KAAV INTERNATIONAL JOURNAL OF LAW, FINANCE & INDUSTRIAL RELATIONS
A REFEREED BLIND PEER REVIEW BI-ANNUAL JOURNAL
KIJLFIR/JUL-DEC2017/ VOL-4/ ISS-2/A6 PAGE N0.25-31
ISSN: 2349 2589 IMPACT FACTOR (2017):5.877
WWW.KAAVPUBLICATIONS.ORG

A STUDY ON FINANCIAL PERFORMANCE OF ELECON ENGINEERING LIMITED

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Abstract:
Financial is regarded as the life blood of a business enterprise. In the modern oriented economy, finance is one of the basic foundations of all kinds of economics activities .Finance statements are prepared primary for decision -making .They play a dominant role in setting the frame work and managerial conclusion and can be drawn from these statements is of immense use in decision-making through analysis and interpretation of financial statements. As said earlier finance is said to be life blood of any business Every business under taking needs finance for its smooth working .it has to raise funds from the cheapest and risky source to utilize this in most effective manner. So every company will be interested in knowing its financial performance. The project entitled "Financial performance analysis of Elecon Engineering Company Ltd. " throw light on overall financial performance of the company.

Keywords: The term ratio is refers to the relationship expressed in mathematical terms between two individual figures.

A financial statements is an organized collection of data according to logical and consist ant accounting procedures. The income statements give the total of different expenditure and revenues during the given period and the net result, viz., profit or loss during the given period. The balance sheet shows the balance of assets, liabilities and the capital as on the last date of the accounting period .changes in these items between two dates and the effect of such changes. For this purpose, different tools of analysis are used by managements. Such analysis of items in the financial statements by using different tools of analysis is called financial statements analysis. A financial statement is an organized collection of data according to logical and consist ant accounting procedures. Its purpose is to convey an outstanding of some financial aspects of a business firm. It may show a position at a moment of time as in the case of balance sheet, or may reveal a series of activities over a given period of time, as in the case of an income statement.

I. Definition:

According to Metcalf and Titard, "Analysis financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of firm's position and performance”

II. Financial statement

A financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment of time as in the case of a balance sheet, or may reveal a activities over a given Period of time, as in the case of an income statement.
Thus, the term financial statement generally refers to the basis statements:
1) The income statement, 2) The balance sheet, 3) A statement of retained earnings,
4) A statement of charge in financial position in addition to the above two statement.

Financial statement Analysis:

It is the process of identifying the financial strength and weakness of a firm from the available accounting data and financial statement. The analysis is done by properly establishing the relationship between the items of balance sheet and profit and loss account the first take of financial analyst is to determine the information relevant to the decision under consideration form the total information contained in the financial statement. The second step is to arrange information in a way to highlight significant relationship. The final step is interpretation and drawing of inferences and conclusion. Thus financial analysis is the process of selection relating and evaluation of the accounting data information.
This studying contain following analysis:

- Ratio analysis, Liquid ratios, solvency ratios.

Ratio Analysis:

Ratio analysis is a widely used tool of financial analysis. The term ratio is refers to the relationship expressed in mathematical terms between two individual figures or group of figures connected with each other in some logical manner and are selected from financial statements of the concern. It helps to express the relationship between two accounting figures in such a way that users can draw conclusions about the performance, strengths and weakness of a firm.

Scope Of The Study:

1. The study covers the financial performance of the Elecon Engineering Limited.
2. The study is made by making comparison of two years of it operation.
3. The study covered aims to reveal where the stands in respect to liquidity and an effective use of asset.

Objectives Of The Study:

1. To know the financial position of the Elecon Engineering.
2. To know the Liquidity and profitability position of the company.
3. To know the financial strength and weakness of the company.

Research design:

III. Research Methodology

The study is based on secondary data. Data pertaining behaviour of liquidity solvency and profitability position were collection from the balance sheet and profit & loss account of Elecon Engineering. The necessary data were obtained from published annual report.

Nature of data:

The data required for the study has been collected from secondary sources and the relevant information were taken from annual reports, journals and internet etc.,

Tools applied:
To have a meaningful analysis and interpretation of various data collected, the following tools were made for this study.

- Ratio analysis ,Common -size statement , Comparative statement, Trend analysis

IV. Literature Review

Gary W.selnow(2003) examined various approaches to promote retirement investment .His study found that automatic enrolment has a good chance of overcoming the natural impediments to wise decisions about retirement investments.

Douglas A.Hersahey and Hendrik p. Van Dalen(2006)in the study explored the Psychological mechanisms that underlie the retirement planning and saving tendencies of Dutch and American Workers the research suggests that policy analysts should take into account both individual and cultural differences in the psychological predispositions of workers when considering Pension reforms that stress individual responsibility for planning and saving.

M.Kabir Hassan and Dr.Shari Lawrance (2007) conducted a survey on “An Analysis of Financial preparation for Retirement ". In this study, the researcher analyzes the financial preparation for retirement. Regarding retirement plan contributions, the findings indicate significant positive effects regarding income and womanhood .Education is significant and positive as a predictor for the decision to contribute to a pension plan for women in their their thirties, Thus supporting the hypothesis of a significant positive relationship between education and pension plan Contributions.

Classification of ratios

a) Liquidity ratios, Leverage ratios, Activity ratios, Profitability ratio
Liquidity Ratio:
These ratios portray the capacity of the business unit to meet its short term obligation from its short-term resources (e.g.) current ratio, quick ratio.

Current Ratio:
Current ratio may be defined as the relationship between current assets and current liabilities it is the most common ratio for measuring liquidity. It is calculated by dividing current assets and current liabilities. Current assets are those, which can be realized with in a period of one year. Current liabilities are those amounts, which are payable with in a period of one year.

Current Ratio = current Assets/ Current liabilities

Year	Current Assets	Current Liabilities	Ratio
2015-16	103123.45	105661.15	0.97
2016-17	92322.97	96206.21	0.96

Source: secondary data

Interpretation:
The above table and diagram shows that the current ratio in the year 2016-16 was 0.97 and then it decreases to 0.96 in the year 2016-17. The normal current ratio is 2:1. The above table shows current ratio is less than 2% in all the financial years. This shows that the company is not enjoying credit worthiness.

Liquidity Ratio:
The term „liquidity‟ refers to the ability of a firm to pay its short-term obligation and when they become due. The term quick assets or liquid assets refers current assets which can be converted into

cash immediately and it comprises all current assets except stock and prepaid expenses it is determined by dividing quick assets by quick liabilities.

Liquidity ratio = Liquid assets/ Liquid liabilities

Liquidity Ratio

Year	Liquid Assets	Liquid Liabilities	Ratio
2015-16	76846.06	102565.02	0.75
2016-17	69139.50	94331.55	0.73

Source: secondary data

Interpretation:

The above table and diagram shows that the liquidity ratio during the study period is lower than the normal (i.e.) 1:1.It was 0.75 in the year 2015-16 and further reduced to 0.73 in 2016-17. Hence the firm is not controlling its stock position because there are linear relationship between current ratio and liquidity ratio

Leverage Ratio:

Many financial analyses are interested in the relative use of debt and equity in the firm. The term „solvency‟ refers to the ability of a concern to meet its long-term obligation. According to, long-term solvency ratios indicate a firm‟s ability to meet the fixed interests, costs and repayment schedules associated with its long-term borrowings. (E.g.) debt equity ratio, proprietary ratio, etc….

Debt Equity Ratio :

expresses the relationship between the external equities and internal equities or the relationship between borrowed funds and „owners‟ capital. It is a popular measure of the long-term financial solvency of a firm. This relationship is shown by the debt equity ratio. This ratio indicates the relative proportion of debt and equity in financing the assets of a firm. This ratio is computed by dividing the total debt of the firm by its equity (i.e.) net worth.

Debt equity ratio = Outsider's funds / Proprietor's funds

Debt Equity Ratio

Year	Outsiders' Funds	Proprietor's Funds	Ratio
2015-16	12840.01	72340.35	0.18
2016-17	9060.40	72929.30	0.12

Source: secondary data

Interpretation:

The above table and diagram shows that the debt equity relationship of the company during the study period. It was 0.18 in the year 2015-16 and then further reduced to 0.12. In all the years the equity far more when compared with borrowings. Hence the company is maintaining very sound debt position

Proprietory Ratio:

Proprietary ratio relates to the proprietors funds to total assets. It reveals the owners contribution to the total value of assets. This ratio shows the long-time solvency of the business. It is calculated by dividing proprietor‟s funds by the total tangible assets.

Proprietary ratio = Proprietor's funds/Total tangible assets.

Year	Proprietor's funds	Total Assets	Ratio
2015-16	72340.35	1,97,585.06	0.36
2016-17	72929.30	1,85,872.44	0.39

Source :Secondary data

Interpretation :
The above table and diagram shows that the proprietary ratio during the study period. In all the years the owner's contribution to the total assets was very strong appropriate and they maintain their stringent share in the company's assets.

Activity Ratio:

These ratios evaluate the use of the total resources of the business concern along with the use of the components of total assets. They are intended to measure the effectiveness of the assets management the efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into sales. The greater the rate of turnover, the more efficient the management would be the stock turnover ratio, fixed assets turnover ratios etc….

Total Assets Turnover Ratio :
This ratio is an indicator of how the resources of the organization utilized for increasing the turnover. It shows the ratio between the total assets and the net sales of the company.From this ratio one can understand how the assets are performing and being utilized in achieving the objectives of the company.

Total assets turnover ratio = Net Sales / Total assets
Return on Total Assets:
Profitability can be measured in terms of relationship between net profit and total assets. It measures the profitability of investment. The overall profitability can be known by applying this ratio

Return on total assets = Net profit/ Total assets x100

Year	Total Asset Turnover Ratio	Return on Total Assets Ratio
2015-16	0.538	1.848%
2016-17	0.536	1.133%

Source: secondary data

As mentioned in above table, there is no significant difference is observed in year 2015-16 and 2016-17 in Total Asset Turnover Ratio. However, Return on Total Assets has marginally decreased in Year 2016-17.

Profitability Ratio:
The profitability ratios of a business concern can be measured by the profitability ratios. These ratios highlight the end result of business activities by which alone the overall efficiency of a business unit can be judged. (E.g.) gross Profit ratios, Net profit ratios.

Gross Profit Ratio :
This ratio expresses the relationship between Gross profit and sales. It indicated the efficiency of production or trading operation. A high gross profit ratio is a good management as it implies that the cost of production is relatively low.

Gross profit ratio = Gross profit / Net sales x 100
GROSS PROFIT RATIO

Year	Gross Profit	Net Sales	Ratio
2015-16	17361.59	106473.41	16.30 %
2016-17	16356.30	99648.05	16.41 %

Source: Secondary Data

Interpretation:
The above table and diagram shows the relationship between the gross profit and net sales in percentage. During the study period the average gross profit position was 16 % and it is in very marginally increasing trend , however the company maintains a good gross profit ratio

Net Profit Ratio:
Net profit ratio establishes a relationship between net profit (after taxes) and sales. It is determined by dividing the net income after tax to the net sales for the period and measures the profit per rupee of sales

Net profit Ratio = Net profit/ Net sales x 100

Year	Net Profit	Net Sales	Ratio
2015-16	6351.10	106473.41	5.96 %
2016-17	2106.22	99648.05	2.11 %

Source: Secondary Data

The above table and diagram shows the relationship between the Net profit and net sales in percentage. During the study period there is a variation in the Net profit position, which was almost 6 % in 2015-16 but went down to 2.11 % in next year. However in the long run it may reverse.

V. Findings, Suggestions And Conclusions

Findings:

- ❖ The current ratio in the year 15-16 was 0.96 and then it marginally incrases to 0.97 in the year 2016-17. The normal current ratio is 2:1. The above table shows current ratio is less than 2% in all the financial years. This shows that the company is not enjoying credit worthiness.
- ❖ The liquidity ratio during the study period is lower than the normal (i.e.) 1:1. It was 0.75 in the 15-16 and further reduced to 0.73 in 2016-17 and it has been downward trend. Hence the firm is not controlling its stock position because there are linear relationship between current ratio and liquidity ratio.
- ❖ The debt equity relationship of the company during the study period was 0.18 in the year 15-16 and then reached up to 0.12 in 2016-17. In all the years the equity is far more compared with borrowings. Hence the company is maintaining its sound position.
- ❖ The gross profit ratio has been good but the net profit ratio has declined in 2016-17 This may indicate that there is a need for the management to look at this.

Suggestions:

- ❖ The company should get the goodwill from the creditors so as to enjoy the credit worthiness.
- ❖ Current assets should be increased.
- ❖ The company should maintain its debt position.
- ❖ Sales should be increased without the additions of fixed assets.

VI. Conclusion:

The study reveals that the financial performance is fair. It has been maintaining good financial performance and further it can improve if the company concentrates on its operating, Administrative and selling expenses and by reducing expenses. The company should increase sales volume as well as gross profit so that the net profit can be increased and shareholders can be rewarded accordingly.

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