A Study on Financial Performance Analysis of Aravind-A-Traders

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Abstract: **The main purpose of this study is to work out, forecast and evaluate the simplest of economic conditions and company's performance within the future. The other purpose of this study is to analyze the financial performance and then give information for financial managers to make through decisions about their business. The budget applies tools, analytical techniques and required methods for business analysis. It is a diagnostic tool for evaluating financing activities, investment activities and operational activities also as an assessment tool for management decisions and other business decisions. The analysis of financial statements, respectively the analysis of the financial reports is used by managers, shareholders, investors and all other interested parties regarding the company's state. Managers use financial reports to ascertain during which the corporate stands then provide information to shareholders, to ascertain how reasonable are the investments made within the company. To potential investors, the analysis of the financial statements of the corporate is extremely important, because, first they need to understand the particular state of the company then decide whether to invest or not.**

Keywords: **Financial performance analysis, Financial reports, Decision-making, Profitability, Liquidity.**

1. Introduction

Financial analysis is the process of examining a company's performance within the context of its industry and economic environment so as to reach a choice to arrive or recommendation. Often, the choices and proposals addressed by financial analysts pertain to providing capital to companies - specifically, whether to take a position within the company's debt or equity securities and at what price. An investor in debt securities cares about the company's ability to pay interest and to repay the principal lent. An investor in equity securities is an owner with a residual within the company and is cares about the company's ability to pay dividends and therefore the likelihood that its share price will increase. Overall, a central focus of monetary analysis is evaluating the company's ability to earn a return on its capital that a minimum of adequate to the value least of that capital, to profitably grow its operations, and to generate enough cash to meet obligations and pursue opportunities.

Fundamental financial analysis starts with the information found in a company's financial reports. These financial reports include audited financial statements, additional disclosures required by regulatory authorities, and any accompanying (unaudited) commentary by management. Basic financial statement analysis—as presented during this reading—provides a foundation that permits to analyst to raised understand other information gathered from research beyond the financial reports.

A. Objective of the Study

Primary Objective:

To find out the financial stability and soundness of the business enterprise

Secondary Objectives:

- To estimate and evaluate the fixed assets of the concern.
- To estimate and determine the possibilities of future growth of business.
- To assess and evaluate the earning capacity if the business.

2. Review of Literature

According to (Gill, 1999), monetary statements are the principal means that of reportage monetary information for internal and external users. In reality, each public and personal listed must comply with strict requirements for preparing financial statements. Generally Accepted Accounting Principles (GAAP) is the "ground rules" for that financial statements and reporting as well. This standard provides a framework to show what information should be included in the financial statements and how should be presented. They are may designed so that financial statement information about businesses it is reliable and comparable. In order to have a functional understanding of finance, it is essential to thoroughly understand balance Sheet, income statement and cash flow (Nuhu, 2014; Sultan, 2014 & Maggiano, 2008).

Alam and Hossain (2019) found that the capital structure management of Khulna Shipyard Ltd. (KSL) was in a poor shape because that the interest coverage ratio was a negative, as there is the possibility of nonpayment of an interest may charges to be creditors. 4-Hull (2020) found that the industry debt to equity norms are significantly more negative than returns for the firms moving closer to these norms. 5-Nissim and Penman (2019) stated that the financial statement analysis distinguishes leverage in a financing activity from leverage in

the operations. 6-Gangadevi (2008) studied the leverage and financing decision for that are selected 30 electronic companies for the five years period ranging from1998 to 2003. In his study he may found that the company has a high operating leverage should have kept low financial leverage and vice-versa. So, it is desirable that a company has low operating leverage and a high financial leverage. 7-Akbas & Caliskan (2011) have tried to shed light on that empirical relationship between efficiency of working capital management and corporate profitability of selected companies in the Istanbul Stock Exchange for the period of 2005-2009. The companies should focus on working capital management in order to increase their profitability by seriously and professionally considering the issues on may their cash conversion cycle which was derived from the number of days' accounts payable, the number of day's accounts receivable and the number of days of inventories. The findings suggested that it may be possible to increase profitability by improving efficiency of working capital. That the solvency position of both companies is not sound and credit creation capacity is good in both the companies in aggregate.

Efendioglu. M (2010) explores the impact of strategic planning on financial performance of major industrial enterprises of Turkey. This paper is one of the few studies to examine the strategic planning process in a sample of firms from a transitional economy. It can be considered a longitudinal study because it examines a set of institutions to identify changes in their performance overtime, as they incorporate the use of strategic tools in a dynamic competitive environment. The research sample was drawn from the Turkish chamber of industry database which listed the top 500 manufacturing firms in 2020. The findings of this study provide a contribution to our understanding of the nature and practice of strategic planning in Turkish companies and possibilities of correlations between their efforts and performance.

Hassan Mobeen Alam, Ali Raza and Muhammad Akram (2019) examine financial performance of leasing companies since 2008 to 2010. Ratio analysis technique has been used to evaluate financial performance of leasing companies. All data has been retrieved from securities & Exchange commission of Pakistan,

Dhulia Hirenkumar Kantilla (2012) conducted a study to analyze the financial position of selected pharmaceutical companies in India. The study was 57 based on the secondary data which were obtained from the annual reports of the selected companies and related journals. After the data collection processed and analyzed according to the outline hypothesis ('F' test) formulated and proved with the use of statistical tools to arrive at certain conclusion. He concluded his study that the gross profit ratio of different companies in different years is not same.

3. Research Methodology

A. Research

Research may be a systematic inquiry to explain, predict, and control the observed phenomenon. Research involves inductive and deductive methods.

B. Research Methodology

A research methodology or involves specific techniques that are adopted in research process to gather, assemble and evaluate data. It defines those tools that are wont to gather relevant information during specific research study. Surveys, questionnaires and interviews are the common tools of research.

C. Research Design

Research design is that the framework of research methods and techniques chosen by a researcher. The design allows researchers to hone in on research methods that are suitable for the topic matter and found out their studies up for fulfillment.

Descriptive Research Design is used Methods of data collection.

Primary data collection:

Primary data is data that collected by a researcher from first-hand sources, using methods like surveys, interviews, or experiments. It is collected with the scientific research in mind, directly from primary sources.

Secondary data collection:

Secondary data is data gathered from studies, surveys, or experiments that are travel by people or for other research. Secondary data is used.

4. Tools

A. Ratio Analysis

Ratio analysis is that the process of examining and comparing financial information by calculating meaningful budget figure percentages rather than comparing line items from each budget.

- Working Capital Turnover Ratio
- Gross Profit Ratio
- Net Profit Ratio
- Current Ratio
- Current Asset Turnover Ratio
- Fixed Asset Turnover Ratio
- Stock to Working Capital Ratio
- Current Asset to Working Capital Ratio
- Absolute Liquid Ratio
- Ratio of working capital to total assets
- Quick ratio

B. Trend Analysis

Trend analysis is the widespread practice of collecting information and attempting to spot a pattern. In some fields of study, the term "trend analysis" has more formally defined meanings. Although trend analysis is often used to predict future events, it could be used to estimate uncertain events in the past, such as how many ancient kings probably ruled between two dates, based on data such as the average years which other known kings reigned.

C. Analysis and Interpretation

1) Working Capital Turnover Ratio

The working capital turnover ratio measures how well a company is utilizing its working capital to support a given level

of sales. Working capital is current assets minus current liabilities. A high turnover ratio indicates that management is being extremely efficient in using a firm's short-term assets and liabilities to support sales. Conversely, a low ratio indicates that a business is investing in too many accounts receivable and inventory assets to support its sales, which could eventually lead to an excessive amount of bad debts and obsolete inventory write-offs. Also referred to as net sales to working capital, work capital turnover shows the relationship between the funds used to finance a company's operations and the revenues a company generates as a result.

Working Capital Turnover Ratio = Sales / Working Capital

Table 1
Working Capital Turnover Ratio

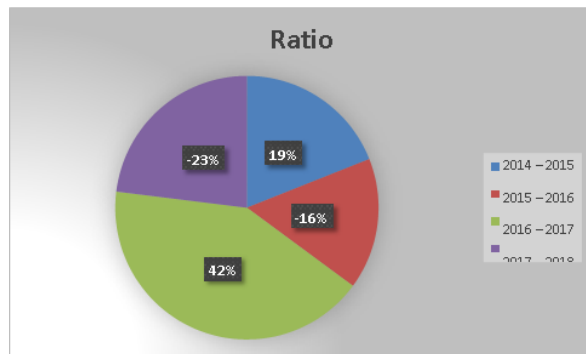| Year	Sales (Rs.)	Working Capital (Rs.)	Ratio
2014 – 2015	211578	35920	5.89
2015 – 2016	234768	-46885	-5
2016 – 2017	1212226	93360	12.98
2017 – 2018	334391	-46765	-7.15

Fig. 1. Working Capital Turnover Ratio (Source: Secondary Data)

Interpretation:

The above table shows the working capital turnover ratio for the period of four years. It was 5.89 in the year of 2014 – 2015 and it is decreased in the next year to -5 during the year 2015–2016 and then slowly the working capital turnover increased to 12.98 in the year of 2016 – 2017. A high turnover ratio shows management is being very efficient in using a company short term assets and liabilities for supporting sales. In 2017 – 2018 the turnover ratio decreased to -7.5 and the decrease in the turnover ratio indicates inefficient utilization of working capital during the period.

2) Gross Profit Ratio

Gross Profit Ratio is also known as Gross Profit Margin ratio, it establishes a relationship between gross profit earned and net revenue generated from operations (net sales). Gross profit ratio is a profitability ratio which is expressed as a percentage hence it is multiplied by 100. Net sales consider both Cash and Credit Sales; on the other hand, gross profit is calculated as Net Sales minus COGS. Gross profit ratio helps to ascertain optimum selling prices and improve the efficiency of trading activities. It also helps find out the lowest selling price of goods per unit to an extent that the business will not suffer a loss.

Gross Profit Ratio = Gross Profit / Net Sales

Table 2
Gross Profit Ratio

Years	Gross Profit (Rs.)	Net sales (Rs.)	Ratio
2014 - 2015	1419164	195375	7.26
2015 - 2016	238582	220637	1.08
2016 - 2017	1466711	1201671	1.22
2017 - 2018	1533150	311201	4.92

Fig. 2. Gross profit ratio (Source: Secondary Data)

Interpretation:

The above table shows the gross profit ratio for the period of four years. The highest value is 7.26 during the year of 2014 – 2015 and lowest value is 1.08 during the year of 2015 – 2016. The profit ratio is an indicator of a company's financial health. The lower margin indicates a company is under – pricing and the higher margin indicates that the company can make profit on sales.

3) Net Profit Ratio

The net profit percentage is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized. As such, it is one of the best measures of the overall results of a firm, especially when combined with an evaluation of how well it is using its working capital. The measure is commonly reported on a trend line, to judge performance over time. It is also used to compare the results of a business with its competitors.Net profit is not an indicator of cash flows, since net profit incorporates a number of non-cash expenses, such as accrued expenses, amortization, and depreciation.

Net Profit Ratio = Net Profit / Net Sale

Table 3
Net Profit Ratio

Years	Net Profit (Rs.)	Net Sales (Rs.)	Ratio
2014 – 2015	208167	195375	1.06
2015 – 2016	231044	220637	1.04
2016 – 2017	239796	1201671	0.19
2017 – 2018	1529173	311201	4.9

Interpretation:

The above table shows the net profit ratio for the period of four years. It was 1.06 in the year of 2014 – 2015 and then in the year of 2015 – 2016 it is 1.04 and then in the year of 2017 – 2018 value of ratio is 4.9.Net profit ratio is useful to measure the overall profitability of the business. A high ratio indicates

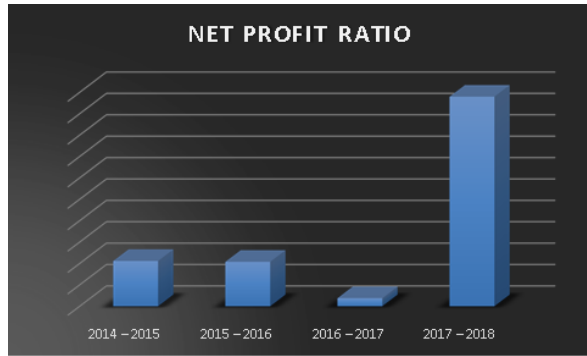the efficient management of the affairs of business.

Fig. 3. Net profit ratio (Source: Secondary Data)

4) Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables. The current ratio is sometimes referred to as the "working capital" ratio and helps investors understand more about a company's ability to cover its short-term debt with its current assets. The current ratio is a financial ratio that shows the proportion of a company's current assets to its current liabilities. The current ratio is probably the best known and most often used of the liquidity ratios, which analysts and investors use to evaluate the firm's ability to pay its short-term debt obligations, such as accounts payable.

Current Ratio = Current Asset / Current Liabilities

Table 4
Current Ratio

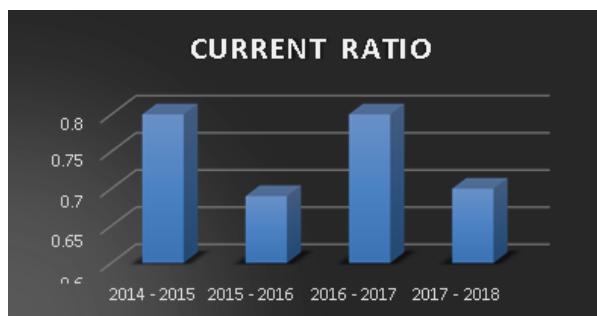| Years	Current Assets (Rs.)	Current Liabilities (Rs.)	Ratio
2014 - 2015	153204	179701	0.8
2015 - 2016	108830	155715	0.69
2016 - 2017	113262	138217	0.8
2017 - 2018	164378	211143	0.7

Fig. 4. Current ratio (Source: Secondary Data)

Interpretation:

The table shows the current ratio for the period of four years. It was 0.8 during the year 2014 – 2015 and then 0.69 in the year of 2015 – 2016 and in the last year it is 0.7 during the year of 2017–2018.When the current ratio is high in the company then the company able to pay off its current liabilities using current assets.

5) Current Asset Turnover Ratio

Current Asset Turnover Ratio is an activity ratio measuring firm's ability of generating sales through its current assets (cash, inventory, accounts receivable, etc.). It can be calculated by dividing the firm's net sales by its average current assets, and it shows the number of turns made by the current assets of the enterprise. Current Assets Turnover Ratio indicates that the current assets are turned over in the form of sales more number of times. A high current assets turnover ratio indicates the capability of the organization to achieve maximum sales with the minimum investment in current assets. Higher the current ratio better will be the situation.

Current Asset Turnover Ratio = Sales / Current Asset

Table 5
Current Asset Turnover Ratio

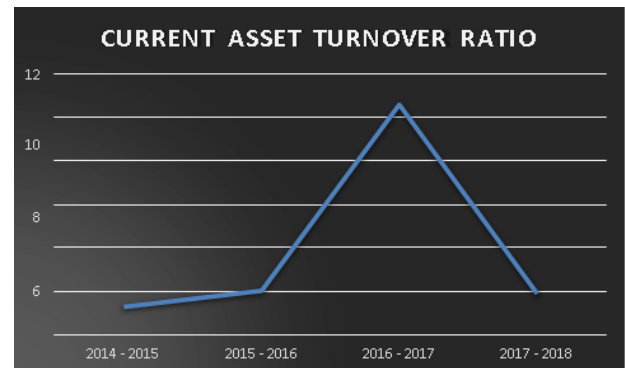| Years	Sales (Rs.)	Current Assets (Rs.)	Ratio
2014 - 2015	195375	153204	1.27
2015 - 2016	220637	108830	2.02
2016 - 2017	1201671	113262	10.6
2017 - 2018	311201	164378	1.89

Fig. 5. Current asset turnover ratio (Source: Secondary Data)

Interpretation:

The above table shows the current asset turnover ratio for the period of four years. It was 1.27 in the year of 2014 – 2015 and then in the year of 2015 – 2016 the ratio value is 2.02 and in the next year the value of ratio increased by 10.6 in the year of 2016 – 2017.A high current asset turnover ratio indicates the capacity of the organization to achieve maximum sales with minimum investment in current assets. In the last year the value decreased by 1.89.

6) Fixed Asset Turnover Ratio

Fixed Asset Turnover Ratio is an efficiency ratio that indicates how well or efficiently a business uses fixed assets to generate sales. This ratio divides net sales by net fixed assets, calculated over an annual period. The net fixed assets include the amount of property, plant, and equipment, less the accumulated depreciation. Generally, a higher fixed asset ratio implies more effective utilization of investments in fixed assets to generate revenue. This ratio is often analyzed alongside leverage and profitability ratios. The fixed asset balance is used as a net of accumulated depreciation. A higher fixed asset turnover ratio indicates that a company has effectively used investments in fixed assets to generate sales.

Fixed Asset Turnover Ratio = Total Sales / Total Net Fixed Assets

Table 6
Fixed Asset Turnover Ratio

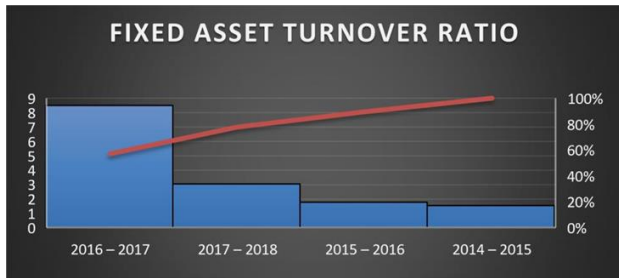| Years	Total Sales (Rs.)	Total Net fixed Assets (Rs.)	Ratio
2014 – 2015	211578	137672	1.53
2015 – 2016	234768	131681	1.78
2016 – 2017	1212226	142107	8.5
2017 – 2018	334391	109852	3.04

Fig. 6. Fixed asset turnover ratio (Source: Secondary Data)

Interpretation:

The above table shows the fixed asset turnover ratio for the period of four years. It was 1.53 during the year of 2014 – 2015 and then in the year 2015 – 2016 the ratio value is 1.78 and in the year of 2017 – 2018 the value of ratio is 8.5. A higher ratio implies that management is using its fixed assets more effectively. In the last year the ratio value is 3.04 during the year 2017 – 2018.

7) Current Asset to Working Capital Ratio

Working Capital to Current Assets Ratio is a financial sustainability ratio indicating the ability of a company to finance its current assets with its working capital. It can be computed by dividing the company's working capital by its current assets. Normative for the working capital to current assets ratio is the value of 0.1 and higher. A high value indicates a good level of financial sustainability and ability to actively operate even in the absence of access to the short-term loan capital and external source of finance. And vice versa, low ratio values witness a significant financial dependence from creditors' funds. With the possible deterioration of the market situation, the company will not be able to continue working. A negative value of this ratio means that the equity and long-term sources of finance are fully directed towards financing the noncurrent assets.

Current Asset to Working Capital Ratio =
Current Asset / Working Capital

Table 7
Current Asset to Working Capital Ratio

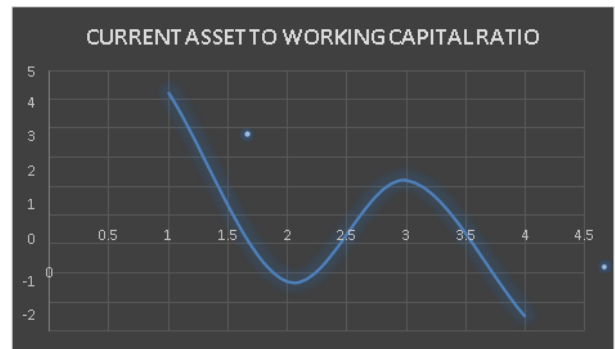| Years	Current Asset (Rs.)	Working Capital (Rs.)	Ratio
2014 - 2015	153204	35920	4.26
2015 - 2016	108830	-47277	-2.3
2016 - 2017	113262	93360	1.21
2017 - 2018	164378	-46765	-3.51

Fig. 7. Current Asset to Working Capital Ratio (Source: Secondary Data)

Interpretation:

The table 7 shows the current asset to working capital ratio for the period of four years. It was 4.26 during the year 2014 – 2015. A high value indicates a good level of financial sustainability and ability to actively operate even in the absence of access to the short term loan capital and external source of finance. Then in the next years the ratio value decreased to -2.3 in the year of 2015 – 2016. In the upcoming years the values are decreased in the 2017 – 2018.

8) Stock to Working Capital Ratio

The term inventory to working capital ratio refers to a calculation that allows an investor- analyst to understand the ability of a company to raise additional cash from working capital. This metric is used in conjunction with other metrics like inventory turnover.

Stock to Working Capital Ratio = Inventory / Working Capital

Table 8
Stock to Working Capital Ratio

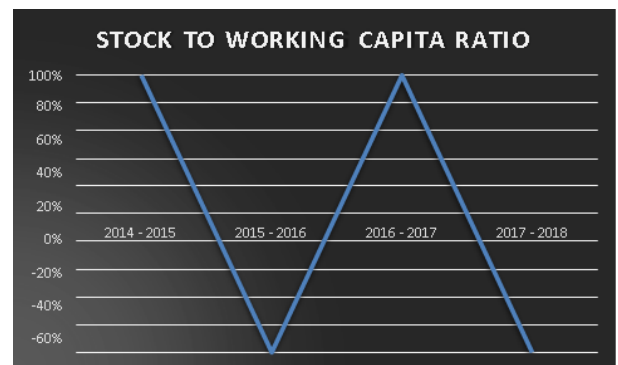| Years	Inventory (Rs.)	Working Capital (Rs.)	Ratio
2014 – 2015	107884	35920	3
2015 – 2016	68849	-47277	-1.45
2016 – 2017	357201	93360	3.82
2017 – 2018	243210	-46765	-5.2

Fig. 8. Stock to Working Capital Ratio (Source: Secondary Data)

Interpretation:

The table 8 shows the stock to working capital ratio for the period of four years. It was 3 during the year 2014 – 2015 and then in the upcoming years the ratio values decreased to -1.45 during 2015 – 2016 and then slowly increased in the year of 2016 - 2017 and the value is 3.82.

9) Absolute Liquid Ratio

Absolute liquid ratio extends the logic further and eliminates accounts receivable (sundry debtors and bills receivables) also. Though receivables are more liquid as comparable to inventory but still there may be doubts considering their time and amount of realization. Therefore, absolute liquidity ratio relates cash, bank and marketable securities to the current liabilities. Since absolute liquidity ratio lays down very strict and exacting standard of liquidity, therefore, acceptable norm of this ratio is 50 percent.

Absolute Liquid Ratio = Absolute Liquid Assets / Current Liabilities

Table 9
Absolute Liquid Ratio

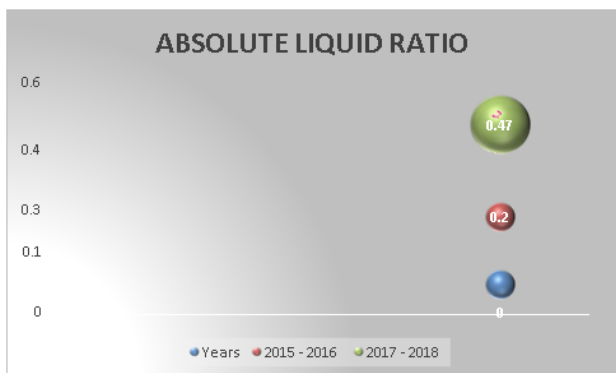| Years	Absolute Liquid Asset (Rs.)	Current Liabilities (Rs.)	Ratio
2014 – 2015	209013	837875	0.24
2015 – 2016	32335	155715	0.20
2016 – 2017	210993	852023	0.24
2017 – 2018	101100	211143	0.47

Fig. 9. Absolute Liquid Ratio (Source: Secondary Data)

Interpretation:

The above table shows the absolute liquid ratio for the period of four years. It was 0.24 in the year 2014 – 2015 and then it is decreased in the year 2015 – 2016 the value is 0.20. In the year 2016 – 2017 the value of ratio is 0.24 and then in the year 2017 – 2018 the value is 0.47 and the high liquidity ratio indicates that a business is holding too much cash that could be utilized in the other areas.

10) Ratio of Working Capital to Total Assets

The Working Capital to Total Assets ratio measures a company's ability to cover its short term financial obligations (Total Current Liabilities) by comparing its Total Current Assets to its Total Assets. This ratio can provide some insight as to the liquidity of the company, since this ratio can uncover the percentage of remaining liquid assets (with Total Current Liabilities subtracted out) compared to the company's Total Assets.

Ratio of Working Capital to Total Assets = Gross Working Capital / Total Assets

Table 10
Ratio of Working Capital to Total Assets

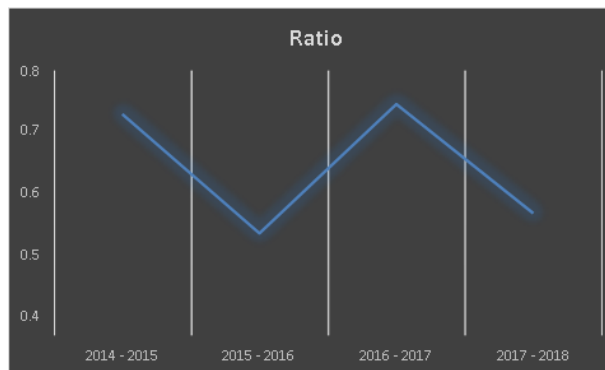| Years	Gross working capital (Rs.)	Total assets (Rs.)	Ratio
2014 – 2015	873795	1289936	0.67
2015 – 2016	108830	347503	0.31
2016 – 2017	945383	1343129	0.70
2017 – 2018	153327	404221	0.37

Fig. 10. Ratio of Working Capital to Total Assets
(Source: Secondary Data)

Interpretation:

The above table shows the ratio of working capital to total assets for the period of four years. It was 0.67 in the year 2014 – 2015 it is the highest ratio when compared to other ratio. And the lowest ratio is 0.31 in the years 2015 – 2016. The Higher working capital over total assets ratio indicates the liquidity and financial strength of the company.

11) Quick Ratio

The quick ratio is an indicator of a company's short-term liquidity position and measures a company's ability to meet its short-term obligations with its most liquid assets. Since it indicates the company's ability to instantly use its near-cash assets (assets that can be converted quickly to cash) to pay down its current liabilities, it is also called the acid test ratio.

Quick Ratio = Quick Assets / Current Liabilities

Table 11
Quick Ratio (Source: Secondary Data)

Years	Quick Asset (Rs.)	Current liabilities (Rs.)	Ratio
2014 - 2015	477493	837875	0.56
2015 - 2016	39981	155715	0.25
2016 - 2017	588182	852023	0.27
2017 - 2018	54616	211143	0.25

Interpretation:

In the above table shows the Quick Ratio for the period of four years. It was 0.56 in the year 2014-2015 it is highest ratio when compared other years. In the year 2015 – 2016 the ratio value is 0.25. When the ratio value is less than 1 it indicates that the company may not able to pay the current liabilities in short term. In the year 2016 – 2017 the value of ratio is 0.27 and then in the next year the value is decreased to 0.25 in the year 2017 – 2018.

12) Trend Analysis of Current Asset

Trend analysis is also known as Horizontal analysis is a financial statement analysis technique that shows the changes

in the amounts of corresponding financial statement items over a period of time. It is very useful tool to evaluate the trend situations.

Table 12
Trend Analysis of Current Asset (Source: Secondary Data)

Years	Amount (Rs.)	Trend (%)
2014 – 2015	153204	100
2015 – 2016	108830	71
2016 – 2017	113262	73
2017 – 2018	164378	107

Interpretation:

The above table shows that the trend analysis of current asset for the period of four years. It was 100% in the year of 2014 - 2015 and the current asset increased to 107 in the year of 2017-2018.

13) Trend Analysis of Sales

Sales trend analysis is the review of historical revenue results to detect patterns. Sales trend analysis is a useful budgeting and financial analysis method that can indicate the onset of changes in the near-term revenue growth rates of a business. It is rarely adequate to simply plot the total sales of a business on a trend line and expect to obtain any significant information from it. Most organizations sell many products to a variety of customers, and in many regions, which means that sales can be broken down into a number of sub-groups and then reviewed on a trend line.

Table 13
Trend Analysis of Sales (Source: Secondary Data)

Years	Amount (Rs.)	Trend (%)
2014 – 2015	211578	100
2015 – 2016	234768	110
2016 – 2017	1212226	572
2017 – 2018	334391	158

Interpretation:

The above table shows the trend analysis of sales for period of four years. It was 100% in the year of 2018 – 2015 and the sales trend increased to 158% in the year of 2017 – 2018.

5. Conclusion

The management of working capital plays important roles to ensure the sustainability of the company in maintaining the business with an increase performance. The improper management of working capital wills results on the inefficient asset utilization and the investment for the short term will be decrease. In addition, the company wills loss a lot of opportunities to expand the business since they will suffer short-term liquidity crisis and downgrading the company's rating.

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