Financial Performance Analysis in Chemical Industry, Tamilnadu

# Dr.Nalla Bala Kalyan

Associate Professor Department of Management Studies

Sri Venkateswara College of Engineering Tirupati-517507, Andhra Pradesh

# Mrs. Toopalli Sirisha

Assistant Professor Department of Management Studies

Sri Venkateswara College of Engineering Tirupati-517507, Andhra Pradesh

## Abstract:

The prime aim of the study is to analyze the financial position of the company. It is the procedure of identifying the financial strength and weaknesses of the firm and appropriately establishing the association between the item on the balance sheet and the profit and loss account. The details concerning the past and finance details of the company were collected through conversation with the company officers. Secondary data are collected based on the annual reports. The various tools used for the study are ratio analysis, common size statement, comparative statement and trend analysis. Charts and tables are used for better perceptive. Through ratio analysis, the company could understand the Profitability, Liquidity, Leverage, and Turnover positions of the company. The study will help investors to identify the nature of Indian chemical Industry and will also help to take decision regarding investment.

**Keywords:** Business, Chemical Industry, Financial Performance, Ratios,

## Introduction

Finance is defined as the stipulation of funds at the moment when it is essential. Each venture, whether large, medium, or little, wants finance to grasp on its operations and to accomplish its target. Financial performance analysis is the procedure of identifying the financial strengths and weaknesses of the firm by accurately establishing the link between the items of balance sheet and profit and loss account. Financial performance is a slanted measure of how well a firm can use assets from its major mode of business and engender revenues. It is the process scanning of the financial statements to judge profitability, solvency, stability, escalation and wealth of a firm. Financial management is that administrative bustle which is apprehension with planning and controlling of the firm’s financial reserve. In the contemporary literature pertaining to this growing academic discipline a broad scope has to be included, in addition to procurement of funds. Efficient use of resources is universally recognized.

## Need for the Study

Analyzing financial performance is the procedure of evaluating the regular parts of financial statements to acquire an enhanced perceptive of firm’s situation and performance. Financial performance analysis enables the investors and creditors evaluate precedent and present performance and also the financial position, and to envisage future performance. Financial statement is used to judge the profitability and financial reliability of a firm. In this study, an attempt is made to make out the financial strength and weakness of Orranje Agri Science Pvt Ltd by properly establishing relationship between the items in the balance sheet and profit and loss account.

## Scope of the Study

The study was carried at Orranjee Agri Science (p) Limited; at analyze its financial performance on the precedent five years. The study aims to analyze the liquidity, profitability, solvency position of the company. Liquidity ratios like current ratio, quick ratio etc is prepared to analyze the financial position of the company. Profitability of the company is found out by using ratios like return on net profit ratio, return on capital employed ratio etc. The changes can be pragmatic by comparison of the balance sheet at the beginning and at the end of a period and these changes can help in forming an opinion about the progress of a company.

## Objectives

* 1. To learn the overall financial performance of the company.
  2. To recognize the existing financial position of the enterprise.
  3. To ballpark the earning capacity of the business concern.
  4. To amend the growth profile of the company during the study period.

## Data Analysis

The following are major tools is used analysis and interpretation

* + 1. Comparative Statements
    2. Common Size Statements
    3. Trend Ratios
    4. Ratio Analysis.

## Comparative Statements

**Table 1 Comparative Balance Sheet**

## 2016-2017 to 2017-2018

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Balance Sheet Ingress | 2016 - 2017 | 2017 - 2018 | Absolute Change | percentage change % |
| Total Assets | 28424269.95 | 21778000.37 | -6646269.58 | -23.38 |
| Total Liabilities | 28424269.95 | 21778000.37 | -6646269.58 | -23.38 |

**Source:** Secondary Data

## Table 2 Comparative Balance Sheet

**2015-2016 to 2016-2017**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Balance Sheet Ingress | 2015-2016 | 2016-2017 | Absolute Change | percentage change % |
| Total Assets | 20520321.82 | 28424269.95 | 7903948.13 | 38.52 |
| Total Liabilities | 20520321.82 | 28424269.95 | 7903948.13 | 38.52 |

**Source:** Secondary Data

## Table 3 Comparative Balance Sheet

**2014-2015 to 2015-2016**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Balance Sheet Ingress | 2014-2015 | 2015-2016 | Absolute Change | percentage change % |
| Total Assets | 16269105.48 | 20520321.82 | 4251216.34 | 26.13 |
| Total Liabilities | 16269105.48 | 20520321.82 | 4251216.34 | 26.13 |

**Source:** Secondary Data

## Table 4 Comparative Balance Sheet

**2013-2014 to 2014-2015**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Balance Sheet Ingress | 2013-2014 | 2014-2015 | Absolute Change | percentage change % |
| Total Assets | 15204201.01 | 16269105.48 | 1064904.47 | 7.00 |
| Total Liabilities | 15204201.01 | 16269105.48 | 1064904.47 | 7.00 |

**Source:** Secondary Data

## Table 5

**Comparative Balance Sheet of 5 Years**

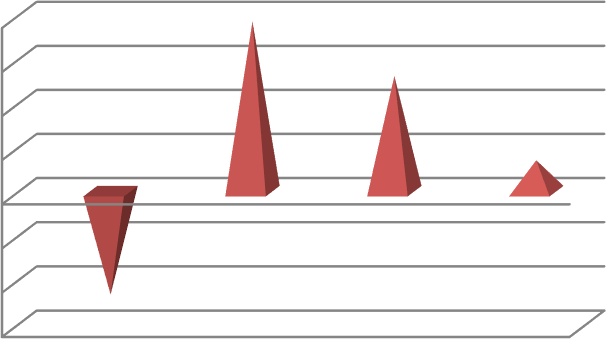
|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | 2016-2017 | 2015-2016 | 2014-2015 | 2013-2014 |
| % of Comparative Balance Sheet | -23.38 | 38.52 | 26.13 | 7.00 |

**Source:** Secondary Data

**Interpretation:** From the above table, it is inferred that the comparative balance sheet increased from the year 2013-2014 to 2014-2015. But in the year 2016-2017 the comparative value become negative, indicates that the future needs of the company not planned properly.

## Graph 1

**Comparative Balance Sheet of 5 Years**



40

30

20

10

0

-10

-20

-30

YEAR

2016-2017 2015-2016 2014-2015 2013-2014

% OF COMPARATIVE

BALANCE SHEET

**Source:** Secondary Data

## Common Size Statements

**Table 6**

## Common Size Balance Sheet 2016-2017 to 2017-2018

|  |  |  |
| --- | --- | --- |
| Balance Sheet Ingress | 2016 - 2017 | 2017 - 2018 |
| total current asset | 20186503.95 | 13740201.37 |
| Total current Liabilities | 2942522.17 | 4929989.94 |

|  |  |  |
| --- | --- | --- |
| Net working capital | **2942522.17** | **4929989.94** |

**Source: Secondary Data**

## Table 7

**Common Size Balance Sheet 2015-2016 to 2016-2017**

|  |  |  |
| --- | --- | --- |
| Balance Sheet Ingress | 2015-2016 | 2016-2017 |
| total current asset | 14000296.82 | 20186503.95 |
| total current liabilities | 12830455.62 | 17243981.78 |
| Net working capital | **1169841.2** | **2942522.17** |

**Source:** Secondary Data

## Table 8

**Common Size Balance Sheet 2014-2015 to 2015-2016**

|  |  |  |
| --- | --- | --- |
| Balance Sheet Ingress | 2014-2015 | 2015-2016 |
| Total Assets | 12512791.48 | 14000296.82 |
| Total Liabilities | 10035204.14 | 12830455.62 |
| Net working capital | 2477587.34 | 1169841.2 |

**Source:** Secondary Data

## Table 9

**Common Size Balance Sheet 2013-2014 to 2014-2015**

|  |  |  |
| --- | --- | --- |
| Balance Sheet Ingress | 2013-2014 | 2014-2015 |
| Total Assets | 11986357.01 | 12512791.48 |
| Total Liabilities | 10824510.46 | 10035204.14 |
| Net working capital | **1161846.55** | **2477587.34** |

**Source:** Secondary Data

## Table 10

**Net working capital**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 2013-2014 | 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 |
| Net working capital | 3.4 | 7.3 | 9.63 | 2.14 | 6.46 |

**Source:** Secondary Data

**Interpretation:** From the above table, it is inferred that the net working capital ratio increases was highest in the year2015-2016, the value of the ratio in this year was9.63. The lowest value of the ratio was in the year 2016-17 i.e., 2.14 percent. It is observed that the working capital trend is not constant over the period; it is more fluctuating in nature which shows fragile financial position of the company.

# Graph 2

**Net Working Capital**



**NET WORKING CAPITAL**

12

10

8

6

4

2

0

Net working

capital

0 2 4 6

**Source:** Secondary Data

## Table 11

**Trend Analysis**

## Trend Analysis of Current Asset

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| year | X | current asset(Y) | X2 | XY |
| 2013 | -2 | 11986357.01 | 4 | -23972714.02 |
| 2014 | -1 | 12512791.48 | 1 | -12512791.48 |
| 2015 | 0 | 14000296.82 | 0 | 0 |
| 2016 | 1 | 20186503.95 | 1 | 20186503.95 |
| 2017 | 2 | 13740201.37 | 4 | 27480402.74 |
| Total | 0 | ∑y =72426150.63 | ∑x2=10 | ∑xy=11181401.19 |

**Source**: Secondary data

∑y =72426150.63

∑x2=10

∑xy=11181401.19 N =5

a=∑y/n=72426150.63/5 = 14485230.13

b=∑xy/∑x2=11181401.19/10 = 1118140

Estimation of 2018 will be calculated on the basis of x=3 Y2018 = 72426150.63+ (11181401.19) (3)

=105970354.2

Estimation of 2019 will be calculated on the basis of x=4 Y2019 = 72426150.63+ (11181401.19) (4)

= 117151755.4

Estimation of 2020 will be calculated on the basis of x=5 Y2020 = 72426150.63+ (11181401.19) (5)

= 128333156.6

## Table 12

**Trend Analysis of Current Liabilities**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | X | current liabilities(Y) | X2 | XY |
| 2013 | -2 | 10824510.46 | 4 | -21649020.9 |
| 2014 | -1 | 10035204.14 | 1 | -10035204.1 |
| 2015 | 0 | 12830455.62 | 0 | 0 |
| 2016 | 1 | 17243981.78 | 1 | 17243981.78 |
| 2017 | 2 | 8810211.43 | 4 | 17620422.86 |
| Total | 0 | ∑y =59744363.43 | ∑x2=10 | ∑xy =3180179.58 |

**Source:** Secondary data

∑y =59744363.43

∑x2=10

∑xy=3180179.58 N =5

a=∑y/n=59744363.43/5 = 11948872.68

b=∑xy/∑x2=11948872.68/10 = 1194887.26

Estimation of 2018 will be calculated on the basis of x=3 Y2018 = 59744363.43+(1194887.2) (3)

=63329025.03

Estimation of 2019 will be calculated on the basis of x=4 Y2019 = 59744363.43+(1194887.2) (4)

= 64523912.23

Estimation of 2020 will be calculated on the basis of x=5 Y2020 = 59744363.43+(1194887.2) (5)

= 65718799.4

## Table 13

**Trend Analysis of Current Asset**

|  |  |  |  |
| --- | --- | --- | --- |
| S.NO | YEAR | X2 | Trend Value In Current Asset |
| 1 | 2013 | -2 | 50063348.3 |
| 2 | 2014 | -1 | 61244749.4 |
| 3 | 2015 | 0 | 72426150.6 |
| 4 | 2016 | 1 | 83607551.8 |
| 5 | 2017 | 2 | 94788953.0 |
| 6 | 2018 | 3 | 105970354.2 |
| 7 | 2019 | 4 | 117151755.4 |
| 8 | 2020 | 5 | 128333156.6 |

**Source:** Secondary Data

150000000

## Graph 3

**Trend Analysis of Current Asset**



100000000

X2

50000000

0

2012

-50000000

2014 2016 2018 2020 2022

TREND VALUE IN CURRENT ASSET

**Source:** Secondary Data

**Interpretation:** From the above calculation, it is inferred that the movement of current asset is upward for the year 2018 to 2020. It depicts that there is an upward trend for the asset in the future. The trend value for the current asset in the year 2020 would be 128333156.6.

## Table 14

**Trend Analysis of Current Liabilities**

|  |  |  |  |
| --- | --- | --- | --- |
| S.NO | YEAR | X2 | Trend Value In Current Liabilities |
| 1 | 2013 | -2 | 57354589.03 |
| S | 2014 | -1 | 58549476.23 |

|  |  |  |  |
| --- | --- | --- | --- |
| 3 | 2015 | 0 | 59744363.43 |
| 4 | 2016 | 1 | 60939250.63 |
| 5 | 2017 | 2 | 62134137.83 |
| 6 | 2018 | 3 | 63329025.03 |
| 7 | 2019 | 4 | 64523912.23 |
| 8 | 2020 | 5 | 65718799.43 |

**Source:** Secondary Data

## Graph 4

**Trend Analysis of Current Liabilities**



80000000

60000000

YEAR

40000000

X2

20000000

0

TREND VALUE IN

CURRENT LIABILITIES

1 2 3 4 5 6 7 8

-20000000

**Source:** Secondary Data

**Interpretation:** From the above calculation it is inferred that the movement of current liabilities for the year 2018 to 2020.It clearly depicts that there is a upward trend for the asset in future. The trend value for current liabilities in the year 2020 would be 65718799.43

## Ratio Analysis

**Table Showing of Gross Profit Ratio**

## Table 15 Gross Profit Ratio

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 2013-2014 | 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 |
| gross profit ratio | 77.42 | 22.98 | 20.32 | 16 | 19.35 |

**Source:** Secondary Data

## Graph 5 Gross Profit Ratio

**Gross Profit Ratio**

100

80

60

40

20

0

2013-2014

gross profit ratio

2014-2015

2015-2016

2016-2017

2017-2018

**Source:** Secondary Data

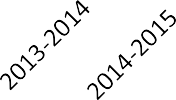
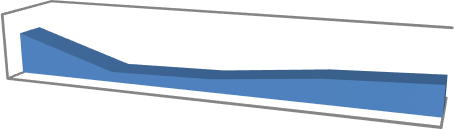
**Interpretation:** From the above table, it is inferred that the gross profit ratio increases was highest in the year2013-2014, the value of the ratio in this year was77.42. The lowest value of the ratio was in the year 2016-17 i.e. 16 per cent. From the year 2015-16 the trend of the ratio is declining till 2017-2018.

## Table 16 Net Profit Ratio

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 2013-2014 | 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 |
| Net profit ratio | 6.33 | 1.56 | 1.98 | 3.62 | 4.37 |

**Source:** Secondary Data

## Graph 6 Net Profit Ratio



**NET PROFIT RATIO**

10

0

Net profit ratio

Net profit ratio

**Source:** Secondary Data

**Interpretation:** From the above table, it is inferred that the net profit ratio increases was highest in the year2013-2014, the value of the ratio in this year was6.33. The lowest value of the ratio was in the year 2014-15 i.e. 1.56 percent. From the year 2014-15the trend of the ratio is declining till 2015-16.

## Table 17

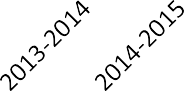
**Table Showing Of Stock Turnover Ratio**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 2013-2014 | 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 |
| stock turnover ratio | 1.05 | 3.31 | 2.45 | 2.98 | 1.55 |

**Source:** Secondary Data

## Graph 7

**Stock Turn Over Ratio**



**Stock Turn Over Ratio**

4

3

2

1

0

stock turn over ratio

**Source:** Secondary Data

**Interpretation:** From the above table, it is inferred that the stock turnover ratio increases due to the decrease in the average stock to 3.31 times, whereas the value of an average stock is increases from the year 2013-2014.

## Table 18

**Fixed Asset Turnover Ratio**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 2013-2014 | 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 |
| Fixed Asset Turnover Ratio | 0.27 | 3.71 | 1.37 | 4 | 8.4 |

**Source:** Secondary Data

## Graph 8

**Fixed Asset Turnover Ratio**



**fixed Asset Turnover Ratio**

10

8

6

4

2

0

fixed asset turnover

ratio

**Source:** Secondary Data

**Interpretation:** From the above table, it is inferred that the fixed asset turnover ratio was highest in the year 2017-18. The value of the ratio in this year was 8.4 times. The lowest value of the ratio was in the year 2016-17 i.e. 0.27 times. Less turnover ratio indicates the inefficient utilization of fixed assets as compared to its sales.

## Table 19

**Stock Turnover Period**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 2013-2014 | 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 |
| stock turnover period | 11.42 | 3.62 | 4.89 | 4.02 | 10 |

**Source:** Secondary Data

## Graph 9

**Stock Turnover Period**



**Stock Turnover Period**

12

10

8

6

4

2

0

stock turnover

period

**Source:** Secondary Data

**Interpretation:** From the above table, it is inferred that the stock turnover period ratio was highest in the year 2013-14; the value of the ratio in this year was 11.42 times. The lowest value of the ratio was in the year 2014-15 i.e. 3.62 times. Less turnover ratio indicates the inefficient utilization of stock as compared to its sales.

# Table 20 Financial Performance

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **2013-2014** | **2014-2015** | **2015-2016** | **2016-2017** | **2017-2018** |
| Gross Profit Ratio | 77.42% | 22.98% | 20.32% | 16% | 19.35% |
| Net Profit Ratio | 6.33% | 1.56% | 1.98% | 3.62% | 4.37% |
| Stock Turnover Ratio | 1.05times | 3.31times | 2.45times | 2.98times | 1.55times |
| Fixed Asset Turnover Ratio | 0.27times | 3.71times | 1.37times | 4times | 8.4times |
| Stock Turnover Period | 11.42months | 3.62months | 4.89months | 4.02months | 10months |
| Current Ratio | 11.06times | 1.24times | 1.09times | 10.38times | 1.55times |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Net Working Capital | 3.4rs | 7.3rs | 9.63rs | 2.14rs | 6.46rs |
| Debtors’ turnover | 0.63 | 2.84 | 3.10 | 9.50 | 17.48 |
| Creditors turnover | 0.36 | 1.94 | 0.8 | 23.16 | 3.82 |

**Source:** Secondary Data

## Findings

* Net working capital ratio increases was highest in the year2015-2016, the value of the ratio in this year was9.63. The lowest value of the ratio was in the year 2016-17 i.e. 2.14 percent. It is observed that the working capital trend is not constant over the period; it is more fluctuating in nature which shows fragile financial position of the company
* Gross profit ratio increases were highest in the year2013-2014, the value of the ratio in this year was77.62.
* Net profit ratio increases were highest in the year2013-2014, the value of the ratio in this year was6.33.
* Stock turnover ratio increases due to the decrease in the average stock to 3.31 times.
* Fixed asset turnover ratio was highest in the year 2017-18. The value of the ratio in this year was

8.4 times

* Stock turnover period drastically decreased from 11.42 months to 3.62 months in the year 2013 to 2014, later it moves towards increasing trend till 2018.
* It is observed from the debtor’s turnover ratio is increasing over the years from 0.63 to 17.48 which indicate liberal collection of debts.
* It is observed from the creditors turnover ratio is increasing over the years from 0.36 to 3.82, which indicates insufficient working capital.

## Suggestions

* The current assets are inadequate 2015-2016; actions can be made for getting better the working capital position. It will create a good result.
* In the year 2016-2017 the gross profit is low compared to other years. Necessary measures to be taken to maintain good Profitability position of the company.
* Suggested to change credit policy of the company in the collection of debts from debtors, company has to collect the amount from debtors as early as possible to manage shot term fund efficiently.
* The company should volte-face its credit policy based on the movement of working capital.
* It is observed that company is paying the debts to creditors early and collection is late from debtors.
* During the study period it has been observed that the profitability of all the company was under pressure. Company has shown negative growth rate with respect to the profitability ratio
* The company required to focus on improvement of their profitability and required some concrete efforts towards expansion in their profitability and financial performance. The company should focus on increasing the revenue through increase in the market share, sharing of resources as well as improvement in the quality of services. They also need to implement some effective cost control mechanism through proper utilization of manpower.

## Conclusion

The study reveals that the financial performance is fair. It has been retaining desirable financial performance and further it could improve if the company concentrates on its operating, Administrative and selling expenses and by plummeting costs. The company should increase sales volume as well as gross profit. Although price drops in various products, the company has been able to maintain and grow its market share to make sturdy margins in market, contributing to the well-built financial position of the company. The company was able to meet its complete requirements for capital expenditures and privileged level of working capital obligation with elevated extent of operations and from its operating cash flows. There is a negative growth rate is observed in its total revenue during the study period. There for it has been suggested that the company should improve its performance to survive in the competitive and fast changing market.

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