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A STUDY ON FINANCIAL PERFORMANCE WITH THE HELP OF RATIO ANALYSIS AT PATCO FOOD PVT LTD

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ABSTRACT

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of the balance sheet and profit & loss account. It also helps in short term and long-term forecasting. Growth of the company can also be identified with the help of financial performance analysis. It also referred to financial statement analysis or accounting analysis refers to an assessment of the viability, stability and profitability of a business, sub-business or project. The main idea behind this study is to analyse the financial operating position of the company. This research is done with help of secondary data which is gathered from the annual report of the company. The financial performance can be measured by using various financial tools such as profitability ratio, solvency ratio, comparative statement, etc. Based on the analysis, findings have been arrived that the company has got enough funds to meet its debts & liabilities, the income statement of the company shows sales of the company increased every year at good rate and profit also increased every year.

KEYWORDS: *Ratio analysis, Shareholders funds, Liabilities.*

INTRODUCTION

The word ‘performance is derived from the word' performed’, which means’ to do, ‘to carry out ‘or out '0r'to render '.It refers the act of performing, execution, accomplishment, fulfilment, etc. In border sense, performance refers to the accomplishment of given task measured against present standards of accuracy, completeness, cost, and speed. Financial performance analysis is the process of identifying the financial strength and weaknesses of the firm by property establishing the relationship between the items of the balance sheet and profit and loss account. It also helps in short term and long-term forecasting. Growth of the company can also be identified with the help of financial performance analysis. "Balance sheet is a summary of a firm's financial position on a given data that shows total assets =total liabilities +owners' equity".

REVIEW OF LITERATURE

Faruk Hossan, Md Ahsan Habib (2010) has conducted research on performance evaluation and ratio analysis OF pharmaceutical company in Bangladesh; found that evaluate how well the company performs. The objective of the study was to performance evaluation of two pharmaceutical companies in Bangladesh. The study was based on secondary data that has been covers the period of 2oo7 to 2008.After the study of the components it was found that; the liquidity position of the both companies are not good because the liquidity maintains their healthy position other wise,we can't develop and they face lots of financial problem but grow up the expected demand.

Dr.Anurag B.singh, Ms.priyanka Tandon (November 2012) has conducted research on financial performance; A comparative analysis of SBI and ICIC bank. The study was conducted to compare the financial performance of SBI and ICIC bank on the basis of Ratio such as credit deposit, net profit margin etc. The objective of the study was to examine the financial performance of SBI and ICIC bank, public sector and private sector respectively. The research is descriptive and analytical in nature. The study was based on secondary data and period of study taken is from the fear 2007-08 to 2011-12. The study found that SBI was performing well and financially sound than ICIC BANK.

R.Idhayajothi, Dr.O.T.V.Latasri, N.Manjula, A.Meharaj Bane, R. Maliki (Jun.2014) has conducted research on financial performance of Ashok Leyland limited at chennai; the company was able to meet its entire requirements for capital expenditures and higher level of working capital commitment with higher volume of operations and from its operating cash flow. An objective was to study to know the financial position OF the Ashok Leyland. They have been analysed the financial statement analysis with ratio an important method. The study was based on secondary data that has been covers the period of 5 years. Research found that the company has been able to maintain and grow its market share to make strong margins in market, contributing to the strong financial position OF the company.

OBJECTIVES:

1. To study financial performance analysis of "Patco Food Pvt. Ltd".
2. To analyses the financial changes over a period of five years.

Research Design

This is analytical study based on the secondary data and is collected from the official website of patco food pvt ltd company on market capitalization. The research design followed is descriptive in nature. For Ratio Analysis, company's yearly data from 1-4-2011 to 31-3-2015 was taken through secondary source.

Tools for financial analysis by using following tools:

- Ratio analysis
- Comparative size analysis

Limitation of the study

- The study is restricted for a period of five years.
- Assume that 5 years are a responsible period for to get fault pictures, policies and practices of management of the company.

Data Analysis and Interpretation:

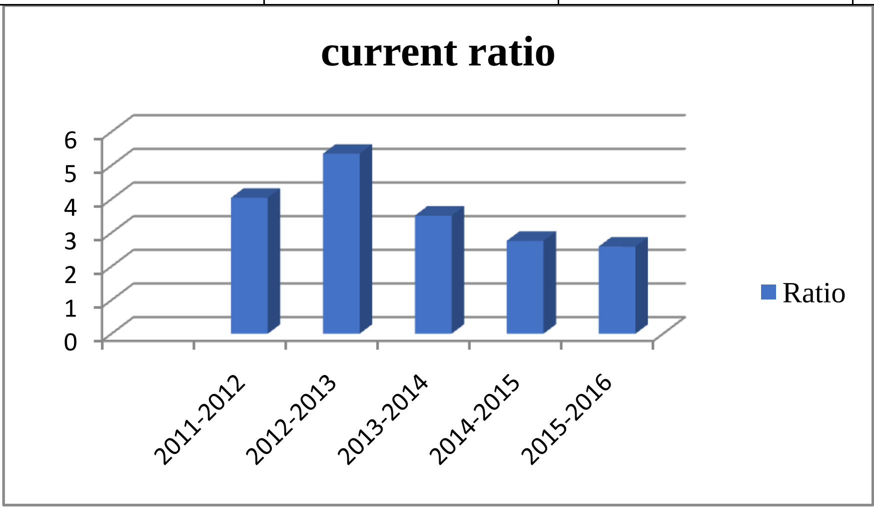
The various tools of financial statement are used for decision making process. The financial statement becomes a tool for future planning and forecasting. The analysis of this statement involves their decision according to similar groups and arranged in desire form. The interpretation involves the explanation of financial facts in a simplifier manner.

The analysis and interpretation of financial performance is used to determine the financial position and result of op1eration as well. The following are the tools that are used for analysis the financial position of the company. 1) Ratio analysis. 2) Balance sheet and income statement

Ratio Analysis: -

1) **CURRENT RATIO: -** The current ratio expresses the relationship between the firm's current assets and its current liabilities.

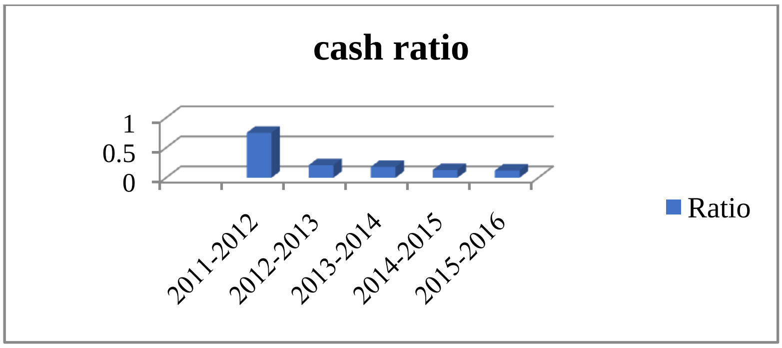
Year	current assets Rs. In '000	current liabilities Rs. In '000	Ratio
2011-2012	89268.39	22075.35	4.04
2012-2013	87714.38	16379.68	5.35
2013-2014	90332.26	25693.45	3.51
2014-2015	98882.76	35718.33	2.76
2015-2016	101882.8	39218.7	2.59



The current ratio represents the margin of safety for creditors. The current ratio has been decreasing year after year which shows decreasing working capital. In the 2012, the return on equity ratio is 4.04 but in the year 2013 it increases to 5.35, which may due to capital investment. And In the year 2015-2016 it is again decreased to 2.59. from the above statement the fact is depicted that the liquidity position of the Patco Food Pvt. Ltd.

2) **CASH RATIO: -** This is also known as cash position ratio or super quick ratio. It is a variation of quick ratio.

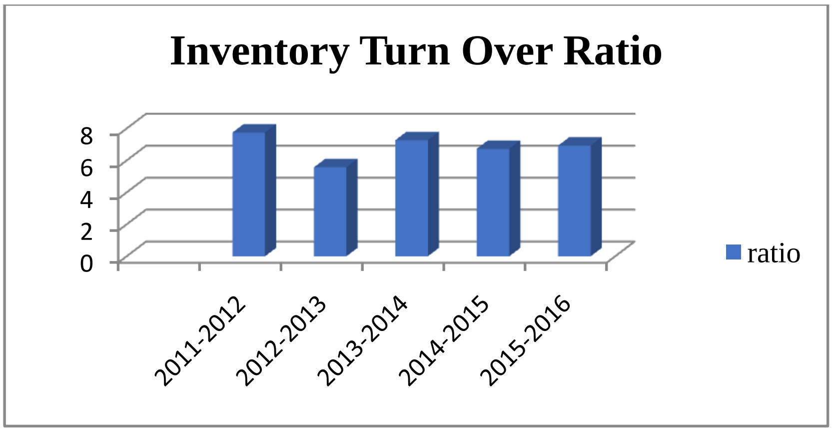
Year	cash in hand & at bank Rs. In '000	current liabilities Rs. In '000	Ratio
2011-2012	16905.83	22075.35	0.75
2012-2013	3563.62	16379.68	0.21
2013-2014	4560.38	25693.45	0.18
2014-2015	4614.58	35718.33	0.13
2015-2016	5076.038	39218.7	0.12



The acceptable norm for this ratio is 50%. But the cash ratio is below the accepted norm. in the year 2012, the cash ratio is 0.75% but in the year 2013 it decreases to 0.21% but in the year 2015-2016 it decreases to 0.12%. so, cash position is utilized effectively and efficiently.

3) **INVENTORY TURNOVER RATIO: -** This ratio measures the stock in relation to turnover in order to determine how often the stock turns over in the company.

Year	cost of goods sold Rs. In '000	average inventory Rs. In '000	Ratio
2011-2012	183618.86	23669.23	7.75
2012-2013	176885.58	31755.57	5.57
2013-2014	204582.71	28117.84	7.27
2014-2015	212214.68	31512.26	6.73
2015-2016	224947.56	32457.62	6.93

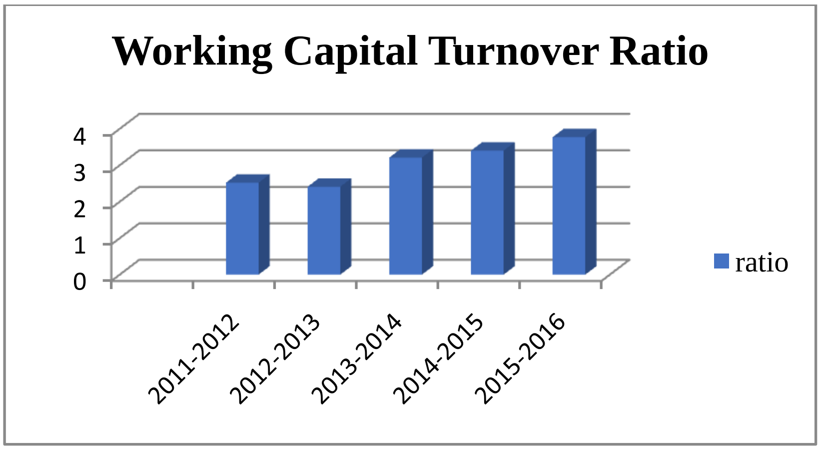


A higher turnover ratio is always to the concern. In this the number of times the inventory is turned over has been increasing from one year to another year. In the year 2012, the turned over ratio is 7.75 times but in the year 2013 it reduced to 5.57 times, and in the year 2015-2016 it increased to 6.93 times. This increase turnover indicates immediate sales. And in turn activates production process and is responsible for further development in the company. This indicates a good inventory policy of the company.

4) WORKING CAPITAL TURNOVER RATIO: -

This ratio shows the number of times the working capital result in sales. In other word, this ratio indicates the efficiency or otherwise in the utilization of short-term funds in making sales.

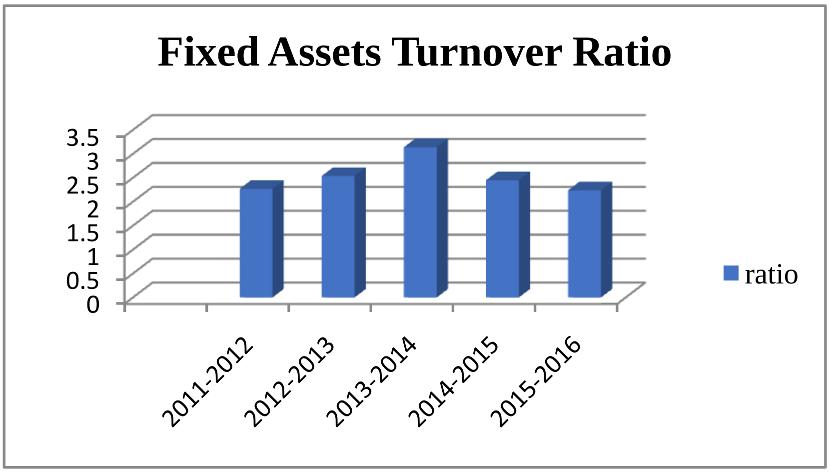
year	Sales Rs. In '000	net working capital Rs. In '000	Ratio
2011-2012	169987.72	67193.03	2.52
2012-2013	172553.85	71334.7	2.41
2013-2014	207870.2	64638.8	3.21
2014-2015	215270.47	63164.43	3.4
2015-2016	236797.52	62664.06	3.77



The working capital turnover ratio is in the year 2012, the working capital turnover ratio is 2.52% but in the year 2013 it 2.41%, and in the year 2015-2016 it increases to 3.77%. it can be noted that the change is due to the fluctuation in sales or current liabilities. The higher ratio are indicators of lower investment of working capital and more profit. Thus, working capital turnover ratio for the five years are satisfactory.

5) **FIXED ASSETS TURNOVER RATIO: -** The fixed turnover ratio measures the efficiency with which the firm has been using fixed assets to generate sales. It is calculated by dividing the firm's sales by its net fixed assets as follows:

Year	Sales Rs. In '000	net fixed assets Rs. In '000	Ratio
2011-2012	169987.72	74576.16	2.27
2012-2013	172553.85	67717.06	2.54
2013-2014	207870.2	66033.65	3.14
2014-2015	215270.47	87767.24	2.45
2015-2016	236797.52	105320.69	2.24

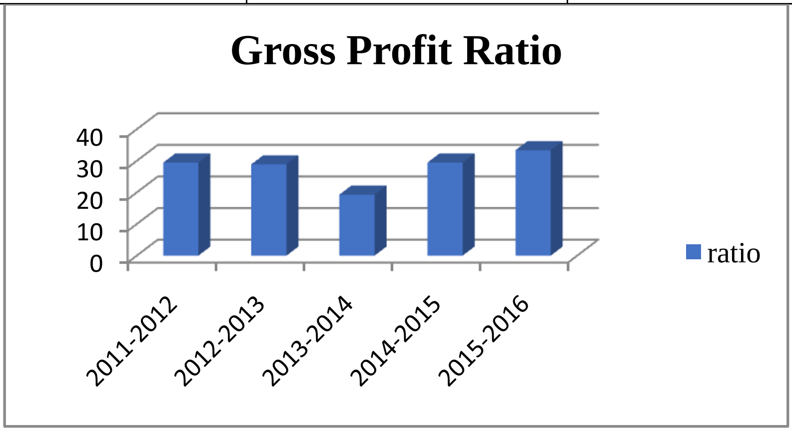


The fixed assets turnover ratio is increasing year after year 2012, the fixed assets are 2.27% and in the year 2013 2.54%, which may due to capital investment. But in the year 2015-2016 is reduced the 2.24%, they are not good for the company.

6) **GROSS PROFIT RATIO: -**

Gross profit ratio (GP ratio) is a profitability ratio that shows the relationship between gross profit and total net sales revenue.

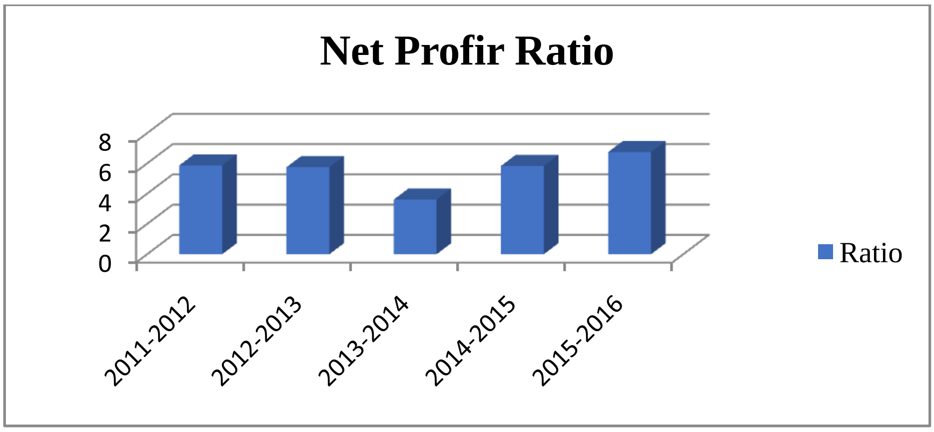
Year	gross profit	turnover	Ratio
2011-2012	50800822	172553846	29.44
2012-2013	53340863	184632615	28.89
2013-2014	41539483	215270467	19.3
2014-2015	43201062	146670769	29.45
2015-2016	46524220	139337230	33.38



The ideal level of gross profit margin depends on the industry, how long the business has been established. The higher gross profit ratio is 33.38% in 2015-2016. The lower gross profit ratio is 19.3% in 2013-2014. During the study period the average gross profit position was 19% and it is a decreasing trend, however Patco Food Pvt. Ltd. should maintain a good gross profit ratio.

7) **NET PROFIT RATIO: -** Net profit margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue.

Year	net profit	turnover	Ratio
2011-2012	10125865	172553846	5.87
2012-2013	10632158	184632615	5.75
2013-2014	7765248	215270467	3.61
2014-2015	8541772	146670769	5.83
2015-2016	9395950	139337230	6.75



Net profit ratio is useful tools to measure the overall profitability of the business. In 2011-2012 the net profit ratio is 5.87% and in 2015-2016 it increases 6.75%. the sales are more in 2015-2016 as compare to 2011-2012 so the net profit ratio is increase. Higher the ratios better the profitability. The higher ratio indicates the efficient management of the affairs of business.

COMPARATIVE BALANCE SHEET: -

ASSETS	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Assets				
Fixed assets	74576.16	67717.06	66033.65	87767.24
Long term loans and advantages	18029.88	15887.13	18733.88	20756.03
Current assets	89268.39	87714.38	90332.26	98882.76
Total assets	**181874.43**	**171318.57**	**175099.79**	**207406.03**
Liabilities				
Share-holders funds	15262.90	19962.90	19962.90	19962.90
Reserve and surpluses	18597.71	26956.28	33451.50	38660.96
Current liabilities	22075.35	16379.68	25693.45	35718.33
Total liabilities	**55935.96**	**63298.86**	**79107.85**	**94342.19**

balance sheet for the year 2012-2013 and it can be seen that there is a Rs-6859.1 change in fixed assets i.e -10.12% decrease in the F.A which is not good for company to meet its obligation towards various stakeholders. While in liabilities share-holders funds has remain unchanged & reserve and surpluses Rs. 8358.57 but with this company also raise fund from outside which carry huge cost in terms of long-term borrowings. Total liabilities are increase 11.63% from the year 2012 to 2013. balance sheet for the year 2013-2014 and it can be seen that there is a Rs -1683.41 change in fixed assets i.e -2.54% decrease in the F.A which is not good for company to meet its obligation towards various stakeholders. While in liabilities share-holders funds has remain unchanged & reserve and surpluses Rs. 6495.22 but with this company also raise fund from outside which carry huge cost in terms of long-term borrowings. Total liabilities are increase 19.99 (20) % from the year 2013 to 2014. balance sheet for the year 2014-2015 and it can be seen that there is a Rs 21733.59 change in fixed assets i.e 24.77% increase in the F.A which is good for company to meet its obligation towards various stakeholders. While in liabilities share-holders funds has remain unchanged & reserve and surpluses Rs. 5209.46 but with this company also raise fund from outside which carry huge cost in terms of long-term borrowings. total liabilities are increase 16.15% from the year 2014 to 2015.

PROFIT AND LOSS STATEMENT

Particular	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Total revenue	187373.03	187011.45	215556.68	219979.03
Less: total expenses	183618.86	176885.58	204582.71	212214.68
Total	**3754.17**	**10125.87**	**10973.97**	**7764.35**
Profit before tax	3754.16	10125.86	10973.97	7765.25
Less: tax	593.44	1706.26	4488.08	2555.79
NPAT	**3160.71**	**8419.60**	**6485.89**	**5209.46**

profit and loss statement and it has been observe that the three is (361.58) lack RS. Change in the sale i.e there is a 0.19% decrease in the sales while in net profit, there is Rs. (5258.89) change i.e 62.46% increase in the sales which indicate that the company performance is increasing in 2013 as compare to 2012. Which also indicate that company is growing in well growth rate.

profit and loss statement and it has been observe that the three is (28545.23) lack RS. Change in the sale i.e there is a 5.09% increase in the sales while in net profit, there is Rs. (-1933.71) change i.e 29.81% decrease in the sales which indicate that the company performance is decreasing in 2014 as compare to 2013. Which also indicate that company is not growing in well growth rate.

profit and loss statement and it have been observed that the three is (4422.35) lack RS. Change in the sale i.e there is a 2.01% increase in the sales while in net profit, there is Rs. (-1276.47) change i.e 24.51% decrease in the sales which indicate that the company performance is decreasing in 2015 as compare to 2014. Which also indicate that company is not growing in well growth rate.

FINDINGS: -

- The current ratio is above 2 in all the five years. The same level of current assets and current liabilities may be maintained since the current assets and less profitability. When compared to fixed assets.
- The cash ratio is decreasing year after year. So it shows that the cash position is not utilized effectively and efficiently.
- The inventory turnover ratio for the five years indicated a moderate inventory policy and efficiency of business operations of the company.
- The working capital turnover ratio has been increasing during the five years, which indicates that there is lowest investment of the working capital and more profit. More profit is in the sense that there is higher ratio.
- The fixed assets turnover ratio in all the five years is above the satisfactory level, that is, 50%. It indicates the when the net fixed assets cam increases then sales can be increase.

- The gross profit ratio can be increase for the last three years, that indicate the company can achieve good gross profit ration for last three years. And that are cover the revenue.
- The net profit ratio for the five years has been decreasing than increasing which shows that the selling and distribution expenses are under control and there is a good operational efficiency of 2012 to 2016.
- The stock turnover ratio in company is decrease in some time of period but after they are increase in big percentage like 2014 to 2016 that indicate that the stock can be increase year after year and that is good for the company.
- The debt to equity ratio is increasing year after year, which indicates, the servicing of debt is good or high and attraction of the company towards shareholder is high.
- Comparative balance sheet proves that the financial performance for each succeeding year is not much satisfactory as compared with its previous year during the period of 2012 to 2016.

CONCLUSION: -

For the study it has been conclude that the company's is growing but at decreasing growth rate and marked improvement at operating levels largely on account of increasing in sales in a challenging economic environment and intensely competitive market.

The study is made on the topic financial performance by using ratio analysis with five years data in Patco Food Pvt. Ltd.

The current and liquid ratio indicate the short-term financial position of Patco Food Pvt. Ltd. Whereas debt equity and proprietary ratios shows the long-term financial position.

Similarly, activity ratio and profitability ratio are helpful in evaluating the efficiency of performance in Patco Food Pvt. Ltd.

The financial performance of the company for the five years is analyzed and it is proved that the company is financially sound.

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