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A STUDY ON RATIO ANALYSIS TOWARDS SRI SARAVANA TVS AT SALEM

Gokul S

Final Year MBA Student, Gnanamani College of Technology, Namakkal

Abstract—*Profit is necessary for the endurance and growth of any business enterprise. If the enterprise is not able to generate enough profit it will not survive in the growing competitive world. The current paper studies the impact of financial ratios such as Liquidity ratios, Leverage ratio & Managerial Efficiency ratios on Profitability. For the analysis, data of past 5 financial years from 2017 to 2021 was considered and the company, these company represent automobile sector which contribute to the overall weight-age of the index. The results of the study conclude that Debit Equity ratio & Debtors Turnover Ratio are influencing Net profit margin of the selected auto companies. The Current Ratio, Quick Ratio and Inventory Turnover Ratio are influencing both Return on Capital Employed & Return on Net Worth of the selected auto companies.*

Keywords: Indian Automobile Industry, Liquidity ratio, Leverage ratio & Managerial, Efficiency ratios, Impact, Profitability.

INTRODUCTION

Finance is a field that deals with the study of investments. It includes the dynamics of assets and liabilities over time under conditions of different degrees of uncertainty and risk. Finance can also be defined as the science of money management. Finance aims to price assets based on their risk level and their expected rate of return. Finance can be broken into three different sub-categories: public finance, corporate finance and personal finance.

The accounting principles board of the American institute of certified public accountants, USA, has defined working capital as follows: -

Ratio analysis Management is concerned with the problems that arise in attempting to manage the current Assets, current liabilities and the inter-relationship that exists between them. The aim of Ratio analysis management is to manage the concerns current assets and current liabilities in such a way that an adequate Ratio analysis is maintained. An adequate level of Ratio analysis provides a business with operational flexibility. Emerson has very rightly observed that, "business with an adequate level of Ratio analysis has more option available to it, and can make its own choice as to when Ratio analysis will be used.

STATEMENT OF THE PROBLEM

In the management of Ratio analysis, the Sri Saravana TVS is faced with two key problems:

1. First, given the level of sales and the relevant cost considerations, what are the optimal amounts of cash, accounts receivable and inventories that a firm should choose to maintain

2. Second, given these optimal amounts, what is the most economical way to finance these working capital investments? To produce the best possible results, firms should keep no unproductive assets and should finance with the cheapest available sources of funds. Why? In general, it is quite advantageous for the firm to invest and deposit in short term assets and to finance short-term liabilities.

OBJECTIVES OF THE STUDY

- To analysis the profitability and liquidity of Sri Saravana TVS.
- To analysis the significance level between solvency and liquidity maintenance.
- To analysis the impact of profit and value of the firm.
- To analysis the impact of working capital and an value of company.

SCOPE OF THE STUDY

Research is conducted only in Sri Saravana TVS. The study is done based on the annual reports and the analysis is done only for financial years form 2017-21. Research has used only profit and loss account and balance sheet for doing the analysis. Results are interpreted only on the basis of analysis.

LIMITATIONS OF THE STUDY

1. Financial Information collected for the study is entirely secondary in nature. In such a case, it carries all the limitation inherent with secondary data and financial information.
2. The study is limited to accuracy of the statistical tools used.
3. Result of the study is limited to the selected companies.
4. Market capitalization details of company were not accessible for it to form basis for selecting the sample.

REVIEW OF LITERATURE

Penman & Nissim (2001) during their study for the analysis of ratio analysis and equity valuation for the period comprising of 1996 to 1999 concluded that the ratio analysis depicted certain trends and patterns when they are deployed for the purpose of forecasting. On the other hand, Carl B, Collier (2004) in their study concluded that financial ratio analysis is complicated and is dependent on the type of the industries in which the business unit is operating. They based their conclusion while studying the financial analysis for automobile corporation. On the other hand, Vishnani and Shah (2007) investigated the impact of working capital management policies on the corporate performance of the India consumer automobile industry. They noted that inventory holding period, debtors collection period and networking capital cycle and had negative relationship on the profitability of firm.

Ramanchandran and Janakiraman (2009) analyzed the relationship between working capital management, efficiency and earnings before interest and tax of the automobile industry in India. The study revealed that cash conversion cycle and inventory days had negative correlation with earning before interest and tax.

Arun Reddy (2010) analyzed the "Profitability of Indian Automobile industry with reference to the Financial Statistics of Joint Stock Companies in India “during the period of 1950-51 to 1973-74. The major objective of the study was to examine the relationship between growth and profitability. He concluded that the automobile industry exhibited a strong positive correlation between growth and profitability by using regression models and compound growth rate.

RESEARCH METHODOLOGY

RESEARCH DESIGN

A research design is indispensable for a research project. It is a series to keep on going in the right direction. It is a logical and systematic plan prepared for directing a research study. It specifies the objective, methodology and technique to be adopted for achieving the objective.

Without a plan work become unfocused and aimless, the study will be difficult, time consuming to make adequate discrimination in the complex interplay of factors.

SOURCE OF DATA:

The secondary data is used for the study and are collected from the annual reports of the company.

TOOLS USED FOR ANALYSIS DATA

The collection data were tabulated and presented in appropriate places of various chapters. The performance of the business was evaluated by analyzing and interpreting the financial statements of Sri Saravana TVS. With the help of Ratio Analysis

RATIO ANALYSIS

A ratio is a simple arithmetic expression of relationship of one number to another. Ratio is an expression of the quantitative relations between two numbers. Ratio analysis is a technique of analysis and interpretation of financial statements. It is a process of establishing and interpreting various ratios which help in making certain decisions.

TABLE: 1

TABLE SHOWING WORKING CAPITAL TURNOVER RATIO

Year	Sales	Networking capital	Ratio
2016-17	322.71	153.30	2.11
2017-18	272.93	161.71	1.69
2018-19	225.54	104.60	2.16
2019-20	170.24	123.06	1.38
2020-21	127.33	84.18	1.51

Sources: Secondary data

INTERPRETATION:

From the above table shows that the working capital turnover ratio is 2.11 in 2016-17 and decreased to 1.69 in 2017-18 and then increased to 2.16 in 2020-21 then last year decreased to1.51. This shows working capital turnover ratio is fluctuated and decrease level.

TABLE: 2

TABLE SHOWING INVENTORY TURNOVER RATIO

Year	Cost of goods sold	Average stock	Ratio
2016-17	322.71	72.76	4.44
2017-18	272.93	69.73	3.91
2018-19	225.54	50.86	4.43
2019-20	170.24	25.33	6.72
2020-21	127.33	12.63	10.08

Sources: Secondary data

INTERPRETATION:

The above table shows that the inventory turnover ratio from 2016-21. The ratio shows Increasing trend during the study period. The ratio shows highest as 10.08 at 2020-21 and shows lowest as 3.91 at 2017-18. The ratio indicates at the year 2019-20 the company performs better of inventory and at the year 2017-18 the company performs low level of inventory.

TABLE: 3

TABLE SHOWING DEBTORS TURNOVER RATIO

Year	Sales	Average Debtors	Ratio
2016-17	322.71	51.68	6.24
2017-18	272.93	45.59	5.99
2018-19	225.54	31.21	7.23
2019-20	170.24	18.51	9.20
2020-21	127.33	11.27	11.30

Sources: Secondary data

INTERPRETATION:

From the above table shows that the Debtors turnover ratio lays within its Higher limit. The ratio shows lowest as 5.99 at 2017-18 and shows highest as 11.30 at 2020-21 and there is no standard norm for Debtors turnover ratio. Debtor"s turnover ratio is increasing trend.

FINDINGS

1. The working capital turnover ratio is 2.11 in 2016-17 and decreased to 1.69 in 2017-18 and then increased to 2.16 in 2020-21 then last year decreased to1.51. This shows working capital turnover ratio is fluctuated and decrease level.

2. The inventory turnover ratio from 2016-21. The ratio shows Increasing trend during the study period. The ratio shows highest as 10.08 at 2020-21 and shows lowest as 3.91 at 2017-18. The ratio indicates at the year 2019-20 the company performs better of inventory and at the year 2016-17 the company performs low level of inventory.

3. The Debtors turnover ratio lays within its Higher limit. The ratio shows lowest as 5.99 at 2017-18 and shows highest as 11.30 at 2020-21 and there is no standard norm for Debtors turnover ratio. Debtor's turnover ratio is increasing trend.

4. The gross profit ratio. This ratio is an indicator of the firm"s ability to meet its current obligations. The lowest ratio (-6.43) was obtained during the period 2017-18 and the highest ratio (0.32) value obtained during the period 2016-17. The gross profit ratio is Decreasing trend.

5. The Net profit ratio from 2016-21. The ratio shows that (-0.51) at 2016-17 and increased to (-4.89) at 2017-18 and then it was increased to -14.89 in 2018-19 and then Decrease to -8.75 in 2020-21. So the Net profit ratio is fluctuated trend.

6. The current ratio is an indicator of the firm"s ability to meet its current obligations.

The lowest ratio (2.33) was obtained during the period 2018-2019 and the highest ratio (3.43) value obtained during the period 2017-2018. The current asset ratio is above than the decreasing level. Therefore the current ratio is considered not satisfactory.

7. The quick ratio from 2016-21. The quick ratio shows fluctuating trend throughout the study period. Even though it had decrease the quick ratios not satisfy the standard norm. The ratio shows highest as 2.57 at 2019-20 and shows lowest as 1.91 at 2018-19.

8. There is a Decreasing in current assets turnover ratio throughout the study period range between 1.45, 1.19, 1.23, 0.89 and 0.88, even though the fund contributed in the current assets turnover shows a decreasing trend.

9. The operating profit ratio shows and Decreasing tread in the financial year 2016-17 and 2020-21 are 9.05 to 4.92 whereas in the last financial years 2020-21 the operating profit ratio is 4.92.

10. The financial years the fixed asset turnover ratio is 2016-17 is 3.17 and the next year ratio is increased to 3.84 The next year of 2017-18 is 4.65 and the last two year was to 4.27 and 4.25. So the Fixed asset turnover ratio is fluctuating and decreasing trend.

11. It was clear the stock to working capital ratio for the year 2016-2017 the ratio was 0.46, the stock to working capital ratio is 0.43 to 2017-2018, the stock to working capital ratio is 0.31 to 2018-2019, the stock to working capital ratio is 0.14 to 2019-2020 and the stock to working capital ratio is 0.09 to 2020-21. The stock to working capital ratio is decreasing trend.

12. It was clear the current assets to working capital ratio for the year 2016-17 the ratio was 1.45, the next year ratio is 1.41 to 2017-18, and the next year ratio is 1.75 to2018-19, the current assets to working capital ratio is 1.54 to 2019-2020 and the last year ratio is 1.71 to 2020-21.

13. The debt equity relationship of the company during the study period. It was 2.30 in the year 2016-17 and then reached up to 2.66 again in the next year 2017-18 onwards it again increased to 4.52. It was increased from the year 2020-21 is 87.69. Hence the company is maintaining its debt position. The debt equity ratio was increasing trend.

14. The fixed assets ratio during the period 2016-17 to 2020-21. The table indicates that the company has 1.35 in the year of 2016-17 then next year decreased to 1.14 in 2017-18. The last year increased 23.19 in the year of 2020-21. The Fixed asset ratio is increasing trend.

WORKING CAPITAL

15. An overall increase of 5.99 lakhs which account for 2.24% that is the components of current assets and current liabilities 8.41 for 5.49% shows an increasing trend. This shows the firm liquidity position is quite satisfactory.

16. An overall Decrease of 44.09 lakhs which account for 6.24% that is the components of current assets and current liabilities shows an increasing trend. This shows the firm liquidity position is quite satisfactory.

17. An overall increase of 6.52 lakhs which account for 3.55% that is the components of current assets and current liabilities shows an increasing trend. This shows the firm liquidity position is quite satisfactory.

18. An overall Decrease of 45.6 lakhs which account for 24% that is the components of current assets and current liabilities shows an increasing trend. This shows the firm liquidity position is quite satisfactory.

BALANCE SHEET

19. The comparative balance sheet on 2017-2018. In the year of 2018 fixed assets are decreased for 30.76. The net worth has been decreased by Rs. -13.34. The current assets have increased to 5.99. The current liabilities has been decreased only by Rs.1.9.

20. The comparative balance sheet on 2018-2019. In the year of 2019 fixed assets are decreased for 22.55. The net worth has been decreased by Rs. 35.58. The current assets have decreased to 44.87. The current liabilities has been Increased only by Rs.11.68.

21. The comparative balance sheet on 2019-2020. In the year of 2019 fixed assets are decreased for 8.71. The net worth has been decreased by Rs. -14.22. The current assets have decreased to 6.52. The current liability has been decreased only by Rs.12.5.

22. The comparative balance sheet on 2020-2021. In the year of 2020 fixed assets are decreased for 9.9. The net worth has been decreased by Rs. -11.14. The current assets have decreased to 45.6. The current liability has been decreased only by Rs. 5.1.

SUGGESTIONS

1. The firms have low current ratio so it should increase its current ratio where it can meet its short term obligation smoothly.

2. Liquidity ratio of the firm is not better liquidity position in over the 5 years. So I suggested that the firm maintain proper liquid funds like cash and bank balance.

3. The firm high inventory so I suggested that the firm must reduce the stock and increase sales.

4. The direct material cost of the firm is very high so it's my Suggest to the firm that to decrease the direct material cost by purchasing raw material from the other suppliers.

5. The firms should have proper check on the manufacturing process of the plant.

6. Each and every year"s inventory level should be flexible for the stock level.

7. The company should control fluctuations in cash and bank balances as it impacts the current ratio of the company.

CONCLUSION

The project entitled "A Study on Ratio analysis of Sri Saravana TVS." was undertaken with the objective of Ratio Analysis and to examine profitability performance of the company. From the study Gross Profit and Net profit position was good.

This project of Ratio Analysis in the production concern is not merely a work of the project. But a brief knowledge and experience of that how to analyze the Ratio Analysis of the firm. The study undertaken has brought in to the light of the following conclusions. According to this project I came to know that from the analysis of financial statements it is clear that Sri Saravana TVS. They have been incurring loss during the period of study. So the firm should focus on getting of profits in the coming years by taking care internal as well as external factors. And with regard to resources, the firm is take utilization of the assets properly. And also the firm has a maintained high inventory. The liquidity position should be increase in the company. Long term solvency position of company was satisfactory. The Overall Ratio Analysis of Sri Saravana TVS was good.

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