

## A Study on Ratio Analysis at Srikalahasthi Pieps Ltd

M. Rajagopal<sup>1</sup>, Dr. P. Basaiah<sup>2</sup>

<sup>1</sup>Student, <sup>2</sup>Assistant Professor,

<sup>1,2</sup>School of Management Studies & JNTU, Anantapur, Andhra Pradesh, India

### ABSTRACT

This project "A STUDY ON RATIO ANALYSIS IN SRIKALAHASTHI PIPES LTD.", aims to analyse the liquidity and financial position of the company using the financial tools. The need of the study is to express the relationship between different financial aspects in a such way that allows the user to draw conclusions about the performance, strengths and weakness of the srikalahasthi Ltd. In this study, we calculated various ratios to assess the performance of SRIKALAHASTHI PIPES LTD using the technique ratio analysis. Data is collected from secondary source where financial statements and balance sheets for the years (2017-2022) Also, this study enables to find out whether the company is maintaining a minimum amount of working capital to meet the current expenses, also whether the company is generating adequate profits which represents the growth of the company which can be ascertained through the profitability ratios of the company. This ratio analysis often helps and strengthens the company's performance and helps to overcome difficulties to survive in the market for a long period.

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### INTRODUCTION

Ratio analysis is a quantitative procedure of obtaining a look into a firm's functional efficiency, liquidity, revenues, and profitability by analyzing its financial records and statements. Ratio analysis is a very important factor that will help in doing an analysis of the fundamentals of equity. Analysts and investors make use of the methods for ratio analysis to study and evaluate the fiscal wellbeing of businesses by closely examining the historical performance and monetary statements. Comparative data and analysis can give an insight into the performance of the business over a given period of time by comparing it with the industry standards. At the same time, it also measures how well a business racks up against other businesses functioning in the same sector.

### Objectives of Ratio Analysis:

Analysis of financial statements may be made for a particular purpose in view

- To find out the financial stability and soundness of the business enterprise.
- To assess and evaluate the earning capacity of the business
- To estimate and evaluate the fixed assets, stock etc., of the concern

- To estimate and determine the possibilities of future growth of business
- To assess and evaluate the firm's capacity and ability to repay short- and long- term loans.

### Users of Financial Analysis:

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit & loss account. The information contained in these statements are used by management, investors, creditors, suppliers, and others to know the operating performance and financial position of firm.

**Management** of the firm would be interested in every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm are used most effectively, and that the firm's financial condition is sound.

**Investors** who have invested their money in the firm's shares, are most concerned about the firm's earnings. They restore more confidence in those firms that shows steady growth in earnings. As such, they concentrate on the analysis of the firm's present and

future profitability. They also interested in the firm's financial structure to the extent it influences the firm's ability and risk.

**Trade Creditors** are interested in firm's ability to meet their claims over a very short period of time. Their analysis will therefore confine to the evaluation of the firm's liquidity position.

**Suppliers Of Long – Term Debt** are concerned with firm's long-term solvency and survival. They analysis the firm's profitability overtime. Its ability to generate cash to be able to pay interest and repay principal and the relationship between various sources of funds.

### MEANING OF RATIO ANALYSIS

Ratio analysis is the comparison of line items in the financial statements of a business. Ratio analysis is used to evaluate a number of issues within an entity, such as its liquidity, efficiency of operations, and profitability.

This type of analysis is particularly useful to analysts outside of a business, since their primary source of information about an organization is its financial statements. Ratio analysis is less useful to corporate insiders, who have better access to more detailed operational information about the organization

#### Definition:

“The indicated quotient of two mathematical expression “and as “the relationship between two numbers”.

Accountant's handbook by Wixon, Kell and Bedford, a ratio “is an expression of the quantitative relationship between two numbers”.

People use ratios to determine those financial characteristics of the firm in which they are interested.

### INDUSTRY PROFILE

#### Export of Pipes:

India has emerged top 3 manufacturing hubs of pipes after Europe and Japan. Our country is equipped with all kinds of processing machinery and skilled labour to boost export of pipes and products to yield rich dividend.

Today India exports pipes and pipe products to as many as 80 countries all over the world. The exports, which were stagnant at around Rs. 60-70 cores per annum double to 129 craters. The Plastic industry has taken up the challenge of achieving an export target of Rs. 17 cores.

Major export markets for pipes and pipe products are Middle East, Africa, Asia, Europe and Latin American countries.

With view to boosting the export, the iron and ductile export promotion council has urged the government to reduce import duty of plastic raw material, supply indigenous raw materials at international prices, fix duty, draw backs on weighted average basis and charge freight rate on plastic products on weights basis instead of volume basis.

### Prospects

The Production of various iron pipes a raw material in the country is expected to double by the end of seventh plan, is immense scope for the use of iron in agriculture, electronics, automobile, telecommunications and irrigation and thus, the plastic industry is on the threshold of an explosive growth.

### Role of Iron in the national economy

Iron is used to produce the various products. A dominant part of the iron of the present and future to find their utilization in their areas

- Agriculture, forestry and water-management.
- Automobile and transportation
- Electronics and telecommunications buildings, construction and.
- Food processing and packaging • Power and gas distributor.

### Importance of pipes industry

We shall look at the basic data about pipes and particularly those properties, which are so, fuse in practical working with plastics. Plastics are man-made materials. The oldest raw material for producing plastics is carbonaceous material obtained from coal tar (benzene, phenol).

Today the majority of raw materials are obtained from petrol chemical source and they can be economically produced in large quantities.

Iron industry is the basis for the development of many industries in the global economy. Such as:

- Défense industry
- Transportation
- Heavy Engineering
- Energy
- Construction
- Aeronautics

### REASEACH METODALAGY

#### SCOPE OF THE STUDY

- This study on ratio analysis is confined to only srikalahasthi pipes limited.
- The study is based on 5 years data from 2016-17 to 2020-2021.

#### Objectives of the study

- To study the liquidity position of the srikalahasthi pipes limited.

- To study the long- term solvency position of solvency position of srikalahasthi pipes ltd.
- To determine the profitability position of srikalahasthi pipes ltd.
- To improve the overall efficiency of the srikalahasthi pipes ltd.

**Research methodology**

The analysis is done using secondary data i.e, from annual reports of the company, journals, articles etc.

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Website: <https://www.srikalahasthipipes.com>

**TOOLS AND TECHNIQUES**

- Liquidity ratios
- Profitability ratios
- Leverage ratios
- Activity ratios
- Bar charts

**LIMITATIONS OF THE STUDY**

The study is limited to 5 years data, i.e., from 2016-17 to 2020-21 of Srikalahasthi Pipes Ltd. DATA ANALYSIS & INTERPRETATION

**A. LIQUIDIY RATIO:**

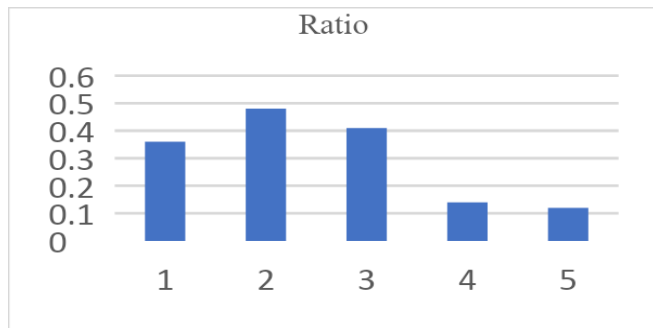
**1. CURRENT RATIO**

Current assets

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Current liabilities

Years	Total debt	Capital employed	Ratio
2016-17	14,070,838	38,437,415	0.36
2017-18	31,626,205	64,936,350	0.48
2018-19	28,587,099	69,145,742	0.41
2019-20	9,118,944	63,483,216	0.14
2020-21	9,504,602	74,097,321	0.12

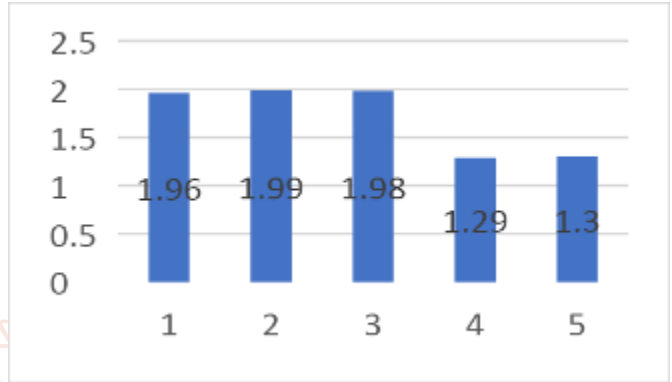


INTERPRETATION: Current ratio is useful to measure the firm’s short-term solvency. The standard norm of the current ratio is 2:1. During the period 2015-20 the Current Ratio of the company is 2.67, 2.95, 2.85, 1.97 and 2.12. In the year 2019-20 the Current ratio is Increased from 1.9 to 2.12. It shows

the better performance of the company in the year 2019-20 than 2018-2019.

**2. QUICK RATIO:**

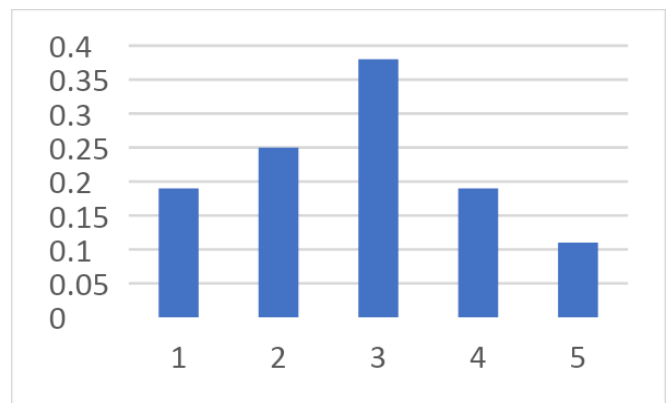
Year	Quick assets	Current liabilities	Quick ratio
2016-17	25,784,798	13,122,726	1.96
2017-18	40,326,253	20,207,449	1.99
2018-19	36,516,321	18,430,917	1.98
2019-20	41,349,046	31,908,564	1.29
2020-21	45,717,041	34,910,413	1.30



INTERPRETATION: The Quick ratio is more penetrating test of liquidity than the current ratio. The standard norm of the quick ratio is 1:1. During the period 2015-20, the Quick Ratio of the company is 1.96, 1.99, 1.98, 1.29 and 1.3. In the year 2019-20, the Quick Ratio is Increased to 1.3 so the Standard norm is satisfactory.

**Table 3: CASH RATIO**

Year	Cash marketable securities	Current liabilities	Cash ratio
2016-17	2,560,002	13,122,726	0.19
2017-18	5,114,537	20,207,449	0.25
2018-19	7,028,518	18,430,917	0.38
2019-20	6,246,724	31,908,564	0.19
2020-21	4,020,841	34,910,413	0.11

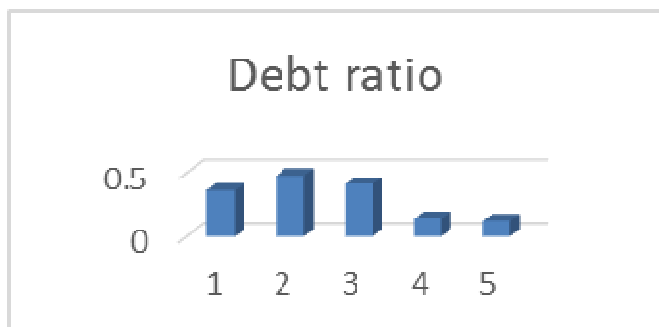


INTERPRETATION: In all the above years the Cash Ratio is very low. The standard norm for Cash ratio is 1:2. The company is failed in keeping sufficient cash, bank balances and marketable securities.

**B. LEVERAGE RATIOS:**

**1. DEBT RATIO**

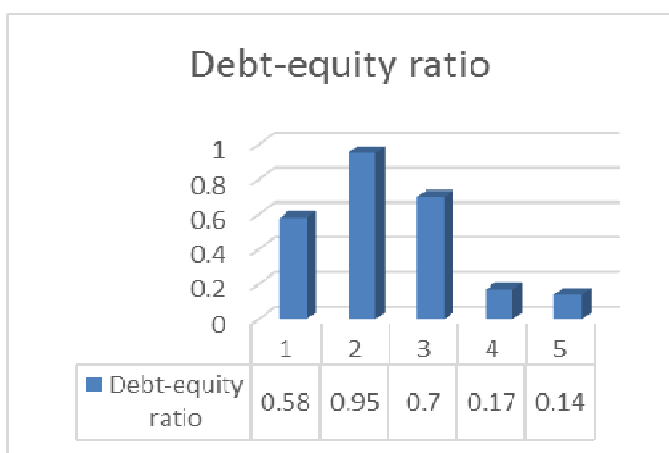
year	Total debt	Capital employed	Debt ratio
2016-17	14,070,838	38,437,415	0.36
2017-18	31,626,205	64,936,350	0.48
2018-19	28,587,099	69,145,742	0.41
2019-20	9,118,944	63,483,216	0.14
2020-21	9,504,602	74,097,321	0.12



**INTERPRETATION:** The Debt ratio gives results relating to Capital structure of a firm. The Debt ratio is 0.36 in the year 2015-16, and it is increased to 0.48 in the year 2016-17, and it is decreased to 0.41 in the year 2017-18, and again it is decreased to 0.14 in the year 2018-19 and again it is decreased to 0.12 in the year 2019-20. From the above fluctuating trend, we can say that, the company much not dependence on debt because debt is decreased

**2. DEBT-EQUITY RATIO:**

Years	Total debt	Net worth	Years	Debt-equity ratio
2016-17	14,070,838	24,366,576	2016-17	0.58
2017-18	31,626,205	33,310,144	2017-18	0.95
2018-19	28,587,099	40,558,643	2018-19	0.70
2019-20	9,118,944	54,364,271	2019-20	0.17
2020-2021	9,504,602	64,592,718	2020-2021	0.14

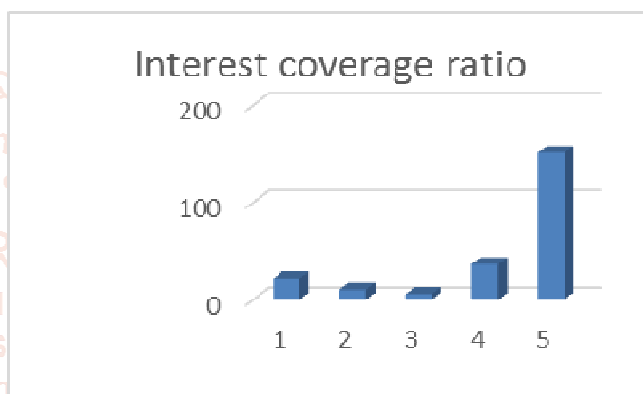


**INTERPRETATION:**

The Debt-Equity ratio gives results relating to Capital structure of a firm. The Debt Equity ratio is 0.58 in the year 2015-16, and it is increased to 0.95 in the year 2016-17, and it is decreased to 0.70 in the year 2017-18, it is decreased to 0.17 in the year 2018-19 and it again decreased to 0.14 in the year 2019-20. The company depends on the debt fund is decreased.

**INTEREST COVERAGE RATIO**

Year	EBIT	Interest	Interest coverage ratio
2016-17	6,810,601	309,242	22.02
2017-18	13,300,725	1,293,088	10.28
2018-19	10,442,203	1,823,657	5.72
2019-20	24,786,331	677,155	36.60
2020-21	21,956,081	145,204	151.20



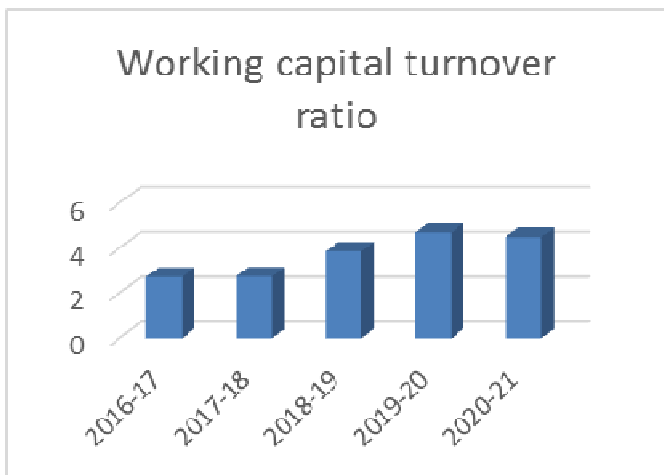
**INTERPRETATION:**

Interest Coverage ratio is 22.02 in the year 2015-16, again it is decreased to 10.28 in the year 2016-17, and again it is decreased 5.72 in the year 2017-18. It is increased to 36.60 in the year 2018-19, again it is increased to 151.2 in the year 2019-20. In this position, outside investors are interested to invest the money in this company.

**C. ACTIVITY RATIOS:**

**1. WORKING CAPITAL TURNOVER RATIO**

Years	Net sales	Working capital	Working capital turnover ratio
2016-17	59,580,164	21,879,206	2.72
2017-18	108,332,569	39,552,160	2.73
2018-19	131,317,881	34,168,091	3.85
2019-20	146,520,967	31,197,717	4.69
2020-21	176,112,067	39,276,291	4.48

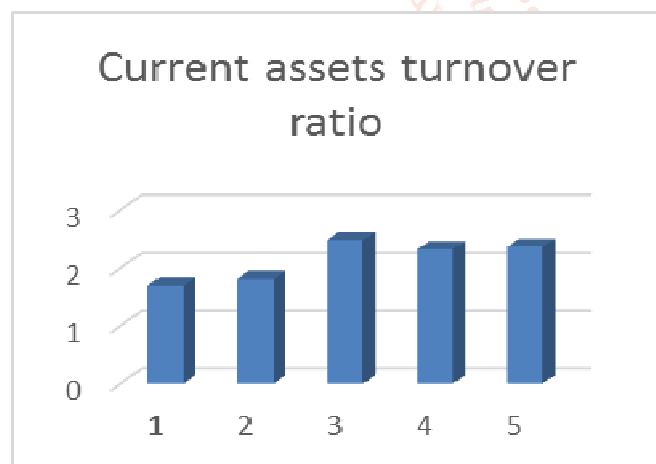


**INTERPRETATION:**

Working capital turnover ratio is useful to measure the operating efficiency of the firm. Working capital turnover ratio is 2.72 in the year 2015-16. It increased from the year 2016-17(2.73) to 2018-19(4.69) but it decreased to 4.48 in the year 2019-20.

**2. CURRENT ASSETS TURNOVER RATIO:**

Year	Net sales	Current assets	Current assets turnover ratio
2016-17	59,580,163	35,001,932	1.70
2017-18	108,332,569	59,759,610	1.81
2018-19	131,317,881	52,599,008	2.49
2019-20	146,520,967	63,106,281	2.32
2020-21	176,112,067	74,186,704	2.37

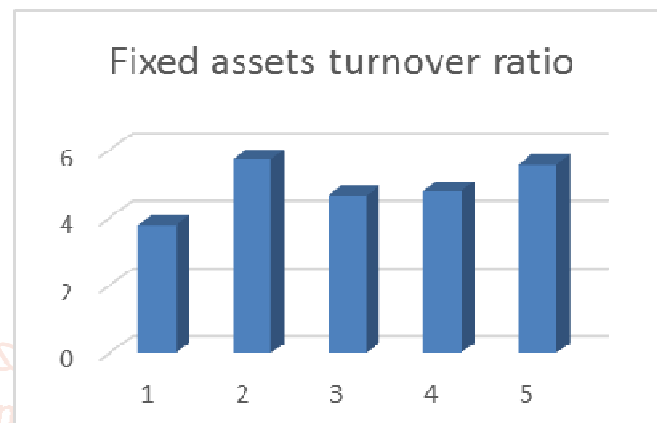


**INTERPRETATION:**

During the period 2015-20, Current Asset Turnover ratios are 1.70, 1.81, 2.49 and 2.32, 2.37. From the year 2015-16, it is increasing, and it is decreased to 2.32 in the year 2018-19 and again it is increased to 2.37 in the year 2019-20.

**3. FIXED ASSETS TURNOVER RATIO:**

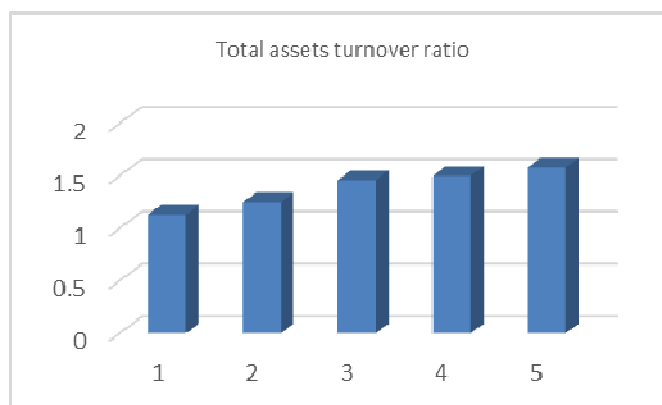
Year	Net sales	Net fixed assets	Fixed assets turnover ratio
2016-17	59,580,163	15,683,045	3.79
2017-18	108,332,569	18,885,084	5.73
2018-19	131,317,881	28,132,423	4.66
2019-20	146,520,967	30,572,552	4.79
2020-21	176,112,067	31,508,696	5.58



**INTERPRETATION:** Fixed Assets Turnover ratio is high in the year 2016-17, i.e., 5.73. It is decreased to 4.66 in the year 2017-18. It is increased to 4.79 in the year 2018-19. Again, it is increased to 5.58 in the year 2019-20. It shows the effective utilization of fixed

**TOTAL ASSETS TURNOVER RATIO:**

Years	Net sales	Total assets	Total assets turnover ratio
2016-17	59,580,163	52,921,071	1.13
2017-18	108,332,569	86,838,860	1.25
2018-19	131,317,881	89,401,743	1.46
2019-20	146,520,967	97,555,310	1.50
2020-21	176,112,067	111,057,071	1.58



**INTERPRETATION:**

During the period 2015-20, Total Assets Turnover ratio is increasing from the value 1.13 to 1.58. It shows the effective capacity of the total assets.

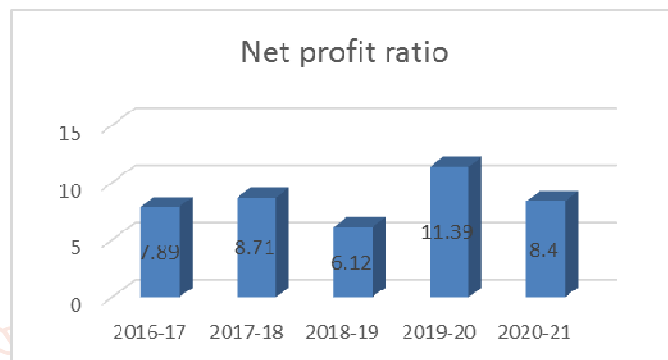
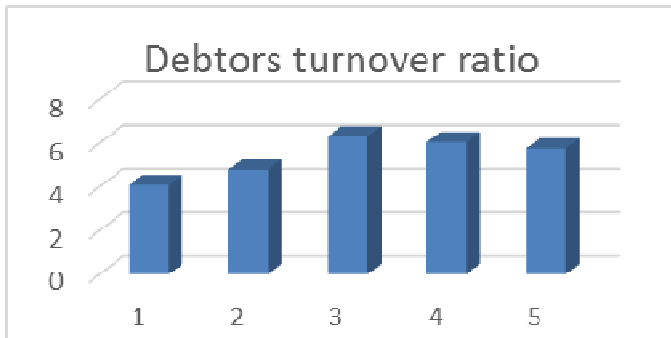
**DEBTORS TURNOVER RATIO:**

YEARS	Net sales	Average debtors	Debtors turnover ratio
2016-17	59,580,163	14,595,449	4.08
2017-18	108,332,569	22,646,820	4.78
2018-19	131,317,881	20,784,930	6.31
2019-20	146,520,967	24,229,547	6.04
2020-21	176,112,067	30,566,239	5.76

11.95, 13.47, 9.34, 17.3 and 12.54. In the year 2019-20 the gross profit ratio is decreased to 12.54.

**NET PROFIT RATIO:**

Years	Net profit	Sales	Net profit ratio
2016-17	4704,345	59580163	7.89
2017-18	94363151	108332569	8.71
2018-19	80,478,67	131317881	6.12
2019-20	167,033,38	146520967	11.39
2020-21	148,096,39	176112067	8.40



**INTERPRETATION:**

During the period 2015-2020, Debtors Turnover ratios are 4.08, 4.78, 6.31, 6.04 and 5.76. Debtors' Turnover ratio is high in the year 2017-18, after it is decreased to 5.76 in the year 2019-20 so company decreased credit sales and increased cash sales.

**INTERPRETATION:**

During the period 2015-20, the Net profits are 7.89, 8.71, 6.12, 11.39 and 8.4. In the year 2018-19 ARBL have large amount of profits, but it is decreased to 8.4 in the year 2019-20.

**INVENTORY TURNOVER RATIO:**

Years	Cost of goods sold	Average inventory	inventory turnover ratio
2016-17	59,580,163	7,468,378	7.97
2017-18	108,332,569	14,325,245	7.56
2018-19	131,317,881	17,758,021	7.39
2019-20	146,520,967	18,919,961	7.74
2020-21	176,112,067	25,113,449	7.01

**FINDINGS, SUGGESIONS AND CONCLUSIONS**

- Company has reached the standard ratio in the present year i.e., 2:1. So the company is in a position to repayment of its short-term liabilities. In the year 2020-21 the Current ratio is Increased from 1.9 to 2.12.
- The company is maintaining quick assets over the quick ratio. So, the quick assets would meet the quick liabilities. In the year 2020-21, the Quick Ratio is Increased to 1.3.
- By observing the cash ratio, the company is failed in keeping the sufficient cash, bank balances .so the company cash performance is in down position. In the year 2020-21 the cash ratio is 0.11.
- The company depended more on the debt fund in previous. Now it is decreased in the present year. And decreased to 0.14 in the year 2019-20 and again it is decreased to 0.12 in the year 2020-21.
- Interest coverage ratio is high in the present year. So, investors are interested to invest the money in this company. It is increased to 36.60 in the year 2019-20, again it is increased to 151.2 in the year.

**INTERPRETATION:**

Inventory Turnover ratio is 7.97 in the year 2015-16. In the years 2016-17, the ratios are decreased i.e., 7.56, 7.39. And it is increased to 7.74 in the year 2018-19, 55 after it is decreased to 7.01 in the year 2019-20. so that in this ratio fluctuations are high.

**D. PROFITABILITY RATIOS:**

Years	Gross profit	Sales	Gross profit ratio
2016-17	7,119,844	59,580,163	11.95
2017-18	14,593,814	108,332,569	13.47
2018-19	12,265,860	131,317,881	9.34
2019-20	25,463,487	146,520,967	17.37
2020-21	22,101,285	176,112,067	12.54

**INTERPRETATION:**

This ratio indicates the relationship of gross profits on sales. During the period 2015-20, the gross profits are

- Working capital turnover ratio is decreased in the present year.
- Fixed assets turnover ratio is gradually increasing from 2016-17. So, the company generating more sales.
- Debtor's turnover ratio is decreased in the present year. So, the company reduced its credit sales and increased its cash sales.
- The Gross profit & Net profits are decreased in the present year i.e., 2019-20. So the company should have good control over the operating expenses.
- The company is utilizing the fixed assets, which majorly help to the growth of the organization. The company should maintain it consistently.
- Srikalahasthi Pipes Ltd has to increase its Gross profits and Net profits to support the diversification of the company.
- It is suggested that company needs to improve its utilization of working capital

#### **SUGGESTIONS**

- The company is paying high interest rate. Heavy costs of capital affect the profitability of the firm.

#### **CONCLUSION**

It is observed that the company's financial position is good because the company's leverage, activity and profitability positions are good, and the company have to increase its liquidity position for better performance in future

