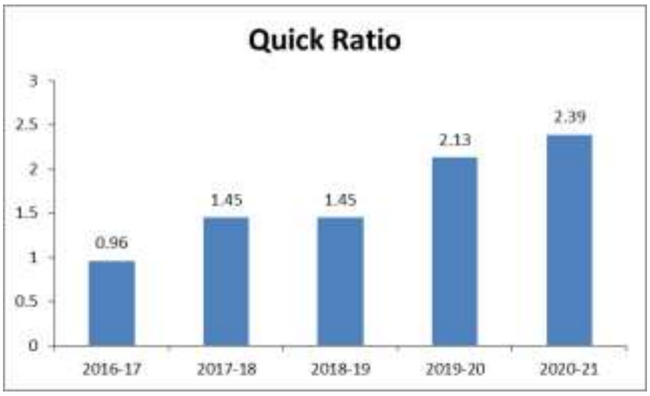
The current ratio measures the firm's short-term solvency. The current ratios are not satisfying the industrial norms for current ratio is 2:1.the current ratio is in 2018 is 1.92 gradually increases up to 2.65 in 2019 and increases to 3.85 in 2021.

QUICK RATIO:

Quick ratio also called acid-test ratio, establishes a relationship between quick, or liquid, assets and current liabilities. An asset is a liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

Years	Quick Asset	Quick Liabilities	Quick Ratio
2016-17	9127.68	8676.53	0.96
2017-18	15559.97	10726.59	1.45
2018-19	26616.98	12092.91	1.45
2019-20	35973.84	14436.48	2.13
2020-21	30463.18	11519.49	2.39



INTERPRETATION:

Quick ratio as per industrial norms is 1:1.And also it is increased year by year. The company maintaining standard position their liquidity.

NET WORKING CAPITAL RATIO:

Working capital of a concern directly related the current assets like debtors, bills receivable, and cash, stock etc, changes within the increase or decrease in sales.

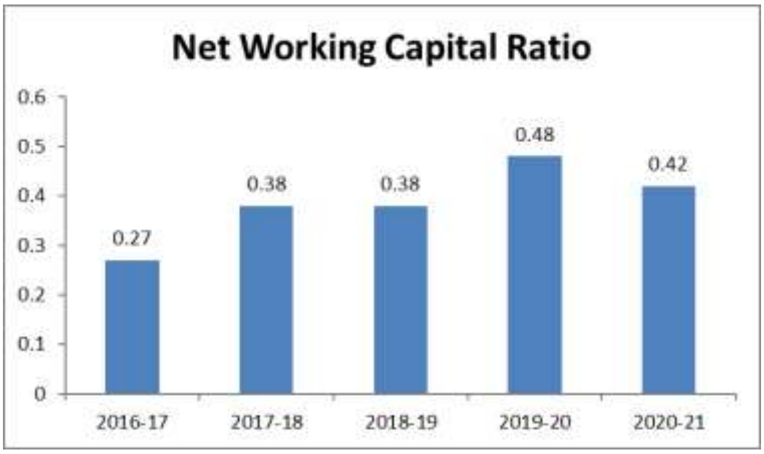
The working capital is takes as

Working Capital = Current Assets – Current Liabilities

Working capital turnover ratio indicates number of times the working capital is turned over in the course of year. This ratio measured the efficiency with which the working capital is being used by a firm.

$$\text{This ratio can be calculated as: } = \frac{\text{Net Working Capital}}{\text{Net Assets}}$$

Years	Net Working Capital	Net Asset	Net Working Capital Ratio
2016-17	8765.23	32901.37	0.27
2017-18	15470.24	40386.36	0.38
2018-19	16586.30	43836.66	0.38
2019-20	10883.33	53755.86	0.48
2020-21	22542.50	53742.80	0.42



INTERPRETATION:

Net working capital measures the firms potential reservoir of funds it can be related net assets the net working capital ratio in 2016 is (0.27) and in the years 2017 & 2019 the standard form of networking capital is (0.38) but it is increased in the years 2019 (0.48). again it is liabilities of declined in the year of 0.42

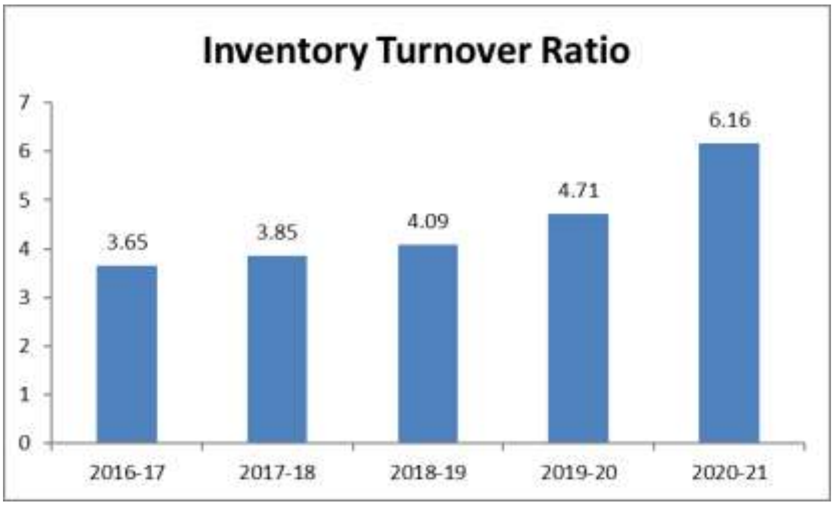
INVENTORY TURN OVER RATIOS

It indicates whether inventory is efficiently used or not the purpose is to see whether only the required minimum funds have been locked up to inventory. This ratio implies number of times stock has been turned over during a period and evaluates efficiency with which a firm is able to manage its inventory.

Usually a high inventory turn over ratio indicated efficient management of inventory. A low inefficient management of inventory indicating over investment in inventories, debt business, poor quality of goods, stock accumulation and low profit as compared to total investment.

Where Cost of Goods Sold = Sales – Gross Profit

Year	**Cost of goods sold (Rs. In lacks)**	**Inventory (Rs. In lacks)**	**Inventory Turn Over Ratio**
2016-17	30295.60	2281.92	13.27
2017-18	36936.65	2503.20	14.75
2018-19	16825.32	2889.51	5.80
2019-20	36172.50	3971.01	9.10
2020-21	46374.89	6071.35	6.1



INTERPRETATION:

The inventory turn over ratio of Surya Elevators Pvt Ltd indicates is the efficiency of the firm in producing and selling its products. it maintains good inventory in the year of 2020 (6.16) at high when compared to previous years

Inventory Holding Period

The inventory holding period holding periods defined how many days are required to produced products. The formula is given below.

$$\text{Inventory holding period} = \frac{\text{365days}}{\text{Inventory turnover ratio}}$$

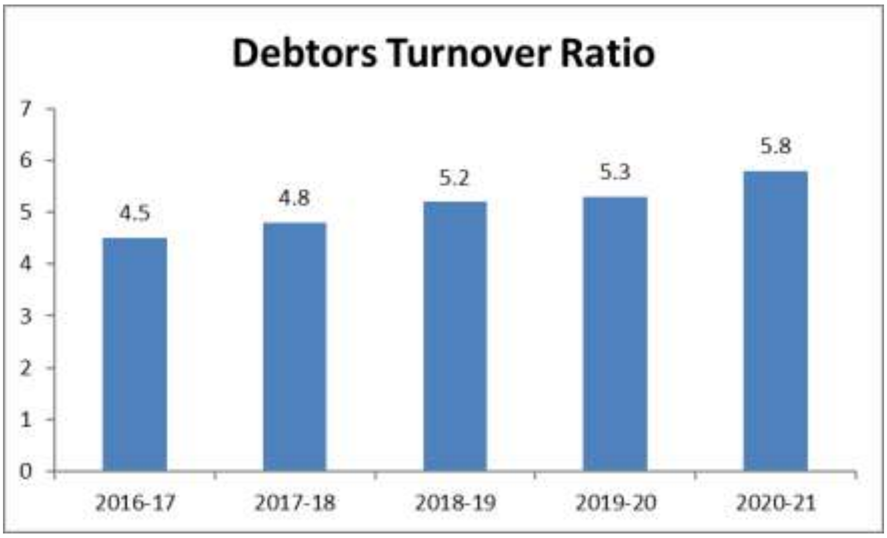
Year	Days	Inventory turnover ratio	Holding period
2016-2017	365	3.65	100
2017-2018	365	3.85	95
2018-2019	365	4.09	89
2019-2020	365	4.71	77.49
2020-2021	365	6.16	59.25

Interpretation: The above graph represents the time period of the inventory falling that is 100days to 59.25days. so here the inventory holding period is flexible

Debtors turnover ratio

In commercial enterprise, sales are made in coins as well as credit. When sales are made in credit score, the alternative celebration who owes cash (to be paid later) is known as the debtor. Due to the sale of goods on credit, there can be a delay in bills, and hence, the money receivable is referred to as accounts receivable. The debtors turnover ratio is likewise referred to as the change receivables turnover ratio, a economic evaluation tool to calculate the quantity of instances the average debtors are transformed into coins during the 12 months.Debtors turnover Ratio = Credit Sales / Average Trade Debtors or Receivables

Years	Credit Sales	Avg. Debtors	Debtors Turnover Ratio
2016-17	30295.60	6706.59	4.5
2017-18	36936.65	7667.92	4.8
2018-19	46365.63	8814.31	5.2
2019-20	64471.61	11966.16	5.3
2020-21	69057.96	11845.80	5.8



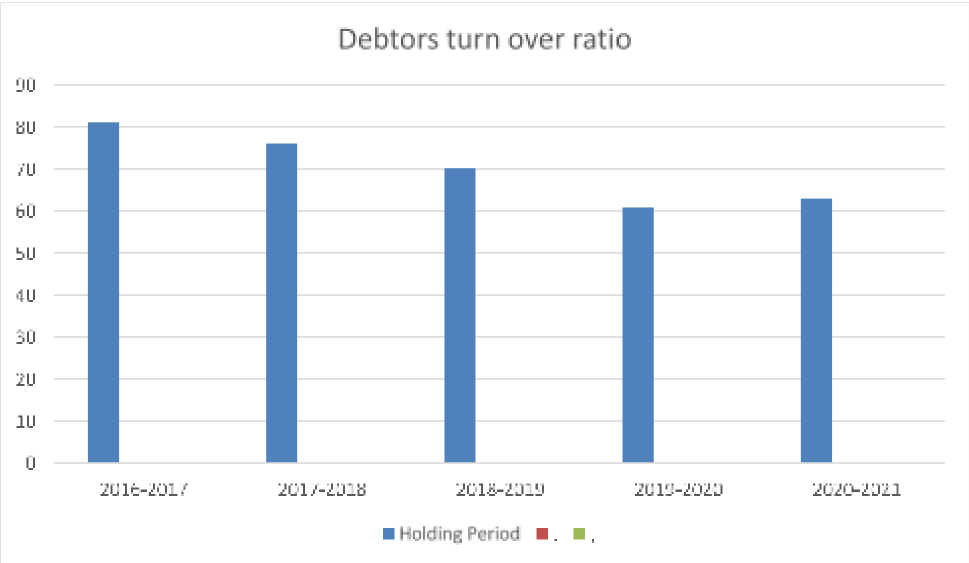
Interpretation: the debtors turnover ratio in the year 2016-17 is 4.5 and it is gradually increased up to 5.8 times in the year 2020-21

Debtors Holding Period:

It refers to the time taken to collect the debts.

Debtors holding period = 365 days / Debtors turn over ratio

Year	Days	Debtors turnover ratio	Holding period
2016-2017	365	4.5	81.11
2017-2018	365	4.8	76.04
2018-2019	365	5.2	70.19
2019-2020	365	5.3	60.86
2020-2021	365	5.8	62.93



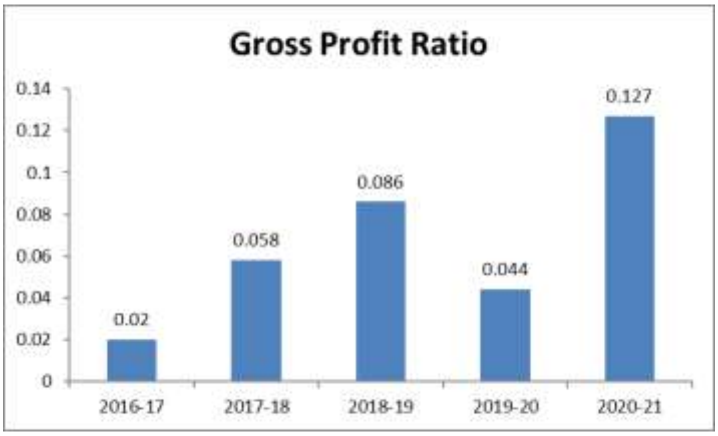
Interpretation: the above graph represents the time period of debts are fall down each year that is 81,76,70,60,62 days so here the maintaining efficency in the debt collection.

GROSS PROFIT RATIO:

The ratio established a relationship between gross profits in to sales. It is calculated by gross profit by sales. It indicates the position of trading result. The higher gross profit ratio is indicated better performance and lower gross profit ratio is shown unfavorable.

Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Sales}} X100$

Year	**Gross Profit**	**Sales**	**Gross Profit Ratio**
2016-17	608.91	30295.60	0.020
2017-18	2164.74	36936.65	0.058
2018-19	4001.44	46365.63	0.086
2019-20	2822.82	64471.61	0.044
2020-21	8797.63	69057.96	0.127



INTERPRETATION:

The gross profit ratio was 0.02in 2015-16 and it increased to0 .058 in the year 2016-17 and again Then it increased in the year 2017-18 i.e 0.086 later it is decreased to year 2018-19.and finally increased to 0.107 .(0.02-0.127).in2019-20.

FINDINGS

- The current assets turnover ratio is decreasing year by year.
- The current ratio measures the firm's short-term solvency. The current ratios are not satisfying the industrial norms for current ratio is 2:1.the current ratio in 2015 is 1.92 gradually increases the current ratio upto 2086 in 2020 & 2021 is 3.65,3.85.
- The quick ratio of the company is low for the last three years.
- Debt ratio is 0.71in the year 2021 decrease and increasing year by year. It indicate the long term debt polices in the company .it reduce the debt pressure in capital employed
- The gross profit ratio of the company is increasing year by year.
- The company maintenance reserves and surplus in the increasing trend.
- In the year 2017-18 the company in loss of 25174396.
- The company carries small amount of cash in the year 2015 it is decreased to 0.04 and it is same In 2017 were as 2020 is high compare to all other years

SUGGESTIONS

1) The company has to maintain better cash balance to avoid uncertain payments.
2) The company has to maintain proper balance between current assets and current liabilities 2.1
3) The liquidity of the company must be increased to secure the feeling of creditors and shareholders
4) The Debt equity ratio of the company is nil from last three years, it is good for the company to take debt at low rate of interest. That helps the company to increase the financial performance.
5) All the ratios should be maintained as per the thumb rule or as per the relative industry norms.

CONCLUSIONS

On the basis of the above study it can be said that the company's financial position at the end of the year 2018 was at satisfactory level. The company has to maintain their profit levels in increasing way for the future also. If the company's resources are focused in the right area there will be enormous growth for the company in the future also.