



A Study on Ration Analysis in dairy industry

Vamsi thalla¹, N.Raghavendra²

Department of Management studies, Narayana Engineering College (Autonomous), gudur.

Mail: vamsigouthalla@gmail.com, Mobile: 9492933581

Assistant professor, Department of Management Studies, Narayana Engineering College (Autonomous), gudur., Mobile: 9908560503

ABSTRACT :

The main objective of the research is to study the importance of ratio analysis as a tool to measure a company's profitability and earning capacity, aiming to guide investment decisions and maintain a balance between liquidity and profitability. Through a structured approach, it investigates the best composition of ratio analysis, emphasizing the relationship between various financial metrics. By calculating key ratios such as liquidity and profitability ratios, it seeks to offer insights into the company's financial position and its ability to meet short term obligations. The research methodology contains both quantitative and qualitative analysis, based on financial data. Eventually, this research contributes to a comprehensive understanding of ratio analysis as a strategic technique for effective decision making in the financial area, recommending helpful insights for management and stakeholders.

Key words: Profitability, liquidity, financial position and stakeholders.

Introduction :

Accounting research has committed important concentration to extrication the utility of financial statement data. This detection holds thoughtful meaning for our profession because one of the main objectives of financial reporting and regulation is to hold managers accountable to investors, thereby facilitating the efficient distribution of capital. The essence lies in ensuring that superior companies secure financing and command higher valuations compared to their inferior counterparts. However, financial statements abound with numerical data, rendering the task of discerning the pertinent figures from the inconsequential ones a formidable challenge in financial analysis and valuation. While it may appear evident in retrospect that a downturn in profit margins for a specific firm carried significance, the question arises: how can we ascertain whether such a signal holds relevance for other firms?

Literature Review :

(Ak et al., 2013) Financial ratio models usually support investors in steering clear of stocks that are level to major corporate events. Additionally, these models help in discriminating between sound and weak firms when such events happen. However, the effectiveness of these models in forecasting outcomes is often covered by the design of research methodologies. We discover the influence of accounting rule alterations and their growing effect on the prognostic capabilities of these models, offering recommendations for enhancing their accuracy through cross-event analysis.

(Das, 2023) Financial statements serve the crucial purpose of providing decision-makers with a condensed overview of a business enterprise's financial status. The findings underscore the importance of financial ratio analysis in sourcing pertinent financial information for decision-making. Thus, it is imperative for management to ensure that comprehensive financial ratios are included in basic financial statements to facilitate a holistic understanding of business enterprises.

(Alqam et al., 2021) The ability of financial analysts in their professional performance is strongly associated to the level of correlation observed in financial ratios. This relationship directly influences the significance of these ratios in determining key insights and decision-making processes within the financial area.

(Shatnawi & Shukry, 2016) Financial analysis tools enable managers to identify both strengths and weaknesses within a company, empowering them to make informed decisions and effectively address areas needing improvement while monitoring the overall activity of the company.

(Amran & Aripin, 2015) The corporate governance score (CGS) reveals that nearly half of the board of directors are independent, indicating a significant level of independence within the board. With an average shareholding percentage of 80.63%, Malaysian shareholding appears to be concentrated. There exists a positive correlation between Corporate Governance (CG) elements and External Financial Reporting Disclosure (EFRD). The presence of a higher number of independent directors correlates with increased levels of financial ratio disclosures. This suggests that the role of independent directors, as outlined in the Malaysian Code on Corporate Governance (MCCG), is effective in enhancing the quality of financial reporting and adds value to it.

Objectives

- To evaluate financial position and performance of a firm.
- To indicate the trend or progress or down fall of a firm.
- To assess the credit worthiness of a firm.
- To assess the efficiency with which working capital is being used in affirm.
- The gross profit margin reflects the efficiency with which management

Data Analysis

Current ratio

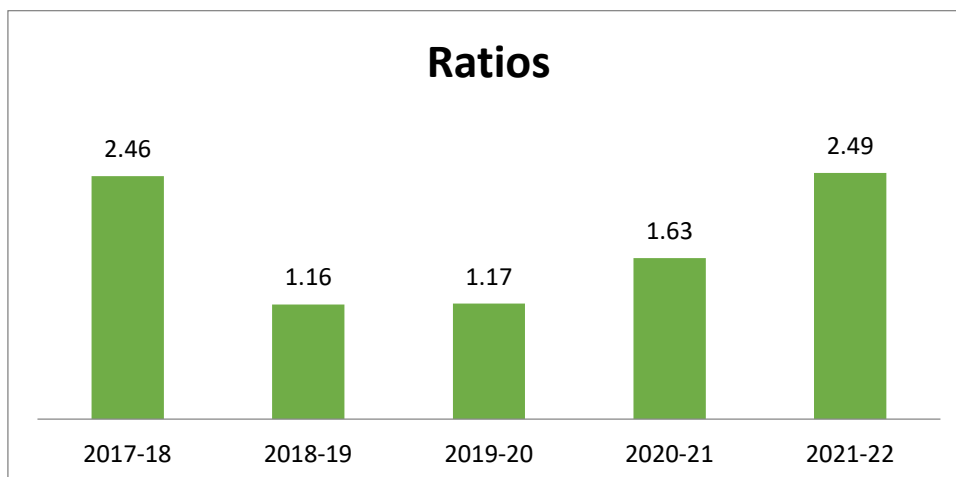
The current ratio establishes the relationship between current assets and current liabilities.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Table No – 1

Years	Current assets	Current liabilities	Ratios
2017-18	5449452	2215853	2.46
2018-19	6594661	5696773	1.16
2019-20	8497426	7259690	1.17
2020-21	11721701	7177256	1.63
2021-22	13665121	5479776	2.49

Graph No – 1



Interpretation:

The current ratio of standard norms is 2:1 considered satisfactory. The ratio in the 2017 & 2022 is 2.4 it is more than standard ratio it shows current assets are more. In 2019-20, & 2021, ratio is 1.16, 1.17 and 1.63.

Quick ratio

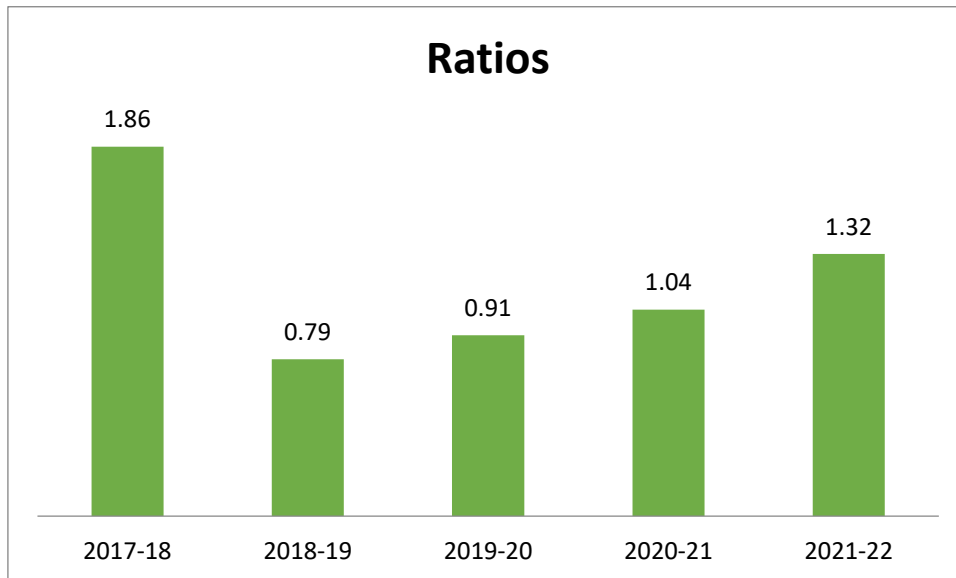
Quick ratio also known as Acid test ratio or liquid ratio is more rigorous test of liquidity than the current ratio.

$$\text{Quick ratio} = \frac{\text{current asset} - \text{inventory}}{\text{current liabilities}}$$

Table No – 2

Years	Quick assets	Current liabilities	Ratios
2017-18	3403865	2215853	1.86
2018-19	4518791	5696773	0.79
2019-20	6448550	7259690	0.91
2020-21	7473534	7177256	1.04
2021-22	7225790	5479776	1.32

Graph No – 2

**Interpretation:**

Quick ratio is above the standard norm of 1:1. Quick ratio is 1.86 in the year 2017 next year it is decreased to 0.79 in 2019 again it increases to 0.91 in the year 2018 again it is increased gradually and touches 1.32 mark in the current year 2021.

Networking capital ratio

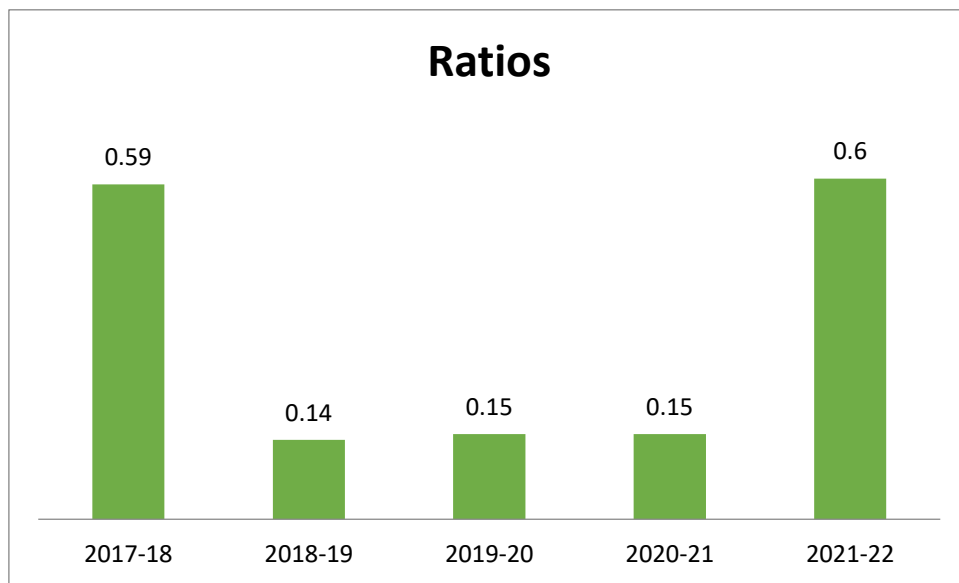
The difference between Current Assets and Current Liabilities excluding short-term bank borrowings is called Net working capital. It is sometimes used as a measure of a firm's liquidity. It is considered that, between two firms, the one having the larger Net working capital has the greater ability to meet its current obligations. This is not necessary so; the measure of liquidity.

$$\text{Net working capital ratio} = \frac{\text{net working capital}}{\text{net assets}}$$

Table No – 3

Particulars	Networking capital	Assets	Ratios
2017-18	3233599	5449452	0.59
2018-19	897888	6594661	0.14
2019-20	1237736	8497426	0.15
2020-21	4544445	11721701	0.15
2021-22	8185345	13665121	0.60

Graph No – 3



Interpretation:

It is inferred from the above table that the net working capital is 0.59 in the year 2018 after it is decreased to its all-time low 0.14 in the next year, and there are no changes in the years 2021 and 2022 after that it is increased to its high 0.60.

Inventory turnover ratio

This ratio indicates the number of times inventory is replaced during the year. It measures how quickly inventory is sold. The inventory turnover reflects the efficiency of the firm in producing and selling its products. This ratio indicates the velocity or the movement of goods during the year.

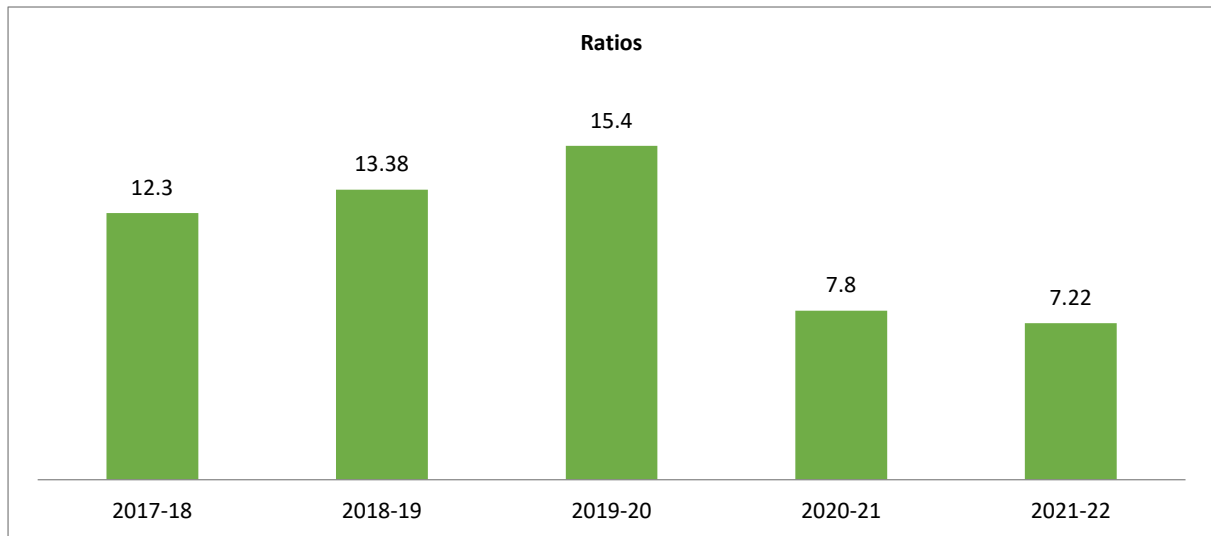
$$\text{Inventory turnover ratio} = \frac{\text{sales}}{\text{inventore}}$$

Table No – 4

Years	Sales	Inventory	Ratios
2017-18	25307821	2045587	12.3
2018-19	29455716	2200699	13.38
2019-20	31546070	2048876	15.40
2020-21	33156905	4248167	7.8

2021-22	46503000	6439331	7.22
---------	----------	---------	------

Graph No – 4

**Interpretation:**

It is inferred from the above table that the inventory turnover ratio is 12.3 in the year 2018 after it is increased to 13.38 again it increases to its high 15.4 after that it is decreased to its low in the current year 2022. Usually, high inventory turnover ratio indicates efficient management of inventory.

Findings

- The current ratio of the company is showing fluctuation i.e. but it is not followed standard ratio i.e. 2:1. Due to fluctuation the current ratio is high means satisfaction of the company low means not good position of the company.
- The quick ratio of the company is showing fluctuation i.e. but it's not followed standard ratio i.e. 1:1.
- Net working capital ratio of the company is showing fluctuation i.e. 3:1.
- The debtor's turnover ratio of the company is showing fluctuation i.e. 1:2.
- Total asset turnover ratio of the company is showing fluctuation i.e. 1:4.

Suggestions

- The company should concentrate current assets and current liabilities and flow the standard ratio.
- The company should maintain the quick ratio at 1:1 and control the current asset and current liabilities.
- The company should maintain net working capital at requirement level in the organization i.e. control the current liabilities
- . The debtor's turnover ratio should control at cash sales and reduced debtors' collection period through implementing an optimum credit policy.
- Company should concentrate on assets and maintain an optimum level in organization operations.
- The company should decrease over expenditure. The effective liquidity management is needed in the company.

Conclusions

From my analysis. I would like to say that the performance of profitability and turn over position of the Dora Plastics Pvt, Ltd was satisfactory during the study period. But all the ratios are fluctuation during the study period. So, the company have to improve in its financial performance. The owners' equity is treated as a margin of safety by creditors; if the equity base is thin, the creditors risk will be high.

REFERENCES :

1. Ak, B. K., Dechow, P. M., Sun, Y., & Wang, A. Y. (2013). The use of financial ratio models to help investors predict and interpret significant corporate events. *Australian Journal of Management*, 38(3), 553-598.

-
2. Das, P. K. (2023). Ratio analysis for decision making, a study. *Brazilian Journal of Science*, 2(5), 29-41.
 3. Alqam, M. A., Ali, H. Y., & Hamshari, Y. M. (2021). The relative importance of financial ratios in making investment and credit decisions in Jordan. *International Journal of Financial Research*, 12(2), 284-293.
 4. Al-Shatnawi, Al.-Q., & Shukry, Al. (2016). The impact of using the financial analysis system in reducing the risk of financial crises on Jordanian banks and facing their current impact and predicting credit risks. *Journal of Accounting, Auditing and Governance*, Jerash University, 1(1).
 5. Amran, N. A., & Aripin, N. (2015). Financial ratios: a tool for conveying information and decision making. *Global Review of Accounting and Finance*, 6(1), 151-164.