

A STUDY ON FINANCIAL PERFORMANCE USING RATIO ANALYSIS OF BIG BAZAR

R.RANI, Dr. S DHIRAN, Dr. NEDUMARAN

ASSISTANT PROFESSOR, ASSOCIATE PROFESSOR, PROFESSOR,

Department of MBA,

Viswam Engineering College (VISM) Madanapalle-517325 Chittoor District, Andhra Pradesh, India.

Abstract: This technical note explains in detail the analysis of financial statements of a company. It provides insights into two widely used financial tools, ratio analysis and common size statements analysis. The objective of this note is to help the reader understand how these tools should be used to analyze the financial position of a firm. To demonstrate the process of financial analysis, Big bazaar balance sheet and income statements are analyzed in this note. This study further compares the financial statement to know the relative financial position of the company. Finally, a trend analysis also is carried out to evaluate the trends in financial statements of the company.

INTRODUCTION:

The study of financial ratio analysis is prepared for the purpose of presenting a periodical review or report by the management of and deal with the state of investment in business and result achieved during the period under review. They reflect the financial position and operating strengths or weaknesses of the concern by properly establishing relationship between the items of the balance sheet and remove statements.

Financial statement analysis can be under taken either by the management of the firm or by the outside parties. The nature of analysis defers depending upon the purpose of the analysis. The analyst is able to say how well the firm could utilize the resource of the society in generating goods and services. Turnover ratios are the best tools in deciding these aspects.

Hence it is overall responsibility of the management to see that the resource of the firm is used most efficiently and effectively and that the firm's financial position is good. Financial statement analysis does indicate what can be expected in future from the firm.

A research design is the way or the methods or the procedure followed to conduct an scientific research. Some of the types of research design are exploratory research design, descriptive research design and causal research design. Each has its own meaning. Causal research design helps us to know a cause and effect relation between two variables, whereas exploratory research design is used to find new ideas and insight. Descriptive research design is a type of research method that is used when one wants to get information on the current status of a person or an object. In this study there only one company and no new ideas are to be found. The major focus would be on to know current financial position of BIG BAZAAR. For this a descriptive type of research design is used.

REVIEW OF LITERATURE

Some important research works undertaken in recent years which are very closely connected with the present study are reviewed.

- Shinde Govind P. & Dubey Manisha (2011) the study has been conducted considering the segments such as passenger vehicle, commercial vehicle, utility vehicle, two and three wheeler vehicle of key players performance and also analyze SWOT analysis and key factors influencing growth of automobile industry.

- Singh Amarjit & Gupta Vinod (2012) explored an overview of automobile industry. Indian automobile industry itself as a manufacturing hub and many joint ventures have been setup in India with foreign collaboration. SWOT analysis done there are some challenges by the virtue of which automobile industry faces lot of problems and some innovative key features are keyless entry, electrically controlled mechanisms enhanced driving control, soft feel interiors and also need to focus in future on like fuel efficiency, emission reduction safety and durability.

- Murlidhar, A. Lok Hande & Rana Vishal S. (2013) the author tries to evaluate the performance of Hyundai Motors Company with respect to export, Domestic Sales, productions and profit after tax. For this purpose, the pie chart and bar graph are used to show the performance of company various years.

- Shende Vikram (2014) this research will be helpful for the new entrants and existing car manufacturing companies in India to find out the customer expectations and their market offerings. The objective of study is the identification of factors influencing customers performance for particular segment of cars.
- Surekha B. & Krishnalakshmi K. Rama (2015) this study reveals the prosperity of Tata motors company. It can be concluded that inner strength of company is remarkable. Company can further improve its profitability by optimum capital gearing, reduction in administration and financial expenses for the growth of company.
- Jothi, K. & Geethalakshmi, A. (2016) this study tries to evaluate the profitability & financial position of selected companies of Indian automobile industry using statistical tools like, ratio analysis, mean, standard deviation, correlation. The study reveals the positive relationship between profitability, short term and long term capital.
- Kaur Harpreet (2016) the author tries to examine the qualities & quantities performer of maruti Suzuki co. & how had both impact on its market share in India, For this study secondary data has been collected from annual reports, journals, report automobile sites. Result shows that MSL has been successfully leading automobile sector in India for last few years.

NEED OF THE STUDY

The prevalent educational system providing the placement training at an industry being a part of the curriculum has helped in comparison of theoretical knowledge with practical system. It has led to note the convergences and divergence between theory and practice. The study enables us to have access to various facts of the organization. It helps in understanding the needs for the importance and advantage of materials in the organization, the study also helps to exposure our minds to the integrated materials management the various procedures, methods and technique adopted by the organization. The study provides knowledge about how the theoretical aspects are put in the organization in terms of described below.

- To pay wages and salaries.
- For the purchase of raw materials, spares and components parts.
- To incur day-to-day expenses.
- To meet selling costs such as packing, advertising.
- To provide credit facilities to customers.
- To maintain inventories and raw materials, work-in-progress and finished stock.

OBJECTIVE'S OF STUDY

1. To study and analyze the financial position of the Company through ratio analysis.
2. To suggest measures for improving the financial performance of organization.
3. To analyze the profitability position of the company.
4. To assess the return on investment.
5. To analyze the asset turnover ratio.
6. To determine the solvency position of company.
7. To suggest measures for effective and efficient usage of inventory.

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 4 years (2006–10). Using the ratio analysis, firms past, present and future performance can be analyzed and this study has been divided as short term analysis and long term analysis. The firm should generate enough profits not only to meet the expectations of owner, but also to expansion activities.

Research Methodology

Research Design In view of the objects of the study listed above an exploratory research design has been adopted. Exploratory research is one which is largely interprets and already available information and it lays particular emphasis on analysis and interpretation of the existing and available information.

- To know the financial status of the company.
- To know the credit worthiness of the company.
- To offer suggestions based on research finding.

Data Collection Methods

Primary Data Information collected from internal guide and finance manager. Primary data is first hand information.

Secondary Data Company balance sheet and profit and loss account. secondary data is second hand information.

Data Collection Tools

To analyze the data acquire from the secondary sources “Ratio Analysis”The scope of the study is defined below in terms of concepts adopted and period under focus. First the study of Ratio Analysis is confined only to the Amarraja Batteries Limited. Secondly the study is based on the annual reports of the company for a period of 4 years from 2006-07 to 2009-10 the reason for restricting the study to this period is due time constraint.

LIMITATIONS

- The study was limited to only four years Financial Data.
- The study is purely based on secondary data which were taken primarily from Published annual reports of Amarraraja batteries Ltd.,
 - There is no set industry standard for comparison and hence the inference is made on general standards.
 - The ratio is calculated from past financial statements and these are not indicators of future.
 - The study is based on only on the past records.
- Non availability of required data to analysis the performance.
- The short span of the time provided also one of limitations.

CHAPTER-IV

DATA ANALYSIS & INTERPRITATION

RATIO ANALYSIS

1) Profitability ratio:-

The name says it all. It shows the profitability of the firm.

Every corporate house or firm needs to earn profit not only to survive but also to expand or diversify. Not only this, profit needs to be earned to give returns to investors, payment to creditors, salaries and wages to the employees, and the list goes on.

This class of ratio are used to evaluate the company’s ability to generate excess revenue over expenses

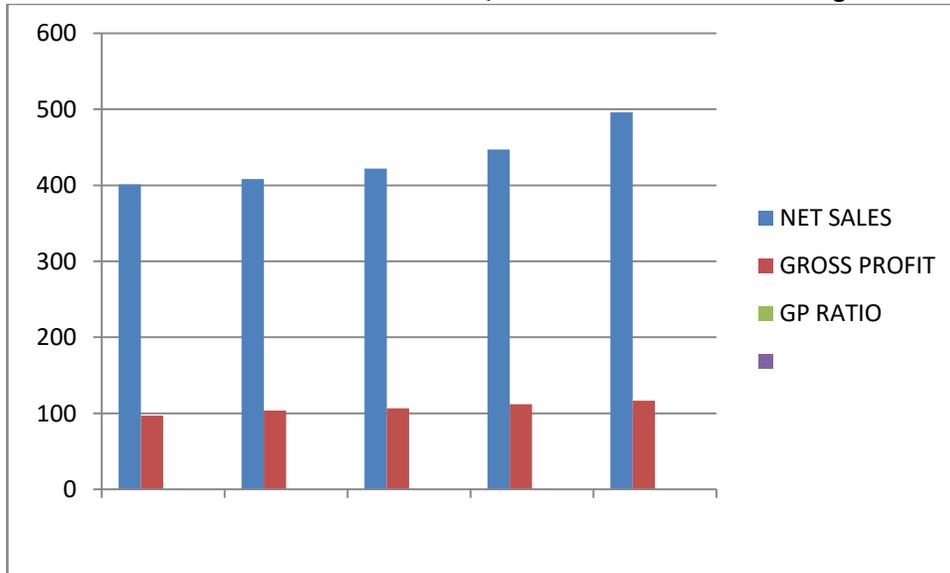
A) Gross profit ratio:-

GP ratio is a ratio which shows relationship between sales and gross profit. It is a very effective tool for finding the operational performance of the company.

This can be found out by dividing gross profit by net sales.

$$GPR = \text{GROSS PROFIT} / \text{NET SALES} * 110$$

(IN \$ BILLION)					
	2012-13	2013-14	2014-15	2015-16	2016-17
NET SALES	401.09	408.21	421.85	446.95	496.17
GROSS PROFIT	97.03	113.56	116.56	121.82	127.67
GP RATIO	24.19%	25.37%	25.26%	25.02%	23.51%



Analysis:-

By viewing this we see that the gross profit ratio increases from year 2012 to 2013 but then this ratio decreases inspite of increase in gross profit. This means that gross profit increases although ratio decreases.

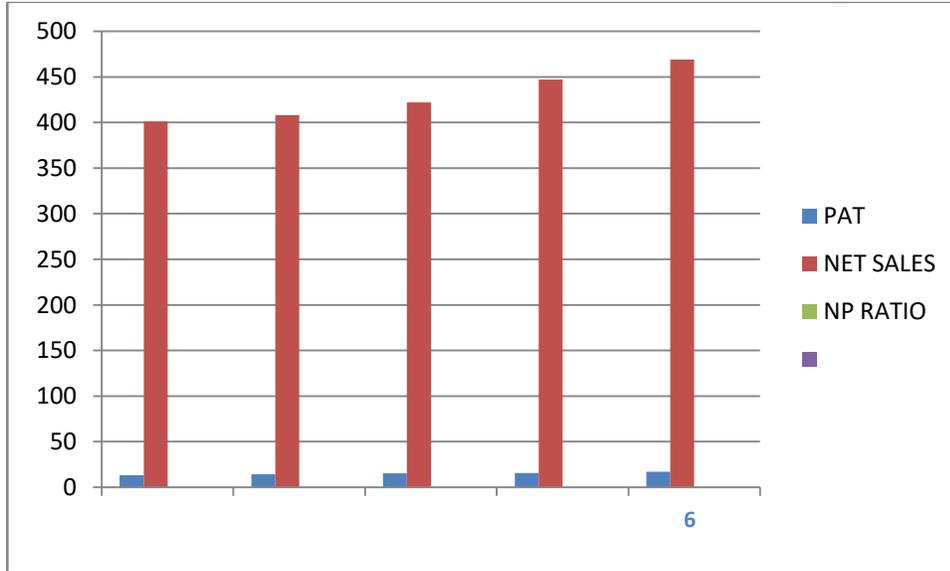
B) Net Profit Ratio:-

NP ratio is an another tool to measure the profitability of the firm. It is an indicator about how efficient is the firm is and well it is able to control it's costs. It's an indicator about how much revenues are converted into actual profits by the company.

This can be calculated by dividing profit after tax by net sales.

$$NPR = \frac{NPAT}{NET SALES} * 100$$

(IN \$ BILLION)					
	2012-13	2013-14	2014-15	2015-16	2016-17
PAT	14.25	15.41	16.36	16.77	17
NET SALES	401.09	408.21	421.85	446.95	469.17
NP RATIO	3.30%	3.53%	3.64%	3.53%	3.62%



Analysis: -

By analyzing this graph we see that profit margin increase year by year except year 2016 that mean company achieve good profit from business and company tries to maintain this by increasing net sales .

2) Liquidity ratio:-

Lteiquidity ratios are those ratios which show the company’s ability to meet the company’s short term obligations. These ratios help to measure the ability of the firm to pay back their obligations when they become due.

A) Current ratio:-

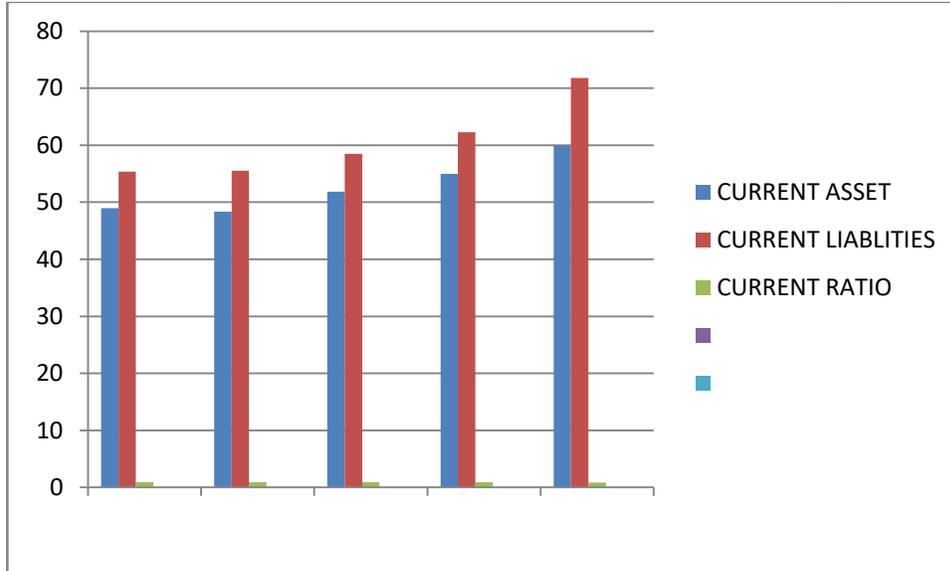
This is a balance sheet financial performance ratio which shows whether the company has the ability or assets to repay their current liabilities over the next one year.if the ratio is more than1:1 that means company has those assets to repay their current liabilities, if less opposite would be the situation.

It could be found out by dividing current assets by current liabilities.

$$\text{CURRENT RATIO} = \text{CURRENT ASSET} / \text{CURRENT LIABILITIES}$$

=(IN \$ BILLION)

	2012-13	2013-14	2014-15	2015-16	2016-17
CURRENT ASSET	48.95	48.33	51.89	54.98	59.94
CURRENT LIABILITIES	55.39	55.56	58.48	62.30	71.82
CURRENT RATIO	0.88	0.87	0.89	0.88	0.83



Analysis:-

We say that current ratio is high till year 2015 but in year 2016 its become too much low mainly due to its current liability increase and also its asset increase with that. So company believes in tries to maintains that ratio.

B) Acid test ratio:-

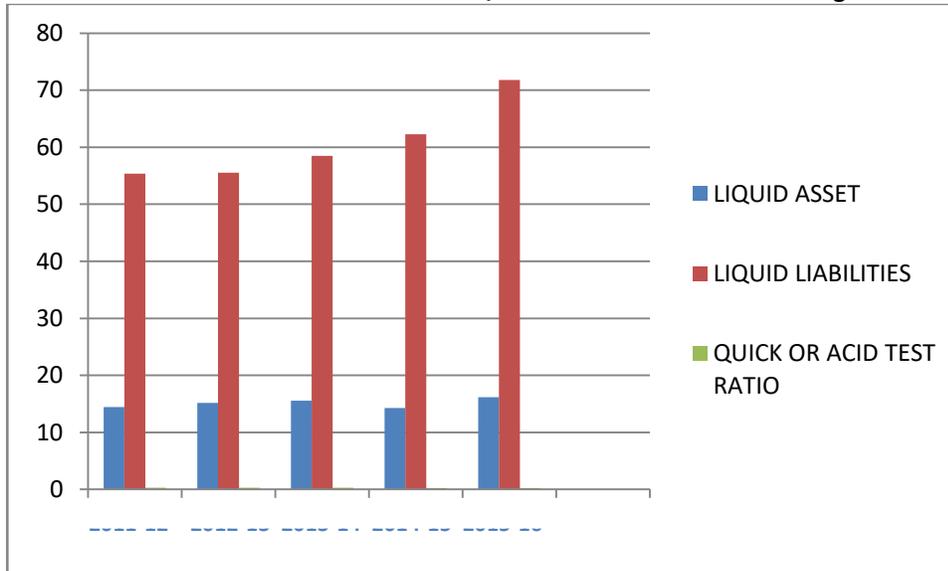
Another type of liquidity ratio, which measures short term liquidity position of the company is acid test ratio also known as quick ratio.

This ratio suggest whether the firm has enough short term assets to cover its short term liabilities without selling it's inventory. This means the company having enough backing to pay current assets almost immediately.

For this liquid assets are divided by liquid liabilities, where liquid assets includes all current assets except for inventory and prepaid expenses, because they cannot be converted into cash immediately for payments, while liquid liabilities include all current liabilities except for bank overdraft and cash credit because they are not to be paid immediately.

$$\text{QUICK OR ACID TEST RATIO} = \text{LIQUID ASSET} / \text{LIQUID LIABILITIES}$$

QUICK OR ACID TEST RATIO = LIQUID ASSET / LIQUID LIABILITIES (IN \$ BILLION)					
	2012-13	2013-14	2014-15	2015-16	2016-17
LIQUID ASSET	15.44	16.18	16.57	15.27	17.15
LIQUID LIABILITIES	55.39	55.56	58.48	62.30	71.82
QUICK OR ACID TEST RATIO	0.26	0.27	0.27	0.23	0.22



Analysis: -

Quick ratio is increasing till the year 2013, then it has shown a declining trend. It means that quick assets is not increasing by the same percentage as the current liabilities.

Turnover ratios:-

Accounting ratios that measure a firm's ability to convert different accounts within their balance sheets into cash or sales. Companies would like to convert those accounts into cash as fast as possible. This type of turnover ratios shows if they are able to do so or not.

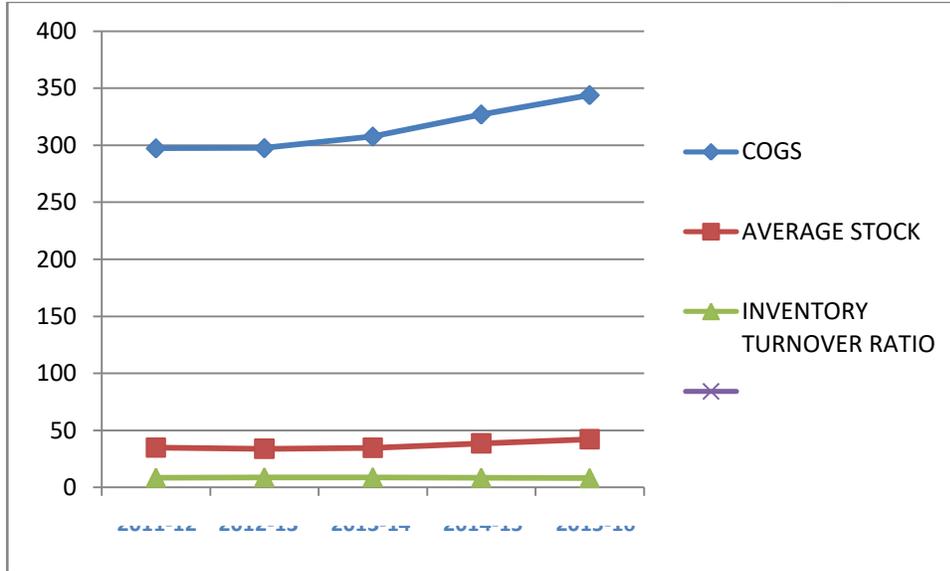
Inventory turnover ratio:-

In accounting, the Inventory turnover is a measure of the number of times inventory is sold or used in a time period such as a year. The equation for inventory turnover equals the Cost of goods sold divided by the average inventory. Inventory turnover is also known as inventory turns, stock turn, stock turns, turns, and stock turnover.

INVENTORY TURNOVER RATIO = COGS/AVGRAGE STOCK

(IN \$ BILLION)

	2012-13	2013-14	2014-15	2015-16	2016-17
COGS	297.32	297.5	307.65	327	343.99
AVERAGE STOCK	34.84	33.84	34.74	38.52	42.26
INVENTORY TURNOVER RATIO	8.53	8.79	8.86	8.49	8.15



Analysis:-

The inventory turnover ratio is not consistent from the year 2012 to the year 2016. From the year 2012 to the year 2014, it has shown an increasing trend, indicating that number of times the inventory is sold or used has increased. But it has declined in 2015 and 2016 showing that number of times the inventory sold or used has decreased.

A) Fixed asset turnover ratio:-

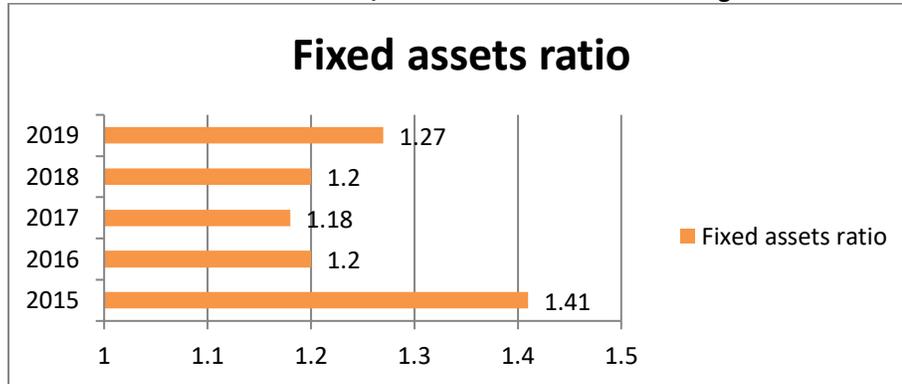
Fixed asset turnover is the ratio of sales to value of fixed assets, indicating that how well the company uses its fixed assets to generate sales.

Higher the ratio, the better it is because it would mean that the company has less amount of money tied up in fixed assets for each unit of sales revenue.

A declining ratio indicates that the company has overinvested in plant, machinery, or other fixed assets.

FIXED ASSETS TURNOVER RATIO = NET SALES / FIXED ASSETS

(IN \$ BILLION)					
	2014-15	2015-16	2016-17	2017-18	2018-19
NET SALES	401.09	408.21	421.85	446.95	496.17
FIXED ASSETS	284.96	340.12	357.49	371.63	390.56
FIXED ASSETS TURNOVER RATIO	1.41	1.20	1.18	1.20	1.27



Analysis:-

This ratio has declined all these years except 2019 where it has shown a bit of improvement. This ratio shows that how much of sales is generated by using fixed assets.

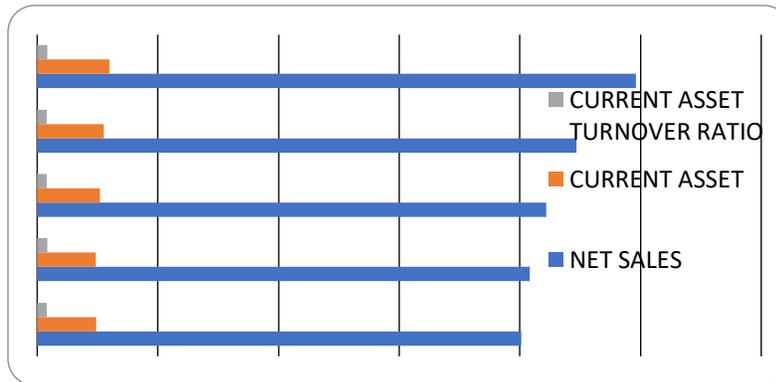
B) Current assets turnover ratio:-

It indicates the companies capability of generating sales by effectively using its current assets.

Higher current ratio is good for the company as it indicates that the company is able to generate maximum amount of sales revenue with minimum amount of capital. Vice versa would be the case if the ratio is low.

$$\text{CURRENT ASSET TURNOVER RATIO} = \text{NET SALES} / \text{CURRENT ASSET}$$

(IN \$ BILLION)					
	2014-15	2015-16	2016-17	2017-18	2018-19
NET SALES	401.09	408.21	421.85	446.95	496.17
CURRENT ASSET	48.95	48.33	51.89	54.98	59.94
CURRENT ASSET TURNOVER RATIO	8.19	8.45	8.14	8.14	8.28



Analysis: -

Current Assets Turnover Ratio is increasing in one year and decreasing in another year and so forth. This means that the amount of sales generated by current assets is increasing in one year and then decreasing in another and so forth.

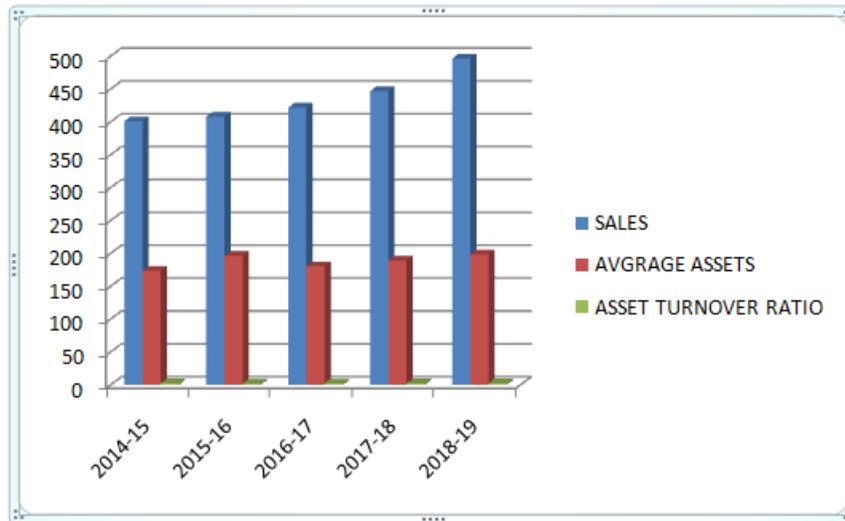
C) Assets turnover ratio.

Asset turnover is a financial ratio that measures the efficiency of a company's use of its assets in generating sales revenue or sales income to the company.

$$\text{ASSET TURNOVER RATIO} = \text{NET SALES} / \text{AVGRAGE ASSET}$$

(IN \$ BILLION)

	2014-15	2015-16	2016-17	2017-18	2018-19
SALES	401.09	408.21	421.85	446.95	496.17
AVGRAGE ASSETS	173.49	196.42	180.36	189.36	198.26
ASSET TURNOVER RATIO	2.45	2.08	2.34	2.36	2.50



Analysis: -

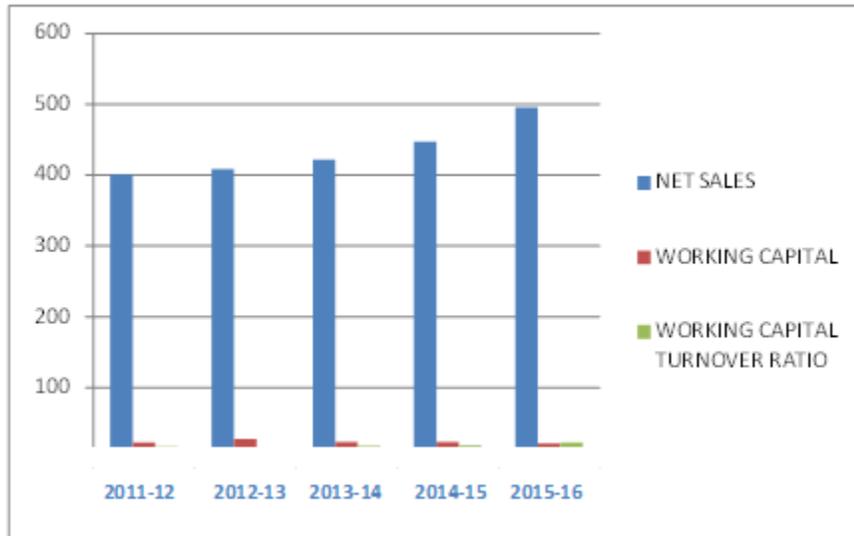
The company is able to increase its assets turnover ratio over the years. This increasing trend in ratio shows increase in sales generated by increase in overall assets of the company.

D) Working capital turnover ratio:

Working capital means current assets minus current liabilities. The working capital turnover ratio is used to analyze the relationship between the money used to fund operations and the sales generated from these operations. The higher the working capital turnover, the better because it means that the company is generating a lot of sales compared to the money it uses to fund the sales.

$$\text{WORKING CAPITAL TURNOVER RATIO} = \text{NET SALES} / \text{WORKING CAPITAL}$$

(IN \$ BILLION)					
	2014-15	2015-16	2016-17	2017-18	2018-19
NET SALES	401.09	408.21	421.85	446.95	496.17
WORKING CAPITAL	22.89	27.84	23.53	23.79	21.9
WORKING CAPITAL TURNOVER RATIO	17.52	15.66	17.93	18.79	22.66



Analysis

Working capital turnover ratio has increased since the year 2013. It indicates that lot of sales is generated as compared to the money used in funding the sales.

3) Solvency ratio:-

Solvency ratio’s measures company ability to meet its long term obligations. It provides an assessment of the likelihood of a company to continue congregating its debt obligations.

A) Debt equity ratio =

It is a long term solvency ratio which indicates how much part of the capital is provided by shareholders and how much part by creditors.

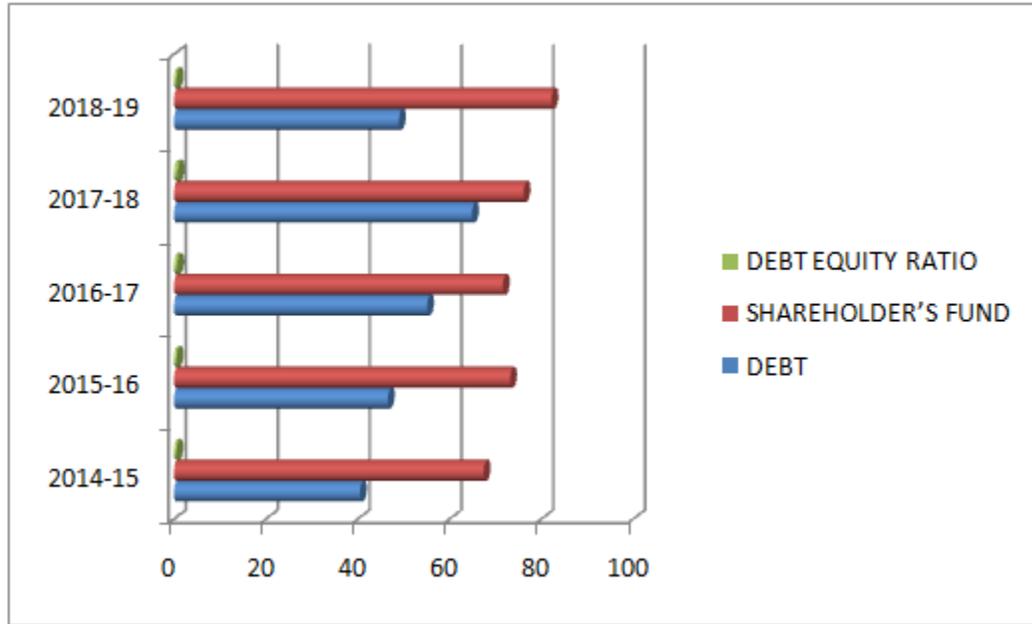
Also termed as external internal ratio, a 1:1 ratio indicates creditors and shareholders have equal contribution in total capital.

A ratio higher than 1:1 means the portion of assets contributed by shareholders is more, which creditors like because it gives more creditability of their money to them.

A ratio lower than 1:1 meansthe contribution of assets by creditors is more, which shareholders like to get money from creditors.

$$\text{DEBT EQUITY RATIO} = \text{DEBT} / \text{SHAREHOLDER'S FUND}$$

DEBT EQUITY RATIO = DEBT / SHAREHOLDER'S FUND (IN \$ BILLION)					
	2014-15	2015-16	2016-17	2017-18	2018-19
DEBT	40.56	46.62	55.17	64.94	49.03
SHAREHOLDER'S FUND	67.48	73.24	71.66	76.17	82.26
DEBT EQUITY RATIO	0.60	0.64	0.77	0.85	0.60

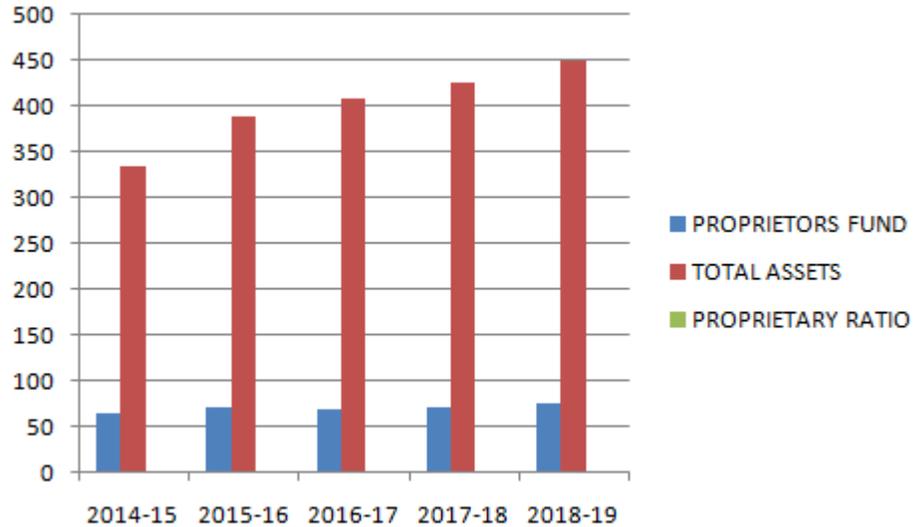


Analysis:-

Debt equity ratio has increased from the year 2015 to the year 2016 indicating that outside creditors for the company has increased over the years. But in the year 2017, this ratio has declined showing decrease in outside creditors.

PROPRIETARY RATIO = TOTAL ASSETS / PROPRIETORS FUND
(IN \$ BILLION)

	2014-15	2015-16	2016-17	2017-18	2018-19
PROPRIETORS FUND	65.29	70.75	68.54	71.32	76.34
TOTAL ASSETS	333.91	388.44	409.38	426.61	450.5
PROPRIETARY RATIO	0.196	0.182	0.177	0.177	0.179



Analysis: -

This ratio has declined from the year 2014 to the year 2017. It indicates that the capital structure of the company has more of debts as compared to proprietor’s fund.

B) Return on asset ratio:-

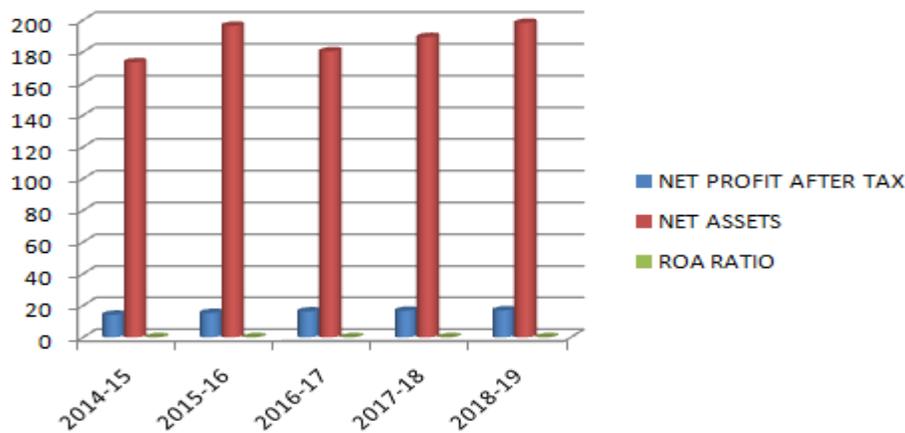
An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings.

It indicates number of dollar earned on each dollar of asset.

Higher ratio means the company is earning more dollars per dollar of asset

$$\text{RETURN ON ASSET RATIO} = \text{NET PROFIT AFTER TAX} / \text{NET ASSETS}$$

(IN \$ BILLION)					
	2014-15	2015-16	2016-17	2017-18	2018-19
NET PROFIT AFTER TAX	14.25	15.41	16.36	16.77	17
NET ASSETS	173.49	196.42	180.36	189.36	198.26
ROA RATIO	8.11%	7.34%	8.52%	8.33%	8.57%



Analysis:

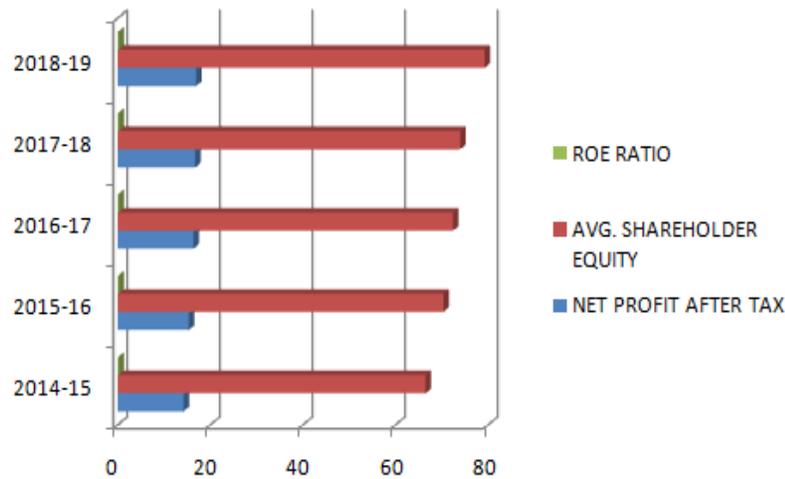
Except the year 2013, it has shown an increasing trend. It shows that earning of company is more as compare to each unit of asset.

C) Return on Equity (ROE)

Return on equity (ROE) measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate earnings growth. ROEs between 16% and 20% are generally considered good.

$$\text{RETURN ON EQUITY} = \text{PAT} / \text{AVG. SHAREHOLDER EQUITY}$$

(IN \$ BILLION)					
	2014-15	2015-16	2016-17	2017-18	2018-19
NET PROFIT AFTER TAX	14.25	15.41	16.36	16.77	17.00
AVG. SHAREHOLDER EQUITY	66.54	70.36	72.45	73.96	79.26
ROE RATIO	19.91%	20.48%	21.20%	21.32%	21.45%



Analysis: It has shown an increasing trend from the year 2012 till the year 2016. It indicates that company's efficiency in generating profit from shareholder's equity has increased all these years.

FINDINGS

1. The current ratio has shown non fluctuating trend as 1.15, 1.17, 1.38 and 1.23 during 2015, 2016, 2017, 2018 and 2019.
2. The quick ratio is also in non fluctuating trend throughout the period 2015– 19 resulting as 0.67, 0.69, 0.75, 0.78. The Company believes in high profitability and low liquidity position.
3. The proprietary ratio has shown a non fluctuating trend. The proprietary ratio is decreased compared with the last year.
4. The stock working capital ratio decreased from 3.21 to 1.39 in the year 2014 – 16.
5. The capital gearing ratio is decreased form 2014 – 15(0.17, 0.16 and 0.82) and increased in 2016 to 0.85.
6. The debt-equity ratio increased from 0.44-0.59 in the year 2013-16.
7. The gross profit ratio is in fluctuation manner. It decreased in the current year compared with the previous year from 23.1% to 18.97%.
8. The net profit ratio is also decreased in the current year compared with the previous year from 15.54% to 11.78%.
9. The operating ratio is increased in the current year compared with the previous year from 81.8% to 83.28%.
11. The return on capital employed is increased in the year 2015 and 2017 while it decreased in the year 2017 and 2019.

12. The earnings per share is maximum in the year 2016-2017 and minimum in the year 2015-2016.
13. Dividend payout ratio is maximum in the year 2014-2015 and minimum in the 2015-2016.
14. Cost of goods sold shows a non fluctuating pattern in the year 2014-2016 and increased in the year 2016-2017.
15. The cash ratio shows a non fluctuating pattern in the year 2015, 2016 and 2017 but decreased in the year 2014.
16. Return on proprietorship fund is maximum in the year 2015-2016 and minimum in the year 2014-2015.
17. The operating profit ratio shows almost similar pattern in all years but it is maximum in the year 2014-2015 and minimum in the year 2015-2016.

SUGGESTIONS:

1. Liquidity refers to the ability of the concern to meet its current obligations as and when these become due. The company should improve its liquidity position.
2. The company should make the balance between liquidity and solvency position of the company.
3. The profit ratio is decreased in current year so the company should pay attention to this because profit making is the prime objective of every business.
4. The cost of goods sold is high in every year so the company should do efforts to control it.
5. The long term financial position of the company is very good but it should pay a little attention to short term solvency of the company.

CONCLUSION

- Ratio analysis has a major significance in analyzing the financial performance of a company over a period of time. Decisions affecting product prices, per unit costs, volume or efficiency have an impact on the profit margin or turnover ratios of a company.
- Financial ratios are essentially concerned with the identification of significant accounting data relationships, which give the decision-maker insights into the financial performance of a company.
- The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance.
- The first task of financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statements. The second step is to arrange the information in a way to highlight significant relationships. The final step is interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of selection, relation and evaluation.
- Ratio analysis in view of its several limitations should be considered only as a tool for analysis rather than as an end in itself. The reliability and significance attached to ratios will largely hinge upon the quality of data on which they are based. They are as good or as bad as the data itself. Nevertheless, they are an important tool of financial analysis.
- Ratios make the related information comparable. A single figure by itself has no meaning, but when expressed in terms of a related figure, it yields significant interferences. Thus, ratios are relative figures reflecting the relationship between related variables. Their use as tools of financial analysis involves their comparison, as single ratios, like absolute figures, are not of much use.

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