



A Study on Ratio Analysis at Shivashakthi Dairy Pvt.

Kolla Chanukya

Annamacharya Institute of Technology and Sciences, Tirupathi

ABSTRACT

In this paper title a study on Ratio Analysis at SHIVASHAKTHI DAIRY this aim is to analysis the Ratio Analysis position of the company using the financial tools. This study based on financial statement such as Ratio analysis and financial performance. By using this tools combined it enables to determine in an effective manner. This research helps to identify and give suggestion the area of weaker position of business transaction in SHIVASHAKTHI DAIRY. This research is made to evaluate the Ratio analysis as per trend analysis. It is in upward trend.

INTRODUCTION

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.

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.

REVIW OF LITERATURE

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

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NEED FOR THE STUDY

Financial statements are prepared for the purpose of presenting a periodical reviews or 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 ratios to determine those financial characteristics of the firm in which they are interested. With the help of ratios, one can determine:

1. The ability of the firm to meet its current obligations.
2. The extent to which the firm has used its long-term solvency by Borrowing funds.
3. The efficiency with which the firm is utilizing its assets in generating as revenue.
4. The overall operating efficiency and performance of the firm.

OBJECTIVES OF STUDY

The following are the objectives of the study:

- To assess the liquidity and profitability of **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.**

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.

RESEARCH DESIGN

- Research design is way to solve system the research problem in various different types and technics

DESCRIPTIVE RESEARCH

- It is a type of research that is use to describe the characteristics of a population. This research aims to describe or define the topic at hand.

SORCE OF DATA COLLECTION

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.

CLASSIFICATION OF RATIO ANALYSIS

CURRENT RATIO

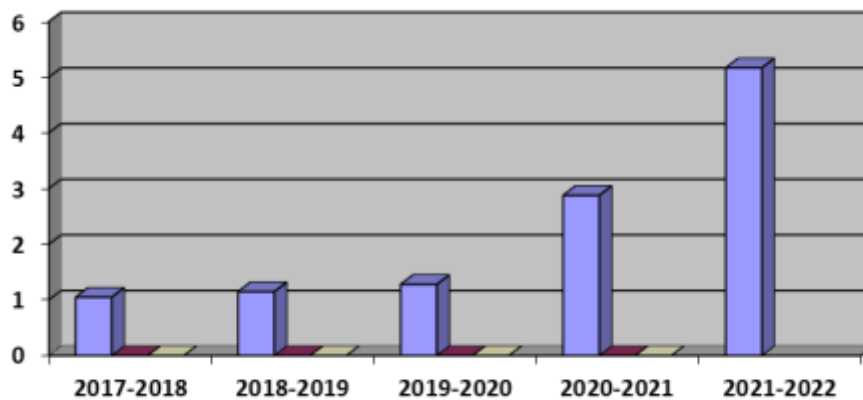
This ratio is a barometer of general measures of liquidity and state of trading current ratio shows the firm's commitment to meet its short-term liabilities. It expresses the relationship between current assets and current liabilities.

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

TABLE 4.1 Year Wise Current Assets and Current Liabilities of THE SHIVA SHAKTHI DAIRY PVT. LTD.

| Year | Current assets | Current liabilities | Ratio |
|-----------|----------------|---------------------|-------|
| 2017-2018 | 11405087 | 10791949 | 1.05 |
| 2018-2019 | 13922432 | 12005681 | 1.15 |
| 2019-2020 | 18173935 | 14165732 | 1.28 |
| 2020-2021 | 20640425 | 7149051 | 2.88 |
| 2021-2022 | 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 2020-21 & 2021-22 Current Ratio is satisfactory. In remaining years current ratio is less than 2 is not satisfactory. Therefore it can be calculated that the liquidity performance of the company is poor.

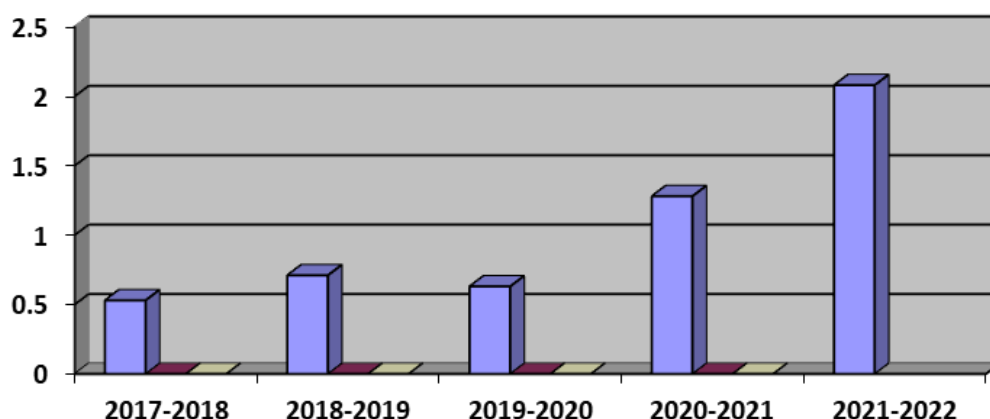
QUICK RATIO

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.

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

TABLE 4.2

| Year | Super Quick assets | Current liabilities | Ratio |
|-----------|--------------------|---------------------|-------|
| 2017-2018 | 5801648 | 10791949 | 0.53 |
| 2018-2019 | 8542212 | 12005681 | 0.71 |
| 2019-2020 | 9001221 | 14165732 | 0.63 |
| 2020-2021 | 9189751 | 7149051 | 1.28 |
| 2021-2022 | 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 2018-19 to 2019-20 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.

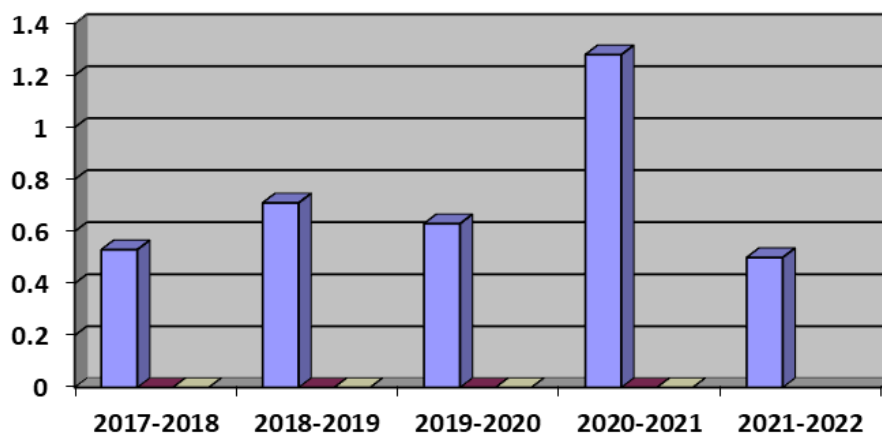
CASH RATIO

Cash is important and sensitive current assets. It is viewed as the most liquid assets. When the proportion of cash in current assets 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.

$$\text{Cash ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Liabilities}}$$

TABLE 4.3 Year Wise Cash and Current Liabilities of The SHIVA SHAKTHI DAIRY PVT. LTD.

| Year | Cash and bank balance | Current liabilities | Ratio |
|-----------|-----------------------|---------------------|-------|
| 2017-2018 | 5801648 | 10791949 | 0.53 |
| 2018-2019 | 8545512 | 12005681 | 0.71 |
| 2019-2020 | 9001221 | 14165732 | 0.63 |
| 2020-2021 | 9189751 | 7149051 | 1.28 |
| 2021-2022 | 589295 | 1176817 | 0.50 |

CASH RATIO

INTERPRETATION: -

The desirable norm for cash ratio is 1:2. The cash ratio is very low in 2021-22 year. There after it is increased slightly on the years 2017-18 to 2018-19 respectively and declined in 2019-20 and 2021-22. Anyway finally the company failed in keeping sufficient cash and bank balance and marketable securities.

DEBT EQUITY RATIO

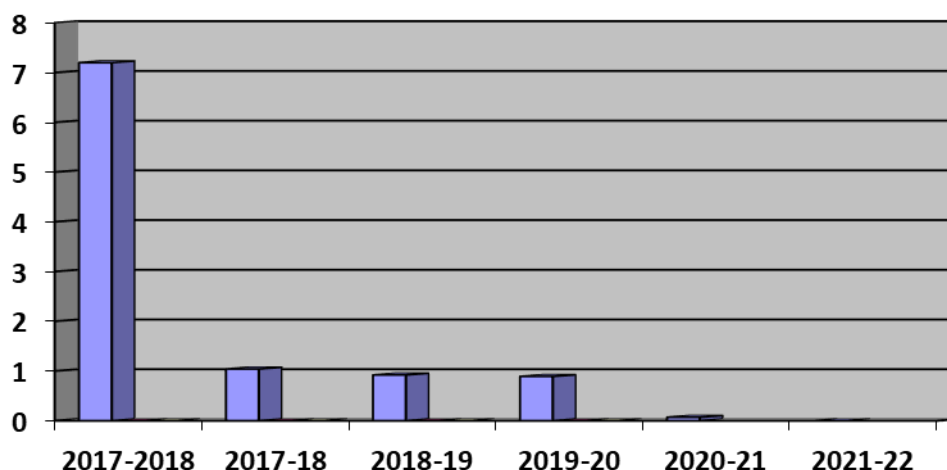
This ratio is calculated to measure the relative proportions of outsider's funds and shareholders' funds invested in the company. This ratio is determined to ascertain the soundness of long-term financial policies of the company and is also known as external equity ratio. It is calculated as follows.

$$\text{Total Debt Ratio} = \frac{\text{Long Term debts}}{\text{Shareholders found}}$$

TABLE 4.4 Year Wise Fixed Assets and Capital Employed of The SHIVA SHAKTHI DAIRY PVT. LTD.

| YEAR | LONG TERM DEBTS | SHAREHOLDERS FUNDS | RATIO IN % |
|-----------|-----------------|--------------------|------------|
| 2017-2018 | 4512121 | 619758 | 7.2304 |
| 2018-2019 | 4432211 | 4253722 | 1.0419 |
| 2019-2020 | 7246521 | 7858240 | 0.9221 |
| 2020-2021 | 7554321 | 8471298 | 0.8917 |
| 2021-2022 | 523686 | 7439534 | 0.0703 |

(Source: Annual Reports of the SS Dairy Pvt Ltd)

DEBT EQUITY RATIO**INTERPRETATION: -**

This ratio gives results relating to the capital structure of the firm. 2:3 is the acceptable Debt Equity Ratio. Empirically the debt equity ratio increased only in the year of 2017-18 (7.23) remaining that all years were decreased from 1.04 to 0.07. Therefore 0.07 means lenders have financed of SS Dairy Pvt Ltd. Capital Employed in 2020-21.

GROSS PROFIT RATIO

The first profitability ratio in relation to sales is the gross profit margin (or simply gross margin ratio). It is calculated by dividing the gross profit by sales.

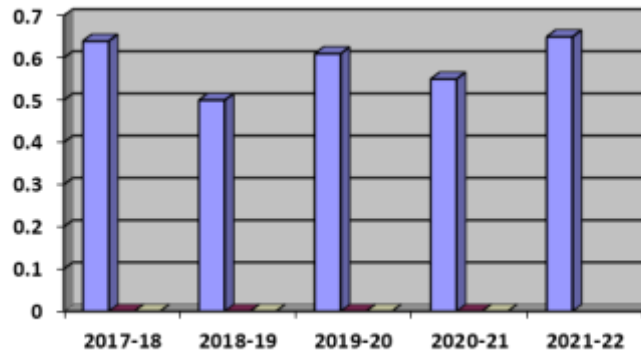
$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

TABLE 4.5 Year Wise Gross Profit and Net Sales The SHIVA SHAKTHI DAIRY PVT. LTD.

| YEAR | GROSS PROFIT | NET SALES | RATIOS |
|-----------|--------------|-----------|--------|
| 2017-2018 | 4257247 | 6579980 | 0.64 |
| 2018-2019 | 6896890 | 13776540 | 0.50 |

| | | | |
|-----------|---------|---------|------|
| 2019-2020 | 4892870 | 8012850 | 0.61 |
| 2020-2021 | 4279400 | 7731472 | 0.55 |
| 2021-2022 | 4928280 | 7496210 | 0.65 |

GROSS PROFIT RATIO



INTERPRETATION: -

I inferred from the above Table that the Gross profit is in fluctuating trend. So the company must be able to detect causes of fluctuating profits and initiate actions to improve the situation.

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 2021-2022 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. Lenders contribution is 1.10 times of owner contribution.
- ❖ Total Liabilities have increased year by year except in 2017-18. The total Liability is 1.65 times more than the total asset.
- ❖ The current Assets are used very well in the year 2017-18 is 1.05. And the year's from 2020-21 to 2021-22 is increased to 5.17. the years current Assets utilization is satisfied.
- ❖ The Inventory turnover ratio has increased in this study but it has declined to 01.82 in 2020-21. The company failed to maintain the efficiency of selling and producing its products.
- ❖ The Gross Profit margin is in very poor position in this study and it was increased to 0.65 in 2020-21, but it was not sufficient to the company. It shows very poor performance of the company.
- ❖ The operating expenses are normally in this study. The operating expenses are convenience than the sales.

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 there by 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 suggest that the company has to convert the reserves to assets.
- ❖ The SS Dairy Pvt Ltd has the higher operating Expenses. A normal Operating Expenses Ratio is favorable. The Operating Expenses are connivance to the sales; the SS Dairy Pvt Ltd.
- ❖ The Company has to take steps to improve Gross and Net profits.
- ❖ Working Capital is decreasing Year by Year so adequate Working capital has to be maintained.
- ❖ The Turnover Ratio are Fluctuating so the Company must detect the cause for that and solve it.
- ❖ Take steps to increase the Profit.

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.

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Websites:

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