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A STUDY OF FINANCIAL PERFORMANCE OF GANGA LTD: A CASE STUDY

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Abstract

Financial analysis is the procedure of identifying the monetary strengths and weaknesses of the firm by appropriately establishing connection between the items of the balance sheet and the profit and loss account. Ratio analysis is one of the techniques of financial examination where ratios are used as a measure for evaluating the financial situation and appearance of a firm. In the given case study there is a small attempt to study the Ratio Analysis of Ganga Ltd. The paper is divided into two sections. First is the calculation of profitability and leverage ratios to check the financial and profitability position and evaluate the efficiency of the firm in utilizing its financial resources and the second is to analysis of the Performance of the Company by comparing ratio of three years i.e 2013,2014 and 2015.

Key Words:-Profitability, solvency, leverage, rate of return, financial, ratio

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Introduction

Ratios are associations expressed in mathematical term among figures which are associated with each other in some manner. Obviously, no reason will be served by comparing two sets of figures which are not at all connected with each other .Ratios can be expressed in two ways:

1.Times:-When one value is divided by another the unit so express the quotient is termed as times

2.Percentage:-If the proportion obtained is multiplied by 100, the unit of expression is termed as Percentage

Accounting ratios are therefore mathematical relationship expressed between inter-connected accounting figures. The objective of the ratio analysis is to judge the earning capacity, financial soundness and operating efficiency of a business organization. The use of ratios in accounting and financial management analysis helps the organization to know the profitability, financial position (liquidity and solvency) and operating efficiency of an enterprise.

Objectives of the study

1. To study the profitability and operational efficiency of the company by comparing profitability ratios of three years.
2. To study the financial position of the firm by comparing leverage ratios of three years.
3. To recommend the ways by which Ganga Ltd can manage its financial system more effectively.

RESEARCH METHODOLOGY

Research Design : The degrees to which the methodology of research structured is Descriptive study .

Data Collection : For achieving the specific objective of the study, data will be gathered entirely from secondary sources. Following are the Secondary Sources • Website of Ganga ltd. • Annual Reports, Brochures, Manuals and Publication of Ganga ltd • Manual published by Ganga ltd . Ganga ltd last three years financial history used as per require of this study. Most of this data are used in financial ratio analysis . The data was obtained from Ganga ltd financial statements and websites.

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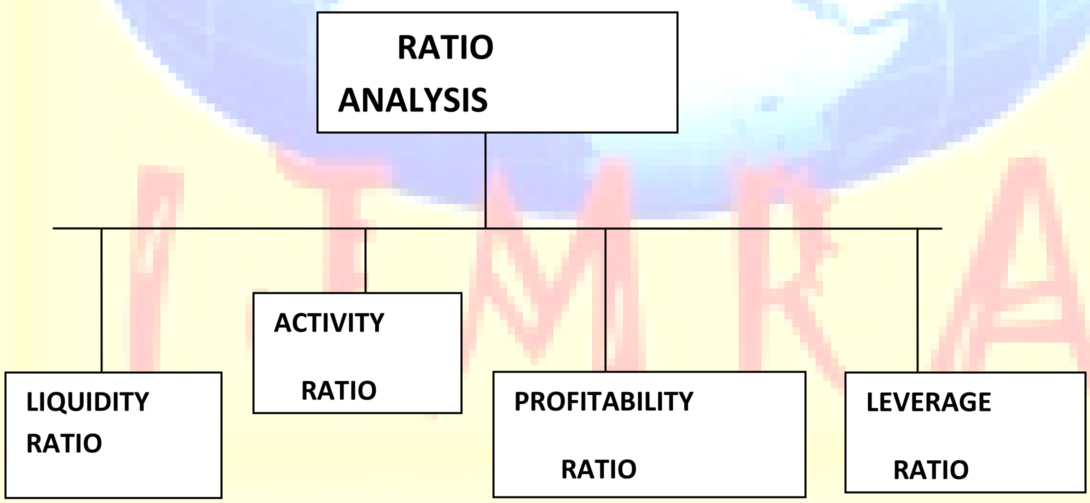
LIMITATIONS

- The project is based entirely on Secondary data and its financial interpretation. No primary data has been used during preparation of this project.
- Entire analysis of the project is based on facts and figures, and not on market or theoretical data.
- Time was a major constraint in completion of the project.

TYPES OF RATIO:-

Ratios, as tools for establishing true profitability and financial position of a company, may be classified as under but in the given case study I am focusing only on the two ratios analysis i.e profitability and leverage ratios



In the given case study main focus is on profitability and leverage ratios

PROFITABILITY RATIO

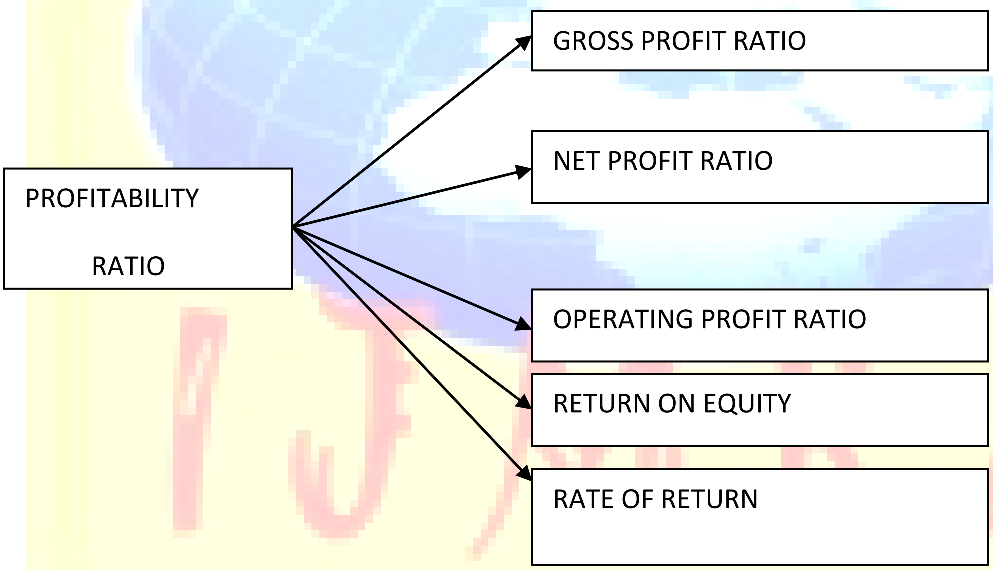
The profitability ratio measures the profitability or the operational efficiency of the company. These ratios reflect the final results of the business operations. The results can be evaluated in terms of its earnings with reference to a given point of assets or sales or owner's attention also. A company should earn profits to survive and grow over a long period of time. Profit is the measurement of the efficiency of the business.

Generally there are two types of profitability ratios calculated:

- Profitability in relation to sales.
- Profitability in relation to investment.

Profitability ratios, which are used to analyze Ganga Ltd Ltd profitability, are:

- Gross Profit Ratio
- Net Profit Ratio
- Operating profit Ratio
- Return On Equity
- Rate of Return



Gross Profit Ratio:

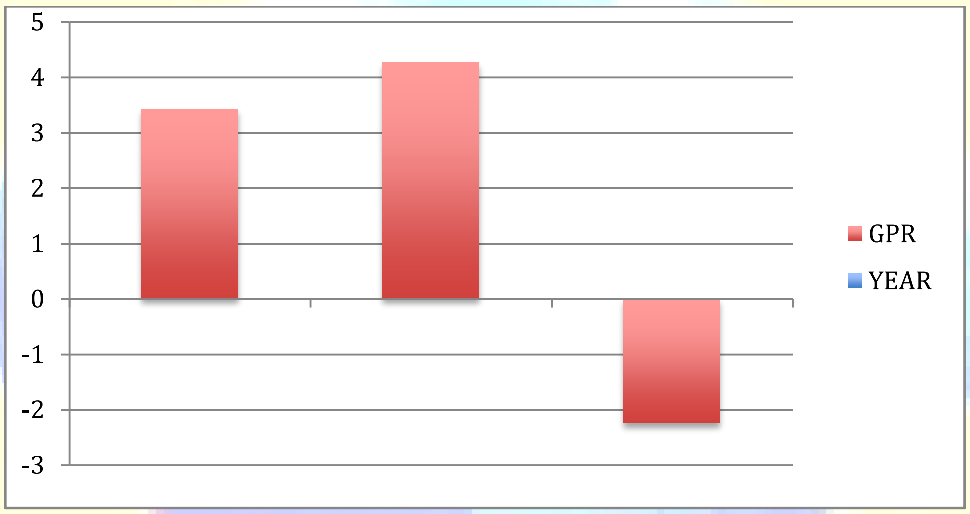
Gross margin, Gross profit margin or Gross Profit Rate can be distinct as the quantity of contribution to the business venture, after paying for direct-fixed and direct-variable unit costs, required to cover expenditure (fixed commitments) and provide a defense for unknown items. It expresses the association among gross profit and sales revenue.

The ratio shows the relationship between gross profit and sales.

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

Net Sales = Sales – Sales Return

year	2013	2014	2015
GPR	**3.43**	**4.27**	**-2.24**



2012-13 2013-14 2014-15

Significance: This ratio measures the margin of profit available in on sales. No ideal standard is fixed for this ratio, but it should be adequate enough to meet not only operating expenses but also to provide for depreciation, interest on loans, dividends and creation of reserve.

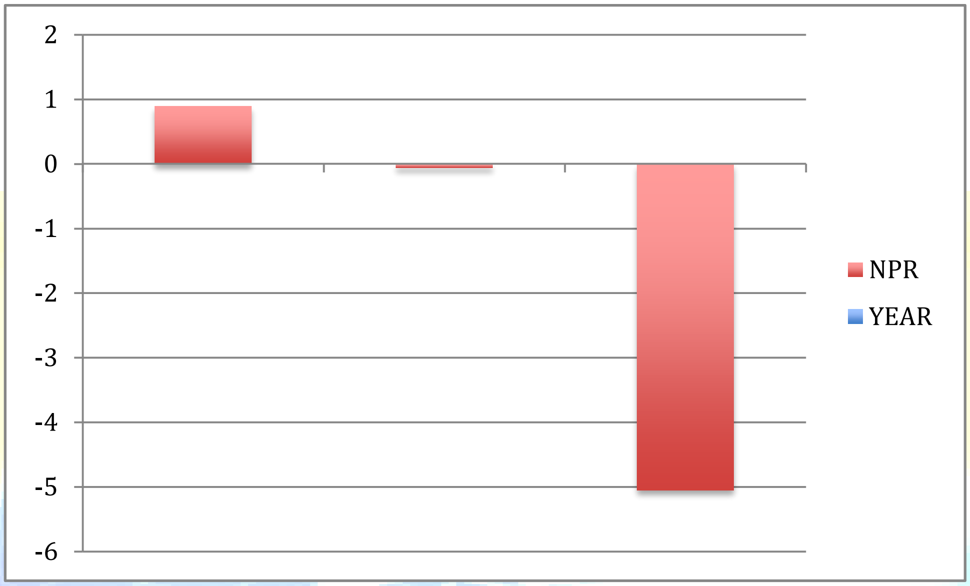
Comment:- The Ganga Ltd Ltd's gross profit ratio is DECREASING from4.27 in 2013-14 to -2.24 in 2014-15.wheresas,it was 3.43 in 2012-13

Net Profit Ratio:

Profit margin, net margin, net profit margin or net profit ratio all refer to a calculate of profitability. It is calculated by finding the net profit as a percentage of the revenue.

$$\text{(a) Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} * 100$$

year	2012-13	2013-14	2014-15
NPR	0.89	-0.06	-5.05



2012-13 2013-14 2014-15

Significance:- The profit margin is mostly used for inner comparison. It is hard to exactly evaluate the net profit ratio for different entities. A low profit margin indicates a low margin of protection: higher risk that a decline in sales will erase profits and result in a net loss.

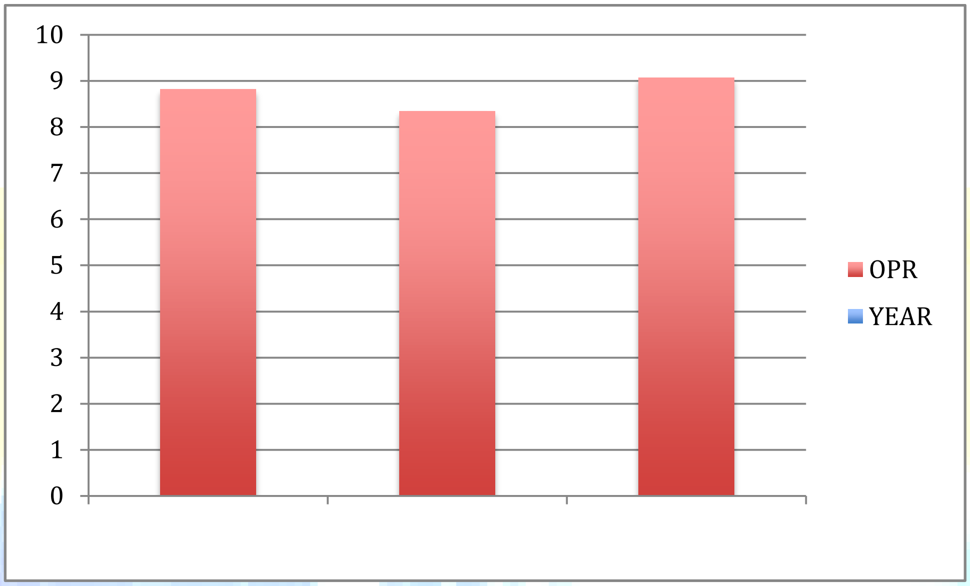
Operating profit ratio:

In business, operating margin, operating income margin, operating profit margin or return on sales (ROS) is the ratio of operating income divided by net sales, usually presented in percent

$$\text{Operating Profit Ratio} = \frac{\text{Operating Net Profit}}{\text{Net Sales}} * 100$$

Operating net profit = net profit+ non operating expenses-non operating income

Year	2012-13	2013-14	2014-15
OPR	8.81	8.34	9.06



2012-13 2013-14 2014-15

Return on equity(ROI):

Equity shareholders of a corporation are more interested in knowing the earning ability of their funds in the production. As such, this ratio measures the profitability of the funds belonging to the equity shareholders. Since the profit available to equity shareholders will be the profit left after payment of interest, taxes and dividend on preference share capital.

$$\text{Return on Equity Shareholder's Funds} = \frac{\text{Net profit after interest, tax and Preference dividend}}{\text{Equity Shareholder's Fund}} *100$$

For e.g.: Net worth =1crore

Loan @10%=30 lacks

Tax rate =30%

Share =1 lacks

Profit =10 lacks (before interest and tax)

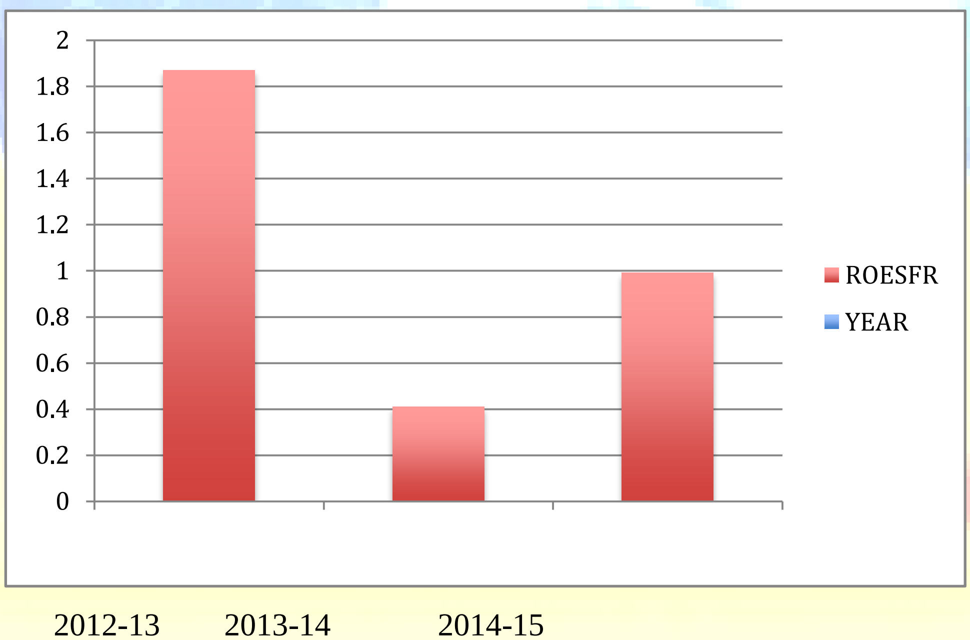
Profit after interest but before tax =10 lacks- 3 lacks=7 lacks

Profit after tax =7lacks- 2.10lacks=4.9lacks

Return on equity = 4.9-2=2.9 lacks

Equity Shareholder's Funds = Equity Share Capital + All Reserves + P/L a/c balance - fictitious assets - debit balance of the P/L a/c

year	2012-13	2013-14	2014-15
ROESFR	**1.87**	**-0.58**	**0.99**



Significance: This ratio measures how competently the equity shareholder's funds are being used in the business. It is factual measure of the efficiency of the management since it shows what the earning ability of the equity shareholders funds. The higher the ratio, the better it is, because in such a case equity shareholders may be given a high dividend..

Comment:-Ganga Ltd Ltd Equity shareholder fund is increase in current year in compare to previous year so it is good because the earning of share holder is increase . But the graph is fluctuating; this shows that the shareholders are not getting constant return on their investments. So company have to stable there Equity shareholder fund ratio

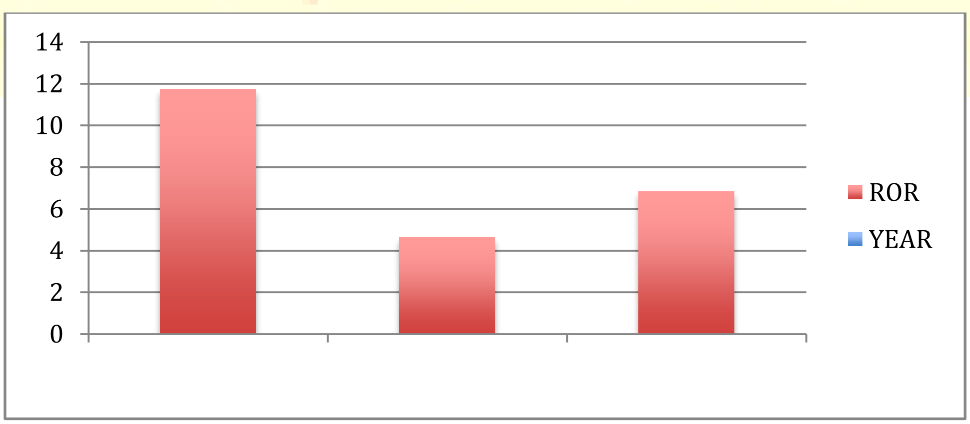
Rate of return:

In finance, rate of return (ROR), also recognized as return on investment (ROI), rate of earnings or sometimes now return, is the ratio of money gained or lost (whether realized or unrealized) on an investment relative to the sum of money invested. The amount of money gained or lost may be referred to as interest, profit/loss, gain/loss, or net income/loss. The cash invested may be referred to as the asset, capital, principal, or the cost basis of the investment. ROI is generally spoken as a proportion rather than a fraction.

$$\text{Return on investment} = \frac{\text{Profit before tax, interest and dividends}}{\text{Net Worth}} *100$$

Profit before interest, tax and dividend = Profit after interest but before tax + interest paid - interest income

year	2012-13	2013-14	2014-15
ROR	11.72	4.61	6.82



2012-13 2013-14 2014-15

Significance: This ratio helps in taking decisions concerning funds investment in the new projects. The new projects will be commenced only if the rate of return on assets employed/ net worth in such projects is expected to be more than the rate of borrowings.

Comment: The rate of return of Ganga Ltd has increased in current year in compare to previous year which is significance.

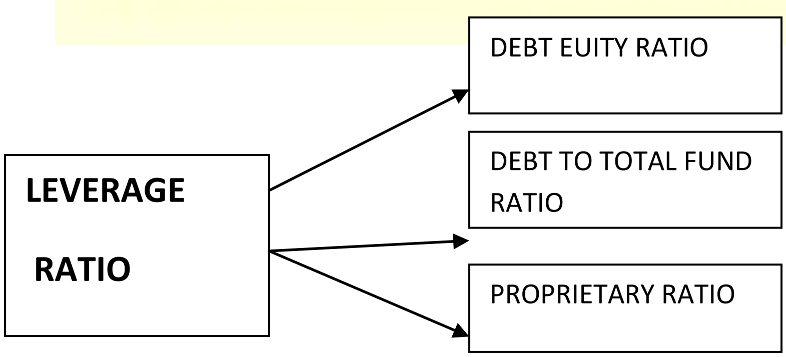
<u>LEVERAGE RATIOS</u>

Debentures holders; financial institutions etc. are paying attention in the firm's long-term financial power. These ratios are calculated to review the ability of the firm to meet its long-term liability as and when they become unpaid.

To judge the financial position of the firm, **financial leverage**, or **capital structure ratio** are calculated. These ratios specify mix of funds provided by owners and lenders.

Leverage ratio to find the long term liability of Ganga Ltd Ltd is:

- Debt –Equity Ratio
- Debt to total fund ratio
- Proprietary ratio



DEBT-EQUITY RATIO:

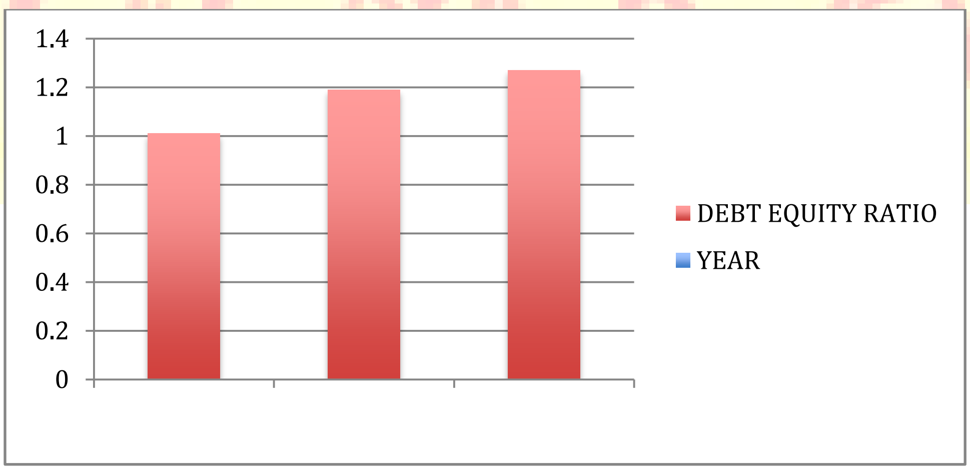
Debt-equity ratio is the indicator of leverage. this ratio indicates the proportion of debt fund in relation to equity numerous debt ratios may be used to examine the long term solvency of the firm. The firm may be paying attention in knowing the part of the interest-bearing debt (also known as funding debt) in the capital structure. It indicates the share of finances which are acquired by long term borrowing in comparison to shareholders funds.

$$\text{Debt Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} \quad \text{OR} \quad \frac{\text{Long Term Loans}}{\text{Shareholder's Funds}}$$

Long-term Loans: - Debentures + Mortgage Loans + Bank Loan+ Loan from Financial Institutions and Public Deposits.

Shareholders' Funds: - Equity Share Capital + Preference Share Capital + Share Premium + General Reserves + Capital Reserves + Credit Balance of Profit and Loss Accounts and Accumulated Losses and Fictitious Assets are deducted.

Year	2012-13	2013-14	2014-15
Debt Equity Ratio	1.01	1.19	1.27



Significance: The usually acknowledged debt equity ratio is 2:1. If this ratio is higher than 2:1, it means that long term borrowing is more than double in comparison to funds to provide by owners and it will indicate a risky financial position.

Comment:-As we can see that the firm debt-equity ratio is continuously decrease so we can say that the firm financial position is good to say it's long term debt

Debt to Total Funds Ratio

This ratio expresses the relationship between long term debt and shareholder's fund. It indicates the proportion of funds which are acquired by long term borrowings in association to shareholder's funds. This ratio is calculated to assess the ability of the firm to meet its long term liabilities.

$$\text{Debt to total funds Ratio} = \frac{\text{Debt}}{\text{Debt + Equity}} \quad \text{Or} \quad \frac{\text{Long term loans}}{\text{Long term loans + Shareholder's Fund}}$$

Long Term Loans = Debentures + Mortgage Loans + Bank Loans + Loan from Financial Institutions + Public Deposits.

Shareholder's fund = Equity Share Capital + Preference Share Capital + Share Premium + General Reserve + Capital Reserve + Other Reserves + Credit Balance of P/L account - Accumulated Losses -Fictitious Assets - Debit balance of P/L account.

FOR E.G.= long term loan= 1 lack

Share holder fund=2 lack

Debt Equity ratio= .33

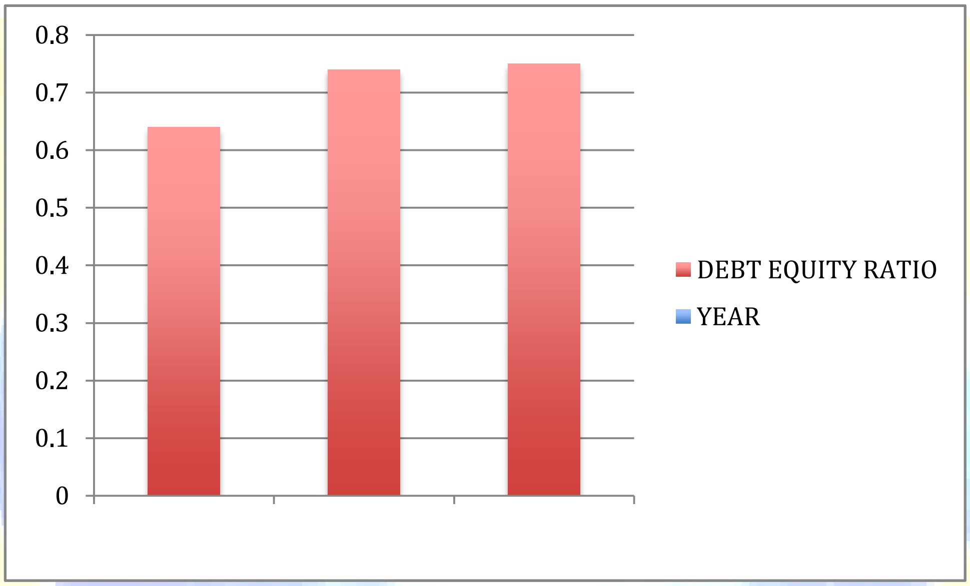
Or

Long term loan = 2 lack

Share holder fund = 1 lack

Debt equity ratio= .666

Year	2012-13	2013-14	2014-15
Debt To Total Fund Ratio	0.65	0.74	0.76



2012-13 2013-14 2014-15

Significance: - Debt to total funds ratios of 0.67:1 (or 67%) is considered acceptable. A higher ratio than this is usually considered as the pointer of risk. Because it means that the firm depends too much on outsides loans for the survival. Any withdrawal of funds by the lenders will put the company in difficulties.

Comment: Debt-Equity ratio of Ganga Ltd Ltd is going to increase which is not satisfactory. From the above example we can say that the debt equity ratio is less than in compare to previous year .this graph shows that the long term loan is greater than the share holder fund which is not good for the company.

Findings

- The Ganga Ltd Ltd's gross profit ratio is increasing from 3.43 in 2012 to 4.27 in 2013.

- Comparatively, it is growing and which is efficient change in overall profit. As the figure constitute that the Gross profit of the company is continuously increases which is very significant result but still company have to find out new way to increase there profit
- Ganga Ltd Ltd net profit is negative in 2012 but in 2013 it is -0.060.The ratio in the current year is quite significant.
- Equity shareholder fund is true measure of the efficiency of the management since it shows what the earning capacity of the equity shareholders funds. The higher the ratio, the better it is, because in such a case equity shareholders may be given a higher dividend.
- Ganga Ltd Ltd Equity shareholder fund is increase in current year in compare to previous year so it is good because the earning of share holder is increase. But the graph is fluctuating; this shows that the shareholders are not getting constant return on their investments. So company have to stable there Equity shareholder fund ratio
- The rate of return of Ganga Ltd Ltd has increased in current year in compare to previous year which is significance.
- Ganga Ltd Ltd debt-equity ratio is continuously decrease so we can say that the firm's financial position is good to pay it's long term debt.
- Debt to total funds ratios of 0.67:1 (or 67%) is considered satisfactory. A higher ratio than this is generally considered as the indicator of risk. but the firm is not dependant too much on outsides loans for the existence.

Conclusions

As the Gross profit of the company is continuously increases which is very significant result but still company have to find out new way to increase there profit

Ganga Ltd Ltd net profit is negative in 2006-07 but in 2007-08 it is .60.The ratio in the current year is quite significant.

Ganga Ltd Ltd Equity shareholder fund is increase in current year as compare to previous year so it is good because the earning of shareholder is increase.

The rate of return of Ganga Ltd Ltd is increase current year as compare to previous year which is significance.

As the firm debt-equity ratio is continuously decreasing so we can say that the firm financial position is good to say it's long term debt.

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