

A Study on Evaluation of Financial Performance Using Ratio Analysis of Murudeshwar Tile Pvt. Ltd Uttar Kannada District

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Abstract

The main objective of this paper is to analyse the overall financial position of the Murudeshwar tile industries using ratio analysis. It shows whether the firm is improving or worsening in past years. Ratio analysis provides a basis for both intra-firm as well as inter-firm comparisons. The pictorial representations are used for better understanding. Ratios are useful tool for various stakeholders like management, financiers, shareholders and creditors etc. Various types of ratios include liquidity ratios, profitability ratios, solvency ratios are analyzed in this study. This paper tells that not only about the financial position of the firm but also helps to identify the problems and offer suggestions to improve its performance.

Keywords: Financial Analysis, Ratio Analysis, Stability and Profitability

1. INTRODUCTION

Ratio analysis is the process of determining and interpreting the various aspects of financial statements. Financial statements are generally insufficient to provide information to investors on their own, the numbers contained in those documents need to be put into context so that investors can better understand different aspects of the company's operations.

Ratio analysis is one of the methods an investor can use to gain that understanding. Ratio analysis is a foundation for evaluating and pricing credit risk and for doing fundamental company valuation. Ratio analysis helps to evaluate the performance of the firm in terms of profitability, efficiency and risk. Financial ratios allow big and small companies to evaluate and improve their financial position.

A financial ratio, or accounting ratio, is derived from a company's financial statements and is a calculation showing the relative magnitude of selected numerical values taken from those financial statements. Financial ratios may be used internally by managers within a firm, by current and potential shareholders and creditors of a firm, and other audiences interested in understanding the strengths and weaknesses of a company, especially compared to the company over time or compared to other companies.

2. REVIEW OF LITERATURE

The financial durability of the bank was measured and data were presented on the long –term financial strength, debt to equity ratio, fixed assets to net worth ratio, the short- term financial performance, and

the current ratio. It was concluded that the financial position of the bank was not sound, with liabilities exceeding equity [1].

In the authors analyzed the profitability of ten selected commercial banks in India. The researcher suggested that the position of operating cost can be improve with the introduction of high level technology as well as by improving the per employee productivity.(2)

OBJECTIVES OF THE STUDY

- To study the financial performance of the Murudeshwar Tile pvt Ltd using ratio analysis.
- To identify the profitability and liquidity position of Murudeshwar tile industries
- To analyze the financial strengths and weaknesses of the Murudeshwar tile industries

3. DATA ANALYSIS AND INTERPRETATION

A) CURRENT RATIO

The current ratio compares current assets to current liabilities to determine how well a company can meet all financial obligations due within a year.

Current Ratio = Current Assets / Current Liabilities.

Table -1

Current Ratio for five years of Murudeshwar Tile Pvt. Ltd.

Year	Ratio
2019-2020	3.17
2020-2021	4.41
2021-2022	4.07
2022-2023	3.93
2023-2024	3.19

The above table shows the current Ratio which indicates the Short term Solvency of the industries. In tile industries current Ratio was above the norms of 2:1 in all the five years which reveals that the industry's ability to pay bill is stronger and also its short term solvency that means the industries has sufficient assets to meet its current liabilities.

B) QUICK RATIO

The present proportion is by and large used to assess an endeavour's general fleeting dissolvability or liquidity position. The present proportion does not consider the cosmetics or creation of current resources. For instance, a rupee of money or account holder is viewed as more promptly accessible to meet commitments than a rupee of stock. The brisk proportion is intended to beat this issue by relating the most fluid resources for current liabilities. Money, attractive securities or transient ventures, receivables and paid ahead of time are incorporated inside the significance of most fluid resources; stock is prohibited.

Quick Ratio = Quick Assets / Quick Liabilities.

Table-2

Quick Ratio for five years of Murudeshwar Tile pvt Ltd

Year	Ratio
2019-2020	0.94
2020-2021	1.28

2021-2022	0.97
2022-2023	1.41
2023-2024	0.73

The ideal value of quick ratio is 1:1. From the Table.2, it is observed that the ratio is 1.28 for the years 2020-21 and 1.41 in 2022-23 it shows that the ratio is higher than ideal value. It means that the industries have enough quick assets to pay off its quick or current liabilities. In 3 years quick ratio has below the normal standard.

C) Gross Profit Ratio

The first profitability ratio in relation to sales is the gross profit margin.

It is figured by isolating the gross benefit by deals. Gross Profit Ratio demonstrates the relationship between gross benefit and net deals. This proportion demonstrates the extent to which the offering cost of products per unit may decrease without bringing about misfortunes from operations to the firm. It likewise helps in discovering whether the general rate of imprints upon on the merchandise is kept up. There is no standard for judging the Gross Profit Ratio. Thusly, the assessment of business on its premise involves judgment. In any case, the Gross Profit ought to be sufficient to cover working costs and to accommodate settled charges, profit and structures up of stores. It is ascertained as takes after,

$$\text{Gross profit Ratio} = \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Net sales}}$$

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

Table No -3
Gross Profit Ratio for Five years of Murdeshwar Tile Pvt. Ltd.

Year	Ratio
2019-2020	40.13
2020-2021	37.14
2021-2022	38.15
2022-2023	30.08
2023-2024	26.40

The above table shows gross profit ratio of the industries, which shows the decreasing trend from 2019 - 2020 to 2023 -2024 In 2019 – 2020 proportion was 40.13% however in 2020 – 2021 it was diminishing 37.14% in 2021 – 2022 expanding 38.15, yet 2022 – 2023and 2023 – 2024 it is diminished 26.40%. This is bad sign for the manufacturing plant.

D) Net Profit Ratio

This ratio shows the relationship between net sales and net profit and it is expressed in percentage. This ratio helps in determining the efficiency of the firm to carry on its business. An increase in the ratio over the previous period indicates improvement in the operational efficiency of the firm. The ratio is thus as effective measure to check the profitability of business. It is calculated as below

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

Table No- 4
Net profit Ratio for five years of Murudeshwar Tile Pvt Ltd

Year	Ratio
2019-2020	1.13
2020-2021	1.01
2021-2022	1.08
2022-2023	0.98
2023-2024	0.81

The above table shows Net profit ratio of the industries, which shows the decreasing trend from 2019 - 2020 to 2023 -2024 In 2019 – 2020 proportion was 1.13% however in 2020 – 2021 it was diminishing 1.01% in 2021 – 2022 it was 1.08, yet 2022 – 2023 and 2023 – 2024 it is diminished 0.81%. This is bad sign for the manufacturing plant.

FINDINGS

From the study it is found that, the Current Ratio and Quick Ratio is in a fluctuating trend. In the year 2019-2020, Murudeshwar tile industries profitability position was good but next year it again came down. Net Profit ratio is less than the ideal value in all the years. This indicates that the profitability position of the industries is not good. Current ratio is in a fluctuating trend, it shows that the industries liquidity position was good in particular years. Quick ratio is fluctuating every year. Quick ratio has lesser than its ideal value in all years shows that the Murudeshwar tile industries has insufficient quick assets in hands to pay off its liabilities.

SUGGESTIONS

- The Murudeshwar tile industries must take some necessary steps to improve its cash position because the cash ratio is not good it is fluctuating.
- The Murudeshwar tile industries should try its best to increase its profitability position because Gross profit and Net profit ratios are not good.
- The liquidity position of the Murudeshwar tile industries is not satisfactory because the current ratio is fluctuating and liquid assets to total assets ratio is in a decreasing trend. This indicates that the Murudeshwar tile industries should try to improve its liquidity position to meet its short-term obligations.

CONCLUSION

The study was conducted in, Murudeshwar Tile Pvt. Ltd. to find out the financial performance of the Murudeshwar tile industries using ratio analysis. After analyzing the Murudeshwar tile industries five years financial reports it is concluded that the overall financial performance of the industries is not good. Based on the findings it is clear that the Murudeshwar tile industries profitability position is not good. Murudeshwar tile industries have to take some necessary actions to improve its cash position and profitability. However, the Murudeshwar tile industries utilizing and managing its money in a proper way. This paper was very useful to analyze the financial performance of the Murudeshwar tile industries using its financial statements. The results indicate that the financial performance has been improving every year but the Murudeshwar tile industries have to put some more effort to make it more effective.

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