A STUDY ON RATIO ANALYSIS IN HOME FIRST FINANCE COMPANY INDIA LTD AT RAJAHMUNDRY

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ABSTRACT

Financial ratio is most important tool for accounting analysis. In this paper, researcher will study on ratio analysis, its usefulness, its effectiveness with using various past published papers and articles. This study examines the financial performance of Home First Finance Company India Ltd at Rajahmundry from 2019 to 2023, focusing on key financial ratios to assess liquidity, capital structure, profitability, and asset utilization.. The company's current ratio showed a positive trend from 2019 to 2023, indicating a stronger liquidity position, but revealed potential weaknesses in 2022-2023 due to increased current liabilities. The return on equity increased significantly during the study period, attributed to effective equity measures and inventory management. The return on assets also improved, driven by increased revenue. However, in cross-company comparisons, the return on capital employed decreased from 2019 to 2023. The total asset turnover ratio improved from 2019 to 2022 but declined in 2023 due to excess loan variations. The fixed asset turnover ratio showed improvement, reflecting better revenue generation against asset balances. Overall, while the company demonstrated strong performance in several areas, recent trends indicate areas that require attention to maintain financial health.

Keywords: Liquidity ratio, Profitability ratio, financial ratio, Operational ratio, Accounting information.

1. INTRODUCTION

Financial Management is the specific area of finance dealing with the financial decision corporations make and the tools and analysis used to make the decisions and techniques. Both share the same goal of enhancing firm value by ensuring that return on capital exceeds cost of capital without taking excessive financial risks.

Capital investment decisions comprise the long-term choices about which projects receive investment, whether to finance that investment with equity or debt and when or whether to pay dividends to shareholders. Short-term corporate finance decisions are called working capital management and deal with balance of current assets and current liabilities by managing cash, inventories, and short-term borrowings and lending.

Corporate finance is closely related to managerial finance, which is slightly broader in scope, describing the financial techniques available to all forms of business enterprise, corporate or not.

2. REVIEW OF THE LITERATURE

Fraser and Ormiston (2022) highlight that financial ratios provide a standardized method for comparing companies of different sizes and industries, making it easier for investors to make informed decisions.

Brigham and Ehrhardt (2013) argue that ratio analysis aids in managerial decision-making by identifying strengths and weaknesses in a company's operations. Managers can use these insights to improve performance and strategic planning. **Ketz, et al. (1990)** show that the quick ratio is a reliable indicator of a company's short-term financial stability. **Weston and Brigham (1981)** emphasize that ratio analysis is essential for assessing a company's financial performance over time and against industry benchmarks. It helps stakeholders understand the company's financial health and operational efficiency.

3. NEED FOR THE STUDY

The study has great significance and provides benefits to various parties whom directly or indirectly interact with the company. It is beneficial to management of the company by providing crystal clear picture regarding important aspects like liquidity, leverage, activity and profitability.

The study is also beneficial to employees and offers motivation by showing how actively they are contributing for company's growth. The investors who are interested in investing in the company's shares will also get benefited by going through the study and can easily take a decision whether to invest or not to invest in the company's shares.Investigate liquidity ratios of Home First Finance Company India Pvt Ltd to ensure the availability of sufficient short-term assets to meet obligations in Rajahmundry.

Objectives:

1. To examine solvency ratios to determine its long-term financial stability and capacity to fulfill debt obligations at Home First Finance Company India Pvt Ltd.
2. To investigate liquidity ratios to ensure the availability of sufficient short-term assets to meet obligations.
3. To analyze profitability ratios to assess the efficiency of operations and determine the potential for sustainable earnings growth.

4. RESEARCH METHODOLOGY

Methodology describes the method of achieving objectives through collection of data. The data collected can be either by primary data sources of data or secondary sources of data. Every study was based on methodology, which is a way to systematically solve the problem or attain its objectives.

Data collection:

To determine the appropriate data for research mainly two kinds of data was collected namely primary data and secondary data.

Primary Data:

Primary data was not taken into the project.

Secondary Data:

The secondary data was extensively collected from various sources which have already exited or preserved i.e., company annual reports, circulars, financial statements, and some other important documents. Secondary data is vital for financial ratio analysis since we will project financial statements based on historical data. Financial statements from numerous websites are the main secondary data sources for this study.
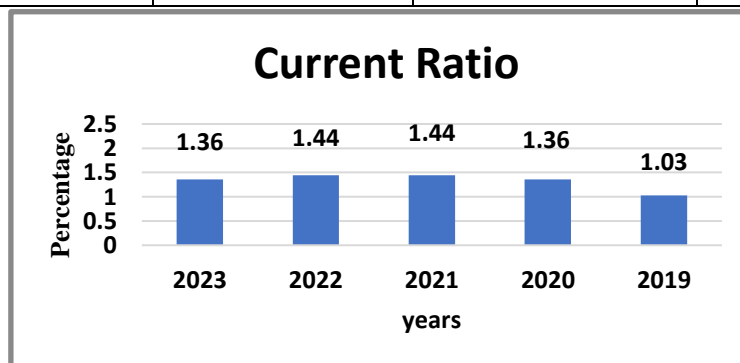
5. DATA ANALYSIS

A. Liquidity ratio

1. Current ratio

Current ratio= Current assets/Current liabilities

TABLE 5.1

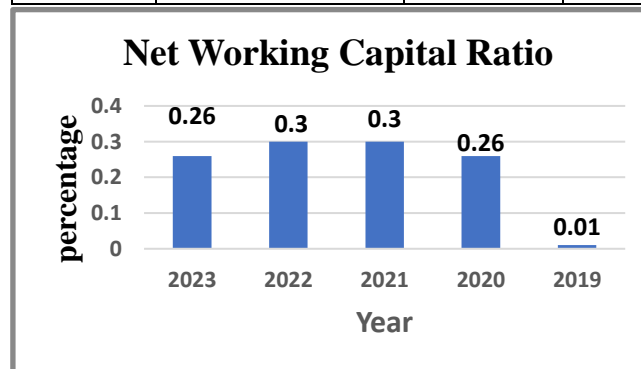| Years	Current Assets	Current liabilities	Ratio
2022-2023	66990.06	49038.32	1.36
2021-2022	50877.15	35298.82	1.44
2020-2021	44825.48	31075.80	1.44
2019-2020	34478.54	25296.13	1.36
2018-2019	35269.79	34112.31	1.03

GRAPH 5.1

Interpretation:

In the years between 2019 and 2021, the current ratio increased from 1.03 to 1.44, indicating a relatively stronger liquidity position because the company has a larger margin of current assets to cover short-term obligations. In contrast, the current ratio decreased to 1.36 in the years between 2022 and 2023, indicating a potential weakness in the company's liquidity position that may increase the risk of failing to meet short-term obligations. An increase in current liabilities and other factors contribute to the decrease in the current ratio.

2. Net working capital ratio

Net working capital ratio = (current assets – current liabilities)/Total assets

Table-5.2

Years	Networking capital	Total assets	Ratio
2022-2023	17951.74	67370.25	0.26
2021-2022	15578.68	51168.65	0.30
2020-2021	13749.60	45701.55	0.30
2019-2020	9182.41	34802.09	0.26
2018-2019	1157.48	249044.39	0.01

GRAPH 5.2

Interpretation:

The company's net working capital increased between 2019 and 2023; networking capital increased from 0.01 to 0.26; and working capital is a financial matrix that represents operating liquidity available to a business, organization, or other entity, including governmental entities, due to the increase in networking capital.
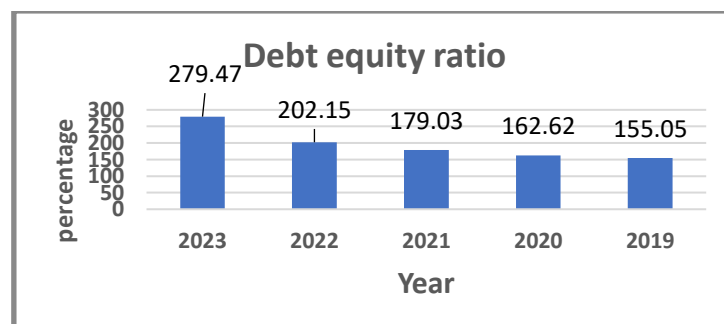
B. Leverage ratio

1. Debt equity ratio = Total liabilities/shareholders' equity

Table-5.3

Years	Total liabilities	shareholders' equity	Ratio
2022-2023	49196.86	176.03	279.47
2021-2022	35431.80	175.27	202.15
2020-2021	31296.12	174.80	179.03
2019-2020	25467.83	156.60	162.62
2018-2019	196427.24	1266.79	155.05

GRAPH 5.3

Interpretation:

The company's financial leverage significantly dropped in 2019 (150.05), but in 2023 it increased to 279.47. In the year between 2022 and 2023, the debit-to-equity ratio increased, and the total liabilities and shareholder's equities to the debit-to-equity ratio increased.
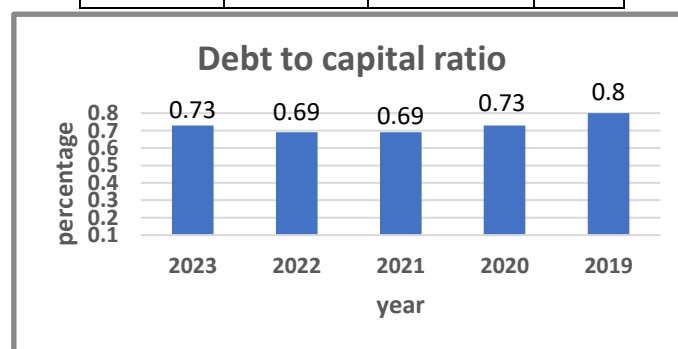
2. Debt to capital ratio = total debt/ (total equity + total debt)

Total debt=non-current liabilities+ current liabilities

Total equity = total assets – total liabilities

Table-5.4

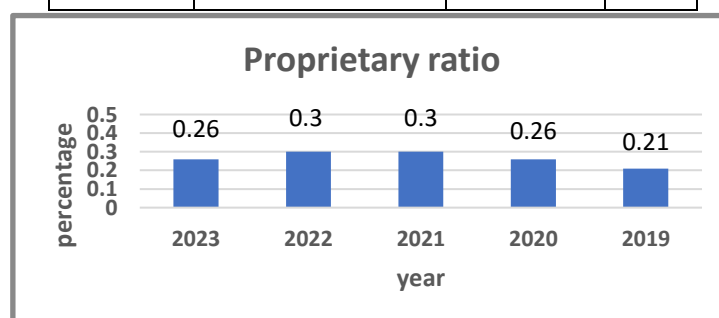| Years	Total debt	Total equity	Ratio
2022-2023	49196.86	67370.25	0.73
2021-2022	35431.8	51168.68	0.69
2020-2021	31296.12	45101.55	0.69
2019-2020	25467.83	34802.09	0.73
2018-2019	196427.94	243044.39	0.80

GRAPH 5.4

Interpretation:

It calculates how much of a company's capital is financed by debt as opposed to equity. There could be debt repayment and capital rising. A decrease in the debt-to-capital ratio from 0.80 to 0.69 implies a considerable reduction in debt relative to the total capital utilized by the organization. In 2021–2023, the debt-to-capital ratio rose from 0.69 to 0.73 as a result of debt issuance and a decline in equity for capital expenditures. The total debit increased.

3. Proprietary ratio = shareholders' funds /total assets

Table-5.5

Years	shareholders' funds	Total assets	Ratio
2022-2023	18174.39	67370.25	0.26
2021-2022	15736.88	51168.65	0.30
2020-2021	13805.43	45101.55	0.30
2019-2020	9334.26	34802.09	0.26
2018-2019	52617.15	249044.39	0.21

GRAPH 5.5

Interpretation:

Property acquisition, revaluation of property, and capital expenditures on property were the factors that caused the proprietary ratio to rise from 0.21 to 0.26 between the years of 2019 and 2022, indicating that a higher share of the company's assets is now financed through property and the shareholder's funds are increasing.

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Impact
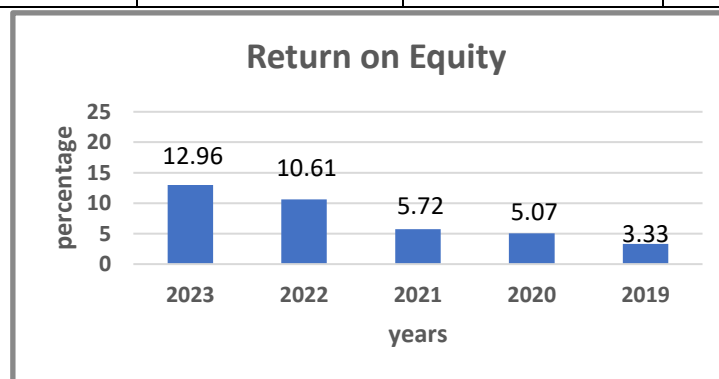Factor:
5.725

C. Profitability Ratio

1. Return on equity

ROE = Net profit after taxes / shareholders' equity

NPAT= Net profit before tax – total tax expense

Table-5.6

Years	Net profit after taxes	shareholders' equity	Ratio
2022-2023	2282.92	176.03	12.96
2021-2022	1860.98	175.27	10.61
2020-2021	1001.42	174.80	5.72
2019-2020	795.52	156.60	5.07
2018-2019	4223.84	1266.79	3.33

GRAPH 5.6

Interpretation:

Between 2019 and 2023, the return on equity ratio increased from 3.33 to 12.96. The return on equity is a measure of the profitability of a business in relation to its equity because shareholder equity can be calculated by taking all assets and all liabilities. ROE can also be calculated as a return on NAV, or assets less liabilities, and net profit is increased.
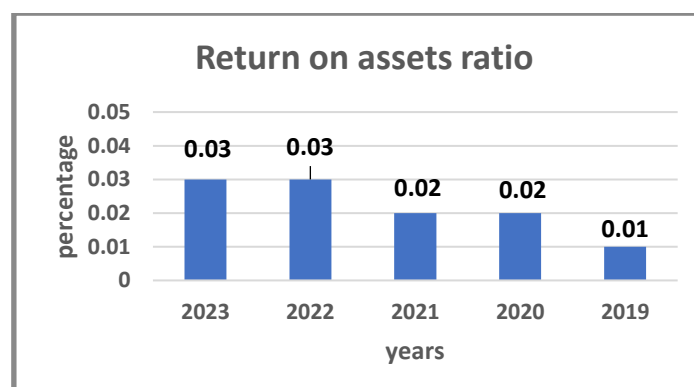
2. Return on Assets

ROA = Net profit after taxes /Total Assets

Table-5.7

Years	Net profit after taxes	Total assets	Ratio
2022-2023	2282.92	67370.25	0.03
2021-2022	1860.98	51168.65	0.03
2020-2021	1001.42	45101.55	0.02
2019-2020	795.52	34802.09	0.02
2018-2019	4223.84	249044.39	0.01

GRAPH 5.7

Interpretation:

Between 2019 and 2023, the return on equity ratio increased from 0.01 to 0.03. The return on assets shows the percentage of how profitable a company's assets are in generating revenue. The return on assets gives an indication of the capital intensity of the company, and assets are increasing.
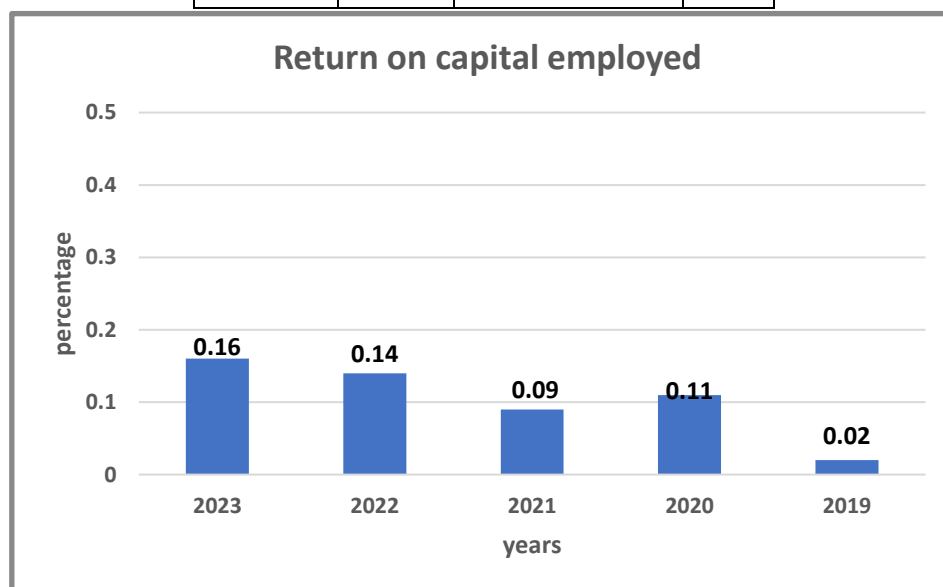
3.Return on Capital Employed

ROCE = EBIT/capital employed

EBIT = earnings before interest and tax

Capital employed= total assets – current liabilities

Table-5.8

Years	EBIT	Capital employed	Ratio
2022-2023	2952.20	18331.99	0.16
2021-2022	2262.95	15869.83	0.14
2020-2021	1340.43	14025.75	0.09
2019-2020	1073.33	9505.96	0.11
2018-2019	5901.50	214932.08	0.02

GRAPH 5.8

Interpretation:

Return on capital employed is an accounting ratio used in finance valuation and accounting. It is a useful measure for comparing the profitability of companies after taking into account the amount of capital used by the company in 2019 and 2023. The return on capital employed decreased from 0.02 to 0.16. From 2019 to 2022, capital employed increased from 0.02 to 0.14, and the return on capital employed increased.
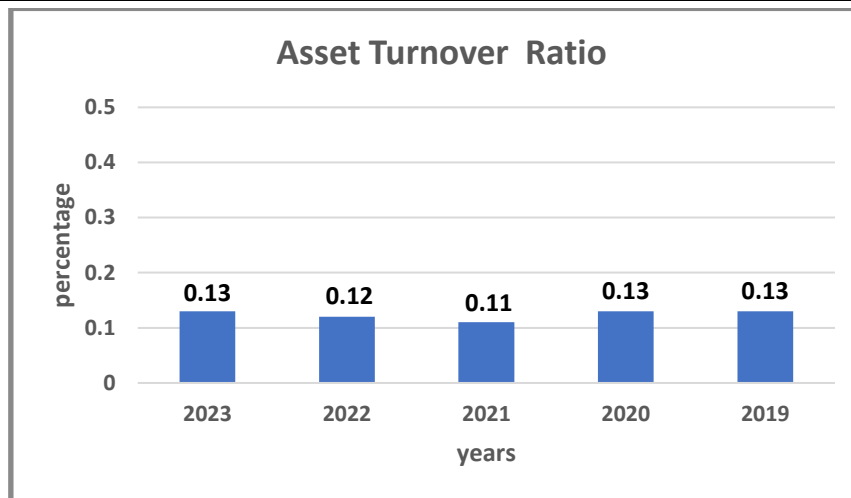
D. Activity ratio

1.Total Asset Turnover = Net Revenue/Average Total asset

Average Total asset = (Total assets for current year + total assets for previous year)/2

Table-5.9

Years	Net Revenue	Average Total assets	Ratio
2022-2023	7909.85	59269.45	0.13
2021-2022	5956.70	48135.1	0.12
2020-2021	4771.18	39951.82	0.11
2019-2020	3986.58	29808.67	0.13
2018-2019	26533.81	193139.74	0.13

GRAPH 5.9

Interpretation:

The asset turnover ratio, also known as the total asset runover ratio, The company's asset turnover in the periods of 2019 and 2023 decreased from 0.13 to 0.12, but in 2022 and 2023, the ratio increased from 0.13. The total asset turnover ratio measures the efficiency with which a company uses its assets to produce revenue.

2. Fixed Asset Turnover = Net Revenue/Average Fixed asset

Average Fixed asset = (opening balance +closing balance)

Table-5.10

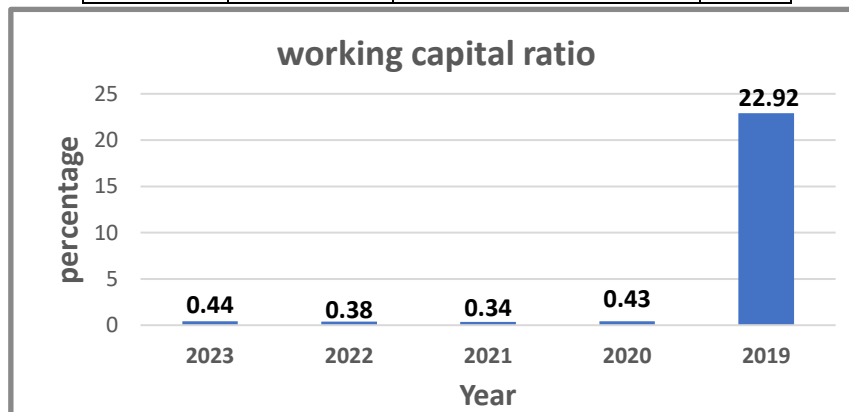| Years	Net revenue	Average fixed assets	Ratio
2022-2023	7909.85	54312.33	0.14
2021-2022	5956.70	36761.84	0.16
2020-2021	4771.18	3204.12	0.14
2019-2020	3986.58	26795.29	0.14
2018-2019	26533.81	20873.85	1.27

GRAPH 5.10

Interpretation:

The fixed asset turnover ratio reveals how efficient a company is at generating sales from its existing fixed assets. The company's fixed asset turnover for the period of 2019 to 2023 decreased from 1.27 to 0.14. A higher ratio implies the management is using its fixed assets more effectively. The fixed asset turnover ratio is similar to other turnover ratios, such as the asset turnover ratio, which uses a subset of assets to compare a company's activity against, and fixed assets are increased.

3. Working Capital Turnover = Net Revenue/Average Working capital

Working capital = current asset – current liabilities

Table-5.11

Years	Net revenue	Average working capital	Ratio
2022-2023	7909.85	17951.74	0.44
2021-2022	5956.70	15578.68	0.38
2020-2021	4771.18	13749.60	0.34
2019-2020	3986.58	9182.41	0.43
2018-2019	26533.81	1157.48	22.92

GRAPH 5.11

Interpretation:

The working capital turnover ratio is the ratio between the net revenue or turnover of a business and its working capital. The company's working capital turnover from 2019 to 2023 decreased from 22.29 to 0.44. The ratio indicates how effectively a company uses available funds for the streamlined production of goods or services, and net revenue is decreasing.

6. FINDINGS

- The company's current ratio experienced a positive trend between 2019 and 2022, indicating a stronger liquidity position, but showed a potential weakness in 2022–2023 due to a decrease caused by increased current liabilities and other factors.

- The company demonstrated a stronger liquidity position between 2019 and 2022, indicated by an improved quick ratio, but experienced a slight deterioration in 2022–2023 as quick assets and current liabilities decreased.

- The company's debt-to-equity ratio significantly decreased from 2019 to 2022, indicating a move towards a more conservative capital structure, but experienced a slight increase in 2022–2023, suggesting higher financial risk and reduced financial flexibility.

- During the period of 2019 to 2023, the company experienced a significant increase in return on equity, potentially attributed to factors such as equity measures and effective inventory management.

- The improved return on assets from 2019 to 2023 was driven by increased revenue, which determined how efficiently the company used its assets to generate a profit.

- The more profit a company can generate, the stronger its profitability. In cross-company comparisons, from 2019 to 2023, the return on capital employed decreased.

- The total asset turnover ratio showed improvement from 2019 to 2022 due to increased assets but experienced a decline in 2023 due to excess loan variations.

- The fixed asset turnover ratio is improved for revenue and identifies the 2019–2023 opening balance and closing balance.

7. SUGGESTIONS

- The company should focus on managing and reducing current liabilities to improve its liquidity position and mitigate the risk of failing to meet short-term obligations.

- The company's liquidity shortens operating cycles, and increased cash flow generates working capital.

- The company should focus on managing its debt levels and maintaining a balanced capital structure to mitigate financial risk and enhance financial flexibility.
- The company employs strategies like enhancing orientational efficiency, managing risk effectively, and expanding and optimizing its capital structure.
- Focus on quality loan organization by targeting credit-worthy borrowers and diversifying the loan portfolio to mitigate risks.
- Focusing on customer retention and acquisition to boost loan disbursements could also positively impact total asset turnover.
- Regularly analyse working capital rates to identify areas for improvement and track progress over time.

8. CONCLUSION

On the basis of the above study, it can be said that the company's financial position at the end of the year 2023 was at satisfactory level. The company's declining profit levels needs to be worked at the company has gone for some capital projects and in the process incurred loans which is why projects have come down HFFC has an enormous potential for growth in the future and therefore if the company's resources are focused in the right area.

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