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A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF SANCO TRANS LTD

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1.1 INTRODUCTION

Financial Performance Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit & loss account. Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of profitability and financial soundness of business. Financial Performance analysis evaluates risks, performance, financial health, and future prospects of an organization. Common methods of financial performance analysis include Fundamental analysis, DuPont analysis, Horizontal and Vertical analysis and the use of Financial Ratios.

TYPES OF FINANCIAL ANALYSIS

Financial statements are analysed by different parties with respect to different purpose. Accordingly, we can classify financial statement analysis into different categories as follows:

FINANCIAL ANALYSIS

On the basis of Materials used:

On the basis of 'modus operandi' analysis:

(a) External Analysis (a) Horizontal Analysis

(b) Internal Analysis (b) Vertical analysis

1.2 OBJECTIVES OF THE STUDY

1. To study the Financial Performance of SANCO TRANS LIMITED
2. To identify the reasons for changes in the financial position of the firm
3. To determine short-term and long-term solvency of the business
4. To ascertain the financial strength and weakness in the operation and financial position of the firm.
5. To suggest measures for enhancing the financial performance of the company.

2.1 LITERATURE REVIEW:

M.Renu, Dr.S.Sekar (2014) evaluated the "FINANCIAL PERFORMANCE OF STANDARD CHARTED FINANCE LTD" with a view to have an insight on the financial position of the firm. The author has thrown a major consideration on Ratio analysis, Comparative statements, Common-size statements, and Trend analysis for determining the financial stability and it has been concluded that the short-term assets were efficiently managed. The long-term financial and profitability position of the firm is satisfactory. Further suggestions were made to improve the owner's equity.

Dan Wang (2016) states the importance of "APPLICATION OF FINANCIAL ANALYSIS IN BUSINESS MANAGEMENT". The author states that Financial Management is an important part of strengthening the capacity of corporate financial analysis which reveals the advantages and disadvantages of the business enterprise in the past, analyse the financial condition and predict the future trend which helps in strategic direction and optimize investment decision to improve business efficiency.

M.Sundararaju (2017) evaluated the "ANALYSIS OF FINANCIAL STATEMENTS IN DWC LTD" to identify the anomalies and focus attention on matters of significant concern to profit of the firm. This study of Financial statement analysis concentrated on a set of ratios, comparative statement, common-size statement, and Trend Analysis and it was found that Working capital must be taken into consideration for better performance. The author further states that the firm focuses on reducing the operating expenses than to increase its profits shows a better operational efficiency.

Dr.A.Ramya, Dr.S.Kavitha (2017) conducted a study on "FINANCIAL ANALYSIS OF MARUTHI SUZUKI INDIA LTD" to determine the overall financial position based on selected variables essential for decision-making and finally helps to maximise the intrinsic value of the company. The financial tool used for the analysis is Ratio analysis. The author illustrates a different perspective that the ratio's are calculated from the financial statements prepared according to the desire of the management and also by the policies adopted by them which does not produce a complete and authentic picture of the business. In shadow of the above revelation and fact the author concluded that Maruthi Suzuki have a better Strategic position in comparison to its competitors in all respective ratios.

3.1 RESEARCH METHODOLOGY

Methodology refers to the way adopted for collecting information for the purpose of drawing inference. Methodology places a vital role in the analysis of the study. The methodology places a vital role in the analysis of the study. The methodology is the science of the system and a method of conducting the research work.

RESEARCH DESIGN

Research design is the framework or plan or blueprint based on which the research is collecting, analyzing the data and providing solution to the problem. The research design undertaken for the study is `**Descriptive Research Design'.** These designs are determined for some specific purpose. It is focused on the accurate description of the variables present in the problem.

METHOD OF DATA COLLECTION

SECONDARY DATA:

Secondary data are the data collected by a party not related to the research study but collected for some other purpose and at different time in the past. Secondary data were collected through Annual reports of the company, Auditor's report, company

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profile, Newspaper and Magazines. The main source of information is the Annual report issued by the company showing their performance in current market scenario.

TOOLS USED FOR DATA ANALYSIS:

The last 5 years annual report of the company is compiled and tabulated for the purpose of study. The techniques used are:

- Ratio Analysis
- Comparative Financial Statement
- Common-size statement
- Trend Analysis
- DU Pont Analysis.

4.1 DATA ANALYSIS AND INTERPRETATION:

Current Ratio:

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

TABLE NO 4.1 CURRENT RATIO

PARTICULARS	2014	2015	2016	2017
Total Current Assets	2957.57	2022.40	2288.40	3108.18
Total current Liabilities	2801.87	3122.60	3700.26	4437.23
Current Ratio	1.06	0.65	0.62	0.70

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INTERPRETATION:

- Comparing to 2016(0.62) and 2015(0.65) the current ratio has increased in 2017 respectively. The reason behind the increase in current ratio, is due to increase in current asset of 2017(3108.18) than that of 2015(2022.40) with an equivalent increase in current liabilities of 2017(4437.23) than 2014(2801.87).
- An ideal ratio of 2 is insisted (i.e.,) Current asset shall be 2 times to Current liabilities. Since the current ratio is less than 2, indicates inadequate current asset to meet the short-term obligations.

Debt-Equity Ratio:

$$\textbf{Debt-Equity Ratio} = \frac{\textbf{Total Liabilities}}{\textbf{Total Equity}}$$

TABLE NO 4.2 DEBT-EQUITY RATIO

PARTICULARS	2014	2015	2016	2017
Total Liabilities	5080.37	4935.67	5529.07	5767.66
Total Equity	5007.32	5175.84	5252.89	5274.6
Debt-equity Ratio	1.01	0.95	1.05	1.09

INTERPRETATION:

Comparing to 2014(1.01), there is a slight increase in debt-equity ratio in 2017(1.09) respectively. A ratio of 1 signifies that the company funds its operations with an even mix of debt and equity that is, the investors and creditors have equal stake in business assets.

DU PONT ANALYSIS

DU Pont Analysis is the measure of firm's operating performance. It indicates the firm's earning power. It is a product of

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asset turnover, gross profit margin and operating leverage.

DU Pont analysis =	Net profit margin x	Asset turnover x	Financial Leverage

TABLE NO 4.4 DU PONT ANALYSIS

PARTICULARS	2014	2015	2016	2017
Net Profit margin	5.78	3.12	1.43	0.40
Asset Turnover	0.49	0.51	0.49	0.52
Financial Leverage	2.95	2.86	2.94	2.98
Return on Equity	8.31	4.55	2.04	0.62

INTERPRETATION:

The above table shows that there is a stable utilisation of assets among all the four years from 2.95% in 2014 to 2.98% in 2017.It is the decrease in net profit margin from 5.78% in 2017 to 0.40% in 2017 which in turn affects the decrease in return on equity due to increased cost.

TREND ANALYSIS

TABLE NO.4.5 TREND ANALYSIS

Year	Profit	Trend	Deviation
2014	416.27	389.88	26.39
2015	235.67	261.93	-26.26
2016	107.36	133.98	-26.62
2017	32.54	6.04	26.50
2018		-121.92	
2019		-249.87	

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INTERPRETATION:

In the year 2014 the actual profit made by the firm was 416.27, when compared with that of trend it represents a positive deviation of 26.39. In the year 2015 and 2016 there is a negative deviation due to decrease in actual profit. In the year 2017 there is a positive trend of 6.04. In the year 2018 and 2019 it is expected to be a negative trend due to consistent decrease in profits.

FINDINGS

- It is found from the study that there is a consistent downfall of current ratio from 1.06 in 2014 to 0.7 in 2017 irrespective of increase in current assets. The reason behind this is due to increase in current liabilities which signify that the working capital position is not satisfactory.
- A Debt-Equity Ratio above 1 among all the four years(2014-2017) shows that the company funds its operations with an even mix of Debt and Equity (i.e.,) Investors and Creditors have equal stake in business assets.
- From the DU Pont analysis it is found that there is a stable utilisation of assets among all the four years from 2.95% in 2014 to 2.98% in 2017.It is the decrease in net profit margin from 5.78% in 2017 to 0.40% in 2017 which in turn affects the decrease in return on equity due to increased cost.
- It is found from the Trend Analysis that in the year 2018 and 2019 it is expected to be a negative trend due to consistent decrease in profits.

SUGGESTIONS

- The company must try to stabilize its liquid position by efficient cash management in order to meet its short-term obligation and enjoy credit worthiness.
- The company should adopt such a credit policy which will ensure timely collection of dues from customers.
- The company must concentrate on its current liabilities to improve the negative working capital position.
- The company should take necessary steps to control the total expenses in order to increase the overall profitability of the firm and prevent it from getting bankrupt.
- The firm should try to improve its efficiency in revenue from

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operations through effective utilisation of fixed assets.

CONCLUSION:

The efficient and smooth functioning of all the activities of the company depends upon the financial performance of the company. On studying the financial performance of "SANCO TRANS LIMITED" it was found that the company has a negative working capital, hence the company should focus on maintaining an optimum working capital position by maximising the profitability with impairing the liquidity of the firm. It can improve if the company focuses on reducing the total expenses and also through effective utilisation of fixed assets thus increasing the overall profitability of the firm. Negative trend of net profit was projected for the upcoming years hence effective measures are to be taken in order to prevent the company from getting bankrupt.

Thus the financial performance analysis is a forward-looking exercise as it is helpful in future planning and decision making. Through the various financial tools the present position and operating efficiency can be identified. Further the reasons for changes in profitability of the firm can also be identified and necessary measures can be taken.

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