

A Study on Predicting the Profit Growth with Financial Ratios on Kalyani Steel Pvt, Ltd at Koppal (D), Karnataka

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ABSTRACT

One of the information contained in the financial statements used to determine the success or failure of a company is profit. This study aims to examine the effect of financial ratios in predicting the profit growth. The variables in this study consisted of current ratio (CR), debt to equity ratio (DER), ratio of Total Asset Turnover (TATO) activity, net profit margin ratio (NPM) and profit growth as the dependent variable. The population in this study were real estate and property companies listed on the Indonesia Stock Exchange for the period 2015 - 2017. The samples from this study were 24 companies. Analysis of this study uses a linear regression method consisting of 2 variables, namely the dependent variable and the independent variable. The results showed that Current Ratio (CR), and Debt to Equity Ratio (DER) had no effect in predicting Profit Growth, but Total Asset Turnover (TATO) and Net Profit Margin (NPM) had a positive effect in predicting profit Growth.

KEYWORDS: Growth Income, Financial Ratio, Current Ratio, Debt to Equity Ratio, Total Asset Turnover, Net profit

INTRODUCTION

- The Ratio analysis is the most powerful tool of financial Analysis. In finance analysis ratio is used as a bench mark of the firm. The absolute accounting figures reported in the financial statement do provide a meaning full understanding of the performance and financial position of the firm.
- Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements.
- Ratio analysis is a technique of analysing the financial statements by computing various ratios it measures the profitability, efficiency and financial soundness the business.

MEANING:

- Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement.

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INDUSTRY PROFILE:

Steel industry:

- The steel industry in India is among the most important industries within the country. India surpassed Japan as the second top steel producer in January 2019.
- As per world steel, India's crude steel production in 2018 was at 106.5 tonnes (MT), 4.9% increase from 101.5 MT in 2017, means that India overtook Japan as the world's second largest steel production country.
- Japan produced 104.3 MT in year 2018, decrease of 0.3% compared to year 2017. Industry produced 82.68 million tons of total finished steel and 9.7 million tons of raw iron. Most iron and steel in India is produced from the steel.

OBJECTIVES OF THE STUDY:

- To study the short-term and long - term solvency positions of Kalyani steel Pvt Ltd.
- To analyze the profitability positions of Kalyani steel Pvt Ltd.

- To study the operational efficiency positions of Kalyani steel Pvt Ltd.
- To predict the profit Growth of Kalyani steel Pvt Ltd.
- To study the influencing factors of profit growth of KSL.

NEED OF THE STUDY:

- Ratio Analysis is one of the key area for the purpose of financial decision making.
- Ratio analysis help to summarize large quantities of financial data to make qualitative judgment about the Kalyani steel Pvt.Ltd financial performance and position.
- Predict the profit growth with financial ratios of Kalyani steel Pvt. Ltd.

SCOPE OF THE STUDY:

- This study is conducted to predicting the profit growth with financial ratios at KALYANI STEEL Pvt.Ltd, KOPPAL (D), KARNATAKA.
- This study covers 5 years data for interpretation i.e., 2015-16 to 2020-21.

RESEARCH METHODOLOGY:

SECONDARY DATA:

Secondary data is collected through annual reports, Articles, Books company website of KSL.

KSL WEBSITE: www.kalyanisteels.com

TOOLS AND TECHNIQUES:

- Tables
- Ratio analysis
- Regression analysis
- Power bi

LIMITATIONS OF THE STUDY:

- This study is limited to Kalyani steel pvt Ltd of KOPPAL only.
- This study is conducted for 5 years of data i.e. from 2015 to 2020 only.

Data analysis & Interpretation

RATIO ANALYSIS

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions” and as “the relationship between two or more things”. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm.

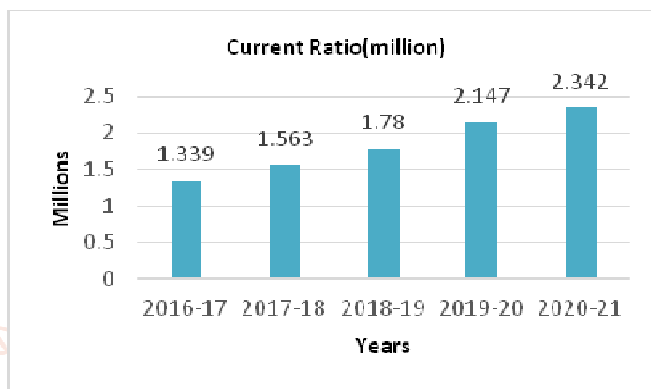
Types of Ratios

1. Liquidity Ratios
2. Long Term Solvency Ratios
3. Efficiency Ratios
4. Profitability Ratios

1. Liquidity ratios:

A. Current ratio: Current Ratio=Current Assets / Current Liabilities

year	Current Assets	Current Liabilities	Current ratio
2016-17	7,238	5,406	1.339
2017-18	6,610.93	4,228.84	1.563
2018-19	7,756.15	4,356.35	1.780
2019-20	7,857.41	3,660.27	2.147
2020-21	10,283.70	4,391.34	2.342



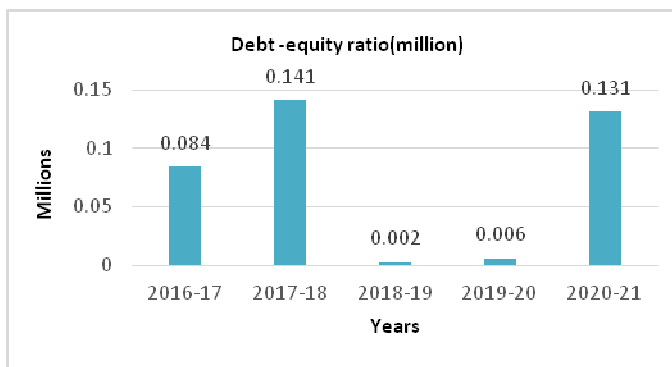
INTERPRETATION:

From the above chart shows that current ratio of the company is gradually increased that is 1.33,1.56,1.78,2.14 and 2.34 due to increased in current assets. The standard ratio i.e. 2:1, 2016-17 to 2018-19 ratios was decreased the standard ratio and 2019-20 to 2020-21 was increased.

2. Leverage ratios:

Debt equity Ratio=Long term debt / Shareholder’s funds

Year	Long term debt	Shareholder’s funds	Debt-equity ratio(million)
2016-17	721.41	8582.6	0.084
2017-18	1263.99	8996.11	0.141
2018-19	23.85	10226.16	0.002
2019-20	68.09	10971.38	0.006
2020-21	1763.26	13433.04	0.131



Interpretation:

The above chart shows that the Debt Equity Ratio in the year 2016-17 is 0.084. The debt equity ratio was

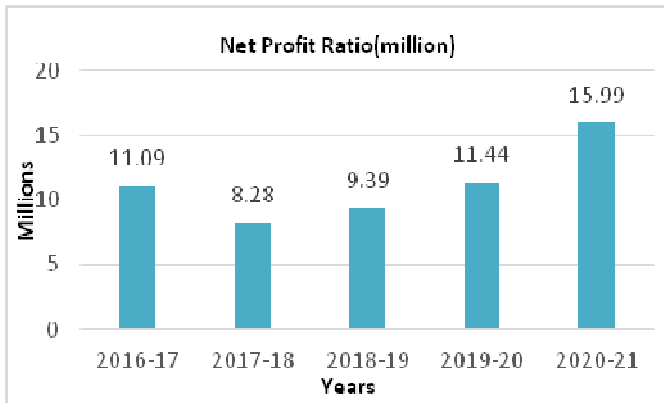
moved from 0.084 to 0.141. It was found that during the year 2017-18 the ratio was very high, it means the company owns more liabilities in this year.

3. Profitability ratios:

Net profit Ratio:

Net profit Ratio = Gross profit / Net sales * 100

year	Net Profit	Net sales	Net Profit Ratio (million)
2016-17	1564.82	14105.1	11.09
2017-18	1148.82	13870.15	8.28
2018-19	1320.48	14065.79	9.39
2019-20	1371.18	11989.28	11.44
2020-21	1899.83	11880.4	15.99



Interpretation:

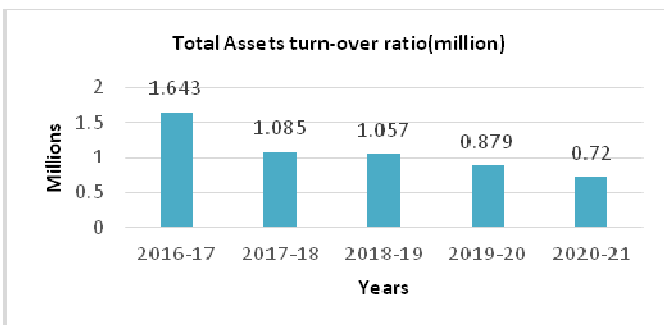
The above chart shows that Net Profit Ratio in the year 2016-17 is 11.09. Net profit increased and decreased from 2017-18 to 2020-21 i.e. 8.28, 9.39, 11.44 and 15.99. So, overall company net profit is fluctuating. The net profit is satisfactory thus we can carry say KSL performance is good.

4. Efficiency Ratio:

Total Assets turn-over ratio:

Total assets turn-over ratio = Net sales / Total Assets

year	Sales	Total assets	Total Assets turn-over ratio
2016-17	14105.1	13616.86	1.643
2017-18	13870.15	12782.93	1.085
2018-19	14065.79	13303.4	1.057
2019-20	11989.28	13644.12	0.879
2020-21	11880.4	16504.56	0.720

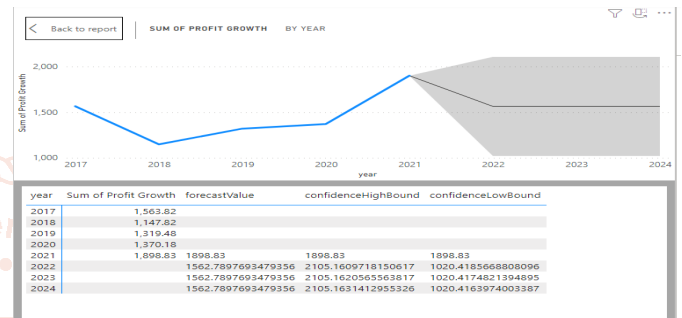


Interpretation:

The above chart shows Total Assets Turnover Ratio was gradually decreased year by year 1.64, 1.08, 1.05, 0.87 and 0.72. This ratio is ideal capacity the fraction standard ratio 2:1. The company has a low Total asset turnover ratio, it indicates it is not efficiently using its assets to generate sales.

5. Profit growth prediction:

Year	Profit growth
2016-17	1563.82
2017-18	1147.82
2018-19	1319.48
2019-20	1370.18
2020-21	1898.83



6. The factors influencing of profit growth

Profit growth = Current profit - previous profit / previous profit

Years	Profit Growth	Current Ratio	Debt-Equity ratio	Total turn-over Ratio	Net profit Ratio
2016-17	1563.82	1.339	0.084	1.643	11.09
2017-18	1147.82	1.563	0.141	1.085	8.28
2018-19	1319.48	1.780	0.002	1.057	9.39
2019-20	1370.18	2.147	0.006	0.879	11.44
2020-21	1898.83	2.342	0.131	0.72	15.99

ANOVA		df	SS	MS	F	Significance F
Regression	1	300631.6464	300631.6464	32.2289147	0.010831737	
Residual	3	2798.56674	9329.52245			
Total	4	328620.2131				

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	415.6422572	188.9836822	2.199355269	0.115241374	-185.7881639	1017.07268	-185.7881639	1017.07268
D Net profit	92.93323926	16.37130991	5.676591536	0.010831737	40.83242453	145.034054	40.83242453	145.034054

Interpretation:

The above regression analysis shows net profit Ratio adjusted R square is 0.88 it is a significant positive effect in the profit growth in KSL. The other ratios are no significant positive effect in the profit growth i.e. Current Ratio as -0.00, Debt equity Ratio as -0.022, Total assets turnover Ratio as -0.28.

Findings

- current ratio of the company is gradually increased that is 1.33,1.56,1.78,2.14 and 2.34 due to increased in current assets. The standard ratio i.e. 2:1, 2016-17 to 2018-19 ratios was decreased the standard ratio and 2019-20 to 2020-21 was increased.
- Debt Equity Ratio in the year 2016-17 is 0.084. The debt equity ratio was moved from 0.084 to 0.141. It was found that during the year 2017-18 the ratio was very high, it means the company owns more liabilities in this year.
- Total Assets Turnover Ratio was gradually decreased year by year 1.64,1.08,1.05,0.87 and 0.72. This ratio is ideal capacity the fraction standard ratio 2:1. The company has a low Total asset turnover ratio, it indicates it is not efficiently using its assets to generate sales.
- Net Profit Ratio in the year 2016-17 is 11.09. Net profit increased and decrease from 2017-18 i.e. 8.28, 9.39,11.44 and 15.99.
- Net profit Ratio adjusted R square is 0.88 it is a significant positive effect in the profit growth in KSL. The other ratios are no significant positive effect in the profit growth i.e. Current Ratio as -0.00, Debt equity Ratio as -0.022, Total assets turnover Ratio as -0.28.
- predicting the profit for two years that is 2023 and 2024 is 1562.78 and 1562.78. It is decreased compared to previous year.

Suggestions

- The company has to increase the profit maximization and has to decrease the operating expenses.
- The company should maintain sufficient cash and bank balances; they should invest the idle cash in

marketable securities or short term investments in shares, debentures, bonds and other securities.

- The net profit of the company is increasing over the study period. Hence the organization maintaining good position.
- The total turnover ratio has gradually decreased so, It suggest that the company has generate more sales.
- The profit growth will decrease in the future so It suggest that the company has increasing more sales.

Conclusion

Liquidity position of the company was revealed by the Quick ratio during the study period was crossed by the ideal ratio. So that KSL is liquidity position in future also, the position of the debt the capitalization of the firm is always low. So it is unfavorable to shareholders and creditors. The gross profit ratio, net profit ratio is showing the increasing trends. The profitability of the firm the increasing. The Net profit Ratio has a significant positive effect in predicting the profit growth in KSL.

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