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FINANCIAL RATIOS AND PERFORMANCE APPRAISAL – A CASE STUDY

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ABSTRACT

Financial Performance in broader sense refers to the degree to which financial objectives has been accomplished and is an important aspect of finance risk management. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. The financial performance can be measured with the help of a financial analysis of a firm. Financial analysis involves the use of financial statements. The process of financial statement analysis is of different types. Ratio analysis is a powerful tool of financial analysis. A financial ratio is a relationship that indicates something about a company's activities, such as the ratio between the company's current assets, current liabilities or between its accounts receivable and its annual sales or its ability to settle up with its short term and long term debts or its profit making capacity. The basic source for these ratios is the company's financial statements that contain figures on assets, liabilities, profits, or losses. The present study tries to diagnose the information contained in financial statements so as to judge the profitability and financial soundness of Harrison Malayalam Ltd. The findings of the study reveals that the performance of the company in term of its liquidity, profitability, operating efficiency and solvency sounds not good and there is enough room for improvement & further strengthening of current ratio position, liquidity ratio position, & net profit margin position for achieving a good financial soundness for company.

1. INTRODUCTION

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. It is the process of measuring the results of a firm's policies and operations in monetary terms. The financial performance can be measured with the help of a financial analysis of a firm.

Financial Statement Analysis is a method used by interested parties such as investors, creditors, and management to evaluate the past, current, and projected conditions and performance of the firm. Ratio analysis is the most common form of financial analysis. It provides relative measures of the firm's conditions and performance. Horizontal Analysis and Vertical Analysis are also popular forms. Horizontal analysis is used to evaluate the trend in the accounts over the years, while vertical analysis, also called a Common Size Financial Statement discloses the internal structure of the firm. Financial ratios are only meaningful when compared with other information. Analysts can obtain useful information by comparing a company's most recent financial statements with its results in previous years and with the results of other companies in the same industry. Here the aim of the study is to summarize all that data into a form which is easily understood by all the relevant parties.

An integrated agriculture operation giant Harrisons Malayalam Limited is India's largest producer of rubber, South India's largest cultivator of Tea and perhaps the largest farmer of Pineapple in the region. The company also produces smaller quantities of a variety of other exotic horticultural crops like Areca nut, Banana, Cardamom, Cocoa, Coffee, Coconut, Pepper and Vanilla as well as limited quantities of *Organic* tea and Spices.

HML is part of The RPG Enterprises, one of the largest business conglomerates in India with business interests ranging from tyres, cables, power transmission, telecommunications, pharmaceuticals, specialty chemicals to retail and consumer marketing, hotel, tourism and entertainment .

2. OBJECTIVES OF THE STUDY

To diagnose the information contained in financial statements so as to judge the profitability and financial soundness of the firm.

3. RESEARCH METHODOLOGY

There are several tools to evaluate the performance of a company, but the present study uses one of the most valuable tool the "financial ratios". Ratios are an analyst's microscope; they allow us get a better view of the firm's financial health than just looking at the raw financial statements. Ratios are useful both to internal and external analysts of the firm. For internal purposes ratios can be useful in planning for the future, setting goals, and evaluating the performance of managers. External analysts use ratios to decide whether to grant credit, to monitor financial performance, to forecast financial performance, and to decide whether to invest in the company.

Sources of data

All the necessary information to prepare this report are collected from only secondary source of data.

4. RESULTS

i) Current Ratio

Table: 1: List of Current Assets, Current Liabilities, Current Ratio and their Percentage Change

(Rupees in Lakhs)

Year	current assets	current liabilities	current ratio	Percentage Change
2010-2011	7535.93	10322.55	0.730045	0
2011-2012	7752.88	10524.72	0.736635	0.902668
2012-2013	8437.32	12849.45	0.656629	-10.8611
2013-2014	9851.47	11417.6	0.862832	31.40329
2014-2015	7597.76	12847.68	0.591372	-31.4615
2015-2016	6878.49	16597.61	0.414427	-29.9212
2016-2017	6,783.30	17,490.11	0.38783633	-6.41625

Source: Annual Report

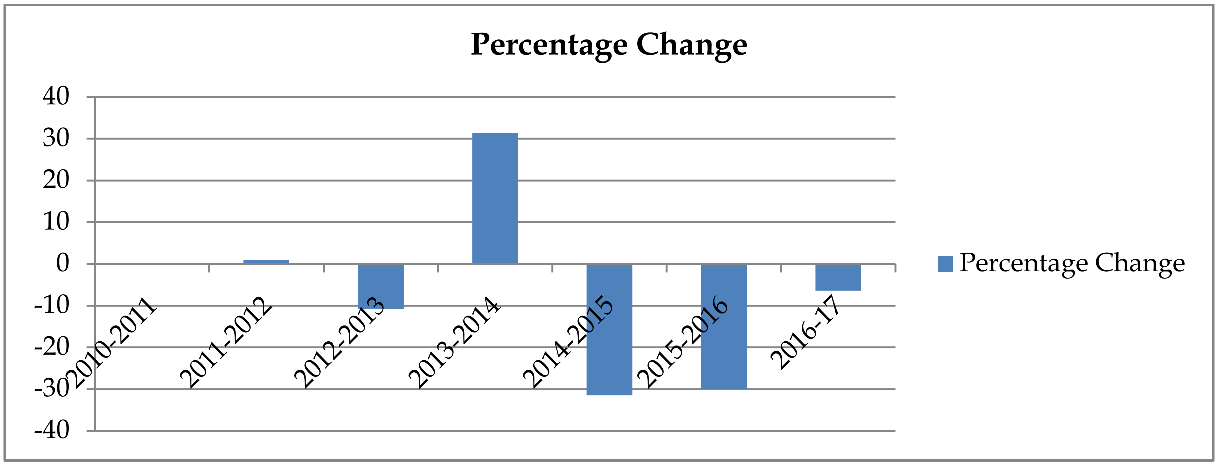

Figure: 1: Percentage Change of Current Ratio

The current ratio is less than one in all years and decreasing every year except in the year 2013-2014. Current ratio is a useful test of the short-term-debt paying ability of any business. A ratio of 2:1 or higher is considered satisfactory for most of the companies. Since the current ratio of the company is low (less than 1 in all year) and even by the year 2015-2016 and 2016-2017 its current assets goes below 50% of its current liabilities. Hence the company may have problems meeting its short term obligations.

ii) **Quick Ratio**

Table: 2: List of Quick Assets, Current Liabilities, Quick Ratio and their Percentage Change (Rupees in Lakhs)

Year	Quick Assets	current liabilities	Quick Ratio	Percentage change
2010-2011	4950.14	10322.55	0.479546	0
2011-2012	5863.53	10524.72	0.55712	16.17645
2012-2013	6377.39	12849.45	0.496316	-10.9139
2013-2014	7309.57	11417.6	0.640202	28.99075
2014-2015	5316.06	12847.68	0.413776	-35.3679
2015-2016	4659.76	16597.61	0.280749	-32.1495
2016-2017	4376.98	17,490.11	0.250255	-10.8618

Source: Annual Report

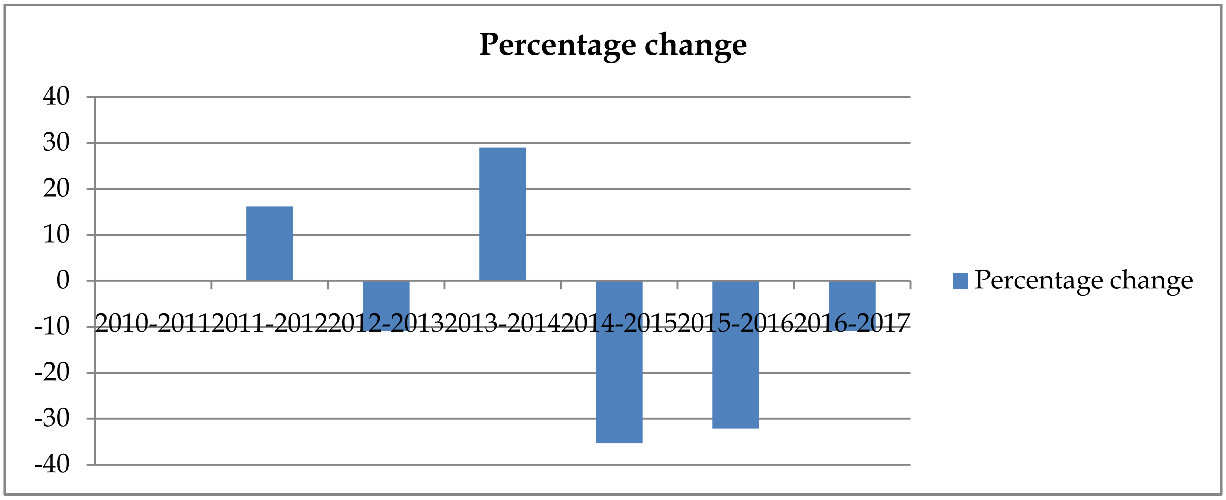

Figure: 2: Percentage Change of Quick Ratio

A firm with a quick-or-acid-test-ratio of 1:1 is considered to have sufficient liquidity. It is fit enough to pay off all the liabilities / bills on time. But here, quick ratio is less than 1 in all of the five years and even less than 0.5 except 2011-2012 and 2013-2014.

iii) Gross Profit Ratio

Table: 3: List of Sales, Cost of Goods Sold, Gross Profit Ratio and their Percentage Change

(Rupees in Lakhs)

Year	sales	CGS	GP	GP Ratio	Percentage change
2010-2011	36435.35	17928.26	18507.09	50.79432	0
2011-2012	36498.91	9980.77	26518.14	72.65461	43.03688
2012-2013	33212.33	8813.34	24398.99	73.46365	1.113543
2013-2014	36419.09	10365.68	26053.41	71.53778	-2.62153
2014-2015	32663.86	9495.27	23168.59	70.93035	-0.8491
2015-2016	28485.55	7860.64	20624.91	72.40482	2.078758
2016-2017	36,664.02	11903.45	24,760.57	67.5337	-6.72762

Source: Annual Report

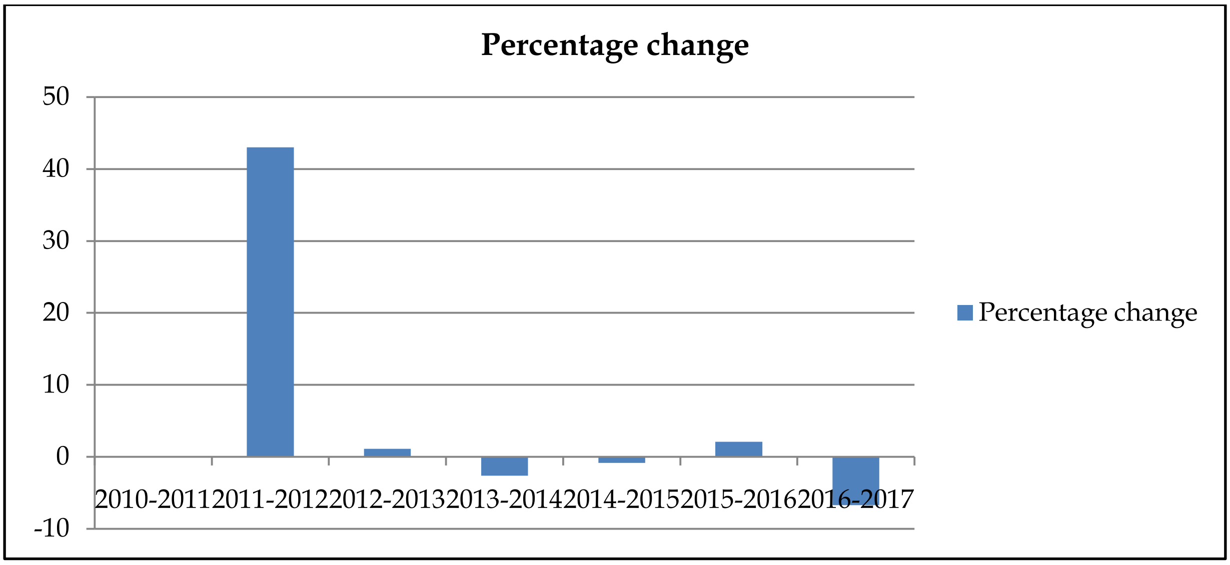

Figure: 3: Percentage Change of Gross Profit Ratio

The gross profit ratio represents the percentage of total sales revenue that the company retains after incurring the direct costs associated with producing the goods and services sold by the company. Here more than 70% of the sales constitute gross profit and shows an increasing tendency in all the years except in the years2013-2014, 2014-2015 and 2016-2017. The GP ratio is decreased in these years because the cost of goods sold is reached in a high level , when the cost of goods sold is become high gross profit will be low. Similarly when cost of goods sold is reaches in a low level gross profit will be high.

iv) Net Profit Ratio

Table: 4:List of Sales, Net Profit, Net Profit Ratio and their Percentage Change

(Rupees in Lakhs)

Year	sales	NP	NP Ratio	Percentage change
2010-2011	36435.35	394.93	1.08392	0
2011-2012	36498.91	471.37	1.291463	19.14748
2012-2013	33212.33	229.76	0.691791	-46.4335

2013-2014	36419.09	441.5	1.212276	75.23729
2014-2015	32663.86	-3525.87	-10.7944	-990.425
2015-2016	28485.55	-4568.24	-16.037	-48.5681
2016-2017	36,664.02	-521.56	-1.42254	91.12967

Source: Annual Report

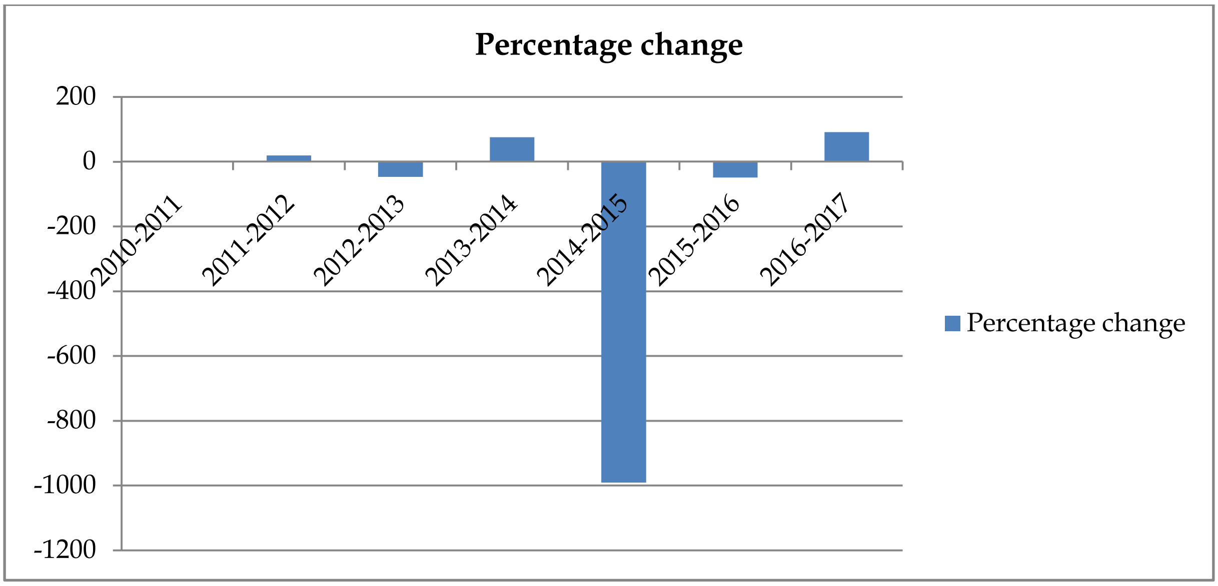

Figure: 4: Percentage Change of Net Profit Ratio

Net profit reveals the remaining profits after all cost of production, administration & financing have been deducted from sales & income taxes recognized. A high net profit margin means a company is able to control its costs that buy goods and services of prices. Here in the years 2011-2012 and 2013-2014there is a comparatively high net profit margin. So in these two years, the HARRISONS MALYALAM.LIMITTED is able to control its costs that buy goods and services of prices. In these years the cost of production, administration & financing are shows a comparatively decreasing tendency that is why the gross profit ratios increased in that days. In the other three years [2012-2013, 2014-2015 and 2015-2016] the cost of production, administration, & financing is in a increasing tendency that is why net profit margin in that years were decreased.

v) Return on assets ratio

Table: 5: List of Net Profit, Total Assets, Return on Assets Ratio and their Percentage Change (Rupees in Lakhs)

Year	NP	Total Assets	Return on Assets	Percentage change
2010-2011	394.93	51258.75	0.007705	0
2011-2012	471.37	51544.04	0.009145	18.69471
2012-2013	229.76	53009.58	0.004334	-52.6046
2013-2014	441.5	54122.78	0.008157	88.20474
2014-2015	-3525.87	51308.03	-0.06872	-942.423
2015-2016	-4568.24	50111.62	-0.09116	-32.6568
2016-2017	-521.56	35,579.70	-0.01466	83.9198

Source: Annual Report

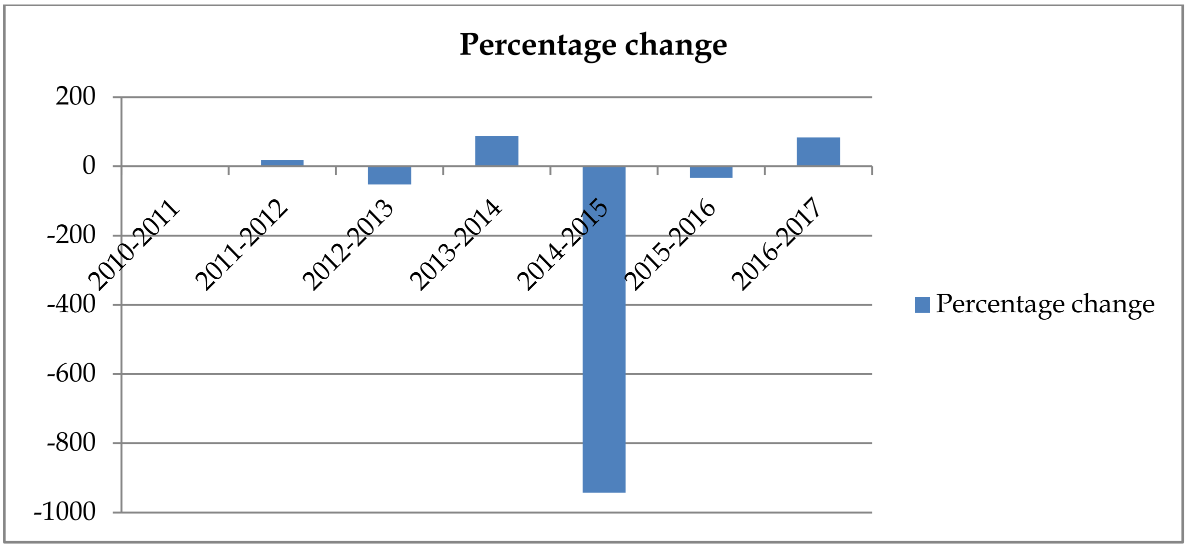

Figure: 5: Percentage Change of ROA

The return on assets ratio shows a decreasing tendency in the years 2011-2012, 2012-2013&also in the year 2014-2015 because the company is not profitably relative to its total assets. The return on total assets ratio shows an upward tendency in the years 2013-2014, 2015-2016 and 2016-2017, because the company is profitably relative to its total assets &the company is very much efficiently used its total assets to generate earnings, before the contractual obligations are to be paid by the company.

vi) No. of days credit granted

Table: 6: List of Credit Sales, Trade Debtors, Average Debt Collection Period and their Percentage Change

Year	Credit sales	Trade Debtors	Average Debt collection period	Percentage change
2010-2011	36435.35	1286.8	12.89083	0
2011-2012	36498.91	1285.38	12.85418	-0.00284
2012-2013	33212.33	818.25	8.992481	-0.30042
2013-2014	36419.09	1485.65	14.88951	0.655773
2014-2015	32663.86	1277.55	14.27589	-0.04121
2015-2016	28485.55	693.66	8.888222	-0.3774
2016-2017	36,664.02	759.36	7.559629	-14.9478

Source: Annual Report

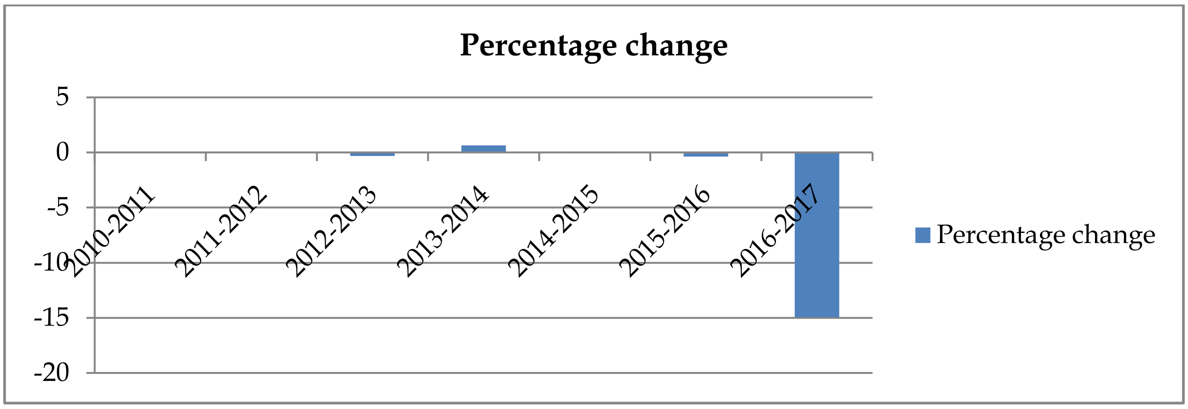

Figure: 6: Percentage Change of Average Debt Collection Period

Average collection period or no of day's credit granted indicates frequency of conversion of receivables in to cash or average debt collection period indicates no of days or months in which the debtors converted in to cash. The average collection period shows a decreasing tendency in all the years excepting the year 2013-2014.The decreased collection period indicates lower risk in collecting the average sales per day. The decreased collection period also indicates greater efficiency in the debt collection of company. The increased collection period indicates higher risk in collecting the average sales per day. The increased collection period also indicates the inefficiency in the debt collection of company.

vii) No. of days credit taken

Table: 8: List of Credit Purchase, Trade Creditors, Average Debt Payment Period and their Percentage Change

Year	Credit purchase	Trade creditors	Average Debt payment period	Percentage change
2010-2011	11593	1612.79	50.77791	0
2011-2012	9383	1229.38	47.82305	-5.81918568
2012-2013	8907	1636.64	67.06788	40.24173684
2013-2014	10744	1760.99	59.82514	-10.7991113
2014-2015	9431	1904.27	73.69935	23.19125812
2015-2016	7874	2802.92	129.9296	76.29683324
2016-2017	11886	3226.4	99.07757	-23.7451992

Source: Annual Report

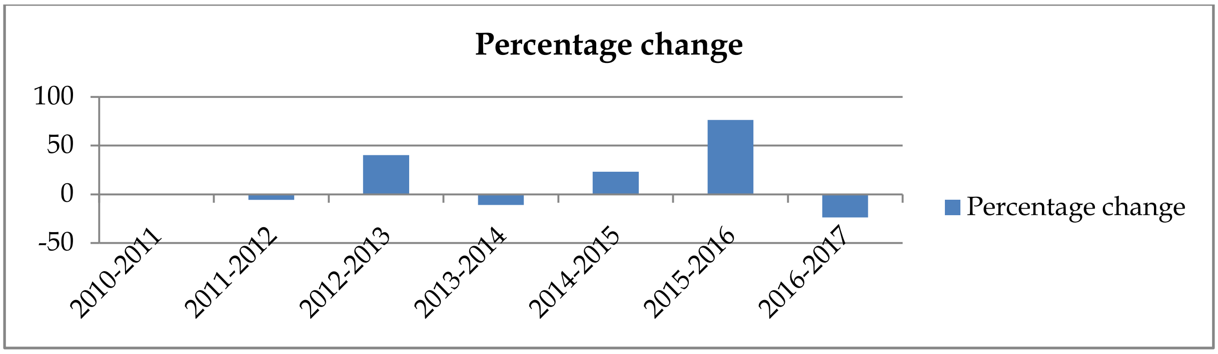

Figure: 8: Percentage Change of Average Debt Payment Period

Average debt payment period or no of day's credit taken means the no of days taken by the company for payment of credit [company's debt].Here the average payment period shows an increasing tendency in all the years except the year 2013-2014.A increased payment period indicates unprompted payment to creditors. The average payment period shows a decreasing tendency in the year 2013-2014.A decreased payment period indicates prompted payment to creditors and a very short payment period may be an indication that the company is not taking full advantage of the credit terms allowed by suppliers

viii) Stock Turnover Ratio

Table: 8: List of Average Stock, Cost of Goods Sold, Stock Turnover Ratio and their Percentage Change (Rupees in Lakhs)

year	opening stock	closing stock	average stock	CGS	STR	Percentage change
2010-2011	3388.56	2585.79	2987.175	17928.26	6.001744	0
2011-2012	2585.79	1889.35	2237.57	9980.77	4.46054	-25.679
2012-2013	1889.35	2059.93	1974.64	8813.34	4.463264	0.0611
2013-2014	2059.93	2541.9	2300.915	10365.68	4.505025	0.9357
2014-2015	2541.9	2281.7	2411.8	9495.27	3.937006	-12.609
2015-2016	2281.7	2218.73	2250.215	7860.64	3.493284	-11.271
2016-2017	2218.73	2406.32	2312.525	11903.45	5.147382	47.35081

Source: Annual Report

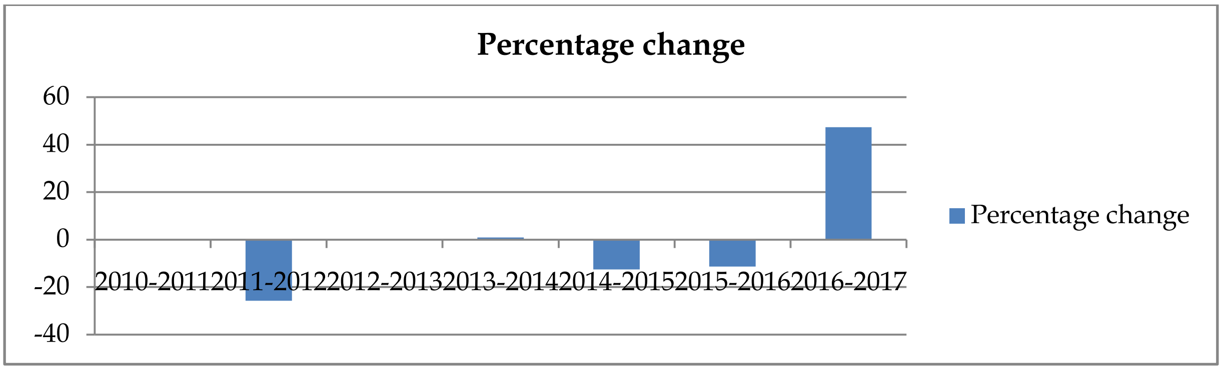

Figure: 8: Percentage Change of Stock Turnover Ratio

Stock or inventory turnover ratio indicates how effectively the stock or inventory is managed, by comparing cost of goods sold with average inventory for a period. In the years 2012-2013, 2013-2014 &, 2014-2015 the stock turnover ratio is increased at 3 times increasing rate. In these years the company effectively managed the inventory by comparing cost of production and average stock. In the other years 2011-2012 & 2015-2016 the inventory turnover is reduced. Because the company is did not managed the inventory effectively by using cost of production & average inventory.

ix) Price/Earnings Ratio

Table: 9: List of Share Price, Earning Per Share, Price/Earnings Ratio and their Percentage Change (Rupees in Lakhs)

Year	Share price	EPS	P/E Ratio	Percentage change
2010-2011	82.375	2.14	38.49299	0
2011-2012	70	2.55	27.45098	-28.6858
2012-2013	51.275	1.24	41.35081	50.6351
2013-2014	48.475	2.39	20.28243	-50.9503
2014-2015	46.3	-19.1	-2.42408	-111.952
2015-2016	47	-24.75	-1.89899	-21.6614
2016-2017	85.025	-2.83	-30.0442	-1482.11

Source: Annual Report

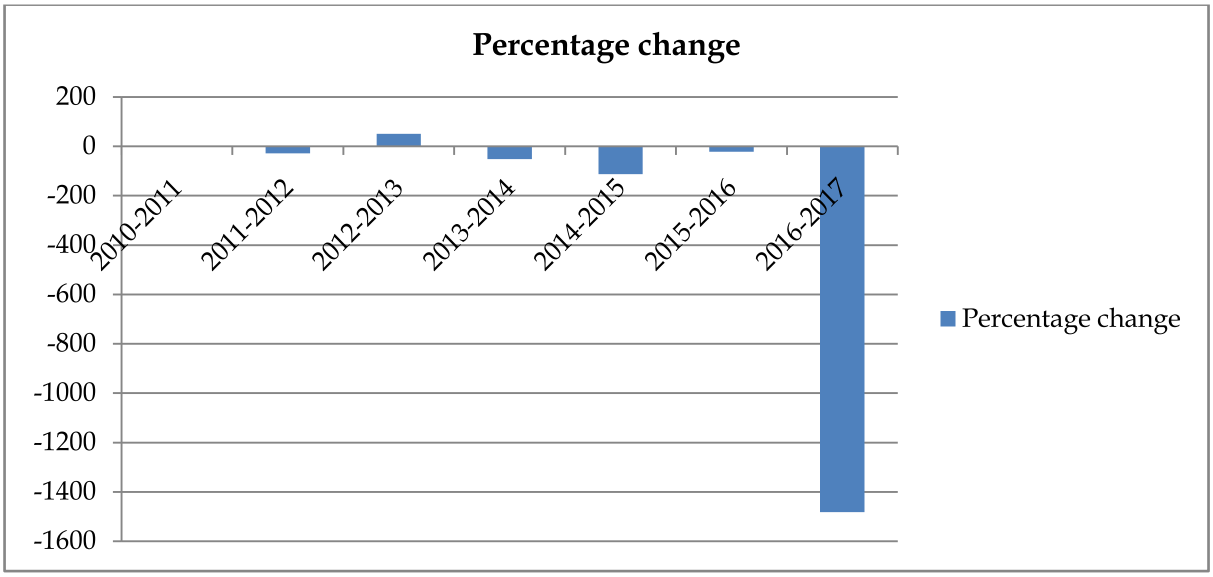

Figure: 9: Percentage Change of P/E Ratio

Price earnings ratio indicates the expected price of a share based on its earnings. The price earnings ratio is reached in a high margin in the year 2012-2013 & if the price earnings ratio is higher than its market value per share also increases in high margin & on the other hand the company with a high P.E ratio usually indicated a positive future performance & investors are willing to pay more for this company's shares.

5. FINDINGS

- The current ratio and quick ratio of the period under study is not satisfactory since it is less than one in all years and decreasing every year except in the year 2013-2014 (0.86:1, 0.64:1 respectively). Hence the company may have problems meeting its short term obligations.
- The gross profit ratio of more than 70% indicate a good sign regarding profitability and it shows an increasing tendency in all the years except in the years 2013-2014 and 2014-2015. Though the gross profit margin sounds good, its net profit margin is not satisfactory. The high operating costs leads to a low net profit margin of 1% and the decreasing tendency of this ratio to a negative figure indicates that the firm is unable to control its operating cost.
- As a result of a very low net profit, the return on the total assets ratio found unsatisfactory. This ratio indicates that the company is not very much effectively used its total assets to generate earnings.
- The average collection period ranges from 7-14 days which indicate that the company is able to collect its sales promptly. The average payment period ranges from 47 to 129 days which sounds not good because the company took more time to pay off its creditors. Though the company could collect its sales on time it could not make use of this amount to settle its short term obligations promptly. This may due to the high operating cost of the firms which is clear from the low net profit margin and low current and quick ratio.
- The stock turnover ratio also shows a good sign since it was 6 times during the initial years of selected five years which was reduced to 3 in 2014-15 and 2015-16.
- Price earnings ratio found unsatisfactory due to the decreased EPS and corresponding low market price of equity share leads to a poor price earnings ratio which is ultimately the result of low GP margin, NP margin, low Current ratio, Quick ratio and high Creditors collection period.

6. SUGGESTIONS

- The company should take necessary steps to analyze each components of operating cost and control the necessary item. Even though it bags a high gross profit margin, the annual reports shows a poor performance regarding net profit and return on assets.
- To make the return of total assets ratio in to a satisfactory condition the company have to take all the necessary steps to increase the net profit margin in every year.
- Company's average collection period shows a satisfactory condition. If the company receives it's outside receipts in fast and without any coruption in receipts it will increase company's ability to collect its sales promptly.
- If the company takes all the necessary steps to reduce its operating costs promptly it will usually led to a situation where the company earns a very high net profit margin, a high current ratio & a high quick ratio. This will provide necessary funds for company to pay off its creditors on time & this will make eligible the company to settle its short term obligations promptly.
- If the company takes suitable steps for increasing the GP margin ,NP margin, current ratio, liquidity ratio, & also takes necessary steps for creating a low debt collection period this will increase the market price of equity share and will lead to increase of earning per share and company's price earnings ratio will perform a satisfactory condition.

7. CONCLUSION

Ratio analysis - the basic tool of financial analysis, is an important part of any financial planning process to the very extent SWOT Analysis (strength, weakness opportunity and threat analysis) is to the business planning process. And no SWOT analysis will be complete without the ratio analysis. This case study reveals that the basic financial parameters such as liquidity, profitability, operating efficiency and solvency are not good and needs to be strengthened to achieve financial soundness, and can be achieved by the effective implementation of suggestions that ratio analysis suggests to improve current ratio position, liquidity ratio position and the net profit margin position.

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