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A Study on Financial Performance Analysis in Sugar Mill

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ABSTRACT: The study was conducted to analysis the financial performance of sugar companies. Sugar industry is volatile in nature and commercially utilizes the rural resources to meet the demand for sugar and also generates surplus energy to meet the increasing energy needs. Sugar companies from each zone were selected based on annual volume of sales and market capitalization. Profitability ratios are calculated to measure the overall efficiency of the business. Profitability ratio analysis will not be complete by just computing return on equity (ROE). It is essential to find out the factors that have an impact on the ROE. For this purpose, DuPont analysis and Path analysis are used in the study. From the results, there was a significant difference between the return on equity and also there is no significant difference between the equity multiplier and the return on equity

KEYWORDS: Current Ratio, Liquidity Ratio, Earning Per Share and Trend Analysis

I. INTRODUCTION

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. The financial performance tells investors about the general well-being of a firm. It's a snapshot of its economic health and the job its management is doing. Financial statements used in evaluating overall financial performance include the balance sheet, the income statement, and the statement of cash flows. Financial performance indicators are quantifiable metrics used to measure how well a company is doing. A financial performance analysis examines the company at a specific period in time usually, the most recent fiscal quarter or year.

The dictionary meaning of ‘analysis’ is to resolve or separate a thing in to its element or components parts for tracing their relation to the things as whole and to each other. The analysis of financial Performance is a process of evaluating the relationship between the component parts of financial Performance to obtain a better understanding of the firm’s position and performance.

II. REVIEW OF LITERATURE

Buferna, F., et al (2018) in a research paper titled,” A Study on Leverage Analysis and Profitability for Selected Paint Companies in India” analyses the impact of both financial leverage as well as operating leverage on the profitability (measured through Earning Per Share “EPS”) of the selected paint companies of India. Five listed paint companies of India were selected based upon the market capitalization for the research purpose. The study investigates the impact of degree of financial leverage and degree of operating leverage on EPS with the help of correlation analysis. Along with this analysis, the paper also investigates the impact of debt-equity ratio on the EPS of the said firms to see the impact of debt on the wealth of the firms. The findings suggest that financial leverage had no significant relationship on profitability while operating leverage had significant relationship on profitability with the exceptions of few.

Chen, J.J. (2018), Firm size is measured by taking the natural logarithm of the total assets. The trade-off theory expects a positive relation between leverage and firm size. Since larger firms are likely to be more diversified, have more stable cash flows; lower bankruptcy risk, and have relatively easier access to credit markets. Firm size has been found to be a positive determinant of leverage in most of the empirical studies. However, with respect to the pecking order theory, larger firms are expected to have lower information asymmetries making equity issues more attractive. He also argued that the relationship between firm size and leverage should be negative. Growth is measured as the change in total assets between two consecutive years divided by previous year total assets. Growth opportunities are viewed as intangible assets of firm. Firms with significant future growth

opportunities are likely to face difficulties in raising finance from debt market because intangible assets are not fully collateralizable. Thus, firms with high intangible growth opportunities will use more of equity rather than debt in their capital structure.

Gaud P., et al (2018), The empirical studies that support the above theoretical prediction included. However, pecking order theory suggests that firms with high growth opportunities are anticipated to have higher information asymmetries, and are expected to have more of debt and less of equity in their capital structure. Non-debt tax shield (NDTS) is defined as a ratio of total annual depreciation to total assets. Non-debt tax shields such as tax deduction for depreciation and investment tax credits are considered to be the substitutes for tax benefits of debt financing (DeAngelo & Masulis, (1980). There-fore non-debt tax shields are expected to have negative impact on leverage.

Kumar Ramana (2019) The purpose of this study is to analyze the determinants of capital structure over time and therefore the level of leverage before, during and after a financial crisis. Using a sample of publicly traded Turkish firms for the period of 1989–2012, we hypothesize and find that firm size and industry median leverage are positively and significantly associated with leverage while profitability and growth opportunities are negatively and significantly related to leverage. Furthermore, we hypothesize and find that leverage levels are different before, during and after a financial crisis.

III. RESEARCH METHODOLOGY

A research design is the arrangement of condition for collection and analysis of data in a manner that may result in an economy in procedure. It stands for advance planning for collection of the relevant data and the techniques to be used in analysis, keeping in view the objectives of the research and availability of time, as the researcher is analysing the past data and predicts the future trend, it is naturally coming under analytical research design.

Period of study: This study contains the FP analysis for the period of five years from 2019-2023

Data collection: The analysis of financial condition and performance of the enterprise necessitates with reliable data therefore the data for the present study is collected with the help of secondary data.

Secondary data: The secondary data is mainly used for the study. It is taken from published sources of the company like the annual report magazines, documents and other financial official records.

TOOLS AND TECHNIQUES

The following tools and techniques of financial analysis are used as a measure of judging the degree of efficiency of financial performance analysis of the company

1. Ratio Analysis
2. Trend Analysis

RATIO ANALYSIS

A ratio is a simple arithmetic expression of relationship of one number to another. Ratio is an expression of the quantitative relations between two numbers. Ratio analysis is a technique of analysis and interpretation of financial performances. It is a process of establishing and interpreting various ratios which help in making certain decisions. Three steps involved in ratio analysis are:

- Selection of relevant data from the financial performance depending upon the objective of analysis.

- Calculation of appropriate ratios from the above data.

- Comparison of the calculated ratios with the ratios of the same firm or the ratios of some other firm or the comparison with the ratios of the industry to which this firm belongs and interpretation of ratios.

TREND ANALYSIS

The 'trend' signifies a tendency and as such the review and appraisal of tendency in accounting variables are nothing but the trend analysis. Trend analysis is carried out by calculating trend ratio. Trend analysis is significant for forecasting and budgeting. Trend analysis discloses the change in financial and the operating data between specific periods.

IV. DATA ANALYSIS

CURRENT RATIO:

Current ratio is the most common ratio for measuring liquidity. The current ratio is the ratio of total current assets to total current liabilities. Current ratio of a firm measures its term solvency i.e. ability to meet short term obligations.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

TABLE NO: 4.1 Current Ratio

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	RATIO
2018-19	1635.35	1471.83	1.11
2019-20	1730.27	1461.52	1.18
2020-21	2033.64	1246.48	1.63
2021-22	1697.53	1210.98	1.40
2022-23	1638.69	595.64	2.75

Source: Secondary data

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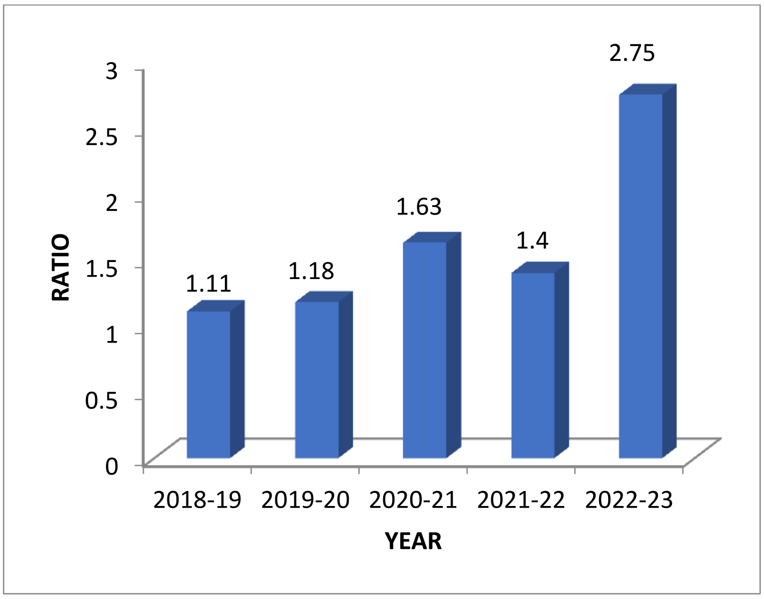

CHART NO: 4.1 Current Ratio

Interpretation

The current ratio is a measure of firm’s short-term solvency. Current ratio during the year 2018-19 the current ratio was 1.11 which is increased to 1.18 in the next two year. Then the next year was increased to 1.40 in 2021-22. In the year of 2022-23 again decreased to 2.75.

LIQUID RATIO:

It is also called as acid test ratio. This ratio primarily studies the relationship between liquid asset and current liabilities. It measures the organization ability to convert its current assets quickly into cash in order to meet its current liabilities.

Liquid ratio = Quick Assets / Current Liabilities

TABLE NO: 4.2 Liquid Ratio

YEARS	QUICK ASSETS	CURRENT LIABILITIES	LIQUIDITY RATIO
2018-19	662.63	1471.83	0.45
2019-20	773.46	1461.52	0.53
2020-21	1076.58	1246.48	0.86
2021-22	711.49	1210.98	0.59
2022-23	660.05	595.64	1.11

Source- Secondary data

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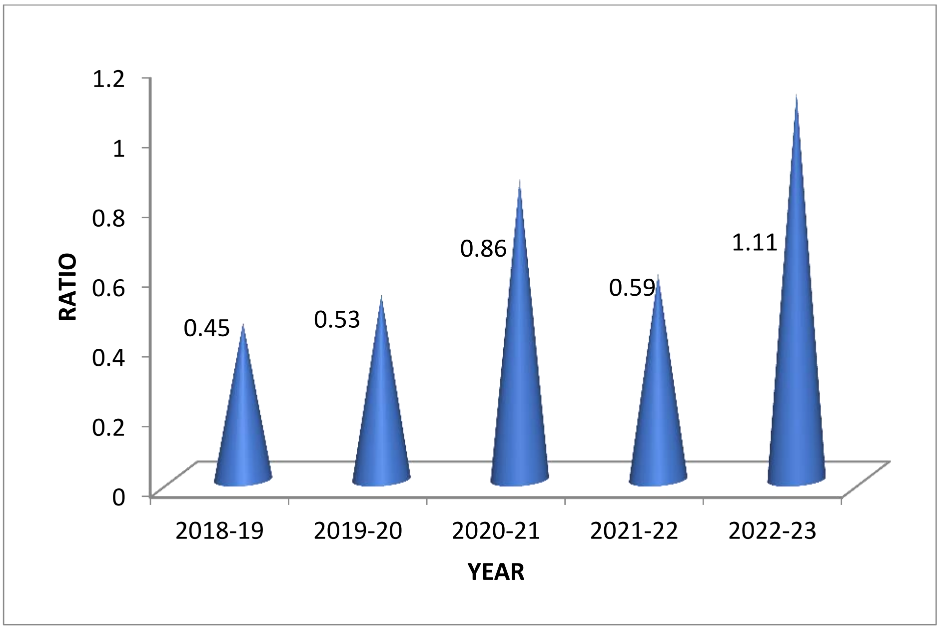

CHART NO: 4.2 Liquid Ratio

Interpretation

From the above table it was clear that the liquidity ratio for the year 2018-19 the ratio was 0.45. The next year the liquid ratio was increased to 0.53 and then next following years to increased 0.86, 0.59 and in the years 2022-23 increase to 1.11.

EARNING PER SHARE:

Earnings per share are a small variation of return on equity capital and are calculated by dividing the net profit after taxes and preference dividend by the total number of equity share.

Earnings Per Share = Net Profit after Interest and Tax / No Of Shares

TABLE NO – 4.6 Earning Per Share

(₹ in lacks)

YEAR	Net Profit After Interest ₹	No Of Shares ₹	EPS ₹
2018-19	163.13	17.70	9.22
2019-20	1.83	17.70	0.10
2020-21	864.86	17.70	48.86
2021-22	283.50	17.74	15.98
2022-23	196.82	17.75	11.09

Source: Secondary Data

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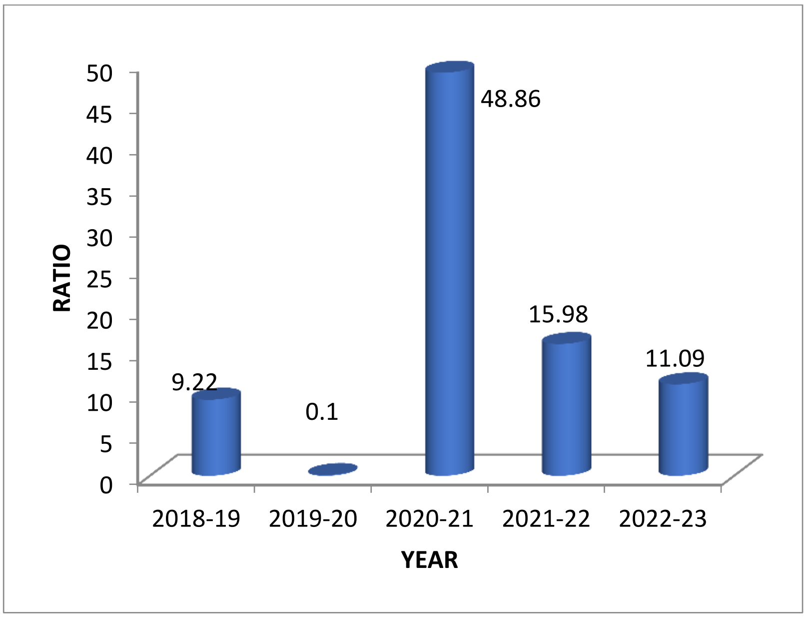

CHART NO – 4.6 Earning Per Share

Interpretation:

From the above table it is clear that the value of EPS is constantly moderating from 2018-19 to 2022-2023. In the year 2018-19 was 9.22. The next year of 2019-20 earning per share decreased to 0.10. And then next two years also increased to 48.86, 15.98. The final year of 2022-23 is 11.09 it was increased in the EPS value.

TREND ANALYSIS

The 'trend' signifies a tendency and as such the review and appraisal of tendency in accounting variables are nothing but the trend analysis. Trend analysis is carried out by calculating trend ratio. Trend analysis is significant for forecasting and budgeting. Trend analysis discloses the change in financial and the operating data between specific periods.

TABLE NO 4.17 Trend Values for Current Assets to Current Liabilities

Sales			EBIT		Net profit	
YEAR	**AMOUNT**	**TREND %**	**AMOUNT**	**TREND %**	**AMOUNT**	**TREND %**
2018-19	1845.17	**100**	339.92	**100**	163.13	**100**
2019-20	1874.88	**101.61**	242.13	**71.23**	1.83	**1.12**
2020-21	2024.25	**109.71**	1270.62	**373.79**	864.86	**529.31**
2021-22	2496.30	**135.29**	478.99	**140.91**	283.50	**173.51**
2022-23	2894.92	**156.89**	415.59	**122.26**	196.82	**120.46**

Source: secondary data

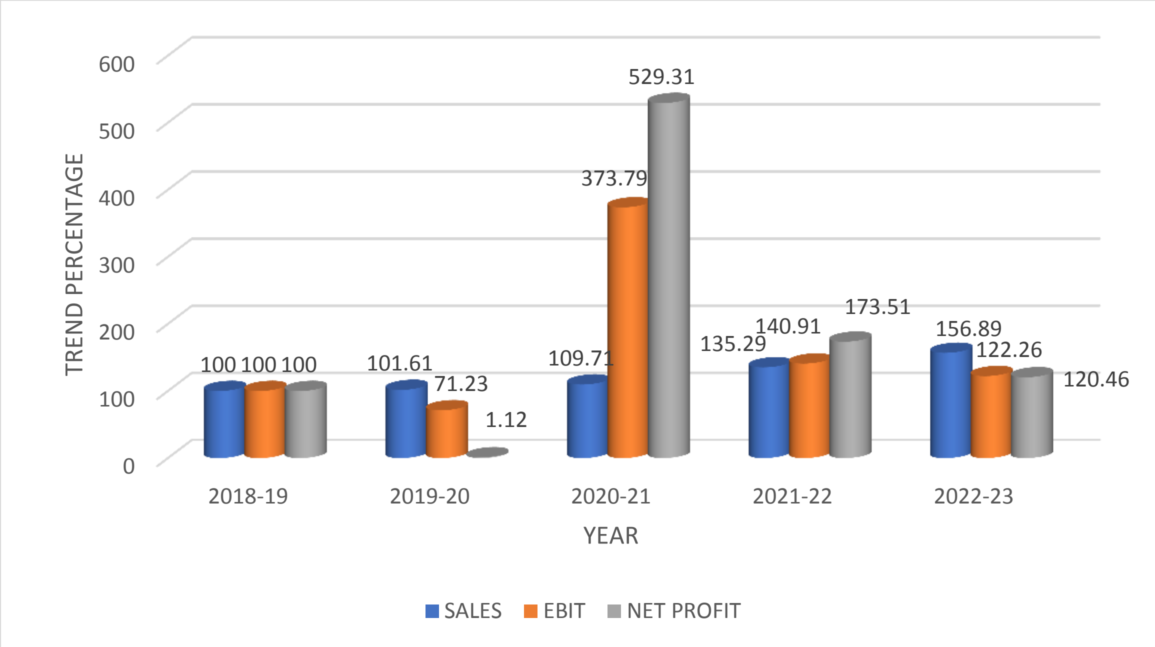

CHART NO 4.17 Trend Values for Current Assets to Current Liabilities

Interpretation

The Sales, EBIT and Net profit percentage were above 100% in the year of 2018-19. The Sales was in the year of 2022-23 is 156.89 and the EBIT to 122.26 for 2022-23. The Net profit trend percentage in the year of 2022-23 is 120.46.

IV. FINDINGS SUGGESTIONS AND CONCLUSION

FINDINGS

✓ The current ratio is a measure of firm's short-term solvency.

✓ In the year 2018-19 the liquidity ratio increases by 0.53

✓ The Sales, EBIT and Net profit percentage were above 100% in the year of 2018-19. The Sales was in the year of 2022-23 is 156.89 and the EBIT to 122.26 for 2022-23. The Net profit trend percentage in the year of 2022-23 is 120.46.

SUGGESTIONS

✓ The firms have low current ratio so it should increase its current ratio where it can meet its short-term obligation smoothly.

✓ Liquidity ratio of the firm is not better liquidity position in over the five years. So, it is suggested that the firm should maintain proper liquidity.

✓ The firm high inventory so I suggested that the firm must reduce the stock and increase sales.

✓ The direct material cost of the firm is very high so it's my Suggest to the firm that to decrease the direct material cost by purchasing raw material from the other suppliers.

✓ Each and every year's inventory level should be flexible for the stock level.

✓ The company should control fluctuations in cash and bank balances as it impacts the current ratio of the company

CONCLUSION

✓ Net sales and assets of the company have increased a lot in recent years. Although there no long-term debts, but it has taken some loans for operational expenditures which are very less as compared to the company which is indicated by the huge interest coverage ratio

✓ To maximize the wealth of shareholders, leverage plays a positive role when rate of return is higher than the fixed rate of interest which is paid on loans borrowed.

- ✓ The long-term debt is positively related with the firms' gross profitability. This can be explained by the aggressive output and investment strategies adopted by the firms with higher long-term debts, combined with their technology up gradation efforts.
- ✓ The structure of the debt of the firms is therefore found to have an important bearing on the firms 'choice of product market related strategies and thereby influencing the performance of the firms as well.

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