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A Study of Financial Statement Analysis on the Basis of Ratio Analysis at Bajaj Steel Industries Pvt. Ltd. Nagpur

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Abstracts:- A study of financial statement analysis on the basis of ratio analysis at Bajaj steel Industries Pvt. Ltd. Nagpur. The report is analyzed on their financial activities of the company for the period of three years. The report is providing the assessments and interpretation of the profitability, liquidity, performance and financial position of the Bajaj Steel Industries companies using figures from the financial statements for the years 2016- 2017, 2017-2018,2018-2019, 2019-20 of Bajaj Steel Industries Pvt. ltd. In the interpretation of financial ratio were used to know the review of the specific period of the assessment of the company's performance. The ratio is able to provide a perfect interpretation of the overall condition of the company. From the ratio we can know that Bajaj Steel Industries has been profitable mainly because of low net profits ratio. The net profits margin is an average tells that the direct expenditure cost is not compared properly. The company has a good liquidity positions which tells that it can stay on its current assets to finance the current liabilities and does not have to commit to long term debts. It has been recommended that the company with low performance should look into ways of improving sales in period of low demand to improve profitability and also increase financial to expand and grow the business. The analysis is limited mainly due to the fact that it is based on three years transactions, and hence comparative study has been made possible. The business is been compared for all the past years performance.

I. INTRODUCTION

➢ *Statements of Problem*

The company is been analyzed on its financial part it is a very important parts of whole corporate managements and it is greatest and powerful tool of financial performance analysis. The analysis of financial statements of Bajaj Steel Industries is done in order to know the company's financial position.

➢ *Need of Studies*

- To study the financial performance of Bajaj Steel Industries related to ratio analysis and other financial aspects. Profitability and productivity of this company.
- The studies ha the very much significance and gives the benefits to various party direct or indirect with the companies.
- To know the relationships between the different financial aspect in such a way that it allow the user to draw conclusions about the performances, strength and weakness of this company.

➢ *Objective of Study*

- To know how ratio analysis facilitate proper understanding of information's contain in the financial statements.
- To identify the useful of financials ratio in calculating and predicts the performances and financials positions of a business.
- To study the overall financial efficiency of the selected industry for three years.
- To examine the relationship of financial indicators with performance of selected industry.

II. RESEARCH METHODOLOGY

Sampling Design: Simple Random Techniques.

Population: Bajaj Steel Industries will be the population under the section.

Sampling Unit: Bajaj Steel Industries Pvt. Ltd.

Sampling Frame: The data analyzed between 1st April 2016 to 31st March 2020.

Sampling Techniques used: Simple Random technique which is a type Bajaj Steel Industries Pvt. Ltd.

Sampling Size: Overall, three years financial and annual report of the company.

➢ *Data Collection:*

Secondary Data: The major's area of data is collected from the website of Bajaj Steel Industries. Textbooks and business journal and periodic and newspaper are also to collected some data and information.

➢ *Limitations of Study*

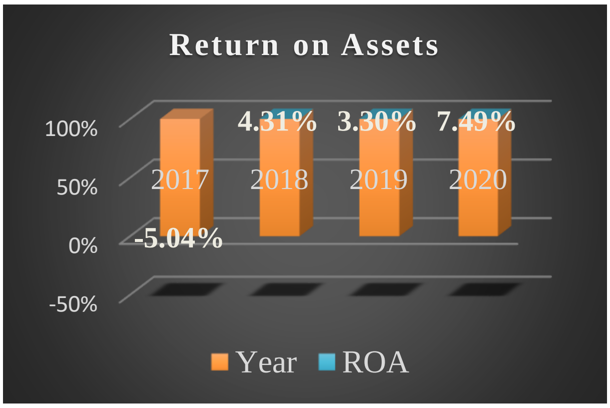
- Ratio ignores the prices level change due to inflations. Many ratio have been calculated using historically cost, and they overlooks the change in prices levels between the period.
- Accounting ratio complete ignores the qualitative aspect of the firms.
- There are no standards definition of the ratio. So, firm may be using different types of formula for the ratio.

III. DATA ANALYSIS AND INTERPRETATION

The main thrust of this chapter is to analyses the financial performance data of the Bajaj Steel Industries during the period 2016-17, 2017-18, 2018-19, 2019-2020

1. **Return on Asset:** The return on asset shows the percentage of how profitable a companies asset generates the revenue.

$$\textbf{ROA} = \frac{\textbf{Net Profit}}{\textbf{Total Assets}} \textbf{*100}$$

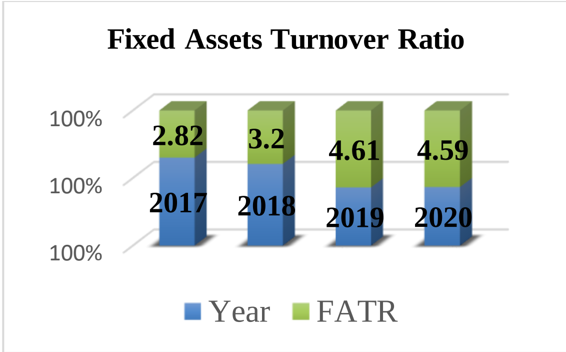


Graph 1:- Return on Assets

Interpretation: In all three year the percent of ROA is changing as in 2016-2017 the ROA was in negative i.e., -5.04% and in the year 2017-2018 it has increased very fast i.e. 4.31% and again in the year 2018-2019 the ROA decreased by 3.30% and again in 2019-2020 the ROA increase very high by 7.49%. It states that the company is not capable of converting the money used in purchase of assets into net incomes. A positive ROA ratio usually indicates an upward profit trend as well. A negative ROA ratio usually indicate a decreases in profit trend as well. A higher return on asset means than the business was able to use its resources well in generating income.

2. **Fixed Assets Turnover Ratio:** This efficiency ratio shows operating performance. It compares net sales to fixed assets. A higher ratios result implied that management is using its fixed assets more effectively.

$$\textbf{FATR} = \frac{\textbf{Sales}}{\textbf{Total Fixed Assets}}$$

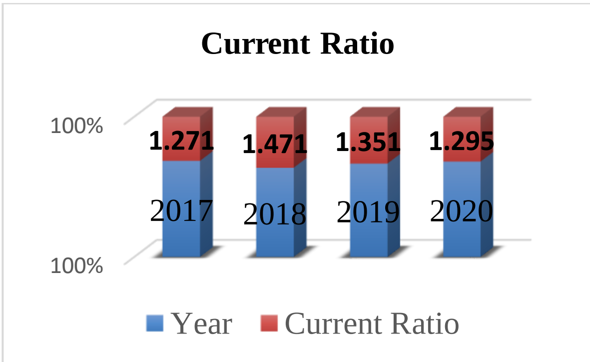


Graph 2:- Fixed Assets Turnover Ratio

Interpretation: Fixed assets turnover measures how well a company is using its fixed assets to generate revenues. An increased ratio indicates that a company has invested properly invested in fixed assets. As we can see that every year fixed assets turnover ratio is increasing. It means the company has a good performance. A higher fixed assets turnovers ratio is indicative of greater efficiencies in managing fixed-assets investment. We can say that company is utilizing its revenue in proper way in fixed assets.

3. **Current Ratio:** It show the relationships between current asset and current liabilities. Higher the ratio, higher will be the liquidity of the company.

$$\textbf{Current Ratio} = \frac{\textbf{Current Asset}}{\textbf{Current Liability}}$$



Graph 3:- Current Ratio

Interpretation: The average current ratio during the analysis is 1.36 which is below the standard norms i.e., 2:1, so the company has to improve its current ratio by increasing its current assets. The maximum current ratio in the year 2017-2018 is 1.471 and the maximum ratio in the year 2016-2017 is 1.271. Therefore, there is fluctuation trend in current ratio of every year, so that the company can meet current liabilities with the available current assets.

4. **Net Profit Ratio:** It show the overall profitability of the business. The ratios are very useful as if net profits is not sufficient for the companies the company may not satisfied the customers need.

$$\textbf{Net Profit Ratios} = \frac{\textbf{Net Profit after tax}}{\textbf{Net Sales}} \textbf{*100}$$

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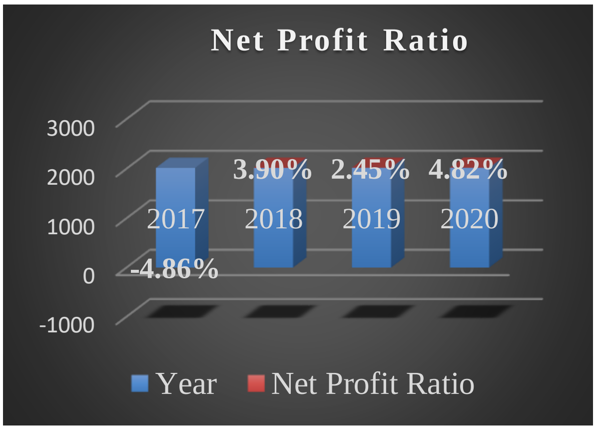
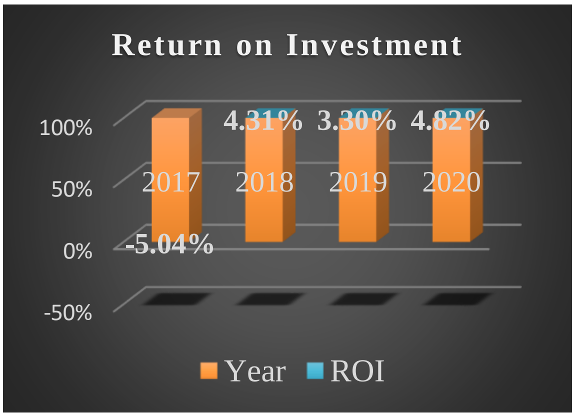


Graph 4:- Net Profit Ratios

Interpretation: The ratio indicates that firm has a capacity to face condition such as prices competition, low demands, etc. Net profit ratio was negative in 2016-2017 year -4.86%. As then it got increased in year 2017-2018 3.90% and again in 2018-2019 year it got decreased by 2.47% and in 2019-2020 the net profit ratio got increase by double from the last year i.e. 4.82%. The shareholder of the company is not happy as their earnings are getting decrease day-by-day. So, we can say that company has to work more on generating the profit more and it is not good sign to investor to do investment in this company.

5. **Return on Investments:** It is the ratio between net profits and cost of investments. A high ROI means the investment's gains compares the favor to its cost.

ROI = Net Profit after interest and tax *100
Shareholder Fund

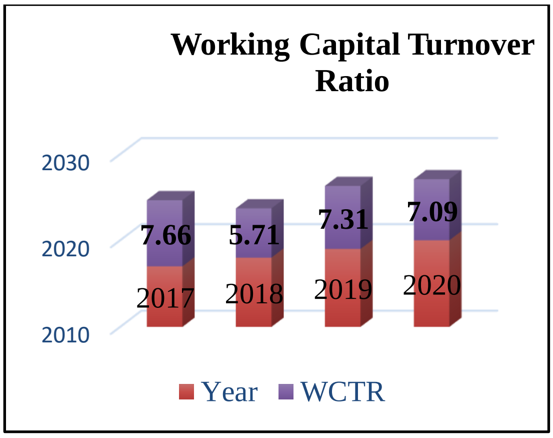


Graph 5:- Return on Investments

Interpretation: The higher the returns on the investments ratio, the more efficiently the companies is using its assets base to generates the sales. It is one of the most commonly used approached for evaluating's the financial consequence of business investments, decisions or action. In the above analysis ROI is getting fluctuate in every year as in year 2016-2017 ROI was negative i.e. (-5.04%) then it increases in year 2017-2018 i.e. 4.31% and in year 2018-2019 it got decrease by 3.30% then again it increases in 2019-20 i.e. 4.82%.

6. **Working Capital Turnover Ratios:** The working capital turnover ratios measure how well a companies are utilizing's it working capitals to support a given level of sale. Working capitals is current assets minus current liabilities.

WCTR = Net Sales
Working Capital

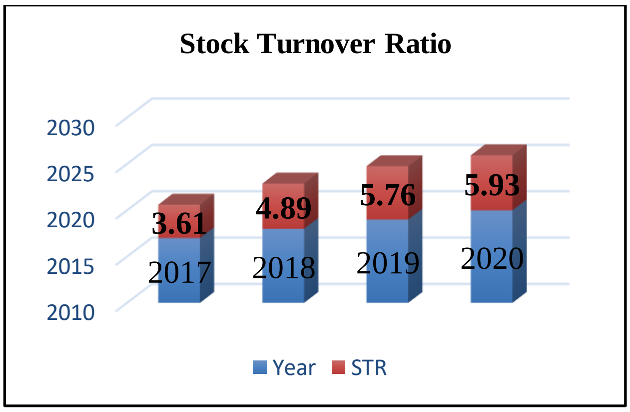


Graph 6:- Working Capital Turnover Ratios

Interpretation: Working Capital Turnover Ratios are use to determines the relationships between net sale and working capitals of a busines. A higher turnover ratios indicate that managements is being extremely efficient in using a firm short-term asset and liabilities to support sale. A low ratios indicate the business is investment in too many accounts receivable and inventory asset to support its sale, which eventually lead to an excessive number of bad debts and obsolete inventory write-offs. As we can see that in year 2017-2018 the ratio has gone done but in the next year, they have increased their ratio by 7.25 and again in 2019-2020 the ratio has gone down.

7. **Stock Turnover Ratio:** The stock turnover ratios that measure the number of time inventories is sold or consumed in a given times of period. To measures the overall efficiencies of a business.

STR = Net Sales
Average Inventory at Cost

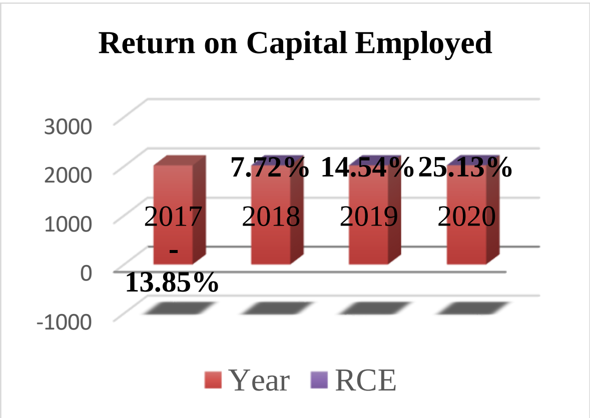


Graph 7:- Stock Turnover Ratio

Interpretation: Stock Turnover Ratios relationships between cost of goods solds and average inventories. As we can see that ratio is increased every year. It indicate how efficiently the firm investments in inventory is converted to sale and thus depict the inventories management skill of the organizations. If stock turnover ratios is high it show more sales are being made with each unit of investments in inventory. A low inventory turnover ratio may indicate unnecessary accumulation of stock, inefficient use of investment, over-investment in inventories, etc. It means high is favorable a very high ratio may indicate a shortage of working capital and lack of sufficient inventories.

8. **Return on Capital Employed:** Return on Capital Employed is a financial ratio that can be used in assessing a company's profitability and capital efficiency. The ratio can help to understand how well a company is generating profits from its capital.

RCE = $\dfrac{\text{Net Profit before Tax}}{\text{Total Assets – Current Liabilities}}$ *100



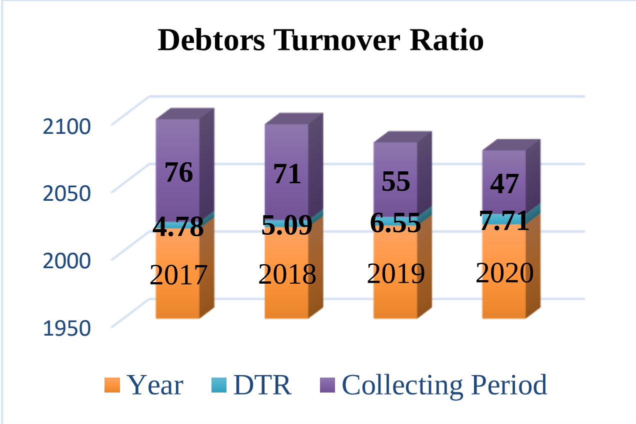
Graph 8:- Return on Capital Employed

Interpretation: Return on Capital Employed ratio is one of the profitability ratios it is used for analyzing the company's financial for profitability performance. As we can see that the ratio is changing all three years. In 2016-2017 the ratio was in negative i.e. -13.85% as the next four years the ratio has increased and it is good for the company's betterment. It tells that company is doing good performance. Return on Capital Employed is a long-term profitability ratio. Company's return must be high that the rate at which they are borrowing to fund assets.

9. **Debtors Turnover Ratio:** The debtor's turnover ratio is used to measure how effective a company is extending credit as well as collecting debts. The debtor's turnover ratio, measuring how effectively a firm uses its assets.

DTR = $\dfrac{\text{Net Credit Sales}}{\text{Average Account Receivable}}$

Collection Period = $\dfrac{\text{Months /Days in a year}}{\text{Debtors Turnover Ratio}}$

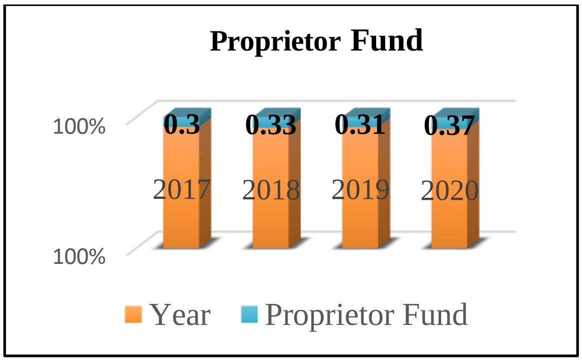


Graph 9:- Debtors Turnover Ratios

Interpretation: Debtors Turnover Ratio is used to show quickly the credit sales are converted into cash. It also tells the uncollected portion of credit sales. The idol ratio is 45 to 65 Days. We can analysis from this study that 2019 & 2020 has the best debtor's turnover ratio than other years. A high ratio implies either that a company operates on a cash basis or that its extension of credit and collection of account receivable is efficient. While a low ratio implies that company is not making the timely collection of credit.

10. **Proprietor Fund:** Proprietor's fund refers to total investment made by owner(s) of a business enterprise. In other words, it indicates the value of total assets of a business enterprise after deducting its long and short terms liabilities.

Proprietor Fund = $\dfrac{\text{Shareholder Fund}}{\text{Total Assets}}$

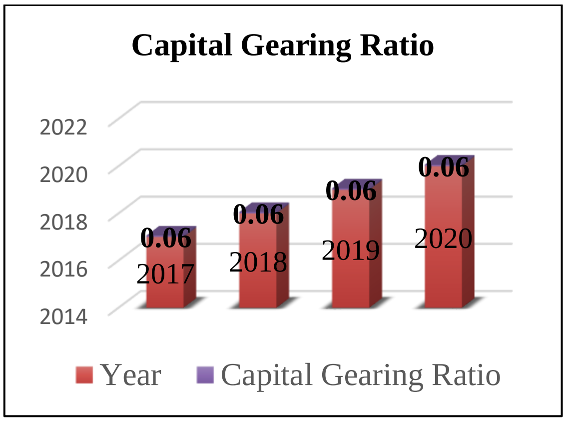


Graph 10:- Proprietor Fund

Interpretation: Proprietor fund tells us about to understand the financial stability of the firm. Higher the ratio indicates little secure position in the event of solvency. The low ratio indicates greater risk to the creditors. In 2016-2017 the ratio of proprietor fund is 0.30, in 2017-2018 the ratio is 0.33, in 2018-2019 the ratio is 0.31, in 2019-2020 the ratio is 0.37. The ratio tells the ratio below 0.5it is not good for the creditor. As the company has the ratio below 0.5 all the four years. It means that the creditors of this company is in high risk.

11. **Capital Gearing Ratios:** Capital Gearing Ratio is also known as Leverage Ratio. These ratios tell us the relationships between the fixed interest and shareholder fund. Capital gearing is a British terms that refers to the amount of debts of a companies has relative to its equites. In the United States, capital gearing is known as known as "financial leverages."

CGR = $\dfrac{\textbf{Equity Share Capital}}{\textbf{Fixed Charge Bearing Fund}}$



Graph 11:- Capital Gearing Ratio

Interpretation: A gearing ratios is a general classifications describing a financial ratio that compares some form of owner equity (or capital) to funds borrowed by the company. Higher capital gearing ratio indicates large firm bearing fixed interest as compared to equites share capitals and low ratios indicates preference share and other fixed interest are less than the equity share capital. The idol ratio is 2:1. As above all the three years has constant performance all the four years. There is not much risk in this ratio.

IV. FINDINGS

Ratio	2017	2018	2019	2020	Performance
Return on Asset	-5.04%	4.31%	3.30%	7.49%	Average
Fixed asset Turnover Ratio	2.82	3.20	4.61	4.59	Good
Current Ratio	1.27	1.47	1.35	1.295	Good
Net Profit Ratio	-4.86%	3.90%	2.45%	4.82%	Average
Return on Investment	-5.04%	4.31%	3.30%	4.82%	Satisfactory
Working Capital turnover	7.66	5.71	7.31	7.09	Excellent
Stock Turnover Ratio	3.61	4.89	5.76	5.93	Good
Return on Capital Employed	-13.854%	7.716%	14.54%	25.13%	Satisfactory
Debtors Turnover Ratio	4.78 times	5.09 times	6.55 times	7.71 times	Average
Proprietor Fund	0.30	0.33	0.31	0.37	Excellent
Capital Gearing Ratio	0.06	0.06	0.06	0.06	Average

Table 1

V. SUGGESTIONS

- By controlling and endeavoring to minimize the cost, the company can improve its profitability.
- Equity shareholders should study the fundamentals of Bajaj Steel Industries before investing in the stock.
- The companies should try to increase the deposits and return on assets so that the income will also increase.
- They should diversify the business and control the cost to increase the net profit ratio.
- Company should maintain its debtors so that the company can gain more profit in the future days.

VI. CONCLUSION

Company must have knowledge and experience of converting their money of purchasing assets into the money. Company has managed the assets in the year 2018-2019 only in a proper manner. Current ratio is idle. Which means the liquidity of the company is stable. ROI of the company is satisfactory shareholder and owners are getting the return on their investment. Working capital turnover is excellent which means the cycle of working capital is circulating properly. Stock of the company is utilizing in the proper and efficient manner. Return on Capital Employed is a long-term profitability ratio and increases day by day. Debtors ratio must be improved so that the company can increase its profit. Proprietor fund must be improved as it is excellent. The company must improve the relationship with its creditors and debtors, so that company can increase its value in the market.

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