

# Effective Use of Ratio Analysis by Micro Business Units of Rajasthan

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## Abstract

Micro business units need to analyse their current liability, profitability, liquidity and turnover so that they can manage their business. For that reason, it is important to do the ratio analysis, particularly related to the liquidity, profitability, and turnover but it is not widely used by micro business units. They consider it as extra workload and paper work that is suitable for big enterprises. An effort has been made through this research work to assess the level of usage made by small business unit related to ratio analysis. It has been researched objectively and opinion of 60 micro business units from Rajasthan state have been taken into consideration. Research has shown that all the three ratios are being used significantly though their usage can be enhanced.

**Keywords:** liquidity ratios, profitability ratios, turnover ratios, micro units

## Introduction

Liquidity ratios like current ratio, quick ratio, and cash ratio are really helpful to assess the short-term financial strength of the business. It simply helps the creditors to assess the repayment capacity of the business firm. It also indicates the adequacy of working capital.

Profitability is one of the key factors. Every business house works for earning profit and tries to keep it on a regular basis so that there may not be any crisis. For that purpose, they resort to the profitability ratio analysis, under which gross profit ratio, net profit ratio, operating profit ratio and return on capital employed are quite popularly used. These ratios are useful for understanding the overall profitability and its pattern. Besides that, it also helps the investors to assess the return on investment that they have earned and that is likely to be earned in the near future. Efficiency of the management is indicated through these profitability ratios.

The activity or the turnover ratios are quite common to gauge the operational efficiency of the business enterprise. The inventory turnover ratio, debtor turnover ratio, creditors turnover ratio, total asset turnover ratio and working capital turnover ratio are popularly used to assess the operational efficiency of the business. Besides that, it measures the speed of asset utilization in the business. It helps in maintaining the optimum inventory and receivables so that the operations can be performed in a hassle-free manner.

Thomas III J., and Evanson R. V. (1987) Ratio analysis was done related to the pharmacy-based retail stores. They have not maintained the books of accounts properly and have not used the ratio analysis to the desired level and that has impacted their operations and decision making considerably. [1]

Voulgaris F., Doumpos M., and Zopounidis C. (2000) Analysis of the performance of any business unit is not just required to be done on a single or few parameters. Rather it has to be done on multiple aspects so that the whole picture can be based on absolute facts and nothing remains untouched thereby decision can be made more judiciously and the balanced one. [2]

Hassan M. (2018) Micro finance units use ratio analysis to a large extent. They do not use the general ratios; rather they use industry-specific ratios of different types to assess and evaluate the performance of a business organization. [3]

Rudzioniene K., Molotkeviciute A. and Klimaitiene R. (2022) Ratio analysis provides us the insights of business, which are sometimes not clearly expressed by the financial statements. It is a deep introspection into the financial statements and deciphering the complex situation in the most understandable way and explaining it in simple numbers, which are helpful in decision making. [4]

Goswami S., and Mehta A. (2024) Liquidity and profitability are the two major issues that poses severe problem for the rising entrepreneurs, especially at the initial stages. Great care has to be taken to maintain the workflow and the cash flow so that the liquidity can be maintained and the business can be run profitably. For that purpose, ratio analysis has to be done at different time intervals by the entrepreneur to keep a regular check on the business. They must not let it go in the wrong direction and take the corrective action instantly. [5]

## Objectives

1. To study the use of liquidity ratios by micro business units of Rajasthan.
2. To study the use of profitability ratios by micro business units of Rajasthan.
3. To study the use of turnover ratios by micro business units of Rajasthan.

## Hypotheses

H1: Micro business units of Rajasthan do not significantly use liquidity ratios in financial decision making.

H1: Micro business units of Rajasthan do not significantly use profitability ratios in financial decision making.

H1: Micro business units of Rajasthan do not significantly use turnover ratios in operational decision making.

H4: There is no significant difference in the use of liquidity, profitability and turnover ratios among micro business units of Rajasthan.

## Research Sample

The primary data was collected for the purpose of this research work in which responses related to the usage of different ratios have been collected from 60 micro business units and representatives. These units were those which have been running in Rajasthan from the past 3 years or more. 5-Point Likert Scale was used where 1 point means very low usage and 5 point means very high usage.

## Research Analysis

Responses collected from 60 micro business units' representatives have shown that liquidity ratios are used 68.40% (3.42/5). As per T test the t value 5.63 is more than table value that means micro business units of Rajasthan significantly use liquidity ratios in financial decision making. Hence first hypothesis is rejected.

**Table 1: Significant use of liquidity ratios**

Variable	N	Mean	SD	t value	Result
Liquidity Ratio Usage	60	3.42	0.55	5.63	Significant

Responses collected from 60 micro business units’ representatives have shown that profitability ratios are used 73% (3.65/5). As per T test the t value 7.75 is more than table value that means micro business units of Rajasthan significantly use profitability ratios in financial decision making. Hence second hypothesis is rejected.

**Table 2: Significant use of profitability ratios**

Variable	N	Mean	SD	t value	Result
Profitability Ratio Usage	60	3.65	0.60	7.75	Significant

Responses collected from 60 micro business units’ representatives have shown that turnover ratios are used 66.40% (3.32/5). As per T test the t value 4.64 is more than table value that means micro business units of Rajasthan significantly use turnover ratios in financial decision making. Hence third hypothesis is rejected.

**Table 3: Significant use of turnover ratios**

Variable	N	Mean	SD	t value	Result
Turnover Ratio Usage	60	3.32	0.52	4.64	Significant

Here calculated value of F is less than critical value 3.05 which means there is no significant difference in the level of usage of liquidity, profitability and turnover ratios among micro business units. Hence the fourth hypothesis is accepted.

**Table 4: Significant difference in the use of liquidity, profitability and turnover ratios**

Source of Variation	SS	df	MS	F
Between Groups	2.14	2	1.07	2.45
Within Groups	76.50	177	0.43	
Total	78.64	179		

**Conclusion**

It has been observed that ratio analysis is used significantly by the small business units of Rajasthan. They are utilising it for their financial decision making but still there is lot of scope for further usage so awareness related to advance software is also required to be provided to these units. They are mostly using it for profitability which is little higher than the liquidity and turnover ratio analysis. Though the difference among level of usage of these three ratio analysis is very minor and insignificant, small business units must develop different applications to use the ratios more often and in more meaningful manner to take better and well informed decisions. For that purpose, incorporation of the technology and artificial intelligence is much required.

## References

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