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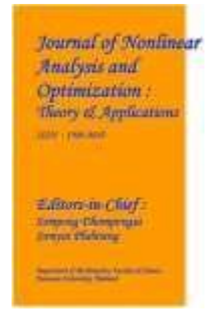

A STUDY ON RATIO ANALYSIS-HERITAGE

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ABSTRACT

This paper outlines a financial statement analysis for use in equity valuation. Standard profitability analysis is incorporated, and extended, and is complemented with an analysis of growth. The perspective is one of forecasting payoffs to equities. So financial statement analysis is presented first as a matter of pro forma analysis of the future, with forecasted ratios viewed as building blocks of forecasts of payoffs. The analysis of current financial statements is then seen as a matter of identifying current ratios as predictors of the future ratios that drive equity payoffs. The financial statement analysis is hierarchical, with ratios lower in the ordering identified as finer information about those higher up. To provide historical benchmarks for forecasting, typical values for ratios are documented for the periods, along with their cross-sectional variation and correlation. And, again with a view to forecasting, the time series behavior of many of the ratios is also described and their typical "long-run, steady-state" levels are documented. In this paper, we compare ratio analysis with the data envelopment analysis approach. It is shown that using ratio analysis implies that a one multidimensional space is projected onto other subspaces many times. As a result, significant distortion of the performance assessment of units takes place. Our theoretical results are validated by computational experiments on the data taken from financial accounts.

Financial statements are used as a management tool primarily by company executives and investor's in assessing the overall position and operating results of the company. Analysis and interpretation of financial statements help in determining the liquidity position, long term solvency, financial viability and profitability of a firm. Ratio analysis shows whether the company is improving or deteriorating in past years. Moreover,

Comparison of different aspects of all the firms can be done effectively with this. It helps the clients to decide in which firm the risk is less or in which one they should invest so that maximum benefit can be earned. Mining industries are capital intensive; hence a lot of money is invested in it. So before investing in such companies one has to carefully study its financial condition and worthiness. Unfortunately very limited work has been done on analysis and interpretation of financial statements of Indian for mining companies. An attempt has been carried out in this project to analyze and interpret the financial statements of five coal and non- coal mining companies.

1. INTRODUCTION

Financial statements are prepared primarily for decision-making. They play a prominent role in setting the framework of managerial decisions. But the information provided in the financialstatements is not an end in itself as no meaningful conclusions can be drawn from these statements alone. However, the information provided in financial statements is of immense use in making decisions through analysis and interpretation of financial statements.

A firm communicates financial information to the users through financial statements, and reports the financial statement contains summarized information of the firm's financial affairs. Organized and systematic preparation of the financial statement is the responsibility of top management.

Financial forecasting is an integral part of financial planning. Forecasting uses past data to estimate the future financial requirements. Ratio analysis is a powerful tool of financial analysis. A ratio is used as a benchmark for evaluating the financial position andperformance of financial data and to make qualitative judgment about the firm's financial performance.

With the help of ratios, one can determine:

- The ability of the firm to meet its current obligations.
- The extent to which the firm has used its long-term solvency by borrowing funds.
- The efficiency with which the firms is utilizing its assets in generating sales revenue.
- The overall operating efficiency and performance of the firms.

Analysis and interpretation of various accounting ratios gives a skilled and experienced analyst, a better understanding of financial condition and performance of the firm.

Ratio analysis is used to evaluate relationships among financial statement items. The ratios are used to identify trends over time for one company or to compare two or more companies at one point in time. Financial statement ratio analysis focuses on three key aspects of a business: liquidity, profitability, and solvency.

Need for the study

The problems, which are common to most of the public sectors under taking, are materials scarcity. Capacity utilization and mainly working capital requirements and **Heritage Foods (India) Limited**. are no exception. Thus the importance of the study reveals as to how efficiently the working capital has been used so far in the organization.

Ratio Analysis is one of the key areas of financial decision-making. It is significant because, the management must see that an excessive investment in current assets should protect the company from the problems of stock-out. Current assets will also determine the liquidity position of the firm.

The goal of **Ratio Analysis** is to manage the firm current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. If the firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may be even forcedinto bankruptcy.

Scope of the study

The scope of the study is limited to collecting financial data published in the annual reports of the company every year. The analysis is done to suggest the possible solutions. The study is carried out for 5 years (2014-19).

A study of the **Ratio Analysis** involves an examination of long term as well as short term sources that a company taps in order to meet its requirements of finance. The scope of the study is confined to the sources that **Heritage Foods (India) Limited** tapped over the years under study i.e. 2014-19.

Objectives of the study

- To examine the financial performance of the **Heritage Foods (India) Limited** for the period of 2014 to 2019.
- To analyses interpret and to suggest the operational efficiency of the **Heritage Foods (India) Limited**. By comparing the balance sheet & profit & loss A/c.
- To critically analyse the financial performance of the **Heritage Foods (India) Limited**. With the help of ratios.
- To assess the working capital employed by the **Heritage Foods (India) Limited**.
- To examine feasibility of present systemof managing working capital.
- To understand how the company finances its working capital
- To analyze the financial performance of the company with reference to working capital.
- To give some suggestions to the management based on the

informationstudied.

LIMITATIONS

- The study is based on only secondary data.
- The period of study was 2014-19 financial years only.
- Another limitation is that of standard ratio with which the actual ratios may becompared generally there is no such ratio, which may be treated as standard
  for the purpose of comparison because conditions of one concern differ significantly from those of another concern.
- The accuracy and correctness of ratios are totally dependent upon the reliability of the data contained in financial statements on the basis of which ratios are calculated.

II. RESEARCH METHODOLOGY

Use and Significance of Ratio Analysis

The ratio is one of the most powerful tools of financial analysis. It is used as a device to analyze and interpret the financial health of enterprise. Thus ratios have wide applications and are of immense use today.

Data sources

The study is based on secondary data. However the primary data is also collected to fill the gap in the information.

- ❖ Primary data will be through regular interaction with the officials of **Heritage Foods (India) Limited**.
- ❖ Secondary data collected from annual reports and also existing manuals and like company records balance sheet and necessary records.

III. FINANCIAL ANALYSIS

A basic limitation of the traditional financial statements comprising the balance sheet and the profit and loss account is that they don't give all information related to the financial operations of the firm. Nevertheless, they provide some extremely useful information to the extent that the balance sheet mirrors the financial position on a particular date in terms of the structure of assets, liabilities and owner's equity and so on, and the profit and loss account shows the results of operation during a certain period of times in terms of the revenue obtained and the cost incurred during the year. Thus the financial position and operations statement provides a summarized a view of the financial position and operations of the firm. The analysis of financial statement is thus an important aid tofinancial analysis.

The first task of the financial analyst is to select the information relevant to the decisions under consideration from the total information from the total information contained in the financial statements. The second step is arranged the information in the way to highlight significant relationship. The final step is interpretation and drawing of inferences and conclusions. In the brief financial analysis are the processes of selection, relation and evaluation.

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret financial statements so that the strength and weakness of a firm as well as its historical performance and current financial conditions can be determined. The term Ratio refers to the numerical or quantitative relationship between two items variables. The relationship can be expressed as

- ➢ Percentages
- ➢ Fractions
- ➢ Proportion of numbers

These alternative methods of expressing items, which are related to each other, are for purposes of financial analysis refer to as Ratio analysis.

RATIO ANALYSIS

Alexander Wall is considered to be the pioneer of ratio analysis. He presented after a serious a detailed system of ratio analysis in 1990. He explained that the work of interpretation could be made easier by establishing quantitative relationships between the facts given in the financial statements.

The focus of financial analysis is on key figures in the financial statements and significance relationships that exist between there. This analysis relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance.

CLASSIFICATION OF RATIOS TYPES OF RATIOS

The ratios can be classified into four types:

LIQUIDITY RATIOS

Liquidity ratios measure the firm's ability to meet current obligations.

I. Current Ratio
II. Quick Ratio
III. Cash Ratio
IV. Interval Ratio
V. Net Working Capital Ratio

LEVERAGE RATIOS

Leverage ratios show the proportions of debt and equity in financing the firm's assets.

I. Debt Equity Ratio
II. Capital Equity Ratio
III. Proprietary Ratio

ACTIVITY RATIOS

Activity ratios reflect the firm's efficiency in utilizing its assets.

I. Inventory Ratio
II. Fixed Assets Turnover Ratio
III. Total Assets Turnover Ratio
IV. Current Assets Turnover Ratio
V. Collecting Period of Debtor Ratio
VI. Working Capital Turnover Ratio

ADVANTAGES OF RATIO ANALYSIS

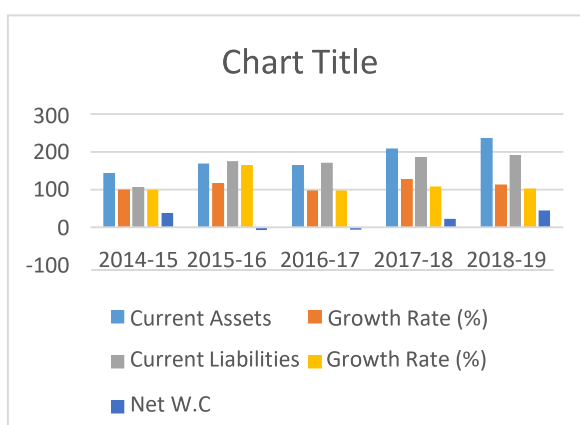
- ❖ Ratio analysis simplifies the comprehension of financial statement.
- ❖ Ratio analysis provides data for inter firm comparison
- ❖ Ratio analysis helps in planning forecasting trends in cost, sales, profit and other related facts are revealed by the past ratios and future events can be forecast on the basis of such trends.
- ❖ Ratio may be used as an instrument of management control particularly in the area of sales cost.
- ❖ A ratio helps in investment decision to make profitable investment.
- ❖ Ratios also facilitate the function of communication. It can be easily conveyed through the ratio as what as happened during the two intervening periods.
- ❖ Ratios may also be used as a measure of efficiency.

IV. DATA ANALYSIS ANDINTERPRETATION

Size and growth of current assets and liabilities and Net working capital of **Heritage Foods (India) Limited** during the period **2014-15 TO 2018-19**

(All amounts are in Cr)

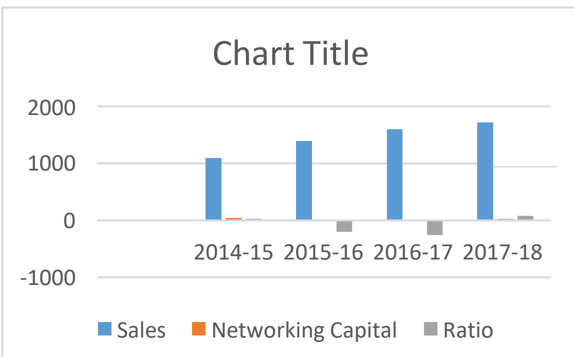
Year	Current Assets	Growth Rate (%)	Current Liabilities	Growth Rate (%)	Net W.C
2014-15	144.36	100	106.49	100	37.87
2015-16	168.78	116.916043	175.59	164.888722	-6.81
2016-17	164.6	97.5234032	170.73	97.2321886	-6.13
2017-18	208.46	126.646416	185.63	108.72723	22.83
2018-19	235.20	112.827401	190.33	102.531918	44.87



Interpretation:
The current assets of the organization are more as compared with current liabilities but at the year 2018-2019 the financial position i.e. turnover of current year is high i.e. 44.87.

WORKING CAPITAL TURNOVER RATIO
(All amounts are in Cr)

Year	Sales	Networking Capital	Ratio
2014-15	1096.18	37.87	28.94587
2015-16	1393.41	-6.81	-204.612
2016-17	1601.81	-6.13	-261.307
2017-18	1722.04	22.83	75.42882
2018-19	2,072.97	44.87	46.19947

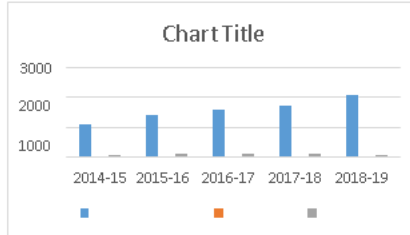


Turnover Ratio:

Debtors Turnover Ratio expresses the relationship between debtors and sales. A high Debtors Turnover Ratio or low Debt collection period is indicative of sound credit management policy.

Table shows Debtors Turnover Ratio of Heritage Foods (India) Limited. during 2014-15 to 2018-19.
(All amounts are in Cr)

Year	Net Credit	Avg. Debt	Ratio
2014-15	1096.18	14.44	75.91274
2015-16	1393.41	11.2	124.4116
2016-17	1601.81	15.07	106.2913
2017-18	1722.04	16.61	103.6749
2018-19	2072.97	24.24	85.51856



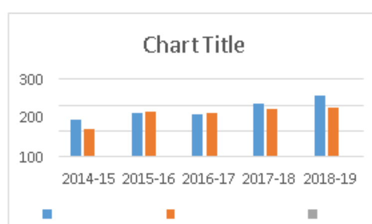
From the above table, it is observed that the **Heritage Foods (India) Limited** debtor's turnover ratio shows a good sigh. The company noted a maximum ratio of 124.41 in the year 2015-16 and the minimum ratio in the year of 2014-15

If we observed the above table the ratio is increasing the year 2014-15 to 75.91 in the year 2015-16 in the year but it is increased to 103.67 in the year 2016-17. It shows a good sign for thecompany. present year it is 85.51i.e on 2018-19.

Current Ratio:
It is the ratio of the current assets current liabilities this ratio is used to know the company's ability to meet its current obligations. The standard norm for the current ratio is 2:1 **Current ratio = current Assets / Currentliabilities.**
Table showing current ratio of Heritage Foods (India) Limited during the period 2014-15 to 2018-19

Year	Current Assets	Current Liabilities	Ratio
2014-15	144.36	106.49	1.35562
2015-16	168.78	175.59	0.961216
2016-17	164.6	170.73	0.964095
2017-18	208.46	185.63	1.122987
2018-19	235.2	190.33	1.235748

(All amounts are in Cr)



It is observed that the **Heritage Foods (India)Limited** current rationing a increasing trend; The company's liquidity position is satisfactorythe current ratio increased slightly up to 2015-
16. also in 2018-19 it inclined because of increase in current liabilities and assets, and

thenit started to increase as 1.23. If the company maintains to increase the ratio it can meet obligations.

Quick Ratio:

Quick ratio is relation between quick assets and current liabilities. The term quick assets, which can be converted into cash with a short notice. This category also includes cash bank balances short – term investments and receivables.

Quick ratio = Quick Assets / current liabilities

V. Findings

1. The **Heritage Foods (India) Limited** net working capital is satisfactory between the years 2017-18 since it shows decreasing trend ; but after that it is in declining position.
2. The current ratio of **Heritage Foods (India) Limited** is satisfactory during the period of study 2014-15 to 2017-18. It is increased but after that it is declining.
3. The average quick ratio of **Heritage Foods (India) Limited** is not good though the quick ratio is showing maximum value of 0.50 in the year 2017-18 and then it is declining to be deal. Fixed assets turnover ratio of **Heritage Foods (India) Limited** increased. The company has to maintain this.
4. Inventory turnover ratio of **Heritage Foods (India) Limited** is also increased gradually, without any fit falls up to 2014-15. But in the year 2015-16 it is declined, and again it has increased in the year 2017-18. Good inventory management is good sign for efficient management
5. Total Assets turnover ratio of **Heritage Foods (India) Limited** is not satisfactory because it is always below one, except in the year 2017-18 having avalue of 17.58.
6. Return on investment is not satisfactory. This indicates that the company's funds are not being utilized in a better way.

VI. Suggestions

1. Improve position funds should be utilized properly.
2. Better Awareness to increase the sales is suggested.
3. Cost cut down mechanics can be employed.
4. Better production technique can be employed.
5. The investment on raw material should be made as per the requirement. Unnecessary investment may block up the funds.
6. Neither too high nor too low inventory turnover ratios may reduce profit and liquidity position of the industry. So, proper balance should be made to increase profits and to ensure liquidity.
7. The raw material should be acquired from the right source at right quality and at right cost.
8. The process that was being used by **Heritage Foods (India) Limited** with the purchasing department should undergo changes; so that, it seeks enhance the celerity of the delivery of a product without compromising its quality by improving the utilization of materials, labor and equipment.

VII. Conclusions

1. The **Heritage Foods (India) Limited** Net Profit Ratio is showing profit in the year . This event is an expected one because since from the previous two years it is showing the decline stage in Net Profit Ratio.
2. The **Heritage Foods (India) Limited** Gross Profit Margin of **Heritage Foods (India) Limited** increases in decreases due to the increase in sales
3. Profit Margin of **Heritage Foods (India) Limited** is decreasing and showing negative profit because there is increase in the price of copper
4. The **Heritage Foods (India) Limited** Net Working Capital Ratio is satisfactory.
5. The **Heritage Foods (India) Limited** return on Total Assets ratio shows a negative sign in the year 2014-15
6. The Operating Ratio of **Heritage Foods (India) Limited** isn’t satisfactory. Due to increase in cost of production, this ratio is decreasing. So the has to reduce its office administration expenses

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