ANALYZING THE FINANCIAL PERFORMANCE AND FINANCIAL POSITION OF A COMPANY IN CHENNAI

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ABSTRACT

This study analyses the financial performance and position of a leading manufacturer and distributor of industrial products and services company in chennai. It evaluates the net worth, leverage, capital structure, cost of capital, volatility of share price based on dividend payout, and trend of turnover and marginal return. The findings show that the company's net worth has steadily increased, while the degree of operating leverage has decreased, and the degree of financial leverage has fluctuated. The debt equity ratio has decreased, but the cost of capital has fluctuated significantly. The study suggests that the company should focus on improving its operating efficiency, managing its debt levels carefully, controlling the cost of capital, maintaining stable dividends, and focusing on sustainable growth. In conclusion, the company should focus on improving its operating efficiency to reduce costs and improve profitability, manage its debt levels carefully, and maintain stable dividends to attract investors and maintain their confidence. Additionally, it should focus on sustainable growth to ensure long-term success.

Keywords: Financial analysis, financial performance, Ratio Analysis, Trend, Share Price, Marginal Return, Turnover

INTRODUCTION

The company which is included in this study is a well-established player in the industrial products and services sector, having been in operation for many years. The company's products and services are used across a wide range of industries, including automotive, construction, and energy, among others. As a manufacturer and distributor, the company faces significant competition from both domestic and international players. Therefore, it is essential to maintain a strong financial position to remain competitive and achieve sustainable growth and profitability.

To assess the financial health and performance of the company, this study will analyse the company's income statement and balance sheet. The income statement will provide insight into the company's revenue and expenses, allowing us to assess its profitability. Meanwhile, the balance sheet will provide information about the company's assets, liabilities, and equity, allowing us to assess its financial position.

In addition to examining the income statement and balance sheet, this study will also analyse key financial ratios to gain a better understanding of the company's financial strength. The debt-to-equity ratio, for instance, will help us assess the company's leverage and solvency. Meanwhile, the current ratio will give us an indication of the company's ability to meet its short-term obligations.

Finally, this study will provide suggestions for improvement to help the company continue to achieve sustainable growth and profitability. These suggestions may include measures such as improving operational efficiency, exploring new markets, and diversifying its product range. By implementing these suggestions, the company can remain competitive and continue to achieve its long-term strategic goals.

OBJECTIVE OF THE STUDY

1.   To evaluate the Net worth of the company.
2.   To evaluate the Leverage of the company.
3.   To analyse the capital structure of the company.
4.   To evaluate the Cost of Capital of the company.
5.   To analyse the volatility of share price based on dividend payout.
6.   To analyse the trend of turnover and marginal return

NEED FOR THE STUDY

The study focuses on assessing the financial performance and financial position of a Chennai based company that operates in a highly competitive market. By evaluating its net worth, leverage, capital structure, cost of capital, share price volatility, and turnover and marginal returns, this study seeks to provide insights into the company's financial health and growth potential.

SCOPE OF THE STUDY

The scope of this study is to analyse financial performance and financial position of the company. This study will focus on the company's net worth, leverage, capital structure, cost of capital, share price volatility, and turnover and marginal returns. The research will include a review of the company's financial statements over the past five years (2017 to 2021) as well as an analysis of the company's share price performance. The findings of this study will provide stakeholders with valuable insights into the company's financial health and inform decision-making.

REVIEW OF LITERATURE

Ferrer Serra, Félix (2022), The subject Financial Statement Analysis, located in the Degree of ADE for entrepreneurs, third year, second semester, intends that the student who has completed the first course in the subject Financial Accounting and in which has learned, among other aspects, to prepare the Financial Statements of a company, complete the knowledge of the accounting cycle with five additional skills: First, preparing the student to be able to extract and communicate to users, both internal and external, the informationcontained in Financial Statements, so that they can make decisions of economic nature (invest or not to invest, expand the business or not, extend credit or not, finance through debt or through the contribution of funds by owners, whether the company is in financial balance; etc.). Secondly, training the student to apply the tools of analysis acquired to the Annual Statements or Financial Statements of a company, being able to judge the economic and financial situation and trying to give solutions to possible imbalance situations. Third, in the development of its activity, the company generates receivables in its favor, which later transform into money by charging thereof; but also, it incurs in debts and payment obligations to be met by the application of the previous money.

Xiao-Jun Zhang (2022), This study generates a summary score that provides information on the trailing P/E ratio and the sustainability (or persistence) of earnings. The score is provided by a model that extracts information about unsustainable profits from financial statements by taking use of accounting relationships that demand that unsustainable profits leave a trail in the accounts. The study also develops a P/E model that acknowledges that investors buy future earnings and that, if those earnings are not sustainable in the future, investors should pay less for current earnings. The methodology reliably detects unsustainable earnings in out-of-sample prediction tests and also explains cross-sectional variations in P/E ratios. Additionally, the study discovers that stock returns are predictable even when traded P/E ratios are not the same as those predicted by our P/E model.

Sanny and Yanti (2019), the study deals with "DuPont analysis integrative approach to ratio analysis at PT/ federal international finance" Significant differences between "Return on Investment (ROI) and Return on Equity (ROE)" were discovered using DuPont analysis based on Price Target (PT). Federal International Finance from 2009 to 2013. This indicates that DuPont analysis utilises "ROE" more effectively.

Bhagyalakshmi and Saraswathi (2019), the authors examined the "financial performance evaluation using DuPont Analysis in select Automobile Companies" with 10 automakers from 2013 to 2017. The study measured Effective Margin (EM), Net Profit Margin (NPM), and AT and calculated Return on Equity (ROE) using the DuPont model. The findings indicate that all factors, with the exception of EM, are positively correlated, and that

there is a statistically significant difference between the financial performance of a subset of automakers in terms of return on equity and return on assets.

Kim (2016) used the DuPont model based on the food distribution companies to study the "financial performance using DuPont analysis in the food distribution sector" from 2013 to 2015. Financial ratios and correlation were used in the study. According to the study's findings, ROE and ROI are the

most complete indicators of a company's profitability. It takes into account both the possible operations and investment options as well as the finance and decisions involving leverage.

RESEARCH METHODOLOGY
The research methodology will outline the process of analysing the financial performance and financial position of a Chennai based manufacturing company. The study aims to assess the financial standing of the company and identify the factors that affects its performance.

RESEARCH DESIGN
Descriptive design: This type of research design is used to describe the financial performance of a company. It involves summarizing and presenting the financial information in a meaningful way, such as through ratios and trends analysis.

METHODS OF DATA COLLECTION
The task of data collection begins after a research problem has been defined and research design plan chalked out. While deciding about the method of data collection to be used for the study, the researcher should keep in mind two types of data viz.., primary data and secondary data.

SECONDARY DATA COLLECTION
Secondary data refers to the data that was collected by someone other than the user. Common sources of secondary data include census, information collected by government departments, organizational records and data that was originally collected for other research purposes. Secondary data analysis can save time that would otherwise be spent collecting data and particularly in the case of quantitative data, can provide larger and higher- quality database that would be unfeasible for any individual researcher to collect on their own. In addition, analysts of social and economic change consider secondary data essential since it is impossible to conduct a new survey that can adequately capture past change and/or developments.

The secondary data are those which have already been collected by someone else and which have already been passed through the statistical process. Secondary data were obtained from: -
➢ Balance Sheet
➢ Annual Report
➢ Company Website

PERIOD OF STUDY
The study was done based on the financial data of the company's 5 years Balance sheet and The Annual Reports of the company (2017-2022)

TOOLS FOR ANALYSIS EQUITY VALUE
Equity value is the total value of a company's equity, which is the difference between its total assets and total liabilities. In other words, it is the amount of money that would be returned to shareholders if all of the assets of the company were liquidated and all of its debts were paid off. Equity value is also known as market capitalization, or simply "market cap."

LEVERAGE RATIO
The term 'leverage ratio' refers to a set of ratios that highlight a business's financial leverage in terms of its assets, liabilities, and equity. They show how much of an organization's capital comes from debt a solid indication of whether a business can make good on its financial obligations.

OPERATING LEVERAGE RATIO:
Operating leverage ratio measures the ratio of a business' contribution margin to its net operating income. It evaluates how much a business' income changes relative to changes in sales. It's calculated using the following formula:

FINANCIAL LEVERAGE RATIO

The financial leverage ratio is a measure of a company's total financial liabilities divided by its total assets. It is used to measure the extent to which a company is using debt to finance its operations. A higher financial leverage ratio indicates that a company is using more debt than equity to finance its operations and is thus taking on more risk.

DEBT TO EQUITY RATIO

The relationship between borrowed funds and owner's capital is a popular measure of the long-term financial solvency of a firm. The relationship is shown by the debt-equity ratios. This ratio reflects the relative claims of creditors and shareholders against the assets of the firm. The relationship between outsiders' claims and owner's capital can be shown in different ways and, accordingly, there are many variants of the debt-equity ratio.

CAPITAL STRUCTURE
HISTORICAL INFORMATION OF DIVIDEND PAID AND MARKET PRICE OF THE SHARE DIVIDEND

A dividend is a portion of a company's profits that is paid out to its shareholders as a return on their investment in the company. It is a distribution of earnings that is typically paid out in cash, but can also be paid in the form of stock or other property.

Dividends are usually paid on a regular basis, such as quarterly or annually, and are determined by the company's board of directors. The amount of the dividend can vary based on the company's financial performance and other factors, such as its growth prospects and capital requirements.

Dividends are an important source of income for many investors, particularly those seeking regular income from their investments. They can also be an indication of a company's financial health and its commitment to returning value to its shareholders. However, not all companies pay dividends, as some may choose to reinvest their profits back into the business for growth and expansion instead.

SHARE PRICE

Share price refers to the current market value or price of a single share of a company's stock.

It represents the price at which the stock is currently being traded on a stock exchange, and is determined by the forces of supply and demand in the market.

The share price of a company can fluctuates over time due to various factors, including changes in the company's financial performance, market conditions, industry trends, and investor sentiment. When investors buy shares of a company, they are essentially buying a piece of ownership in that company and the share price represents the perceived value of that ownership.

The share price of a company is an important metric for investors, as it can affect the overall return on investment. Investors may buy and sell shares based on changes in the share price in order to maximize their profits or limit their losses. Share price can also be an indication of the company's financial performance and future growth prospects, and can be used to compare the company's valuation with other companies in the same industry or sector.

HISTORICAL INFORMATION OF TURNOVER AND MARGINAL RETURN TURNOVER

Turnover refers to the total value of goods or services that a company sells or provides during a specific period of time, typically a year. It is also known as revenue or sales and is calculated by multiplying the total quantity of goods or services sold by their respective prices.

Turnover is an important measure of a company's financial performance, as it indicates how effectively the company is generating revenue from its operations. High turnover can be a sign of strong demand for a company's products or services, while low turnover may suggest weak demand or ineffective sales strategies.

Turnover can also be used to calculate other financial metrics, such as the gross profit margin, which measures the profitability of a company's sales after deducting the cost of goods sold. High turnover combined with high gross profit margins can indicate a successful business model and strong financial performance.

MARGINAL RETURN

Marginal return, also known as marginal benefit, refers to the additional benefit or return that is gained from a small incremental change in an activity or investment. It is the change in total output or revenue that results from a one-unit increase in the production or investment level.

TREND ANALYSIS

Trend analysis is a financial analysis technique that involves examining a company's financial data over time to identify any patterns or trends that can provide insights into its financial performance. The analysis is done by comparing financial data for different periods, such as years, quarters, or months, and identifying any changes, growth, or declines in the data. Trend analysis is an important tool in financial statement analysis as it helps in identifying the direction and speed of change in a company's financial performance. It enables analysts to track the company's progress over time and to identify any areas of concern or opportunities for growth.

NETWORTH

TABLE: TABLE SHOWING NETWORTH

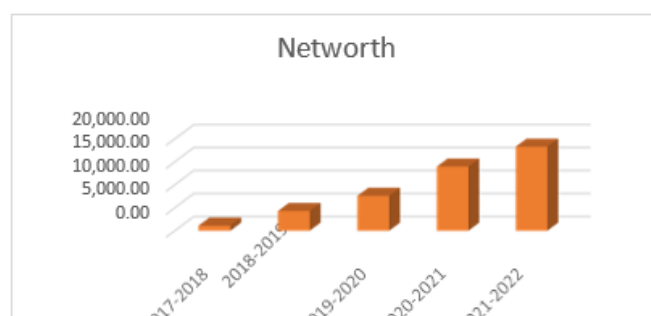| S.NO	Year	Net worth
1	2017-2018	1114.14
2	2018-2019	4277.48
3	2019-2020	7585.53
4	2020-2021	13957.01
5	2021-2022	18296.23

CHART: GRAPHICAL REPRESENTATION OF NETWORTH

Interpretation

The net worth for the year 2017-2018 is Rs.1114.14, for the year 2018-2019 is Rs. 4277.48, for the year 2019- 2020 is Rs. 7585.53, for the year 2020-2021 is Rs. 13957.01, for the year 2021-2022 is Rs. 18,296.23.
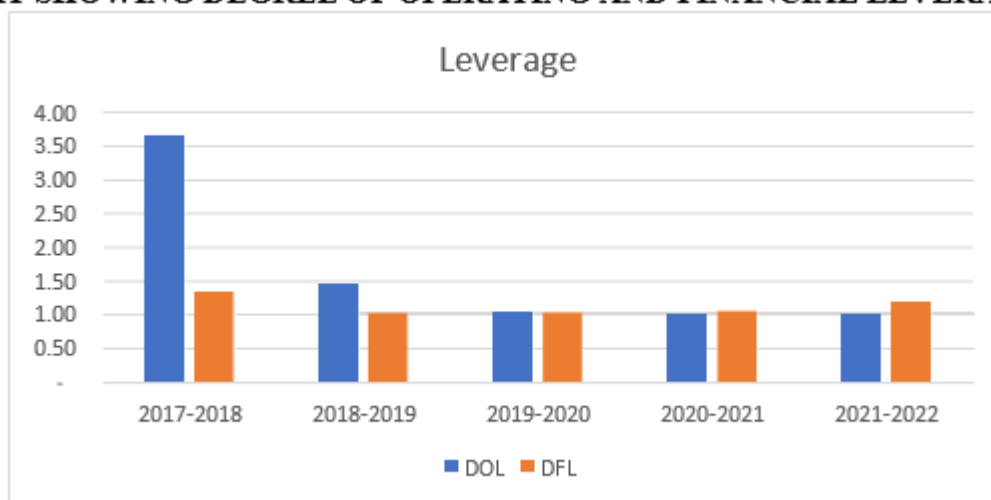
LEVERAGE

TABLE SHOWING THE DEGREE OF OPERATING LEVERAGE

YEAR	TOTAL REVENUE	VARIABLE COST	CONSIDERATION	FIXED EXPENSES	EBIT	DOL
2017-2018	7,941.37	6,138.72	1,802.65	1,309.26	493.39	3.65
2018-2019	46,290.48	41,978.66	4,311.82	1,298.96	3,012.86	1.43
2019-2020	66,553.52	60,707.72	5,845.80	195.28	5,650.52	1.03
2020-2021	63,710.25	38,907.34	24,802.91	101.00	24,701.91	1.00
2021-2022	44,898.48	38,510.08	6,388.40	102.62	6,285.78	1.02

TABLE SHOWING THE DEGREE OF FINANCIAL LEVERAGE

YEAR	EBIT	INTEREST	EBT	DFL
2017-2018	493.39	120.86	372.53	1.32
2018-2019	3,012.86	29.67	2,983.19	1.01
2019-2020	5,650.52	139.32	5,511.20	1.03
2020-2021	24,701.91	897.03	23,804.88	1.04
2021-2022	6,285.78	960.71	5,325.07	1.18

CHART SHOWING DEGREE OF OPERATING AND FINANCIAL LEVERAGE

Interpretation: The degree of operating leverage for the year 2017 to 2018 is 3.65, for the year 2018 to 2019 is 1.43, for the year 2019 to 2020 is 1.03, for the year 2020 to 2021 is 1.00, for the year 2021 to 2022 is 1.02.

The Degree of financial leverage for the year 2017 to 2018 is 1.32, for the year 2018 to 2019 is 1.01, for the year 2019 to 2020 is 1.03, for the year 2020 to 2021 is 1.04, for the year 2021 to 2022 is 1.18.

CAPITAL STRUCTURE

TABLE: TABLE SHOWING CAPITAL STRUCTURE

YEAR	DEBT	EQUITY	TOTAL FUND	RATIO
2017-2018	32.71	1110.02	1142.73	2.9: 97.1
2018-2019	17.92	4277.48	4295.40	0.4: 99.6
2019-2020	-	7585.53	7585.53	0: 100
2020-2021	8.98	13956.83	13965.81	0.1: 99.9
2021-2022	102.60	18396.05	18498.65	0.6: 99.4

Interpretation: The debt-equity ratio for the year 2017 to 2018 is 2.9:97.1, for the year 2018 to 2019 is 0.4:99.6, for the year 2019 to 2020 is 0:100, for the year 2020 to 2021 is 0.1:99.9, for the year 2021 to 2022 is 0.6:99.4.

COST OF CAPITAL

TABLE: TABLE SHOWING COST OF CAPITAL FOR THE YEAR 2017-2018

YEAR	DESCRIPTION	VALUE	RATE	AMOUNT
2017-2018	EQUITY	1547.52	4.07%	62.93
	RESERVES	-437.50	4.07%	-17.79
	VEHICLE LOAN	32.71	10%	3.27
	TOTAL	1142.73	-	48.41
	COST OF CAPITAL	4.24%		

TABLE: TABLE SHOWING COST OF CAPITAL FOR THE YEAR 2018-2019

YEAR	DESCRIPTION	VALUE	RATE	AMOUNT
2018-2019	EQUITY	1547.52	55.24%	854.90
	RESERVES	2729.96	55.24%	1508.12
	VEHICLE LOAN	17.92	10%	1.79
	TOTAL	4295.40	-	2364.81
	COST OF CAPITAL	55.05%		

TABLE: TABLE SHOWING COST OF CAPITAL FOR THE YEAR 2019-2020

YEAR	DESCRIPTION	VALUE	RATE	AMOUNT
2019-2020	EQUITY	1547.52	64.79%	1002.61
	RESERVES	6038.01	64.79%	3911.90
	VEHICLE LOAN	-	0%	-
	TOTAL	7585.53	-	4914.50
	COST OF CAPITAL	64.79%		

TABLE: TABLE SHOWING COST OF CAPITAL FOR THE YEAR 2020-2021

YEAR	DESCRIPTION	VALUE	RATE	AMOUNT
2020-2021	EQUITY	2100.02	23.38%	490.91
	RESERVES	11856.81	23.38%	2771.69
	VEHICLE LOAN	8.98	10%	0.90
	TOTAL	13965.81	-	3263.49
	COST OF CAPITAL	23.37%		

TABLE: TABLE SHOWING COST OF CAPITAL FOR THE YEAR 2021-2022

YEAR	DESCRIPTION	VALUE	RATE	AMOUNT
2021-2022	EQUITY	2100.02	17.57%	368.95
	RESERVES	16296.03	17.57%	2863.07
	VEHICLE LOAN	102.60	10%	10.26
	TOTAL	18498.65	-	3242.28
	COST OF CAPITAL	17.53%		

CHART: GRAPHICAL REPRESENTATION OF COST OF CAPITAL

Interpretation: The Cost of capital for the year 2017 to 2018 is 4.24%, for the year 2018 to 2019 is 55.05%, for the year 2019 to 2020 is 64.79%, for the year 2020 to 2021 is 23.37%, for the year 2021 to 2022 is 17.53%.

VOLATILITY OF SHARE PRICE BASED ON DIVIDEND PAYOUT

TABLE: TABLE SHOWING CHANGES IN DIVIDEND AND SHARE PRICE

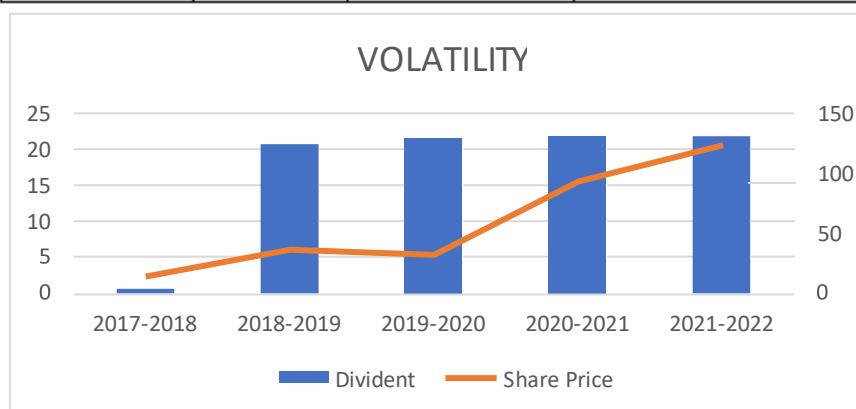| Year	Dividend	Share Price	Changes in Dividend	Changes in Share Price
2017-2018	0.61	15	0%	0%
2018-2019	20.44	37	3251%	147%
2019-2020	21.38	33	5%	-11%
2020-2021	21.74	93	2%	182%
2021-2022	21.61	123	-1%	32%

CHART: GRAPHICAL REPRESENTATION OF CHANGES IN DIVIDEND AND SHARE PRICE

Interpretation: The Volatility in the dividend and share price for the years 2017 to 2018 is 0%, for the years 2018 to 2019 is 3251% and 147%, for the years 2019 to 2020 is 5% and -11%, for the year 2020 to 2021 is 2% and 182%, for the year 2021 to 2022 is -1% and 32%.

TREND OF TURNOVER AND MARGINAL RETURN

TABLE: TABLE SHOWING CHANGES IN TURNOVER AND MARGINAL RETURN

Year	Changes In Turnover	Changes in Marginal Return
2017-2018	0%	0%
2018-2019	483%	701%
2019-2020	44%	85%
2020-2021	-4%	332%
221-2022	-30%	-78%

CHART: GRAPHICAL REPRESENTATION OF CHANGES IN TURNOVER AND MARGINAL RETURN
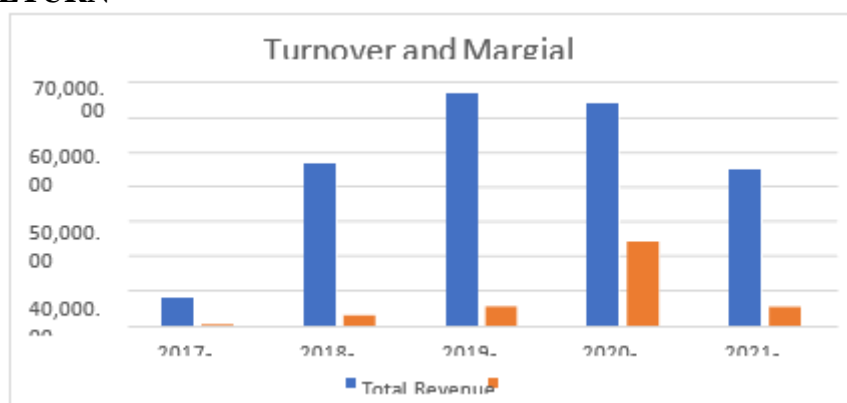
Interpretation: The percentage of change in Turnover and Marginal Return for the year 2017 to 2018 is 0%, for the year 2018 to 2019 is 483% and 701%, for the year 2019 to 2020 is 44% and 85%, for the year 2020 to 2021
is -4% and 332%, for the year 2021 to 2022 is -30% and -78%.

SUMMARY OF FINDINGS

1. Net Worth: The company's net worth has steadily increased over the past five years, from Rs. 1114.14 in 2017- 2018 to Rs. 18,296.23 in 2021-2022.

2. Degree of Operating Leverage: The degree of operating leverage has decreased significantly over the years, indicating that the company has become less sensitive to changes in sales volume.

3. Degree of Financial Leverage: The degree of financial leverage has fluctuated over the years, with the highest leverage being in 2021-2022, indicating that the company has taken on more debt to finance its operations.

4. Debt-Equity Ratio: The debt-equity ratio has decreased significantly over the years, indicating that the company has reduced its dependence on debt financing.

5. Cost of Capital: The cost of capital has fluctuated significantly over the years, with the highest cost being in 2019-2020. This indicates that the company has faced challenges in raising capital during this period.

6. Volatility in Dividend and Share Price: The volatility in dividend and share price has fluctuated over the years, with the highest volatility being in 2018-2019. This indicates that the company's performance has been highly unpredictable in the past.

7. Percentage of Change in Turnover and Marginal Return: The percentage of change in turnover and marginal return has fluctuated over the years, with the highest increase being in 2018-2019. This indicates that the company has experienced significant growth during this period, but has faced challenges in maintaining its profitability in the following years.

CONCLUSION

Based on the data provided above, it can be concluded that the company's net worth has steadily increased over the past five years, indicating that it has been successful in generating profits. However, the degree of operating leverage has decreased significantly over the years, suggesting that the company has become less sensitive to changes in sales volume. The degree of financial leverage has also fluctuated, with the highest leverage being in 2021-2022, indicating that the company has taken on more debt to finance its operations.

The debt-equity ratio has decreased significantly over the years, indicating that the company has reduced its dependence on debt financing. However, the cost of capital has fluctuated significantly, with the highest cost being in 2019-2020, indicating that the company has faced challenges in raising capital during this period.

The volatility in dividend and share price has also fluctuated over the years, with the highest volatility being in 2018-2019. This indicates that the company's performance has been highly unpredictable in the past. Finally, the percentage of change in turnover and marginal return has fluctuated over the years, with the highest increase being in 2018-2019. This indicates that the company has experienced significant growth during this period but has faced challenges in maintaining its profitability in the following years.

In conclusion, the company should focus on improving its operating efficiency to reduce costs and improve profitability, manage its debt levels carefully, and maintain stable dividends to attract investors and maintain their confidence. Additionally, it should focus on sustainable growth to ensure long-term success.

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