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A study on Profitability Ratio Analysis of the Sundaram Finance Ltd in Chennai

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ABSTRACT :- The financial statement provides the basic data for financial performance analysis. The financial statements provide a summarized view of the financial position and operations of a firm. Financial analysis (also referred to as financial statement analysis or accounting analysis) refers to an assessment of the viability, stability and profitability of a business. Financial analysis is the process of identifying the financial strengths and weakness of the firm from the available accounting data and financial statements. Profitability Ratio measured as an ability to make maximum profit from optimum utilization of resources by a business concern is termed as profitability. This analysis reveals the nature and strength of the relationship between each predictor variable and the outcome, independent of the influence from all other predictors. The researcher depends on existing data for his research work. The analysis revolves round the material collected or available.

Key words*: Gross profit, Net profit and Regression Analysis.*

I. INTRODUCTION

The financial statement provides the basic data for financial performance analysis. The financial statements provide a summarized view of the financial position and operations of a firm. Financial analysis (also referred to as financial statement analysis or accounting analysis) refers to an assessment of the viability, stability and profitability of a business. The analyst first identifies the information relevant to the decision under consideration from the total information contained in the financial statements. Therefore, much can be learnt about a firm from a careful examination of its financial statements as invaluable documents and performance reports.

The analysis of financial statements is an important aid to financial analysis. They provide information on how the firm has performed in the past and what is its current financial position. Financial analysis is the process of identifying the financial strengths and weakness of the firm from the available accounting data and financial statements. The analysis is done by establishing relationship between the different items of financial statements.

The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance.

II. OBJECTIVES OF THE STUDY

- To know the profitability position of Sundaram finance limited...
- To forecast the annual growth rate of income of the company with the help of regression analysis.

III. SCOPE OF THE STUDY

The study is based on the accounting information of the SUNDARAM FINANCE LIMITED, CHENNAI. The study covers the period of 2015-2016 for analyzing the financial statement such as income statements and balance sheet. The scope of the study involves the various factors that affect the financial efficiency of the company. To increase the profit and sales growth of the company, this study finds out the operational efficiency of the organization and allocation of resources to improve the efficiency of the organization. The data of the past three years are taken into account for the study. The performance is compared within those periods. This study finds out the areas where Sundaram Finance Ltd can improve to increase the efficiency of its assets and funds employed.

A. Function of sundarm finance limited

1. Depositor's confidence
2. Hire Purchasing
3. Leasing
4. Investor safety
5. Employee loyalty

B. Research methodology

Research can be defined as "A Scientific and Systemic Search for pertinent information on a specific topic". Therefore, research could be understood as an organized activity with specific objectives on a problem or issues supported by

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compilation of related data and facts, involving application of relevant tools of analysis and deriving logically on originality.

C. Research design

Research Design is the arrangement of condition for collection and analysis of data in manner that aims to combine relevance to the research purpose with the economy in procedure. Research Design is important primarily because of the increased complexity in the market as well as marketing approaches available to the researchers. A research design specifies the methods and procedures for conducting a particular study.

III. RESEARCH TYPE

A. Analytical Research

In this type of research has to use facts or information already available, and analyze these to make a critical evaluation of the material. The researcher depends on existing data for his research work. The analysis revolves round the material collected or available.

- Secondary data

Secondary Data refers to the information or facts already collected such data are collected with the objectives of understanding the past status of any variable or the data collected and reported by some source is accessed and used for the objective of a study. Normally in research, the scholars collect published data, journals, annual reports and websites.

- Ratio analysis

(1). Profitability Ratio Analysis
(2). Regression Analysis

- Profitability ratio

Profitability Ratio measured as an ability to make maximum profit from optimum utilization of resources by a business concern is termed as profitability.

- Gross profit ratio

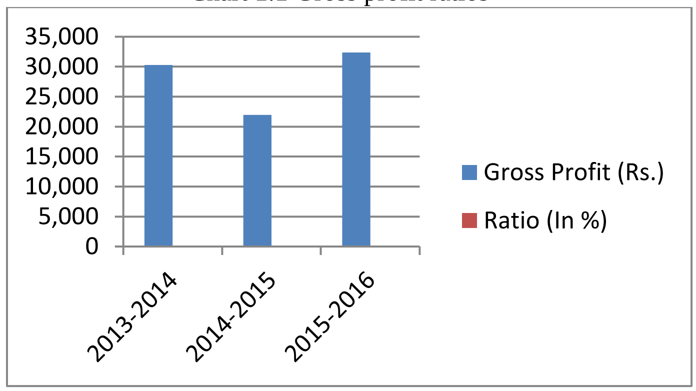
This ratio is also known as Gross Margin or Trading Margin Ratio. Gross Profit Ratio includes the difference between sales and direct costs.

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \text{X100}$$

Table 1 Gross profit ratio

Years	Gross Profit (Rs.)	Net sales (Rs.)	Ratio (In %)
2013-2014	30,290	90,176	34
2014-2015	21,971	1,08,278	20
2015-2016	32,348	1,18,189	27

Chart 1.1 Gross profit ratios



- Inference

The Gross Profit for the financial year 2013-2014 was recorded as per the ratio is 34%, where as the years between 2014-2015 went through a change in the ratio of 20% and the companies profit went upward in 2015-2016 with the ratio of 27%. Thus, it is showing the steady growth in the company profile.

- Net profit ratio

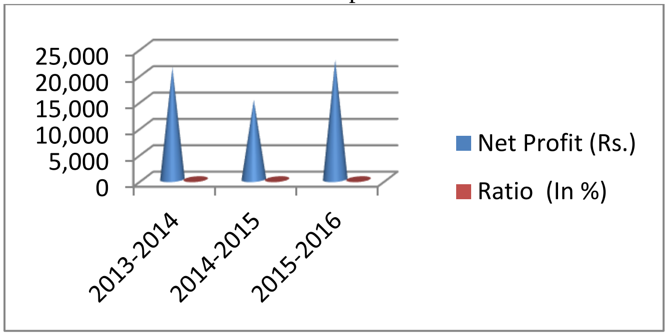
It measures of management efficiency in operating the business successfully from the owner's point of view. It indicates the return on shareholder's investment. Higher the ratio better is the operational efficiency of business concern.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit after Tax}}{\text{Net Sales}} \text{X 100}$$

Table 2 Net profit ratio

Years	Net Profit (Rs.)	Net sales (Rs.)	Ratio (In %)
2013-2014	21,254	90,177	24
2014-2015	15,073	1,08,278	14
2015-2016	22,675	1,18,189	19

Chart 2.1 Net profit ratios



- Inference

The Net Profit Ratio depicts that the company had a good profit in 2013-2014 is 24% where it had a good yield profit. Comparing to the year 2014-2015 is 14%, the sales of the company have a steady attitude and increase upwards to 19% in 2015-2016. This indicates that there is an improvement in the operational efficient of the business and it leads to the increase in the profitability of the firm.

B. Regression analysis

A fundamental and versatile research technique that seeks to explain an outcome variable in terms of multiple predictor variables. This analysis reveals the nature and strength of the relationship between each predictor variable and the outcome, independent of the influence from all other predictors.

Regression Equation Y on X is given as:

$$Y = a + bX$$

Equations to find constants ‘a’ and ‘b’ are given as:

$$\sum Y = Na + b\sum X$$
$$\sum XY = a\sum X + b$$

Table 3 Regression analysis

Year	X	Sales Rs(in Lakhs)Y	XY	X^2
2014	−1	90,176	− 90,176	1
2015	0	1,08,278	0	0
2016	1	1,18,189	1,18,189	1
Total	$\sum x = 0$	$\sum y$= 316643	$\sum x\,y$= 28013	$\sum X^2$ =2

$$\sum Y = N\,a + b \sum X$$

$$\sum XY = a \sum X + b \sum X^2$$

$$Y = a + b\,X$$

$$3\,a + 0\,b = 316643 \qquad \text{--------------- } \mathbf{(1)}$$

$$0\,a + 2\,b = 28013 \qquad \text{--------------- } \mathbf{(2)}$$

Solving (1) and (2) We get,

$$a = 105548$$

$$b = 14006$$

When X = 2, $Y_{2017} = 105548 + 14006\ (2)$

Y_{2017} = Rs. 133561 (in Lakhs)

When X = 3, $Y_{2018} = 105548 + 14006\ (3)$

Y_{2018} = Rs. 147567 (in Lakhs)

- Inference

The net sales during the year 2014 were 90176 (Rs. in Lakhs) which has been increased to 108278 (Rs. in Lakhs) during 2015 which also raised to 118189 (Rs. in Lakhs) during 2016. The projection is made for the fore coming years 2017 and 2018 where the net sales would be 133561 (Rs. in Lakhs) during the year 2017 and the net sales during the financial year 2012 will be 147567 (Rs. in Lakhs).

IV. CONCLUSION

In the study of profitability ratio analysis of Sundaram Finance Limited Chennai, it is clear that the company’s financial performance is satisfactory. The company has stable growth and it better performance in all the areas it works.

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