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"TOOL OF MONITORING FIRM'S PERFORMANCE: RATIO ANALYSIS"

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ABSTRACT:
Financial ratios are informative tools that act as a director (compass) that shows a firm its corporate, strength or weakness. They are the instrument that analyses the historical data or records, for the operation of the firm.
This research paper is related to the analysis of different types of ratios (Ratio Analysis) of "Krishna Readymades", a retail firm, situated at Warje, Pune in order to analyze Krishna Readymades accounting ratios are used, the primary data related to the firm is kept private as they did not wish to disclose it. The final result of the paper in accordance to the financial performance of Krishna Readymades shows, that the financial performance of the company is good as compared to the current scenario of the pandemic and the owner should maintain the reputation of the firm.
Using several ratios like current ratio quick ratio proprietary ratio that's turnover ratio and net profit ratio we found the Firms Corporate strength.
Finally, the study suggests measures, adoption and implementation of different types of techniques which will improve firms' profitability.
KEYWORDS: Ratio Analysis, Financial performance, Tool for monitoring firms' performance.

INTRODUCTION:

Nowadays, taking financial decisions for the firm is very critical, as the decision directly affect the life of the firm. Right from the beginning of the firm, managers and owners has to take decisions which balance the goal of profit maximization along with the wealth maximization. Ratio analysis is one of the important tools for the analysis of the firm, through which the accounting ratios are analyzed. After the analysis of the firm the future predictions and decisions are easy to make as we have the whole statistical data of the past records of the firm. Ratio analysis simplifies the firm's profitability and effectiveness with the help of different types of ratios like Current ratio, Quick ratio, Proprietary ratio, Gross Profit ratio, Debtors Turnover ratio, etc. In this research we are going to study the five different ratios which are Current ratio, Quick ratio, Proprietary ratio, Debtors' Turnover ratio and Net profit ratio. Ratio analysis helps in expressing the relationship between two variables. It helps to access the operational efficiency of managers, earning capacity and financial health of the firm by using financial statement analysis.

Ratio analysis is an indispensable tool for studying the firm's overall performance and prospects of growth. Over the years financial managers, bankers, debenture holders, investors, etc. still choose ratio analysis to study the firm overall growth.

WHAT IS RATIO ANALYSIS?

Ratio analysis is a powerful tool to analyze the firm's financial data. Benchmark for evaluating the financial position of the firm is ratio analysis. By the name itself we can understand that ratio analysis deals with relationship between two accounting figures, which is expressed mathematically and also known as financial ratio. These ratios help to summarise large number of data and make a qualitative judgement for the firm's future. We compared the past financial data i.e., Profit and loss statement and balance sheet and make interpretations for the easy decision making for the firm.

OBJECTIVES OF THE STUDY:

1. To understand the ability of the firm to pay current liabilities as and when they arise and know the short-term financial position of the firm.
2. To measure the immediate solvency and ability to meet immediate liability, in short to know the liquidity of the firm.
3. To know the proportion of asset finance by the proprietor, which indicates the long-term Finance of the firm.
4. To know the efficiency in credit collection and effectiveness of credit control.
5. To know the profitability of the firm.

RESEARCH METHODOLOGY:

Research Methodology is the techniques used to select, analyze, process, and identify information about the topic of research.

1. Nature of study:
   The Study is Analytical and Descriptive in nature.
2. Nature of data:
   The Data showcased is Primary in nature.

3. Source of data:

a) Primary Data: The firm selected is a private and personal firm whose complete statics are not disclosed but the necessary data for the calculation is displayed.

b) Secondary Data: Research Papers, Journals, Books, Company's Balance Sheet, etc.

4. Tool of Analysis:

The tool used for analysis is ratio analysis.

5. Period of Study:

The study confines to a period of 5 years from 2017-2018 to 2021-2022.

LIMITATIONS OF THE STUDY:

1. The approach to certain items and analysis and interpretation of ratio method may differ on calculation.
2. Time Period of study is five years only.
3. As it is a Private Firm the Data is not disclosed in the research paper, however the data provided in said to be true.
4. Ratio analysis calculates the quantitative aspects of a firm therefore the qualitative aspects are totally being ignored.
5. The reflection of the lockdown (pandemic) is not properly indicated in numbers.

PROFILE OF KRISHNA READYMADES:

Krishna readymade was incorporated on October in 1997 as "Krishna collection". The firm name was changed in 2005 as "Krishna Readymades". Krishna Readymades retail store for readymade clothes and garments for both Kids and Men's. When the form was first started it included the complete wear for everyone i.e., ladies, kids and men. But later in 2005 the firm was separated into two different firms, one is Krishna Readymades which is for kids and Men's, where as "Krishna sarees" was the firm for ladies' wear.

LITERATURE REVIEW:

1. **Chris Babu (2021)** A Study on Financial Performance Of Wipro. This study was done to know the profitability and liquidity position of Wipro from 2015 to 2020, to analyze the profitability during the period of study, to analyze overall financial position of the company and to suggest measures to improve the performance of the company.
2. **Prof. S. Sabarinathan, Ms. V. Jenifer**, A Study on Financial Performance Using the Ratio Analysis at Kaleeswarar Mills B Unit of National Textile Corporation Ltd. The objective of the study was to analyze the ratio analysis of the KALEESWARAR MILLS „B" unit, Kalayarkoil is a unit of national Textile Corporation ltd. The study concludes that the company should enhance its performance for meeting challenges and exploiting opportunities in future. The company should control the ratio to earn more profit and it is suggested to improve the absolute liquid asset.
3. **Shreeda Shah and Dr. Viral Shah (2018)** A Study on Financial Performance Using Ratio Analysis of Visa Steel Limited final. This study showed that overall financial performance of the company is declining and the company's' Directors should pay more attention to recover the financial position of the company.

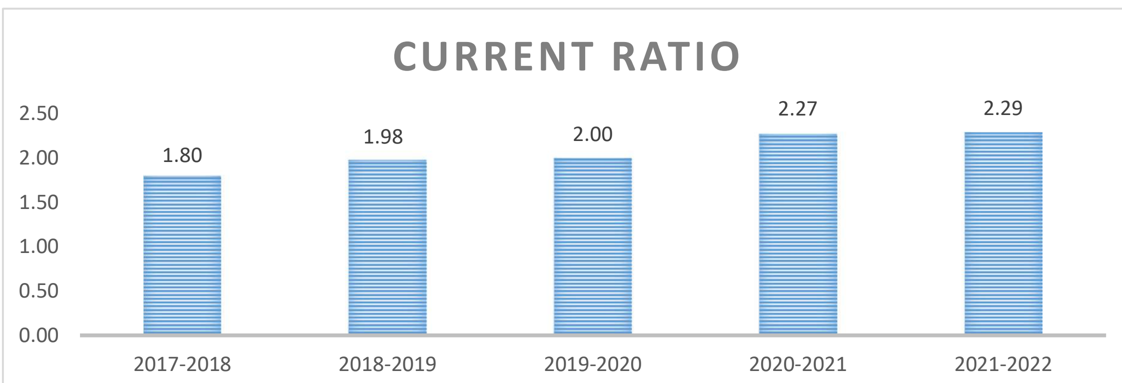
4. **S. Saigeetha and Dr. S. T. Surulivel (2017)** A Study on Financial Performance Using Ratio Analysis of BHEL, Trichy. This study analyzed BHEL, TRICHY by using ratio analysis. After the analysis, they suggested that the management must improve the current ratio & increase the margin of safety.

DATA ANALYSIS

Data collected are analyzed using several variables, results of which are given below:

1. $Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$

Financial Year	**Total Current Assets (in lakhs)**	**Total Current Liabilities (in lakhs)**	**Current Ratio**
2017-2018	24.16	13.42	1.80
2018-2019	27.85	14.06	1.98
2019-2020	32.95	16.47	2.00
2020-2021	47.03	20.72	2.27
2021-2022	66.97	29.24	2.29



Interpretation:

Current Ratio:

It helps us to know the ability of the firm to pay current liabilities as and when they arise. From the data analysed, we can say that the current ratio is good. The standard current ratio is 2:1 and as per the data collected and analysed the ratio it is around the standard ratio. This states that the firm has a sound solvency position.

As you can see from the analysis the current ratio is sounder in 2019-2020, 2020-2021 and 2021-2022. From this we can understand that the firm is trying to balance the total current assets and total current liabilities for the long term run in the pandemic situation.

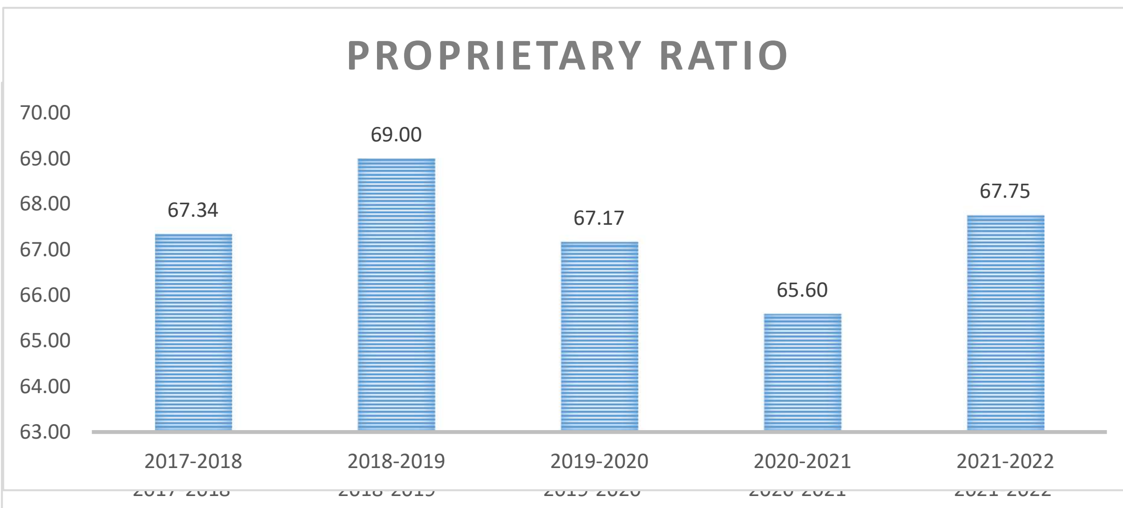
2. $Quick\ Ratio = \frac{Liquid\ Assets}{Liquid\ Liabilities}$

Financial Year	Total Liquid Assets (in lakhs)	Total Liquid Liabilities (in lakhs)	Quick Ratio
2017-2018	9.84	12.92	0.76
2018-2019	7.30	12.06	0.60
2019-2020	14.41	16.47	0.87
2020-2021	20.89	20.72	1.01
2021-2022	25.92	28.24	0.92

Interpretation:

Quick Ratio:

The quick ratio is also called as liquid ratio or acid test ratio. It helps us to measure the immediate solvency and ability to meet immediate liability, it serves as a test of solvency and shows us the liquidity of a firm.



From the analysis of above data we can see that the firm's quick ratio was less in the year 2017-2018 and 2018-2019 but was sound in 2019-2020, 2020-2021 and 2021-2022. Although the firm is in sound position now but the variations in the quick ratio are high so it is suggested to keep the ratio in the sound and standard ratio (1:1) which helps the firm at harder times.

3. $Proprietary\ Ratio = \frac{Propritory\ Funds}{Total\ Assets} \times 100$

Financial Year	Net Worth (in Lakhs)	Total Assets (in Lakhs)	Proprietary Ratio
2017-2018	27.67	41.09	67.34
2018-2019	31.30	45.36	69.00
2019-2020	33.71	50.18	67.17
2020-2021	39.51	60.23	65.60
2021-2022	61.44	90.68	67.75

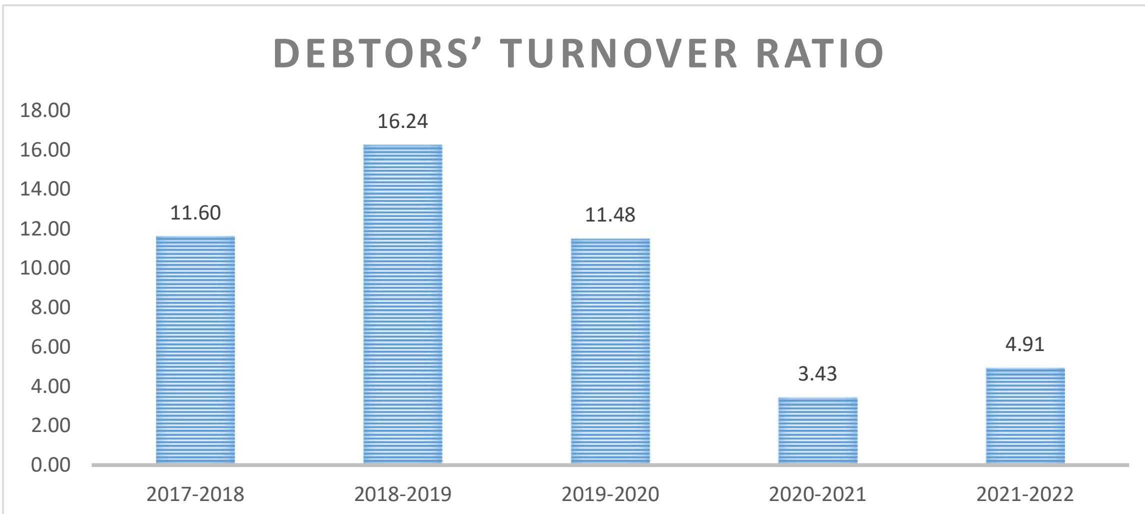
Interpretation:

Proprietary Ratio:

The proprietary ratio indicates the proportion of assets financed by the proprietor and also indicates the long-term financial solvency of the firm.

The analysis of data shows that the proprietary ratio is above 60%. It indicates that the firm is less dependent on external sources of fund and has a sound financial position.

4. $Debtors' \ Turnover \ Ratio = \frac{Total \ Sales}{Debtors}$



Financial Year	Total Sales (in lakhs)	Debtors (in lakhs)	Debtors' Turnover Ratio
2017-2018	36.10	3.11	11.60
2018-2019	44.37	2.73	16.24
2019-2020	70.30	6.12	11.48
2020-2021	55.86	16.30	3.43
2021-2022	29.74	6.05	4.91

Interpretation:

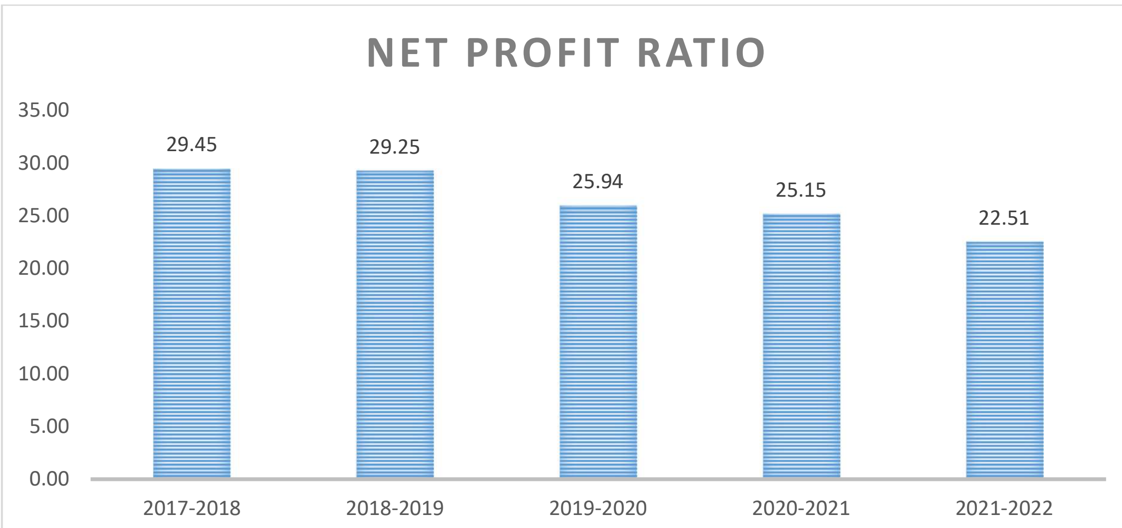
Debtors' Turnover Ratio:

Debtors' Turnover Ratio also known as receivable turnover ratio it helps us to understand the relationship between sales and debtors, indicate the efficiency in credit collection and effectiveness of credit control.

From the analysis we can see that debtor's turnover ratio was highest a 2018-2019 and was lowest in the year 2020-2021. Keeping the situation in mind we can say that relationship between debtor and sales was infected due to the lockdown situation.

5. $Net \ Profit \ Ratio = \frac{Net \ Profit}{Net \ Sales} \times 100$

Financial Year	Net Profit (in Lakhs)	Net Sales (in lakhs)	Net Profit Ratio
2017-2018	10.63	36.10	29.45
2018-2019	12.98	44.37	29.25
2019-2020	18.24	70.30	25.94
2020-2021	14.05	55.86	25.15
2021-2022	6.70	29.74	22.51



Interpretation:

Net Profit Ratio:

Net profit ratio indicates relation between net sales and net profit.

From the data collected we can say that the net profit ratio has been decreasing since 2017 (cannot ignore the situation of pandemic and lockdown as it is a retail store and the lockdown has a higher effect on the firm).

SUGGESTIONS:

1. It is suggested to the firm to keep its current ratio, quick ratio and Proprietary Ratio in sound and good position for the long run of the firm.
2. The firm should cope-up with the debtor's turnover ratio and net profit ratio as it was in the 2017-2018.

CONCLUSION:

According to this resource we find that the firm's overall position is good. The firm has a sound profitability and strong financial position.

The long-term solvency of the firm is good. The management of the firm has done a good job and must try maintaining the good performance of the firm.

After analyzing the ratios, it is clear that the decrease in the net profit ratio of the firm is due to the pandemic situation and the lockdown during the two years. As the nature of the firm is a retail cloth store, the personal touch of the consumer was missing due to which the relationship between the sales and the debtors was also ruined.

Now the firm should try to rebuild the relationship between them and the consumers and fill the gap created due to the pandemic.

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