



ISSN: 2454-9940



**INTERNATIONAL JOURNAL OF APPLIED
SCIENCE ENGINEERING AND MANAGEMENT**

E-Mail :
editor.ijasem@gmail.com
editor@ijasem.org



www.ijasem.org

A STUDY ON THE ROLE OF RATIO ANALYSIS IN STRATEGIC FINANCIAL MANAGEMENT: TECHNIQUES AND APPLICATIONS WITH REFERENCE TO HERITAGE

¹ P. Harini, ² Kothwal Swetha

¹Assistant Professor, ²MBA Student

DEPARTMENT OF MBA

Sree Chaitanya College of Engineering, Karimnagar

ABSTRACT

In order to value stocks, this article lays forth a method for analysing financial statements. We add a growth analysis to our standard profitability study and make some extensions to it. The prevailing viewpoint is that of predicting equity returns. Therefore, the examination of financial statements is first presented as a pro forma study of the future, with predicted ratios seen as the foundation of predicted returns. Therefore, looking at the financial statements as they are right now is all about finding the ratios that will generate equity payoffs in the future. Hierarchical analysis of financial statements reveals more nuanced information about higher-level metrics from those lower in the ordering. We record the usual values of the ratios for the eras, together with their cross-sectional fluctuation and correlation, to provide historical benchmarks for predicting. Additionally, with an eye towards prediction, we detail the time series behaviour of several ratios and provide evidence of their usual "long-run, steady-state" values.

Ratio analysis and data envelopment analysis are compared in this work. It is shown that ratio analysis entails many projections of a single multidimensional space onto various subspaces. This causes a major skew in the evaluation of individual units' performance. Computational investigations using bank account data confirm our theoretical conclusions.

In order to get a better picture of the company's health and performance, investors and executives utilise financial statements as a management tool.

A company's liquidity, long-term solvency, financial viability, and profitability may be ascertained via the examination and analysis of financial accounts. Using ratio analysis, one may see whether the firm has been becoming better or worse over the previous several years. In addition, it is a great tool for comparing various elements of all the companies. It helps customers in determining which firms provide the least risk or where they should put their money to get the most return.

The mining industry requires a large initial investment due to its capital intensive nature. Investors should thoroughly research the company's financial health and reliability before putting their money into such ventures. There has been surprisingly little research on the study and interpretation of Indian mining firms' financial accounts. In this research, we looked at five different mining businesses' financial statements, some of which dealt with coal and others of which didn't.

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 financial statements 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 and performance 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 forced into 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 (2020-24).

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**.

Objectives of the study

- ❖ To examine the financial performance of the **Heritage Foods (India) Limited**
- ❖ 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 system of 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 information studied.

LIMITATIONS

- The study is based on only secondary data.
- Another limitation is that of standard ratio with which the actual ratios may be compared 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 to financial 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 AND INTERPRETATION

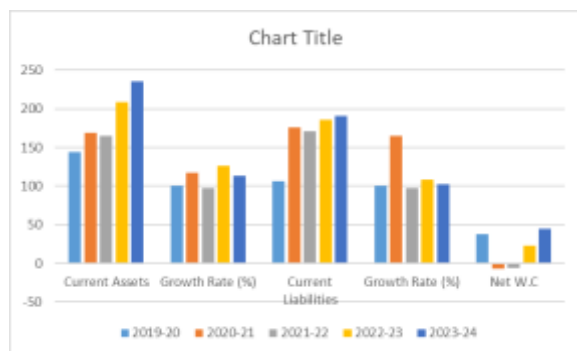
Size and growth of current assets and liabilities and Net working capital of **Heritage Foods (India) Limited** during the period **2019-20 TO 2023-2024**

(All amounts are in

Cr)

(All amounts are in Cr)

Year	Current Assets	Growth Rate (%)	Current Liabilities	Growth Rate (%)	Net W.C
2019-20	144.36	100	106.40	100	37.87
2020-21	168.38	116.916043	175.59	164.888722	-6.81
2021-22	164.6	97.5234032	170.73	97.2321886	-6.13
2022-23	208.46	126.646416	185.63	108.71723	22.83
2023-24	235.20	112.827401	190.33	102.331918	44.87

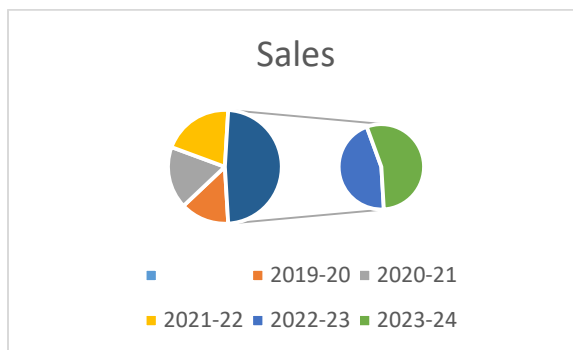


Interpretation:

The current assets of the organization are more as compared with current liabilities but at the year 2023-2024 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
2019-20	1096.18	37.87	28.9458674
2020-21	1393.41	-6.81	-204.612335
2021-22	1601.81	-6.13	-261.306688
2022-23	1722.04	22.83	75.4288217
2023-24	2,072.97	44.87	46.3994651



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.

Findings

1. The **Heritage Foods (India) Limited** net working capital is satisfactory between the years 2023-24 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 2020-21 to 2023-24. 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 2023-24 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 2020-21. But in the year 2020-21 it is declined, and again it has increased in

the year 2023-24. 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 2023-24 having a value 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.

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.

V. Conclusions

1. There was a profit for the year according to the net profit ratio of Heritage Foods (India) Limited. Given that the Net Profit Ratio has been on a declining trend for the last two years, this development was predictable.
2. Heritage Foods (India) Limited's Gross Profit Margin both grows and shrinks as sales go up.
3. Heritage Foods (India) Limited is seeing a decline in profit margin and negative net income as a result of the recent spike in copper prices.
4. A acceptable net working capital ratio is maintained by Heritage Foods (India) Limited.
5. For 2019–20, Heritage Foods (India) Limited's return on total assets is negative.
6. Heritage Foods (India) Limited has an unsatisfactory operating ratio. The ratio is falling as a result of the rising cost of manufacturing. To save money, the needs to cut down on its office administration.

BIBLIOGRAPHY

BOOKS

- Financial Management Written By M.Y. Khan & P.K. Jain
Financial Management Written By Prasanna Chandra
Financial Management Written By I. M. Pandey
Financial Management Written By S. N. Maheswari