

A STUDY ON FINANCIAL PERFORMANCE USING RATIO ANALYSIS

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ABSTRACT

The main objective of this paper is to analyse the overall financial position of the bank using ratio analysis. It shows whether the firm is improving or worsening in past years. The secondary data is used for the entire study i.e. the last five years annual reports of KCCB. 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

Meaning of Financial Management

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

Financial management has a wide scope.

Anticipation: Financial management estimates the financial needs of the company. That is, it finds out how much finance is required by the company.

Acquisition: It collects finance for the company from different sources.

Allocation: It uses this collected finance to purchase fixed and current assets for the company.

Assessment: It also controls all the financial activities of the company. Financial management is the most important functional area of management. All other functional areas such as production management, marketing management, personnel management, etc. depends on Financial management. Efficient financial management is required for survival, growth and success of the company or firm.

Authors Definitions

"Planning is an inextricable dimension of financial management. The term financial management connotes that funds flows are directed according to some plan."

- By James Van Horne

"Financial management is that activity of management which is concerned with the planning, procuring and controlling of the firm's financial resources. "

- By Deepika & Maya Rani

-Financial Management is the Operational Activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operation. |

2. REVIEW OF LITERATURE

ARTICLE: 1

Title: Working of depository system in India with Research and analysis

Source: The Journal of Business Ethics

Author: Pieter van Beurden

Purpose

The purpose of this paper is to carry out a literature review of the quantitative studies that have analyzed the impact of green management on financial performance.

Design/methodology/approach

An examination of the literature was undertaken to review the quantitative studies that analyze the influence of environmental management on financial performance. A total of 32 studies were identified, examining the environmental variables used, the financial performance variables, the statistical analyses, and the main findings obtained by these studies.

Findings

Results are mixed, but studies where a positive impact of environment on financial performance is obtained are predominant. In addition, the findings show that the set of firms, industries and countries are varied. Some studies use environmental management variables and other works employ environmental performance variables, and regression analysis prevails.

ARTICLE: 2

Title: An Analysis on Financial Performance of Indian Depositories

Author Dr. Hari Babu Bathini

Source: Business Transformation through Innovation and Knowledge Management:

The financial system is characterised by the presence of an integrated, organized and regulated financial markets and institutions that meet the short-term and long-term financial needs of both the household and corporate sector. Both financial markets and institution plays an important role in financial system by rendering various financial services to the community. They operate in close combination with each other. The financial market exists to facilitates sales and purchases of financial instruments and comprises of two major markets namely the capital market (deals in medium and long-term investment) and money market (deals in short-term investment). These markets can be divided into two segments viz, primary and secondary. The primary market is used by issuer for raising fresh capital by making initial public offer or rights issue or offer for sale of equity or debt. The secondary market is the place for old securities which have been already issued and granted stock exchange quotations. It provides a regular and continuous market for buying and selling of securities. Thus, the capital market is important for raising funds for capital formation and investments and forms a very vital link for economic development of any country

RESEARCH GAP:

The financial system is characterized by the presence of an integrated, organized and regulated financial markets and institutions that meet the short-term and long-term financial needs of both the household and corporate sector.

OBJECTIVES:

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

- To ensure regular and adequate supply of funds to the concern in LG ELECTRONICS.
- To ensure adequate returns to the shareholders this will depend upon the earning capacity, market price of the share, expectations of the shareholders in LG ELECTRONICS.
- To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
- To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.

3. RESEARCH METHODOLOGY

Need For The Study

Need of financial management study to diagnose the information contain in financial statement. So as to judge the profitability and financial position of the firm. Financial analyst analyses the financial statements with various tools of analysis before commanding upon the financial health of the firm. Financial management is more than keeping accounting records. It is an essential part of organizational management and cannot be seen as a separate task to be left to finance staff or the honorary treasurer. Financial management involves planning, organizing, controlling and monitoring financial resources in order to achieve organizational objectives.

Scope Of The Study:

1.Investment decisions includes investment in fixed assets (called as capital budgeting). Investment in current assets are also a part of investment decisions called as working capital decisions.

2. Financial decisions - They relate to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby.

Dividend decision - The finance manager has to take decision with regards to the net profit distribution. Net profits are generally divided into two:

a. Dividend for shareholders- Dividend and the rate of it has to be decided.

b. Retained profits- Amount of retained profits has to be finalized which will depend upon expansion and diversification plans of the enterprise.

Methodology

SOURCES OF DATA

Data we collected based on two sources.

Primary data.

Secondary data.

Primary data : The Primary data are those information's, which are collected afresh and for the first time, and thus happen to be original in character.

Secondary Data: The Secondary data are those which have already been collected by some other agency and which have already been processed. The sources of Secondary data are Annual Reports, browsing Internet, through magazines.

It includes data gathered from the annual reports of LG ELECTRONICS.

Articles are collected from official website of LG ELECTRONICS.

4. METHODOLOGY USED

TYPES OF FINANCIAL STATEMENTS ADOPTED:

Following two types of financial statements are adopted in analyzing the firm financial position

Balance Sheet.

Profit and Loss statements.

TOOLS OF FINANCIAL STATEMENT ANALYSIS USED

The following financial analysis tools are used in order to interpret the financial position of the firm.

LIMITATIONS OF THE STUDY

- The period of study that is 6 weeks as not enough to go in the detailed aspects of the study.
- The study is carried basing on the information and documents provided by the organization and based on the Interaction with various employees of respective departments.
- Respondents may not provide accurate information due to various reasons.
- Most of the matters related to budgets were confidential so it is not possible to gather information.

5. DATA ANALYSIS & INTERPRETATION

TRENDS OF WORKING CAPITAL FOR THE YEAR

(2019-2023)

Year	Working capital (Y)	x	X ²	XY	Trend value(Y=a+ bx)
2019-2020	9	-2	4	-18	39.84
2020-2021	59	-1	1	-59	62.17
2021-2022	59	0	0	0	84.5
2022-2023	211	1	1	211	106.83

$$a = \frac{\sum Y}{N} \quad (N = \text{Number of years})$$

$$b = \frac{\sum XY}{\sum X^2}$$

$$N$$

$$\sum X^2$$

INTERPRETATION

From the above table analysis there is a increasing trend in working capital this is a good sign of progress. It has increased from 39.84 to 106.

TRENDS OF SALES FOR THE YEAR

(2019-2023)

(Rs. In Crores)

Year	Sales	X	X ²	XY	Trend sales
2019-2020	1298	-1	1	-1798	78
2020-2021	2234	0	0	0	2315
2021-2022	2731	1	1	2731	4552
2022-2023	2997	2	2	11988	6789

a =	EY	(N = Number of years)	b = EXY
	N		EX ²
a =	9260		b = 13421
	4		6
a =	2315		b = 2237

Comments

From the above table analysis there is an increasing trend in the trend values of LG ELECTRONICS for the oats four years. Though the sales were less in the year 2020-23 stillit shows an increasing.

6. CONCLUSION

- It should be borne in mind that the tool applied in the study to analysis the efficiency and effectiveness in financial management is most appropriate ones.
- The firm LG ELECTRONICS Liquidity position in terms of short term and long term are good.
- The efficiency of the company is also good.
- The above analysis enables the company to understand the financial position and financial soundness of LG ELECTRONICS

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