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A systematic review to ascertain financial health of the company based on profit margin.

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Abstract:

Assessment of financial performance and soundness is crucial matter for any company. This assessment gives the general direction of a firm in assessing its strength and weakness in comparison to other peers in the industry. All the in sequence obtained beginning ratio analysis is important not only to a firm but also pertinent to stakeholders in judgment creation. In this article we would like to discuss various types of financial ratio which affecting managerial decision in a company.

Key Words: Ratio Analysis, financial statements, Financial progress

INTRODUCTION:

Financial statements are the statements that present an actual view of the financial performance of an organization at the end of a financial year and presented according to the guidelines of accounting standards. Financial statements include the income statement, balance sheet, statement of cash flows, notes to accounts and a statement of changes in equity (if applicable).

Financial Statement examinations are the procedure of review and analyze a company's financial statements to create better monetary decisions to earn profits in future. In arithmetic, a ratio is a association of two or more numeral with the reason of indicate their sizes in relative to each other. A ratio analysis compares two quantities by partition, with the numeral being divided termed the forerunner and the number that is in-between termed the consequential.

- To help in the formulation of policies, decision-making and evaluating the performance and trends of the business and its various segments.
- To understand not only the working and operational efficiency on the net worth and consequently the price of their shares in the Stock Exchange.
- To help of such analysis, they can form opinion regarding the effectiveness or otherwise of the management functions.

- In the subject ‘mathematics’, a ratio is a evaluation of two or more number that indicates their sizes in relation to each other. A ratio compares two quantities by division, with the number being divided termed the antecedent and the number that is dividing termed the consequent.
- It is merely one number articulated in terms of a further. It is a means of prominence in arithmetical stipulations the relationship connecting two figures pinched from various monetary statements.
- Ratio can be articulated in the subsequent three terms:
  a) As Proportion (amount)
  b) As Percentage (Faction)
  c) As Revenue or Rate

Ratio study is used to appraise relationship surrounded by financial statement items. The ratios are used to recognize trends in excess of occasion for one association or to compare two or more associations at one point in time.

- **Compensation of Ratio Analysis:**

  - Assist in forecasting and planning.
  - Assist in estimating financial statement for the firm.
  - Assist in influential how economically the firm is functioning.
  - It provides important information to users of book-keeping information concerning the presentation of the business.
  - It assists in judgment of two or more firms.
  - It assists in formative both liquidity and long term solvency of the firm/ Company.

LITERATURE REVIEW:

- **As per Accounting Standards**, financial statements are a prearranged financial arrangement and communication undertaken in an organization. The most important financial statements are the means used by the book-keeping for the purpose of collecting, processing and present economic in sequence. The point of financial statements is to make available information.
- The basic reason of financial statements is to provide information on the place and financial changes as a extremely important basis for creation professional decisions (**Asllanaj,2008)**
- **Prof Lewis & Pendrill (2004)**: The rationale of the financial statements is to supply information concerning the financial circumstances, financial presentation and changes in entity’s financial location that are usable by a wide variety of users in creation their financial decisions.

- **P. Stevens, B. Kriefman**: Ratio analysis is an arithmetical challenge to analyse the recital and financial position of commerce. By converting unconditional numbers into ratios, we have the aptitude to make comparisons involving one firm and another, or connecting one period and another. Certainly, ratio analysis, which is the understanding and interpreting of ratios, cannot be importantly achieved without some form of judgment. (Branch of the Macmillan Work Out sequence)
- **Professor I. M. Pandey (2005)** define ratio that "the indicate proportion of two mathematical phrase" and as "the relation linking two or more things".
- Professor **J. Batty**: "The term accounting ratio is used to illustrate significant association which exists between statistics shown in a balance sheet, in a profit & loss a/c, in budgetary organize system or in any other part of the secretarial for accounts association".

RESEARCH METHODOLOGY

Every organization faced the same problem that is inconsistency in business performance. Internal and/or external environmental factors lead to inconsistent performance. Financial performance is sensitive matter for the corporate world.

In this context my research work is aligned towards study of financial performance. For this purpose analysis of financial statement is required. Ratio Analysis is one of the most commanding apparatus of financial analysis

OBJECTIVES

- To analyse operational efficiency and managerial efficiency of the firm.
- To assess the profitability, solvency and liquidity position of the firm.

RESEARCH HYPOTHESIS

- It tells about Relational hypothesis state the ordinary relationship among two variables.
- Research hypothesis is a extrapolative statement competent of being experienced.

RESEARCH DESIGN

According: Preferred Study is based on secondary data and primary both. For fill the gap in the information primary data is also collected via interview with employee.

DATA ANALYSIS AND INTERPRETATION
Figures/ Tables/Charts:

Profitability Ratio

1. Gross Profit Ratio:

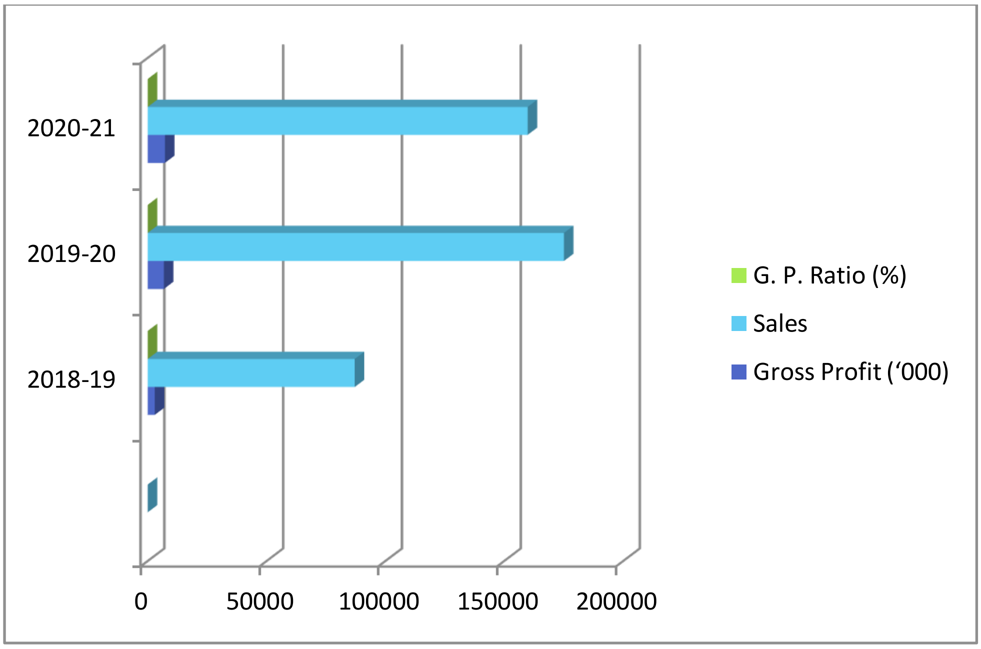
This ratio shows the relationship between gross profit & sales. It is used to measure the company's profitability at the direct trading level. It is computed by dividing the gross profit by sales.

- **Formula:**

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

- **8.1 Table of Ratio:**

Year	Gross Profit ('000)	Sales ('000)	Operating Profit ('000)	Net Profit	G. P. Ratio (%)	Operating Cost ('000)	Net profit Ratio	Operating Ratio	Operation profit Ratio
2018-19	2994	87151	2305	1070	3.43%	8,59,47	1.22	98.62%	2.64%
2019-20	6814	175136	4322	2069	3.89%	17,10,07	1.18	97.64%	2.45%
2020-21	7255	159895	5769	2071	4.54%	15,42,47	1.29	96.47%	3.61%



- **Formula:**

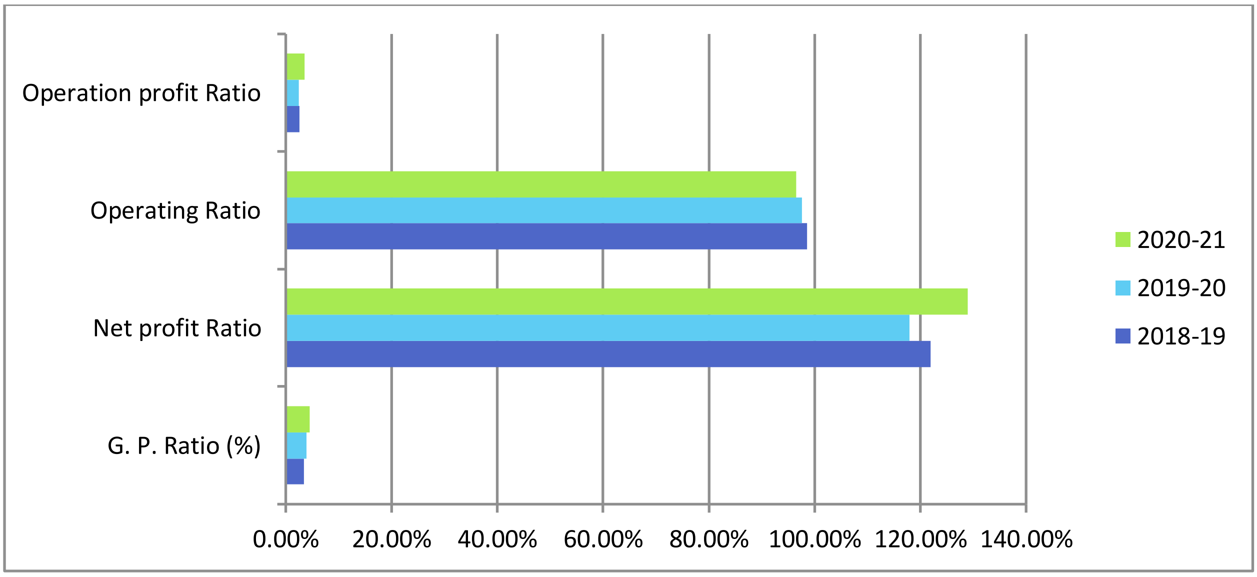
$$\text{“Operating Profit Ratio “} = \frac{\text{Operating Profit}}{\text{Sales}} \times 100$$

- **Formula :**

$$\text{“ Net Profit Ratio”} = \frac{\text{Net Profit}}{\text{Sales}} \times 100$$

- **Formula :**

$$\text{:Operating Ratio”} = \frac{\text{Operating Cost}}{\text{Sales}} \times 100$$



RESULT:

- Operating Ratio and Operating Profit Ratio are complementary to each other. Lower margin of Operating Ratio is better for the firm because it indicates the higher profit margin to meet non-operating cost
- This ratio shows the percentage remaining from the revenues after deduction of the cost of goods sold.
- Gross Profit Ratio can be increased when manufacturing cost is decreased/ sale volume is increased/ selling price raised.
- Net profit ratio indicates the overall profitability of the business.
- This ratio shows the percentage remaining from the revenues, after deducting the all expenses related to the business.
- Operating Profit Ratio assess the operational efficiency of the business.
- The increase in this ratio over the previous year indicates the improvement in operational efficiency of the firm.

CONCLUSION:

- The gross profit ratio has shown a steady increase over the years. This is a good sign considering the Covid pandemic and its effects.
- Net profit ratio is overall at the same level with minor increase/ decrease.
- Operating ratio (i.e. operating cost ratio) has shown steady decrease. This is in line with the gross profit ratio which has gone up. Gross profit ratio and operating cost ratio always have an inverse correlation.
- Operating profit ratio has a first decreased and then went up.
- As compared to 2018-19, the gross profit ratio increased by 0.46% in 2019-20. However, as compared to 2019-20, the gross profit ratio increased by 0.65% in 2020-21.
- As compared to 2018-19, the net profit ratio decreased by 0.04% in 2019-20. However, as compared to 2019-20, the net profit ratio increased by 0.11% in 2020-21.
- As compared to 2018-19, the operating ratio decreased by 0.98% in 2019-20. However, as compared to 2019-20, the operating ratio decreased by 1.17% in 2020-21.
- As compared to 2018-19, the operating profit ratio decreased by 0.19% in 2019-20. However, as compared to 2019-20, the operating ratio increased by 1.16% in 2020-21.

RECOMMENDATION:

- There are two basic strategies for boost profitability throughout sales; selling further to existing profitable clients and finding similar clientele to sell to.
- Profitability ratios are financial metrics used by analyst and investor to calculate and appraise the capability of a company to produce income (profit) in relation to revenue like balance sheet assets, their operating costs, and shareholders' equity all through a specific period of time. They show how well a company utilize its assets to construct profit and value to shareholders.

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