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A Study on Ratio Analysis

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ABSTRACT

The project report to "A study on ratio analysis at (APGENCO) RTPP" .The main objective of the study is to analyse the financial position of the company .It is the process of identifying the financial strength and weakness of the firm properly establishing relationship between the item of balance sheet and profit and loss account. The details regarding the history and finance details were collected through discussion with the company officers. Secondary data are based on the annual reports of 2013-2018.

The various tools used for the study are ratio analysis, funds flow statement and cash flow statement. Charts and table are use for better understanding. Through ratio analysis the company could understand the profitability, Liquidity Leverage, Turnover positions of the company.

The bank is following high dept equity and also the bank followed the credit enjoyed from it is supplier has also nearly one period of time. On the other hand cash turnover also not sufficient to health the business. The study recommends to reducing the dept capital and providing security to creditors and to increase the sales to reduce the loss of the bank.

KEYWORDS: *Liquidity, profitability ratio, financial leverage ratio, operating cash flow*

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INTRODUCTION

Analysis and interpretation of financial statements with the help of ratio is termed as "Ratio analysis".

It is the process of identifying the financial strengths and weaknesses of the firm. This May be accomplished either through a trend analysis of the firms ratios over a period of time or through a comparison of the firms ratios with its nearest competitors and with the industry Averages.

Ratio analysis was pioneered by Alexander Wall, Who presented a system of ratio Analysis in the year 1909. Alexander's contention was that interpretation of financial statements can be made either by establishing quantitative relationships between various items of financial Statements.

Ratio:

A ratio is a relationship between two numbers of the same kind. In layman's terms a ratio represents, simply, for every amount of one thing, how much there is of another thing. Ratios can be expressed as a decimal value, such as 0.10, or given as an equivalent percent value, such as 10%. Some ratios are usually quoted as percentages, especially ratios that are usually or always less than 1.

Financial ratio:

A financial ratio is a relative magnitude of two selected numerical values taken from an enterprise's financial statements. There are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios may be used by managers within a firm, by current and potential shareholders of a firm, and by a firm's creditors. Financial analysts use financial ratios to compare the strengths and weaknesses in various companies. Financial ratios quantify many aspects of a business and are an integral part of the financial statement analysis.

STANDARDS OF COMPARISON:

The ratio analysis involves comparison for a useful interpretation. A single ratio in itself does not indicate favourable or unfavourable condition. It should be compared with some Standard. Standards of comparison may consist:

1. The Ratios calculated from the past financial statements of the firm;
2. Ratios developed using the projected, or Performa of financial statements of the Same firm;
3. Ratios of some selected firms, especially the most progressive and successful, at same point in time, and Ratios of the industry to which the firm belongs.

The easiest way to evaluate the performance of a firm is to compare its current ratios with the past ratios.

NEED OF THE STUDY

Ratio analysis helps to summerize large quantities of financial data and to make qualitative judgement about the firms financial performance and position. Ratio analysis helps to forecast the future needs of the firm.

SCOPE OF THE STUDY

- The study on ratio analysis is confined to (APGENCO) RTPP at Muddanuru
- The study covers 5 years data for interpretation i.e., 2014-15 to 2018-19

Research Objectives:

- To study the Liquidity position of Rayalaseema thermal power plant.
- To study the Leverage position of Rayalaseema thermal power plant.
- To study the Profitability position of Rayalaseema thermal power plant.
- To study the Turnover position of Rayalaseema thermal power plant.

Research Methodology

- The study is based on secondary data.

SECONDARY DATA

- RTPP annual reports
- RTPP website: https://www.apgenco.gov.in

Data Analysis and Interpretation:

Current ratio:

Years	Current Assets(cr)	Current liabilities(cr)	Current Ratio
2014-15	4319.55	5949.46	0.72604
2015-16	6265.05	3405.76	1.83954
2016-17	9525.03	5251.98	1.8136
2017-18	11013.8	6221.56	1.77026
2018-19	10745.12	5472.74	1.96338

Table: 1

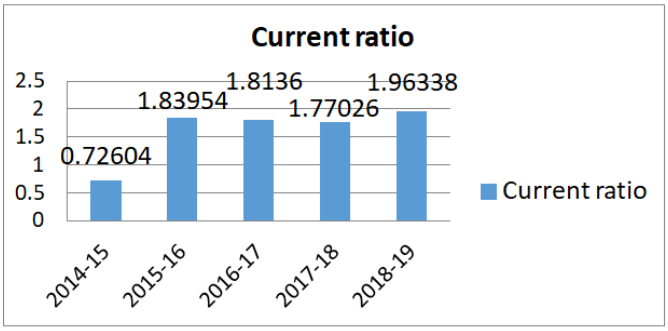

Fig: 1

By observing the table& figure I noticed that, the current ratio is not satisfying the year 2014 -2015 and satisfying the years from 2015-16 to2018-19 because of the higher current assets . The standard form of current ratio is 2:1

DEBT EQUITY RATIO

Year	Long-Term Debts (cr)	Share Holders' Funds (cr)	Ratio
2014-15	10818.78	4554.4	2.37546
2015-16	5527.92	3382.29	1.63437
2016-17	7293.03	3588.62	2.03226
2017-18	8242.94	3968.32	2.07718
2018-19	11552.14	4141.05	2.78241

Table: 2

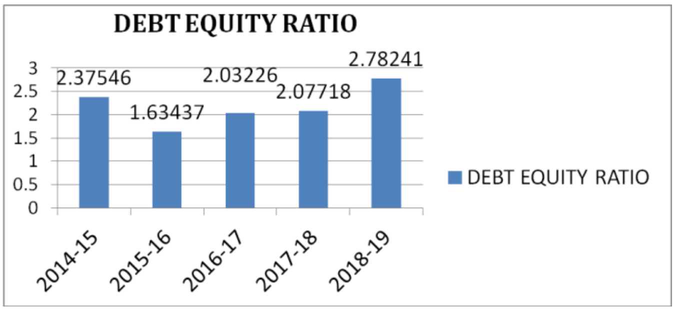

Fig: 2

By observing the table & figure I noticed that, the debt equity ratio is satisfying all the years from 2014-15to2018- 2019 and not satisfy the year 2015-16 because the ratio of 2015-16 is 1.63437.The standard form of Debt equity ratio is 2:1.

FIXED ASSET TURNOVER RATIO

Year	Cost of Goods Sold (cr)	Fixed Assets (cr)	Fixed Asset Turnover Ratio
2014-15	8391.44	19861.39	0.4225
2015-16	6390.12	7237.49	0.88291
2016-17	5707.93	7500.58	0.76321
2017-18	5295.22	11217.5	0.47204
2018-19	5272.11	14938.13	0.35292

Table: 3

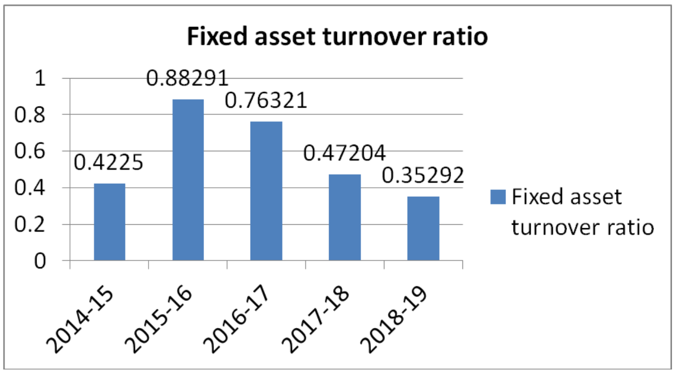

Fig: 3

By observing the table & figure I noticed that, the fixed asset turnover ratio is fluctuating year by year from 2014-15 to2018-19.

GROSS PROFIT RATIO

Year	Gross Profit (cr)	Sales (cr)	Percentage %
2014-15	5542.84	13934.29	39.77841
2015-16	3609.69	9999.81	36.09758
2016-17	3356.86	9075.38	36.98864
2017-18	3483.57	8778.79	39.68166
2018-19	3234.71	8506.82	38.02491

Table: 4

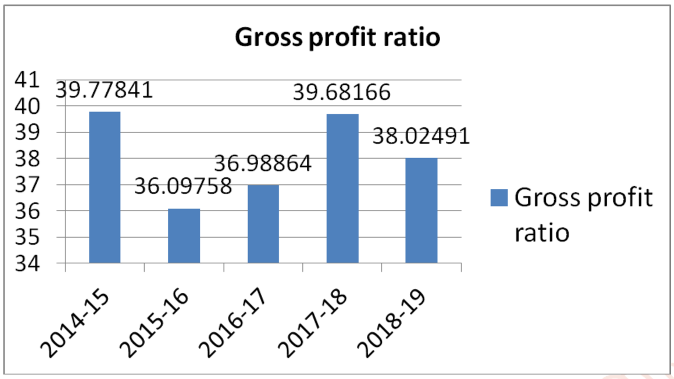

Fig: 4

By observing the table & figure I noticed that, the Gross profit ratio is decreasing year by year from 2014-15 to 2015-16.and increases in the year 2017-18 and decreases in 2018-19. The highest percentage is 39.77841.

FINDINGS

- The Analyzing of current ratio in the year 2014-15 I.e.,0.72604 and increase in the year 2015-16 i.e.,1.83954 and decreases in the year 2017-18 i.e.,1.77026.and then increase in the year 2018-19 i.e.,1.96338.
- The Debt equity ratio is decreases year by year 2014-15 i.e.,2.37546 to 2015-16 i.e., 1.63437 and increases in the year 2016-17 i.e.,2.03226 to 2018-19 I.e.,2.78241.
- The fixed asset turnover ratio is highest in the year 2015-16.I shows that decreasing year by year.
- The Gross profit ratio is highest in 2014-15 i.e.,39.77841 decreases year by year in 2015-16 I.e.,36.09758 and increased in the year 2017-18i.e.,39.68166 and then decreased in the year 2018-19 i.e.,38.02491.

SUGGESTIONS

1. Proper management of Inventory and cash can improve liquidity position and efficiency of the company.
2. It is advised that there should be a proper control on operating expenses.
3. The management must follow less time for debtor's collection with normal investment.
4. To control over the company it is advised to maintain equity shares and shareholders

CONCLUSION

- The gross profit ratio and net profit ratio shows fluctuating trend, so the company has to take more care on the sales. The company's long term funds and solvency is in fluctuation, so better to plan for new strategies which help to achieve long term goals and objectives of the company
- According to this project I came to know that from the analysis of financial statements it is clear that rtpp. Have been incurring loss during the period of study. So the rtpp should focus on getting of profits in the coming years by taking care internal as well as external factors

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