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A Study on Financial Performance Using Ratio Analysis

Mr. Sairam S.[1], Dr. R. Thamil Selvan[2]

[1]**B. Com (CS), MBA Finance & Operation, School of Management Studies, Sathyabama Institute of Science and Technology, Chennai.**
Balasairam2002@gmail.com
[2] **Professor, School of Management Studies, Sathyabama Institute of Science and Technology, Chennai**
Thamilselvan.soms@sathyabama.ac.in

ABSTRACT:

The purpose of measuring its benefits and financial stability . the company was incorporated in 2016 in Chennai , Tamil Nadu, with a registered Capital of rs 10 Lakhs and a paid up capital of rs 3 Lakhs. The study evaluates the capabilities , solutions , profitability and performance of Athreya Business Solutions Pvt Ltd thorough comparative performance and analysis, is close to breaking point. The findings suggests there is hope for future growth.

INTRODUCTION

Athreya Business Solutions Pvt Ltd. Was established in the year 2016. This study delves into the financial performance of the company, aiming to provide valuable insights into its profitability and financiaql sgtability. By analyzing key financial ratios and trends over a specified period, this research aims to assist stakeholders in making informed decisions and implementing strategies to drive sustainable growth.

OBJECTIVE OF THE STUDY:

Primary Objectives :

1. To Study the Financial Performance of the company.
2. To analyze the profitability of the company.
3. To analyse the solvency of the company
4. To analyse the efficiency of the company
5. To analyse the liquidity of the company

REVIEW OF LITERATURE

Financial ratio analysis plays a crucial role in evaluating the financial health of organizations, serving as decision support information for various stakeholders (Mulegi ,2017; Myskovia , 2017). It helps in analyzing relationships between different financial metrics and evaluating liquidity, profitability, and solvency (Abdullah Rashid, 2018 , Saigeetha, 2017). Ratio analysis provides a valuable insights into an company's financial condition , helping in their decision-making and their performance evaluation (Patel, 2012; Elijah Adeyinka, 2014). Financial performance is a vital business success, reflecting the achievement of financial objectives through effective policies and operations (Khatter, 2018; Malini, 2019). Profitability and solvency are the key indicators of financial performance, highlighting a company's ability to generate profits and meet its financial obligations and expectations (Shaker, 2014; Nuhu, 2014). Ratio analysis serves as an powerful tool in financial analysis, helping in interpreting the numerical relationships and assessing company performance (Indira, 2017; Maka, 2018).

RESEARCH METHODOLOGY:

the study is a descriptive research design in order to analyze the financial performance of Athreya Business Solutions Pvt Ltd. The Secondary data is sourced from company records and reports which forms the basis of the analysis. Ratio and trend analysis techniques are used to evaluate the liquidity, solvency, profitability, and efficiency of the organization.

DATA ANALYSIS AND INTERPRETATION

4.1 Ratio Analysis:

YEARS	Net Profit	Net Worth	Net Profit to Net Worth Ratio
2018-2019	-157795	24542.32	-642.95%
2019-2020	81152	25342.01	320.23%
2020-2021	455.64	25797.65	1.77%
2021-2022	-5090.35	20707.3	-24.58%
2022-2023	-2826.18	1491013	-0.19%

Table 4.1 Net Profit to Net Worth Ratio for the period of 2018-2023.

(Source: Secondary Data – Financial Reports 2018-2023)

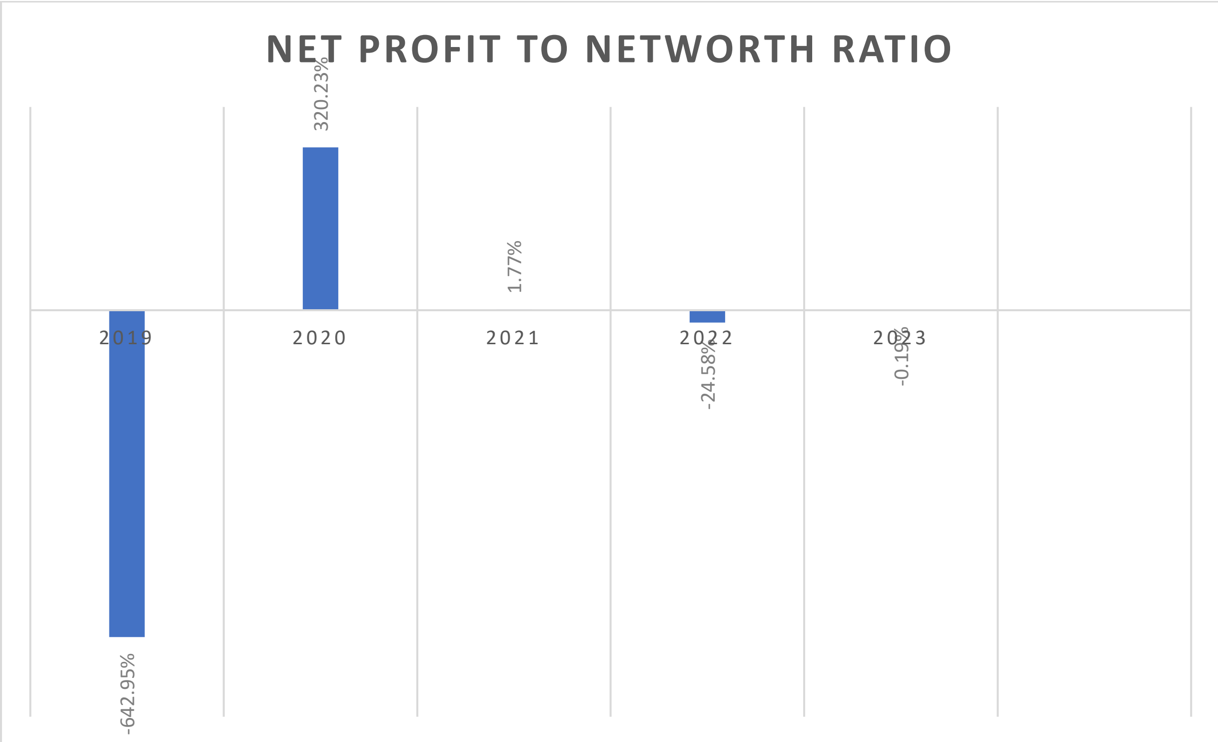


Figure 4.1 Net Profit to Net Worth Ratio for the period of 2018-2023

INTERPRETATION:

The Net Profit to Net Worth Ratio is a Metric Ratio used to assess a company's profitability in relation to its shareholders equity. In the year 2018-2019, the company experienced a loss, resulting in a ratio of -642.95%, indicating a significant depletion of net worth. However, there was a notable turnaround the following year, with the ratio soaring to 320.23% , suggesting improved profitability. By the year 2020-2021, the ratio reached 1.77%, Indicating a period of modest profitability. But Unfortunately, in the year 2021-2022, the company faced another setback, recording a ratio of -24.58%, indicating a considerable decline in profitability. However, by 2022-2023, the ratio saw a slight improvement, standing at -0.19%, indicating a small loss relative to net worth. Throughout the analysed period, the ratio exhibited substantial fluctuations, reflecting varying levels of profitability in relation to the company's net worth.

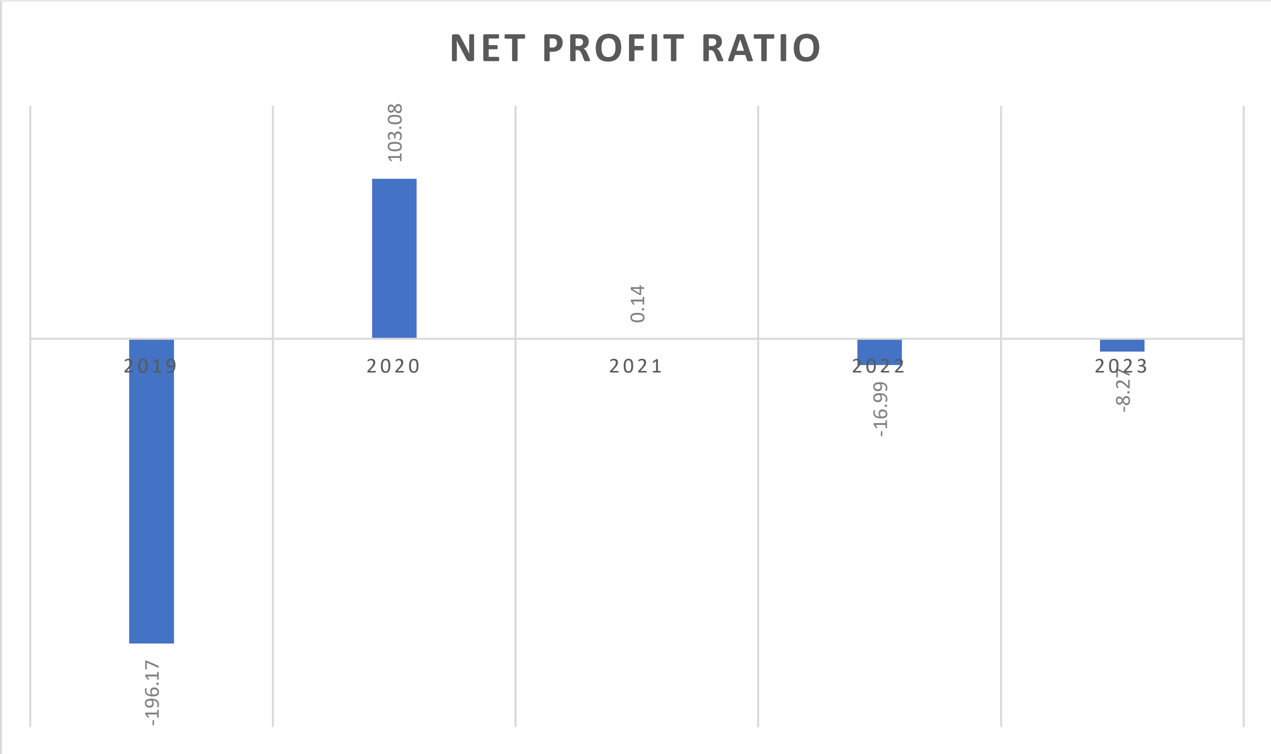
Table 4.2 Net Profit Ratio for the period of 2018-2023

YEARS	Net Profit	Sales	Net Profit Ratio
2018-2019	-157795	80437.67	-196.17
2019-2020	81152	78725.11	103.08

2020-2021	455.64	311073.65	0.14
2021-2022	-5090.35	29951.13	-16.99
2022-2023	-2826.18	34155.45	-8.27

(Source: Secondary Data – Financial Reports 2018-2023)

Figure 4.2 Net Profit Ratio for the period of 2018-2023



INTERPRETATION:

The net profit ratio of the company Displayed a significant fluctuations in the five-year period. In 2018-2019 and 2021-2022, the company faced a loss relative to sales, with ratios of -196.17% and -16.99% respectively, indicating financial challenges. However, there were profitable years, notably in 2019-2020, with a ratio of 103.08%, reflecting a great profitability. Subsequently, in 2020-2021 and 2022-2023, the company experienced in decreasing profitability, with ratios of 0.14% and -8.27% respectively. Overall, while the company encountered both profitable and loss-making periods, maintaining consistent profitability remains a significant challenge, require a strategic adjustments for sustainable financial performance.

Table 4.3 Return on total Asset Ratio for the period of 2018-2023

YEARS	**Profit After Tax**	**Assets**	**Return on total Asset Ratio**
2018-2019	-157795	47962.27	-328.9
2019-2020	811.52	42393.09	191.42
2020-2021	455.64	36137.34	1.26
2021-2022	-5090.35	31534.93	-16.14
2022-2023	-2826.18	18838.64	-15

(Source: Secondary Data – Financial Reports 2018-2023)

Figure 4.3 Return on total Asset Ratio for the period of 2018-2023

INTERPRETATION:

The return on total asset ratio for the company Shows a significant fluctuations in the the five-year period under analysis. where the years 2019-2020 and 2020-2021 displayed positive returns, indicating efficient asset utilization, the years 2018-2019, 2021-2022, and 2022-2023 exhibited negative returns, suggesting inefficiency in generating profits from assets. Notably, 2020-2021 showcased the highest return on total assets. The presence of negative returns in 2021-2022 and 2022-2023 implies challenges or losses in asset utilization, underscoring the need for improved asset management strategies. Overall, the company experienced inconsistent profitability concerning its total assets, emphasizing the importance of enhancing asset management practices to ensure sustained profitability and efficient resource utilization.

Findings:

Net Profit to Net Worth Ratio:

The ratio fluctuated significantly over the period, with losses in the year 2018-2019 and 2021-2022, indicating challenges in profitability relative to net worth. However, there was an Slight Improvement in 2019-2020, highlighting profitability relative to net worth, although the ratio declined again in The following years.

Net Profit Ratio:

Significant fluctuations were observed, with profitable years such as the 2019-2020 contrasted with loss-making periods like 2018-2019 and 2021-2022. There was decreasing profits in year 2020-2021 and 2022-2023, signifying challenges in maintaining consistent profitability.

Return on Total Asset Ratio:

Fluctuations suggested irregularities in utilizing assets to generate profits, with negative returns in 2018-2019, 2021-2022, and 2022-2023. Notable positive returns were observed in 2019-2020 and 2020-2021, indicating periods of efficient asset utilization.

Return on Current Assets Ratio:

The ratio showed varying efficiency in utilizing current assets to generate profits, with notable improvement in 2019-2020. Challenges were observed in 2018-2019 and 2021-2022, where the ratios turned negative despite positive profits, suggesting potential inefficiencies in managing current assets.

Proprietary Ratio:

Generally, there was some improvement from the year 2018-2019 to 2021-2022, indicating strengthened financial stability with increased reliance on internal funds. An anomaly in 2022-2023 showed a significant spike, likely due to exceptional factors such as the capital injections or profits.

SUGGESTIONS:

Net Profit to Net Worth Ratio:

Implementing cost-cutting measures and enhancing revenue streams are vital strategies to stabilize profitability.

Reviewing the capital structure can optimize the Improve the utilizations of equity and debt, leading to improved profitability.

Net Profit Ratio:

A focus on enhancing operational efficiency is essential to maintain the consistent profitability.

Implementing more strategies to mitigate factors that contributing to loss-making periods can bolster overall profitability.

Return on Total Asset Ratio:

A thorough review of asset utilization efficiency is necessary, along with considering asset allocation restructuring to enhance the returns.

Implementing some measures to improve operational efficiency and reduce asset-related costs can positively impact returns on total assets.

Return on Current Assets Ratio:

Enhancing current asset management practices ensures efficient utilization and improved returns to the company

Reviewing inventory management and accounts receivable processes is a crucial to minimizing the inefficiencies and also optimizing returns.

Proprietary Ratio:

Continued efforts to strengthen financial stability through a reliance on internal funds are the recommended.

Maintaining prudent capital management practices is important to keep up the optimal proprietary ratio.

CONCLUSION:

The research study offers a detailed evaluation of Athreya Business Solutions Private Limited's financial performance, outlining its essential areas for enhancement and presenting an actionable recommendations for stakeholders. Through the implementation of these proposed measures, the company can Boost its profitability, liquidity, and also overall financial well-being, thus also positioning itself for sustained success within the competitive market environment.

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