

FINANCIAL STATEMENT ANALYSIS

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Abstract

Analyzing a company's financial statements is a great way to get a feel for its health, performance history, and potential for the future. Economic decision-making, resource allocation, and risk mitigation may all be improved with its help.

Introduction

A company would go bankrupt if it couldn't get financing. As a result, being frugal is critical. Examining the figures that comprise a business's financial health is known as financial analysis. Each party with a vested interest in the result uses their own methodology to examine the financial data before making a determination on the company's viability. Finding meaning and interpretation in the financial statement data is the goal of financial statement analysis. A prudent dividend policy's profitability, the company's capacity to meet interest and debt deadlines (both short- and long-term), and future profits all contribute to this kind of prediction.

In its widest sense, "financial statement analysis" encompasses both quantitative and qualitative methods. Therefore, be careful while using the two words; they are different. Unlike "analysis," which involves "simplifying financial data by systematising and categorising the data supplied in financial statements," "interpretation" refers to "explaining the meaning and significance of the data so simplified." The majority of writers believe that analysis is meaningless without interpretation, and that interpretation is the last stage after analysis. Preparing financial statements serves primarily to aid in decision-making. Analysing a company's financial health via making the right strategic link between the balance sheet and profit and loss account is one way to define financial statement analysis. The examination of financial statements makes use of a number of methods and techniques. You can find working capital, cash flow, timetables for both funds and flows, and comparisons of typical sizes, costs, volumes, profits, ratios, and trends in these documents. Multiple parties' assessments of financial accounts form the basis of decisions.

Need for the Study

It is well-known that a company's financial records and statements may provide valuable insight into the company's financial health. This information might be useful for future planning, particularly for creating budgets and projections. To put it simply, financial statement analysis helps with organisational decision-making. We could learn what happened to profitability or the state of the company's finances in general. The ratio of working capital to short-term liquidity and the solvency condition of a corporation are two important pieces of information to know. It also summarises the current economic efficiency and profitability of the company.

OBJECTIVES OF THE STUDY

- So that we may calculate the company's prospective earnings or profitability.
- In this approach, we may assess the efficiency and effectiveness of the management.
- Learn what happened to the financial stability and profitability of the business.
- Here we compare a number of companies.
- For the purpose of making well-informed predictions about the company's future.
- So that we can see how the company has grown throughout the years.
- The purpose is to make decision-making and command easier.

Research Methodology

DATA COLLECTION:

Internet Resources

- Evidence gathered from two sources.
- First-hand accounts and details.
- Referenced data.

Sources of main data:

Interviews with the company's financial manager and other senior officials provide the bulk of the data.

Information retrieved from public databases:

Websites of financial newspapers, annual reports, business lines, and records of HBL's internal audits serve as primary sources for the secondary data.

Approach to the Research:

Financial Statements in Common Formats:

When evaluating a business's financial health, the two most popular types of statements are:

- a. Statement of Income.
- b. Reports Regarding Money Subjects.

Limitations Of The Study

Just a few projects from HBL POWER SYSTEMS LTD. are included in the study.

- Because of the temporal constant, we may compare different businesses.
- All of the accounting data used to compile the financial statements comes from years past.
- Transaction volume is a key factor in determining a company's size.
- Financial statements may have their content changed via the use of "window dressing" in certain instances.
- If such is the case, studying financial statements is pointless since the results will be inaccurate.
- The findings of any financial analysis could be skewed if an organisation alters its system of accounting.
- Obtaining management-level data is no easy feat.
- Concerned parties concealing key information from researchers suggests they may have made a mistake.

Company Profile

As far back as DC systems and specialised batteries are concerned, HBL Power systems Ltd. were an early innovator in India. Offering a diverse selection of batteries and related equipment, the firm has been satisfying clients' urgent needs for over 30 years with tailored solutions. Leading the way in DC power systems and specialised batteries for over 30 years is HBL Power systems Ltd. The business was formed by the merging of SABNIFE Power Systems Ltd (1986) and Hyderabad Batteries Limited (1977).

Although the company's main office is in Hyderabad, its production sites and sales offices may be found all throughout India. With its ever-expanding network of offices, distributors, and agents, HBL is well-equipped to handle its export activities. By investing, promoting research and development, and sharing information, HBL aims to increase global competitiveness. In regards to specialist goods and technology that have been validated in line with global standards. Here at HBL, we put our goods' emphasis on: Electrical devices and batteries

Data analysis:

1. Current ratio:

The **current ratio** is a [liquidity ratio](#) that measures whether or not a firm has enough resources to meet its short-term obligations.

TABLE NO 4.1

Formulae: current ratio = current assets/current liabilities			
Year	Current assets	Current liabilities	Current Ratio
2022-2023	29746.31	33846.39	0.88
2021-2022	37363.43	30519.52	1.22
2020-2021	39870.79	25279.80	1.58
2019-2020	41387.08	22610.03	1.82
2018-2019	38914.52	17238.64	2.26

2. Cash ratio:

It is an extreme liquidity ratio since only cash and cash equivalents are compared with the current liabilities

TABLE NO 4.2

Formulae: Cash Ratio = Cash + Cash Equivalents /Current Liabilities			
Year	Cash & cash equivalents	Current liabilities	Cash ratio
2022-2023	15105.41	33846.39	0.387
2021-2022	17313.37	30519.52	0.501
2020-2021	18867.70	25279.80	0.667
2019-2020	18161.83	22610.03	0.715
2018-2019	919.01	17238.64	0.053

3. Inventory turnover ratio:

By comparing the cost of items sold to the average inventory for a specific period, the inventory turnover ratio reveals how well inventory management is functioning.

TABLE NO 4.3

Formulae: inventory turnover ratio = cost of goods sold/average inventory

Year	Cost of goods sold	Average inventory	Inventory turnover ratio
2022-2023	63776.48	7192.53	0.89
2021-2022	60170.24	7972.46	7.54
2020-2021	56246.48	5488.48	10.24
2019-2020	49699.49	4057.19	14.24
2018-2019	49240.51	3702.85	15.29

Long-term solvency and leverage ratios:

1. Debt/equity ratio:

Debt/Equity Ratio is a debt ratio used to measure a company's financial leverage, calculated by dividing a company's total liabilities by its stock-holders equity.

Formulae: Debt / Equity Ratio = Total Liabilities / Shareholders' Equity

TABLE NO 4.4

Year	Total liabilities	share holders equity	Debt/equity ratio
2022-2023	91990.87	88782.00	1.03
2021-2022	84907.85	81857.35	1.05
2020-2021	68459.06	85817.32	0.78
2019-2020	58138.92	80387.51	0.72
2018-2019	50307.99	73291.17	0.69

2. Capital gearing:

One way to examine a company's financial health is via the Capital Gearing Ratio. It describes the connection between capitalisation and other financial tools including reserves, preference shares, and debentures.

TABLE NO 4.5

Formulae: Capital gearing ratio = (Preference share capital + Debentures + long term borrowings) / Equity funds.

Year	Preference share capital + debentures+ long term borrowings	Equity funds	Capital gearing ratio
2022-2023	109928.09	88782.00	1.23
2021-2022	101750.18	81857.35	1.24
2020-2021	74718.75	85817.32	0.87
2019-2020	62957.66	80387.51	0.78
2018-2019	54965.827	73291.17	0.74

Activity ratios or asset management ratio :

1. Inventory turnover ratio: Inventory turnover is a ratio showing how many times a company's inventory is sold and replaced over a period of time.

TABLE NO 4.6

Formulae: inventory turnover ratio = cost of goods sold/average inventory.

Year	Cost of goods sold	Average inventory	Inventory turn over ratio
2022-2023	63776.48	7192.53	0.89
2021-2022	60170.24	7972.46	7.54
2020-2021	56246.48	5488.48	10.24
2019-2020	49699.49	4057.19	14.24
2018-2019	49240.51	3702.85	15.29

2. Fixed assets turnover ratio:

An often-used activity ratio, the fixed assets turnover ratio (or sales to fixed assets ratio) evaluates how efficiently a business turns its fixed assets into revenues. Divide net sales by average fixed assets to get the calculation.

TABLE NO 4.7

Formulae: fixed assets turnover ratio = net sales / average fixed asset

Year	Net sales	Average fixed assets	Fixed assets turnover ratio
2022-2023	70661.33	178063.46	0.44
2021-2022	73197.61	153342.56	0.54
2020-2021	72137.06	138999.5	0.61
2019-2020	64717.88	100045.52	0.64
2018-2019	61630.85	87086.22	0.70

3. Total assets turnover ratio:

Asset turnover ratio is the ratio of the value of a company's [sales](#) or [revenues](#) generated relative to the value of its [assets](#)

Formulae: Asset Turnover = Sales or Revenues / Total Assets

TABLE NO 4.8

Year	Sale or revenues	Total assets	Total asset turnover ratio
2022-2023	70661.33	180772.87	0.39
2021-2022	73197.61	186565.2	0.43
2020-2021	72137.06	174274.38	0.46
2019-2020	64717.88	158506.43	0.46
2018-2019	61630.85	143599.18	0.49

4. Working capital turnover ratio:

If you want to know how operational cash flow relates to sales, then you should look at the working capital turnover ratio.

Formulae: working capital turnover ratio = sales/ working capital

TABLE NO 4.9

Years	Sales	Working capital	Working capital ratio
2022-2023	70661.33	-4100.08	-17.23
2021-2022	73197.61	6843.91	10.69
2020-2021	72137.06	16590.99	4.942
2019-2020	64717.88	23928.44	2.704
2018-2019	61630.85	21873.88	2.834

5. Capital employed turnover:

Creditors and investors use this ratio to assess a company's profitability and decide whether to provide loans.

TABLE NO 4.10

Formulae : capital employed turnover ratio = net sales/ capital employed			
Years	Net sales	Capital employed	Capital employed turnover ratio
2022-2023	70661.33	94544.44	0.74
2021-2022	73197.61	94740.61	0.77
2020-2021	72137.06	92891.91	0.77
2019-2020	64717.88	84419.44	0.76
2018-2019	61630.85	75156.67	0.81

CONCLUSION

Access to underdeveloped nations' electrical systems has never been restricted. Despite being publicly owned, the industry has failed to meet the increasing demand for power. Investment falls and supply quality drops as a result of operational inefficiencies and financial losses. Reforms have recently been implemented by several emerging nations.

Their primary goals were to increase the effectiveness of state-owned firms and to encourage private investment. The goal of the growing competition in the bulk power market and direct access to major users is to reduce the risks connected with selling to financially unstable state utilities.

As a suitable last step in the ongoing privatisation of distribution, a road plan is required. This kind of long-term planning raises sensitive political questions. When public utilities start making money via further commercialisation or even privatisation, it becomes a regulatory concern how to manage sovereign guarantee incentives effectively.

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