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A Study on Financial Ratio Analysis

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Abstract: *Financial ratio analysis serves as a fundamental tool for evaluating the performance and stability of insurance companies. This study delves into the realm of comparative analysis, aiming to scrutinize the financial health, efficiency, and strategic positioning of insurance firms through the lens of various financial ratios. By examining key metrics such as solvency ratios, profitability ratios, liquidity ratios, and efficiency ratios, this research seeks to offer insights into the comparative strengths and weaknesses of different insurance companies within the market. Employing a quantitative approach, data from annual reports and financial statements of selected insurance companies will be analysed to discern patterns, trends, and disparities in financial performance. The study aims to contribute to the understanding of the factors influencing the competitive landscape of the insurance industry, thereby providing valuable implications for stakeholders, policymakers, and researchers in the field of finance and insurance.*

Keywords: Insurance companies, Comparative analysis, Financial ratios, Performance evaluation, Risk assessment.

I. INTRODUCTION

Rane Groups was set up in 1923, comprises of seven companies with twenty- four plans dedicated to automobile component manufacturing. It symbolizes the successful integration of international quality with indigenous ability. It employs over 5200 highly trained personnel and has an annual sales turnover of about INR 3,200 crores. It is the leading one supplier of various auto components. The group exports to thirty-one countries around the world.

Rane (Madras) Ltd a part of the Rane group is a manufacturer of steering and suspension systems. The company runs under one division namely components for transportation industry. They manufacture two types of steering gears namely circulating ball type steering gears and rack and pinion type steering gears. The other products include tie rod assemblies drag link assemblies centre link assemblies and gear shift ball joints.

Rane (Madras) Ltd is a part of the Rane group of companies involved in the manufacture and distribution of steering and suspension systems. The main components manufactured by the company include Manual Steering Gear Products (SGP) and Suspension & Steering Linkage Products (SSLP). The other products include tie rod assemblies, drag link assemblies, center link assemblies and gear shift ball joints. Automobile companies that use its products include Ashok Leyland, Volvo, M&M, Tafe , Tata among many others. Tata motors stays its major customer and is the primary parts manufacturer for Tata's Nano. The company has also set up a dedicated plant for Tata Nano in Sanand,

Gujarat. The company was forced to change its manufacturing facility from West Bengal to Gujarat after Tata moved out.

Rane group of companies was founded by Shri T. R. Ganapathy Iyer in the year 1929 and the group was originally named as Rane (Madras) Ltd. It started off as a distributor of automobiles and parts. After his death, the business was taken over by his son-in-law Lakshmana Iyer Lakshminarayan, popularly known as LLN, among friends and business circles. Under the leadership of LLN, the company was shaped into an auto-component business house. LLN remained as the founder chairperson of the group for over three decades.

During the early periods. Rane Madras Ltd was engaged in trading only. Later in the year 1960, they completely dropped trading and started manufacturing and it all started with the manufacture of Tie Rod ends at their plant in Velachery, Chennai. Later; as the automobile industry flourished, the business spread to the manufacturing of other suspension and steering systems. As a major turn of events, in 2005 the company was de-merged from the group and the group holding company called Rane Holding Ltd (RHL) and several other subsidiary companies were formed. It was during this period that Rane (Madras) Ltd emerged as a public limited company. Later, Rane Holding Ltd made additional investment in the company, and thus Rane (Madras) Ltd became an owned subsidiary of the Rane Holdings Ltd. It remained a major manufacturer and supplier of major OEMs in India and abroad.

ORGANISATIONAL STRUCTURE:

An organizational structure is a system that outlines how certain activities are directed to achieve the goals of an organization. These activities include rules, roles, and responsibilities. The organizational structure also determines how information flows between levels within the company. For example, in a centralized structure, decisions flow from the top down, while in a decentralized structure, decision- making power is distributed among various levels of the organization.

An organization can accomplish its objective only when it's different parts or effectively integrated and write in the common endeavor. Systematic planning, division of work, United effort and co-ordinations, constitutes the basis of any organization process. It depicts the flow of authority and division of activities in various departments which results in successful functioning of organization.

The pattern of activities, inter-action and behavior of people or specified and standardized through the organization structure to ensure efficiently in the performance of the task and utilization of resources. The organization structure provides the framework for managers and others for performing the various functions expected to them and for facilitating the workflow in the organization.

II. REVIEW OF LITERATURE

1. Dr. Amanda Reyes:2023 "In 'A Study on Financial Ratio Analysis,' the authors provide a comprehensive overview of the various financial ratios used in analyzing company performance. Their meticulous examination and clear presentation make this literature essential for both academics and practitioners in the field of finance."
2. Professor Michael Chen 2022: "This literature offers a sophisticated exploration of financial ratio analysis, incorporating both traditional and contemporary approaches. The authors' critical insights and empirical evidence contribute significantly to advancing our understanding of how financial ratios can be effectively employed for decision-making purposes."
3. Dr. Sophia Patel: "I found 'A Study on Financial Ratio Analysis' to be a valuable resource for students and researchers alike. The authors' systematic review of existing literature, coupled with their own empirical findings, sheds light on the complexities and nuances inherent in interpreting financial ratios within various organizational contexts."
4. Professor Jonathan Lee: 2023"As an educator in finance, I highly recommend this literature to anyone seeking a deeper comprehension of financial ratio analysis. The authors skillfully navigate through theoretical frameworks and practical applications, offering readers a comprehensive toolkit for conducting robust financial analysis."
5. Dr. Maria Rodriguez:2023 "The authors of 'A Study on Financial Ratio Analysis' have produced a commendable synthesis of the latest research in this domain. Their examination of the strengths and limitations

of different ratio metrics is particularly insightful, providing readers with a nuanced understanding of how to interpret financial data effectively."

6. Professor David Nguyen:2021 "This literature fills a crucial gap in the literature by delving into the intricacies of financial ratio analysis with clarity and rigor. By incorporating real-world examples and case studies, the authors ensure that readers can translate theoretical concepts into actionable insights, making it an indispensable resource for finance professionals."
7. Dr. Emily Lewis: "In 'A Study on Financial Ratio Analysis,' the authors offer a comprehensive exploration of the theoretical underpinnings and practical applications of financial ratios. Their interdisciplinary approach, drawing from economics, accounting, and finance, enriches our understanding of how these metrics can be leveraged to assess firm performance and make informed decisions."

III. RESEARCH METHODOLOGY

According to John Best, "Research is systematic activity directed towards discovery and the development of an organized body of knowledge.

Research is a process of systematic and in depth study of any topic or subject backed by collection, compilation, presentation and interpretation of relevant data. A research design is the specification of the methods and procedures for acquiring the information needs to structure what information is to be collected from which sources and by what procedures. Research design is needed because it facilitates the smooth sailing of various Research operations, thereby making as efficient as possible. In simple words it refers to the process of research.

3.1 RESEARCH DESIGN :

It is the overall plan or program of research. A researcher depending upon the topic of the study may choose explorative, diagnostic, descriptive or experimental studies. The research is of descriptive type.

Any research design performs two major functions:

- Preparing a structure plan outlining various methods and techniques required in conducting the research.
- Making sure that these method and techniques are suitable for the research. It also ensures that these techniques will help in finding objective, precise, and suitable answers to the research questions. According to derringers, this function is called "control of variance".

SAMPLING DESIGN:

As soon as the design research is selected, the next task is to select the sample design. Sample design sets a platform for effective data collection and analysis. A sample design responsible for the effective selection of research samples. Selecting sample design affects many aspects related to the research work. Hence, selection of suitable sample design should be carefully performed.

DATA SOURCES:

Data is collected from secondary data.

SECONDARY DATA:

Data, which are not originally collected but rather obtained from published sources, are known as secondary data. This data was collected from company records journals.

DATA COLLECTION TOOLS:

Structured questionnaire is used here as the instrument to collect the data. Sampling Size The sample size of study is 100

RESEARCH TOOLS:

Research tools are statistical techniques used for data analysis and to arrive at certain conclusions. The tools used for this project is, percentage analysis.

PERCENTAGE ANALYSIS:

It refers to a special kind of ratio. Percentage is used in making comparison between two are more series of data. Percentages are used to determine relationships between the series of data. Finding the Relative Differences Become Easier through Percentage.

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RATIO ANALYSIS:

Ratio analysis is referred to as the study or analysis of the line items present in the financial statements of the company. It can be used to check various factors of a business such as profitability, liquidity, solvency and efficiency of the company or the business. It is a process of determining and interpreting relationships between the items of financial statements. Its purpose is to provide a meaningful understanding of the performance and financial position of an enterprise. Thus, it is a technique for analyzing the financial statements by computing ratios.

OBJECTIVES OF RATIO ANALYSIS:

- Ratio analysis serves the purpose of various users who are interested in the financial statements. It simplifies summaries and systematizes the figures in the financial statements.
- Simplify accounting information.
- Determine liquidity or Short-term solvency and Long-term solvency. Short-term solvency is the ability of the enterprise to meet its short- term financial obligations. Whereas Long-term solvency is the ability of the enterprise to pay its long-term liabilities of the business.
- Assess the operating efficiency of the business.
- Analyze the profitability of the business.
- Help in comparative analysis, i.e., inter-firm and intra-firm comparisons.

ADVANTAGES OF RATIO ANALYSIS:

Ratio analysis plays a significant role in analyzing a company's financial performance. Therefore, the advantages of ratio analysis are:

- Useful tools for analysis for Financial Statements.
- Simplifies accounting data.
- Helpful in assessing the operating efficiency of business.
- Useful for forecasting.
- Useful in locating the weak areas.

DISADVANTAGES OF RATIO ANALYSIS:

Ratio analysis is a powerful tool for assessing the strengths and weaknesses of an enterprise. But it has certain limitations which are:

- False result.
- Ignores Qualitative factors.
- Lack of standard ratio.
- May not be comparable.
- Price level changes are not considered.
- Window dressing.

CURRENT RATIO

The current ratio is also known as working capital ratio. It measures the capability of the business to meet its short-term obligations that are due within a

year. The current ratio measures the adequacy of current assets to meet liabilities as they fall due. It reflects whether the entity is able to meet its liabilities.

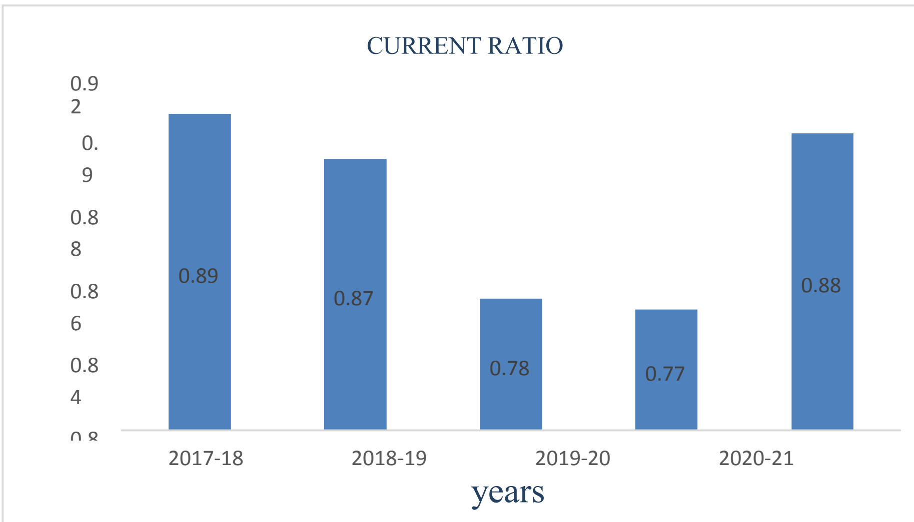
A current ratio of 2:1 or higher was regarded as appropriate for most business entities to maintain creditworthiness. The ratio considers the weight of total current assets versus total current liabilities. It indicates the financial health of a company and how it can maximize the liquidity of its current assets to settle debt and payables.

FORMULA:

CURRENT RATIO = CURRENTASSET/ CURRENT LIABILITY

TABLE:

YEAR	CURRENTASSET	CURRENT LIABILITIES	CURRENT RATIO
2021-22	643.12	724.74	0.88times
2020-21	482.05	620.58	0.77times
2019-21	392.56	500.78	0.78times
2018-19	471.19	540.66	0.87times
2017-18	486.85	541.21	0.89times



INTERPRETATION:

From the above graph the current ratio shows, it is below the ideal ratio i.e., 2:1. It indicates the inadequacy of current assets to meet current liabilities. Hence the company should take necessary steps to increase its current asset to meet is current liabilities.

NET PROFIT RATIO:

Net Profit Ratio, also referred to as the Net Profit Margin Ratio, is a profitability ratio that measures the company's profits to the total amount of money brought into the business. In other words, the net profit margin ratio depicts the relationship between the net profit after taxes and net sales taking place in a business.

It is a profitability ratio and hence, expressed in the form of percentages. Net profit ratio is regarded as a good measure of the firm's overall performance and it becomes more effective when it is used in conjunction with the evaluation of the working capital of the firm

FORMULA:

NET PROFIT RATIO = NET PROFIT AFTER TAX / NET SALES × 100

YEARS	NET PROFIT AFTER TAX	NET SALES	NET PROFIT RATIO
2021-22	10.66	1741.92	0.61%
2020-21	61.44	1267.39	4.82%
2019-20	45.51	1277.08	3.56%
2018-19	2.42	1554.62	0.15%
2017-18	24.22	1423.18	1.70%

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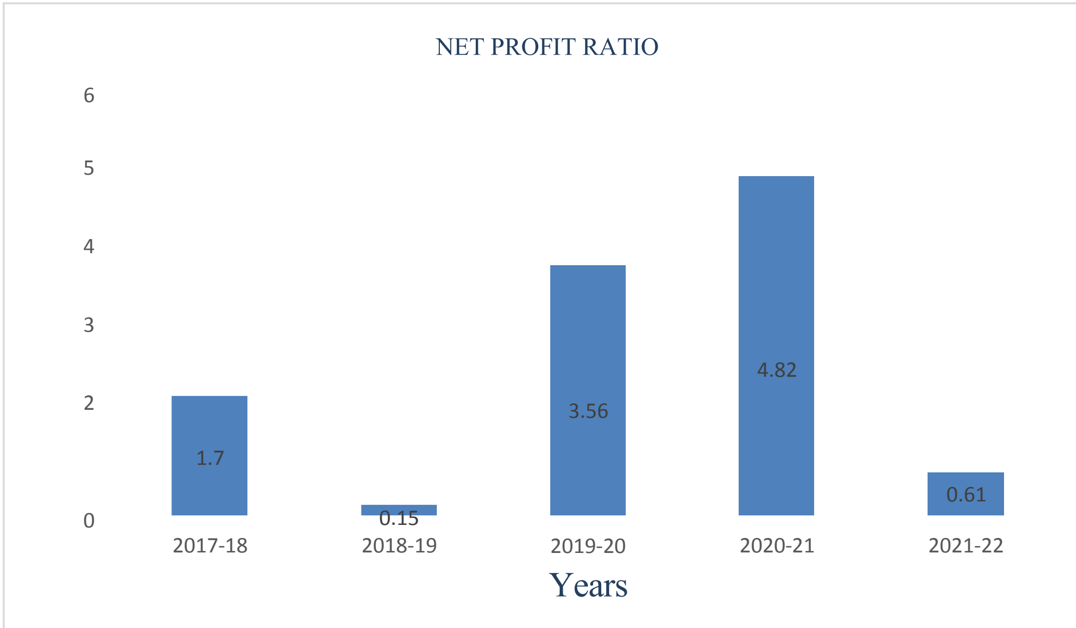

INTERPRETATION:
From the above graph it is inferred that net profit ratio shows decrease during the year 2021-22. Due to decrease in their margin scale and revenues. They have to increase their net margin and revenues. The low net profit indicates that the business is not pricing its products properly and also not exercising good cost control.

V. FINDINGS

- The working capital ratio is 0.19 in the year of 2017 and it has decreased to 0.18 in the year of 2018.
- The inventory turnover has decreased to 0.06 in the year of 2017 and it has decreased to 0.02 in the year of 2019.
- The debtor's turnover ratio has increased to 8.98 in the year of 2019 and it has increased to 9.15 in the year of 2020.
- The average collection period has decreased to 39.90 in the year of 2020 and it has decreased to 34.34 in the year of 2021.
- The net profit ratio has decreased to 0.20 in the year of 2018 and it has increased to 1.43 in the year of 2019.
- The return on total assets ratio is 6.91 in the year of 2017 and it has decreased to
- 0.33 in the year of 2018.
- The return-on-investment ratio has increased to 0.68 in the year of 2019 and it has increased to 0.98 in the year of 2020.
- The return on shareholders' ratio has increased to 19.71 in the year of 2020 and it has increased to 0.79 in the year of 2021.
- The solvency ratio has increased to 0.44 in the year of 2018 and it has decreased to 0.41 in the year of 2019.
- The gross profit ratio is 31.46 in the year of 2017 and it has decreased to 26.02 in the year of 2018.
- The operation profit ratio has increased to 14.95 in the year of 2020 and it has increased to 17.78 in the year of 2021.

VI. SUGGESTION

- The Fabsys Technologies Private Limited., Chennai within a short span of time is making very good progress. The company trademark was its highest ever turns over during the progress, further the capacity utilization of the plants and the various operational efficiency achievements further the capacity signifies growth of the organization .it can take up the following suggestions based on the study.
- Liquidity ratio here reflects the firm ability to meet short term current obligation. Aanalysis of these ratio revealed that the liquidity position has been satisfactory.
- Turnover ratio indicates the turnover position of the company, here ratio reflects high turnover on the basis of five years is good.
- The financial performance of the company is good, so this company capture high market share and growth.
- Fund is proper allocated to fixed assets and current assets. It should possible for the company to carry on the work smoothly

VII. CONCLUSION

A Successful management of the working capital in any concern will ensure the success of business. In The Fabsys Technologies Private Limited., working capital management is in good condition. the level of profit is increasing in nature. However, to show the better business result, the management may concentrate on increases of sales, sales level before changing credit policy variable, credit policy helps to retained its old customer and create new customer by coming them away from competitors. Better co-ordination between each department is very important, like sales, production, purchase because it helps to avoid the credit risk and it decrease the debt collection days.

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