

A Study on Ratio Analysis

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Abstract

Ratio analysis is an applied procedure that goes back to the initiation of bookkeeping, as an idea. Money-related investigation as a logical device is utilized to do the computations in the region of bookkeeping. With a specific end goal to assess the substantial and existent worth of a venture, the monetary device comes helpful, consistently. Plus, it additionally enables the organizations to watch the execution crossing over a drawn-out period alongside the obstructions and deficiencies. The budgetary examination is a fundamental system for an unmistakable elucidation of money-related explanations. It helps the way toward finding, the presence of any cross-sectional and time arrangement linkages between different proportions.

Keywords: *Ratio analysis, Bookkeeping, Organization, Budget*

1. Introduction

The expression "ratio analysis" alludes to the examination of the money-related explanations in conjunction with the understandings of budgetary aftereffects of a specific time of operations, inferred with the assistance of 'proportion'. Proportion examination is utilized to decide the money-related soundness of a business concern. The analysis and understanding of money-related explanations is a vital bookkeeping movement. The administration will be especially intrigued by knowing the monetary qualities of the firm their best use to have the capacity to spot out money-related shortcomings to make reasonable restorative moves moreover. The plans should be laid down because of the firm's financial strengths and weaknesses. A proper financial analysis must be used to analyze affirms past performance and assess its present financial strength for making better plans the financial resources of every organization are always scarce and therefore require proper planning and control to achieve the best out of funds available. The financial statements are very useful for evaluating the financial position and performance through financial analysis. The ratio analysis is one of the tools in hands of those who want to know something more from the financial statements.

The practices interested in financial analysis are short & long-term creditor owners and management [5]. These people use the ratio to determine those financial characteristics of the firm in which they are interested are,

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1. The financial condition and the ability of the firm to meet its current obligation
2. The extent to which has used to long term solvency by borrowing funds
3. The efficiency with which the firm is utilizing its assets in generating sale revenue
4. The overall operating efficiency and performance

Thus one can understand that financial management is the two successful business operations [4]. And without proper administration of finance, no business enterprise can utilize its full potential for growth and success. And to make a qualitative judgment about the firm's financial performance ratio may be compared with its records and with similar firms for efficient financial management.

2. Ratio of analysis

1. Analysis of an individual (or) Single Ratio
2. Analysis of alluding to a Group of Ratio
3. Analysis of proportions by Trend
4. Analysis by between firm examination

Analysis of Ratio comprehensively clarifies the way toward figuring, goes about as a fundamental apparatus in assurance and introduction of the relationship of related things and gatherings of things of the budgetary proclamations. The monetary position of a unit is solidly and exemplified by the methods for proportion examination. The centrality of Ratio Analysis for a comprehensive Financial Analysis remains unflinchingly incomparable[1].

3. Advantages of ratio analysis

It encourages the bookkeeping data to be abridged and streamlined in a succinct and solid frame that is conceivable to the user.

1. Ratio Analysis clears every one of the obstacles and wasteful aspects identified with the execution of the firm/individual.
2. Ratio Analysis gives an itemized record of gainful and unrewarding exercises. Along these lines, the administration can focus on unrewarding exercises and consider the vital strides to overcome the existential shortcomings.
3. Ratio investigation is utilized as a benchmark for compelling control of the execution of business activities.
4. Ratio Analysis helps in precise assurance of the execution of liquidity, productivity and dissolvability position of the business concern.

4. Objectives of the study

Broadly the objective financial statements analysis is to understand the information contained in financial statements to know the weakness and strengths of the firm and to make a forecast about the prospects of the firm and thereby enabling the financial analyst to take different decisions regarding the operation of the firm[6].

The main objective is to study the ratio analysis to analyze the financial statements.

1. To study the techniques of Ratio analysis for decision-making.
2. To know the effects of Power Generation techniques on profitability.
3. To measure and compare the past and present data regarding the financial status.

4. To determine long and short-term financial position through various ratios.

5. Methodology

Research refers to a search for knowledge. It is a systematic method of collecting and recording the facts in the form of numerical data relevant to the formulated problem and arriving at certain conclusions over the problem based on collected data.

Thus formulation of the problem is the first and foremost step in the research process followed by the collection, recording, tabulation, and analysis, and concluding. The problem formulation starts with defining the problem or number of problems in the functional area. To detect the functional area and locate the exact problem is the most important part of any research as the whole research is based on the problem.

6. Limitations

1. Since the procedure and policies of the company will not allow disclosing confidential financial information, the project has to be completed with the available data given to us.
2. The period of study that is 6 weeks is not enough to conduct a detailed study of the project.
3. The study is carried based on the information and documents provided by the organization and based on the interaction with various employees of the respective departments.
4. There was no scope for gathering current information, as the auditing has not been done by the time of project work.
5. The busy schedule of the officials in S.A.T Ltd is another limiting factor. The busy schedule of officials restricted me to collect complete information about the organization.
6. Non – availability confidential financial data

7. Situations in Indian textile

Styles have dependably affected the making of interest in this industry, particularly after the ascent of retailers; control of the ware chain. Given their closeness and more prominent comprehension of the market than makers, these merchants tried to contend through market advancements like new outlines and design promoting as opposed to through cost decreases by developments underway methods. Here again, there are differences across various segments. Women and children's wear is subject to more fashion-based design changes as compared to men's wear. Further, socio-economic and related cultural changes have created a general trend in clothing towards more informal and casual wear since the 1970s. Consumption-based identities have begun to play a bigger role in market niches. All these factors have led to the rise of distinct segments in the apparel market.

The cotton textile industry consists of three distinct categories in the organized sector.

1. Spinning Mills
2. Coarse or Medium Composite Mills
3. Fine and Super Fine Mills

Spinning mills are generally small in size. Coarse and medium composite mills are not able to adjust their cost in the face of rising prices of raw materials and increases in wages. Fine and superfine composite mills use foreign cotton mostly imported; they are not subjected to stock restriction and can therefore carry on stable production programmes. India also

occupies a unique position in the textile industry. It has been a manufacturing nation of cotton fibers. It exports fine cotton fabrics to all the nations of the civilized world. The industry has faced its major post-independence in the early sixties until then more or less most of the mills were making reasonable profits. But several factors contributed to a very big depression in the market and the mills started incurring losses[2],[3].

One of the major causes of the recession was the lowering of purchasing power. Textiles become postponable items. The cost of production of textiles itself increased, the price of cloth has to be increased.

The first mill in India was set up by C.N. DAKAR in 1854 with an Englishmen as his partner. It was Dakar's mills that laid the foundations for a strong and growing textiles industry in Bombay and soon after in other regions of India. "The Bombay mills owner Association" is the first mill formed an association in India in the year 1854.

8. Indian textiles Industry facts

1. India is the second-largest producer of cotton yarn
2. India is the largest in loom age (including handloom) in the world.
3. Indian textile market is the second-largest employer employing the masses. In the textile sector, there are about 35 million working people.
4. 14% of the industrial production in India is done by the textile industry.
5. High exports and foreign revenue comes from the textile industry. In India, 38% of the country's total export is coming from the textile industry.
6. There is around 1200 million medium to large scale textile companies in India.

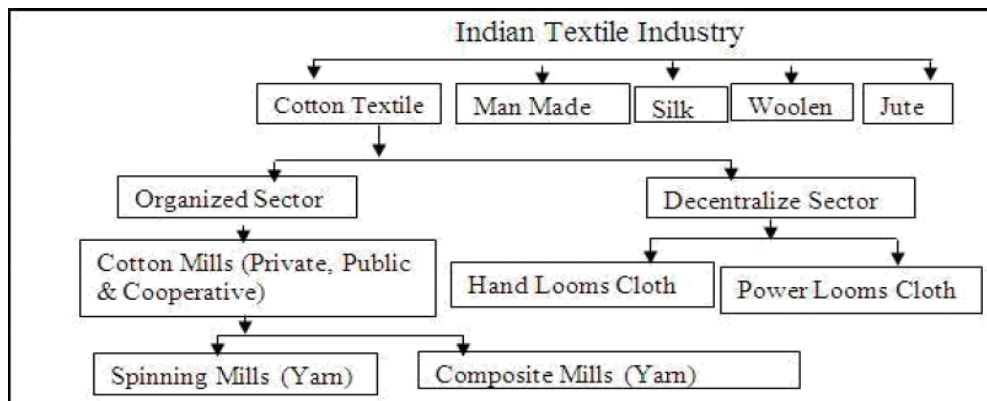


Figure 1. Indian textile industry

9. Strengths of the Indian textile industry

1. India has rich assets of crude materials of material industry. It is one of the biggest makers of cotton on the planet and is likewise rich in assets of strands like polyester, silk, thick Viscose, etc...
2. India is rich in highly trained manpower. The country has a huge advantage due to lower wage rates. Because of low labor rates the manufacturing cost in the textile industry automatically comes down to very reasonable rates.
3. India is highly competitive in the spinning sector and has a presence in almost all processes of the value chain.

10. Role of the textile industry

Part of the material industry in India's GDP has been very useful in the financial existence of the nation. The overall exchange of material and dress has helped up the GDP of India, as it were, as this area has gotten a tremendous measure of income in the nation. In the previous year, there has been a monstrous upsurge in the material business of India. The business estimate has consumed from the US \$37 Billion of every 2004-05 to the US \$49 Billion of every 2006-07. During this time, the neighborhood showcase saw the development of US \$ 7 Billion, that is, from the US \$23 Billion to the US \$30 Billion. The fares showcase expanded from US \$14 Billion to US \$19 Billion around the same time.

Some of the important benefits offered by the Indian textile industries are as follows.

1. India covers 61% of the worldwide material market.
2. India covers 22% of the worldwide market.
3. India is known to be the third-biggest producer of cotton over the globe.
4. India cases to be the second-biggest producer and in addition supplier of cotton yarn and materials in the world.
5. India holds around 25% offer cotton yarn industry over the globe
6. India adds to around 12% of the world's creation of cotton yarn and textiles.

11. Statement ratios

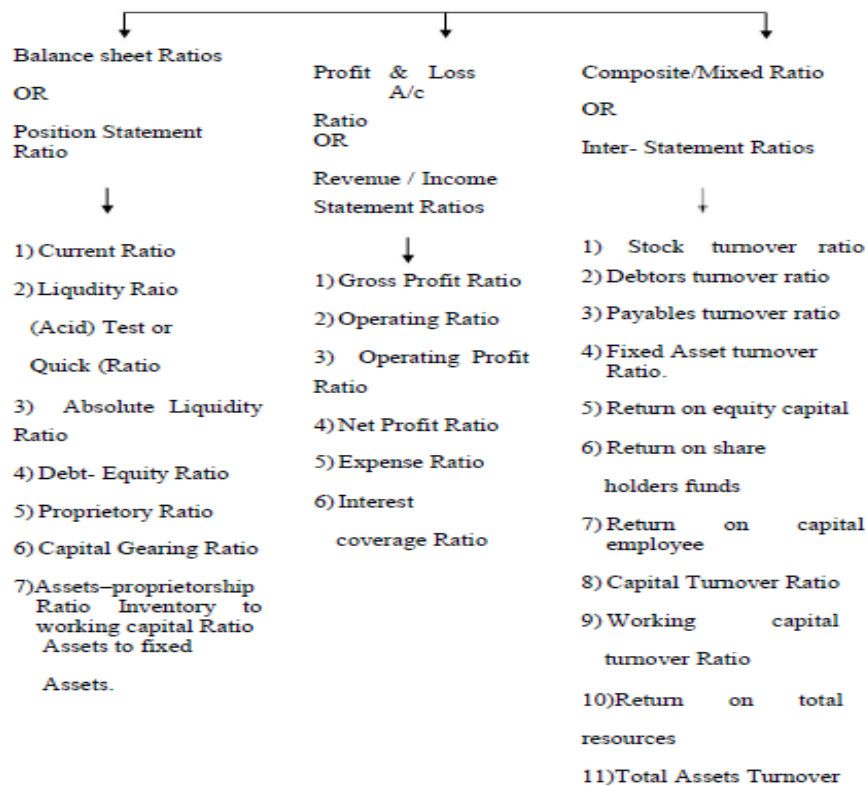


Figure 2. Statement ratios

12. Importance of ratio analysis

The Significance of Ratio Analysis are:

1. With the help of Ratio Analysis, we can conclude the liquidity position it a firm
2. It is useful for assessing the long-term financial viability of a firm.
3. It is a useful tool in the bands of management
4. Inter-firm comparison is possible
5. Trend Analysis may be easier

13. Limitations

1. Limited use of a Single Ratio
2. Lack of adequate Standards
3. Inherent limitations of accounting
4. Change of accounting Procedure
5. Window dressing

14. Guidelines for use of rations

Accuracy of financial statements: the ratios are computed from the information accessible in money-related statements.

1. **Objectives or purpose of analysis:** The sorts of ratios to be computed will rely on the reason for which these are required.
2. **Selection of ratios:** Precaution in ratio analysis is the proper selection of appropriate ratios.
3. **Use of standards:** The ratios will indicate the financial position only when discussed concerning certain standards.
4. **The caliber of the analyst:** The ratios are only the tools of analyst and their interpretation will depend upon the caliber and competence of the analyst.
5. **Ratios provide only a base:** The ratios are only guidelines for the analyst he should not base his decisions entirely on them.

15. Utility of ratio analysis

The following are the important managerial uses of Ratio Analysis.

1. **Help in decision making:** Financial Statement is prepared primarily for decision making. But the information provided on the financial statements is not an end in itself and no meaningful conclusion can be drawn from these statements alone.
2. **Financial forecasting:** Ratio Analysis is of much help in financial forecasting and planning. A Ratio relating to past Sales. Profits and financial position in the future trends.
3. **Comparison:** with the help of Ratio Analysis, ideal Ratios can compose and they can be used for comparison of a particular firm's progress and performance.
4. **Control and coordination:** Making effective control of the business. Standard ratios can be based upon proforma financial statements and variances is deviations if any can be found by comparing the actual with the standards to take corrective action at

the right time. Coordination is of utmost importance in effective business management.

5. **Ratio analysis simplifies the understanding of financial statements:** The financial strength and weakness of a firm are communicated
6. **Cost control:** Ratios are very useful for measuring performance and are useful for cost control. Ratio analysis throws light on the degree of efficiency in management and utilization of assets.
7. **Communication value:** The financial strength and weakness of the firm are communicated most easily and understandably by the use of ratios.
8. **Inter-firm comparison:** Ratio analysis throws light on the financial position of a firm but also serves as a stepping –stone to remedial measures. They made it possible with the inter-firm comparison with the industry averages. They expected that the performance of a firm should be in broad confirm with that of the industry to which it belongs. Such a comparison demonstrates the relative strengths of the firm.
9. **Other uses:** Financial are used fully in the diagnosis of the financial health of a firm they highlight the liquidity, solvency, profitability, and capital gearing position of a firm. It is an essential part of budgetary control and standard costing. Ratios are of immense importance in the analysis and interpretation of financial statements as they bring the strength or weakness of a firm.

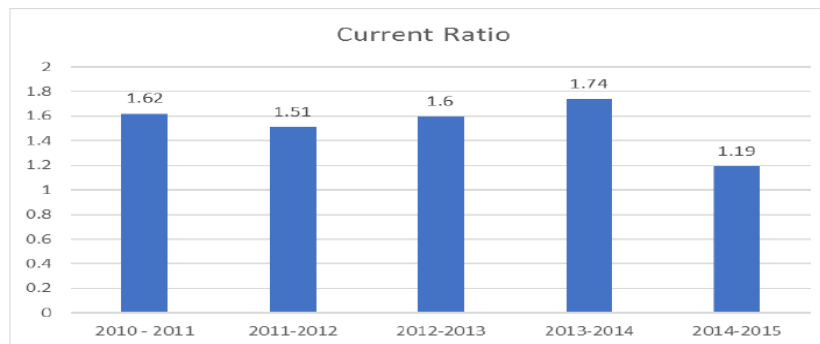
16. Analysis

1. Current ratio

$$\text{Current ratio} = \text{Current assets} / \text{Current liabilities.}$$

The current ratio of S.A.T Ltd from 2010-2011 to 2014-2015 (Amount in lakhs)

Year	Current Assets	Current Liabilities	Ratio
2010 - 2011	2350.14	1455.01	1.62
2011-2012	2742.07	1817.33	1.51
2012-2013	2855.63	1789.9	1.6
2013-2014	3463.17	1983.21	1.74
2014-2015	3267.96	2735.53	1.19



Interpretation

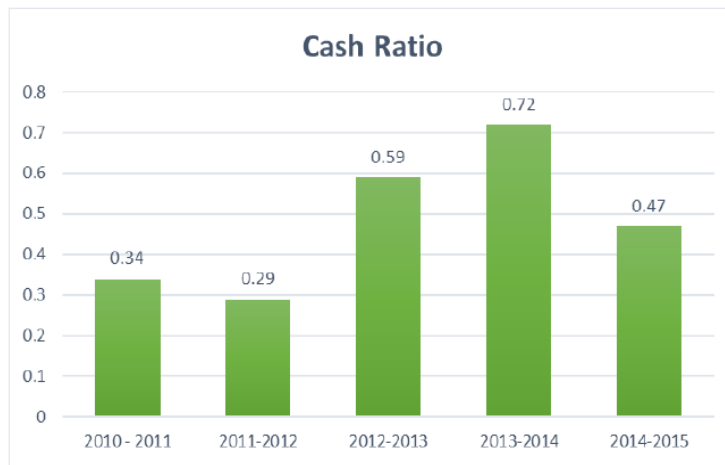
The current ratio in S.A.T Ltd., shown in table 1.2. The current assets increased year after year from Rs. Lakhs 2590.83 to 3267.96 in 2013. The current ratio varied between 1 .80 to 1 .60 times. It increased in 2011-12 to 1.51 times. The current ratio in the year 2013-2014, 2014-15 is respectively 1.74, 1.19 times. The company is not maintaining is up to the standard norm of 2:1 in all the years.

2. Cash Ratio

$$\text{Cash Ratio} = \frac{\text{Cash}}{\text{Current Liabilities}}$$

Cash ratio of S.A.T Ltd from 2010-2011 to 2014-2015 (Amount in Lakhs)

Year	Cash	Current Liabilities	Ratio
2010 - 2011	497.92	1455.01	0.34
2011-2012	532.65	1817.33	0.29
2012-2013	1052.04	1789.9	0.59
2013-2014	1427.11	1983.21	0.72
2014-2015	1311.77	2735.53	0.47



Interpretation

The cash as a percentage of current liabilities is shown in table 3. The cash balances increased from Rs. 497.92 lakhs in 2010-11 to 1427.11 in 2013-14 and current liabilities increased from 1440.03 lakhs to 1983.21 lakhs in 2013-14 and 2014-15 the current liabilities decreased from 1983.21 to 2735.53. The cash as a percentage of current liabilities has come down from 0.34 in 2010-11 thereafter to 0.47 in 2014-15.

17. Conclusion

Financing is the backbone of the progress of any company. Therefore a financial ratio has its impact on the management. Ratios give a clear picture of the financial condition of the company. By observing the study it may be concluded that the present study has been conducted to analyze and evaluate the working capital position of S.A.T Ltd., through

Working capital changes statements and Ratios. The liquidity position of the company is satisfactory. The profitability of the firm is increasing significantly throughout the study period of 2009-14 and the long-term solvency of the firm is in a satisfactory position.

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