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A Study On Financial Ratio Analysis Of Planys Technologies Pvt. Ltd. India

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Abstract
Ratio analysis is one of the widely used tool of financial analysis. It means expressing one item in relation to another in numerical term. To have a better understanding and details about the financial statement, the analysis has been done using ratio analysis. To have a better understanding and details about the financial statement, the analysis has been done using ratio analysis. Every business undertaking needs finance for its smooth working. This study aims to analyze the liquidity, profitability, solvency position of the firm and its efficiency. The data is collected through secondary data. The study covers a period of five years i.e. from FY 2015-2016 TO FY 2019-2020. The study reveals that the financial performance is better. However, the shareholders fund against the outsider's fund should be increased. The company should take suitable measures to increase its profitability position. Adequate steps have to be taken to improve its cash position and to reduce the operating expenses.

Keywords: Financial Analysis, Financial Performance, Ratio Analysis

1. INTRODUCTION

Financial statements or financial reports are formal records of the financial activities of a business, person or other entity. It is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey the business activities and the financial performance of a company. It states a series of activities over a given period of time, as in the case of an income statement. It provides an overview of a business or person's financial condition in both short and long term. In financial statement all the relevant financial information of a business enterprise is presented in a structured manner and in the form of easy to understand.

The focus of the financial analysis is on key figures in the financial statements and the significant relationships exist between them. The analysis of financial statements is a process

of evaluating relationships between component parts of financial statements to obtain a better understanding of the firm's position and performance. Financial statement analysis is a judgemental process which aims to estimate current and past financial positions and the results of the operation of an enterprise, with primary objective of determining the best possible estimates and predictions about the future conditions. It essentially involves regrouping and analysis of information provided by financial statements to establish relationships and throw light on the points of strengths and weaknesses of a business enterprise, which can be useful in decision-making involving comparison with other firms (cross sectional analysis) and with firms' own performance, over a time period (time series analysis).

A complete set of financial statements is made up of five components:

- An Income Statement,
- A Statement of Changes in Equity,
- A Balance Sheet,
- A Statement of Cash Flows, and
- Notes to Financial Statements

Planys Technologies is an Indian deep technology startup providing underwater robotic inspection and survey solutions using indigenously manufactured remotely operated vehicles (ROVs). Planys is the pioneer of underwater robotic inspection for industrial sectors in India. an IIT Madras incubated company that provides submersible robotic inspection and survey solutions using Remotely Operated Vehicles (ROVs).

2. REVIEW OF LITERATURE

Vijay Kumar. V, Mavaluri Pradeep and Boppana Nagarjuna (2006)in their study concluded that financial ratios are divided into five basic categories, which are: liquidity, activity, debt, profitability, and market ratios. The ratios give valuable insight into the health of a firm, the financial condition and profitability.

Ross et al., (2007) proved that most researchers divide the financial ratios into four group's i.e., profitability, solvency, liquidity and activity ratios.

Ghosh Santanu Kumar and Mondal Amitava (2009) in their study concluded that the measurement of financial performance used in the analysis were return on equity, return on assets and assets turnover ratio of Indian Banks.

Robert O.Edmister (2009) in his study **“**An Empirical Test of Financial Ratio analysis for Small Business Failure” developed and empirically tested a number of methods for analysing financial ratios to predict the failure of small business.

Brigham and Ehrhardt (2010) stated that the “financial ratios are designed to help evaluate financial statements”. Financial ratios are used as a planning and control tool. Financial ratio analysis is used to evaluate the performance of an organization.

Virambhai (2010) concluded that the company/management should try to increase the production, minimize the cost and operating expenses, exercise proper control on liquidity position, reduction of power, fuel, borrowing funds, overheads, interest burden, etc.

Prasanta Paul (2011) in his study “Financial Performance Evaluation - Different type of statistical tools” stated that tools like standard deviation, arithmetic mean, correlation etc. are used extensively.

3. NEED FOR THE STUDY

The study is needed to know the relationship between different financial aspects of the company and helps in financial planning and forecasting activities. It helps to know the existing organisational activity and its growth and aids to analyse the profitability, solvency position of the company.

4. OBJECTIVES OF THE STUDY

- To study the existing financial position of the company.
- To identify the financial strengths and weakness of the company.
- To suggest suitable measures to improve the financial health of the company.

5. RESEARCH METHODOLOGY

Research Methodology is the way to systematically solve the research problem.

SOURCE OF DATA: **Secondary Data**.

Secondary data is collected from annual reports, manuals, company records, balance sheets and other necessary records.

Type of research design: analytical research design.

Analytical Research Design means company's past data is collected to analyse the liquidity and profitability position of the company.

Data analysis and interpretation is done with the help of secondary data collected through company's financial statements which includes the following

1. Statement of Profit & Loss
2. Balance sheet

Tool used: Ratio Analysis –

Period: 5 years data from FY 2015-16 to FY 2019-2020

Statement of Profit and loss provides the profit or loss earned by the company and Balance sheet indicates the financial position of the company.

6. DATA ANALYSIS AND INTERPRETATION

Table 1: CURRENT RATIO

$$\textit{Current Ratio} = \frac{\textit{Current Assets}}{\textit{Current Liabilities}}$$

FINANCIAL YEAR	CURRENT ASSETS	CURRENT LIABILITIES	RATIO
2015-2016	1,50,81,283	2,95,702	51.001 : 1
2016-2017	28,70,216	3,70,772	7.74 : 1
2017-2018	7,29,98,217	1,86,94,929	3.90 : 1
2018-2019	6,59,58,986	1,73,40,919	3.803 : 1
2019-2020	5,38,86,099	2,27,03,121	2.373 : 1

Source: Secondary Data

The above chart shows that the current ratio for five years of Planys Technologies Pvt Ltd is decreasing from 51.001 to 2.373. The current ratio for the financial year 2015-16 is 51.001, for 2016-17 is 7.74, for 2017-18 is 3.9, for 2018-19 is 3.803 and for 2019-20 is 2.373. This indicates the short-term liquidity of the company because the higher current ratio indicates the good quality and also the satisfactory debt repayment capacity of the firm.

Table 2 : LIQUID RATIO

$$Liquid\ ratio = \frac{Liquid\ or\ Quick\ Assets}{Current\ Liabilities}$$

$$Quick\ Assets = Current\ Assets - Stock - Prepaid\ expenses$$

FINANCIAL YEAR	QUICK ASSETS	CURRENT LIABILITIES	RATIO
2015-2016	1,46,57,932	2,95,702	49.569 : 1
2016-2017	28,41,332	3,70,772	7.66 : 1
2017-2018	7,26,64,315	1,86,94,929	3.886 : 1
2018-2019	6,28,46,883	1,73,40,919	3.624 : 1
2019-2020	4,67,27,763	2,27,03,121	2.058 : 1

****Quick Assets = Current Assets – Stock – Prepaid expenses**
Source: Secondary Data

The above chart shows that the liquid ratio for five years of Planys Technologies Pvt Ltd is decreasing from 49.569 to 2.058. The liquid ratio for the financial year 2015-16 is 49.569, for 2016-17 is 7.66, for 2017-18 is 3.886, for 2018-19 is 3.624 and for 2019-20 is 2.058. This indicates that there is a good short-term solvency for the company. Because higher liquid ratio means the company has a better financial position in short term. Even if the current ratio is high and the liquid ratio is low it indicates a good repayment capacity of the firm. This ratio result to the indication of ability of the business to pay its current liabilities in real.

Table 3: NET PROFIT RATIO

$$Net\ Profit\ Ratio = \frac{Net\ Profit\ after\ tax}{Net\ Sales}\ X\ 100$$

FINANCIAL YEAR	NET PROFIT AFTER TAX	NET SALES	RATIO
2015-2016	(13,25,728)	2,40,000	(552.386) %
2016-2017	(97,81,400)	20,80,000	(470.25) %
2017-2018	(3,19,95,519)	23,76,522	(1346.316) %
2018-2019	(2,87,42,617)	1,04,89,919	(274) %
2019-2020	(1,08,97,447)	7,48,17,020	(14.56) %

Source: Secondary Data

The above chart shows that the net profit ratio for five years of Planys Technologies Pvt Ltd is decreasing and giving negative returns. The net profit ratio for the financial year 2015-16 is -552.39%, for 2016-17 is -470.25%, for 2017-18 is -1346.32%, for 2018-19 is -274% and for 2019-20 is -14.56%. A low net profit ratio indicates decrease in profit as it is a start-up company and is in the growing stage of its lifecycle.

Table 4: DEBTORS TURNOVER RATIO

$$\textit{Debtors Turnover Ratio} = \frac{\textit{Credit Sales}}{\textit{Average Accounts Receivable}}$$

FINANCIAL YEAR	CREDIT SALES	AVERAGE ACCOUNTS RECEIVABLES	RATIO
2015-2016	----	----	----
2016-2017	20,80,000	12,85,210	1.618 Times
2017-2018	23,76,522	16,00,165	1.485 Times
2018-2019	1,04,89,919	42,15,029	2.488 Times
2019-2020	7,48,17,020	1,91,82,270	3.9 Times

Average Accounts Receivable = $\frac{\textbf{Opening Debtors + Closing Debtors}}{2}$

** For the year financial 2015-16 only cash sales of Rs. 2,40,000 is made and there were no credit sales, hence Debtors Turnover Ratio is Nil for that year.
Source: Secondary Data

The above chart shows the debtors turnover ratio for five years of Planys Technologies Pvt Ltd. The debtors turnover ratio is Nil for the financial year 2015-16, 1.618 times for 2016-17, 1.485 times for 2017-18, 2.488 times for 2018-19 and 3.9 times for 2019-20. Higher debtor's turnover ratio indicates faster turnaround and reflects positively on the liquidity of the company. The faster collection would keep the company having the cash to pay off its creditors and thereby reduce the working capital cycle for better working capital management.

Table 5: FIXED ASSETS TURNOVER RATIO

$$\textit{Fixed Asset Turnover Ratio} = \frac{\textit{Sales}}{\textit{Fixed Assets}}$$

Fixed Assets = Tangible Asset + Intangible Asset + Capital Work in progress

FINANCIAL YEAR	SALES	FIXED ASSETS	RATIO
2015-2016	2,40,000	14,91,317	0.16 Times
2016-2017	20,80,000	37,84,757	0.549 Times
2017-2018	23,76,522	45,15,320	0.526 Times

2018-2019	1,04,89,919	3,47,63,052	0.301 Times
2019-2020	7,48,17,020	2,66,61,105	2.806 Times

Source: Secondary Data

The above chart shows the fixed assets turnover ratio for five years of Planys Technologies Pvt Ltd. The fixed assets turnover ratio is 0.16 times for the financial year 2015-16, 0.549 times for 2016-17, 0.526 times for 2017-18, 0.301 times for 2018-19 and 2.806 times for 2019-20. The minimum ratio indicates that the company has generated low sales by every rupee invested in fixed assets. The maximum ratio indicates that the company has generated high sales by investing in fixed assets.

Table 6: WORKING CAPITAL TURNOVER RATIO

$$\textit{Working Capital Turnover Ratio} = \frac{\textit{Sales}}{\textit{Working Capital}}$$

$$\textit{Working Capital} = \textit{Current Assets} - \textit{Current Liabilities}$$

FINANCIAL YEAR	SALES	WORKING CAPITAL	RATIO
2015-2016	2,40,000	1,47,85,581	0.016 Times
2016-2017	20,80,000	24,99,444	0.832 Times
2017-2018	23,76,522	5,43,03,288	0.043 Times
2018-2019	1,04,89,919	4,86,18,067	0.215 Times
2019-2020	7,48,17,020	3,11,82,978	2.399 Times

Source: Secondary Data

The above chart shows the working capital turnover ratio for five years of Planys Technologies Pvt Ltd. The working capital turnover ratio is 0.016 times for the financial year 2015-16, 0.832 times for 2016-17, 0.043 times for 2017-18, 0.215 times for 2018-19 and 2.399 times for 2019-20. A higher working capital turnover ratio is better, and indicates that a company is able to generate a larger amount of sales. However, if working capital turnover rises too high, it could suggest that a company needs to raise additional capital to support future growth

Table 7: CASH RATIO

$$\textit{Cash Ratio} = \frac{\textit{Cash \& Bank balances} + \textit{Marketable Securities or Current Investment}}{\textit{Current Liabilities}}$$

FINANCIAL YEAR	CASH & BANK BALANCES + MARKETABLE SECURITIES	CURRENT LIABILITIES	RATIO

2015-2016	1,44,25,134	2,95,702	48.78 : 1
2016-2017	8,88,480	3,70,772	2.396 : 1
2017-2018	6,77,87,307	1,86,94,929	3.625 : 1
2018-2019	4,64,72,496	1,73,40,919	2.679 : 1
2019-2020	29,25,450	2,27,03,121	0.128 : 1

Source: Secondary Data

The above chart shows that the cash ratio for five years of Planys Technologies Pvt Ltd is decreasing from 48.78 to 0.128. The cash ratio for the financial year 2015-16 is 48.78, for 2016-17 is 2.396, for 2017-18 is 3.625, for 2018-19 is 2.679 and for 2019-20 is 0.128. A high cash ratio implies that the company has a lot of cash available to pay maturing liabilities. However, a very high ratio could also mean that too much cash is left idle or un-productive. A very low cash ratio indicates that the company is not keeping enough cash to fund its operations.

Table 8: PROPRIETARY RATIO

$$\textit{Proprietary Ratio} = \frac{\textit{Proprietary Fund}}{\textit{Total Tangible Assets}}$$

Proprietors Funds or Shareholder's funds = Equity Share capital + Preference Share capital + Reserves & Surplus

Total Tangible Assets = Total Assets - Intangible Assets – Fictitious Assets

FINANCIAL YEAR	PROPRIETARY FUND	TOTAL TANGIBLE ASSETS	RATIO
2015-2016	1,62,74,272	1,59,89,285	1.017 : 1
2016-2017	64,92,872	67,74,519	0.958 : 1
2017-2018	6,14,16,094	7,93,70,938	0.770 : 1
2018-2019	10,70,22,743	12,39,05,644	0.863 : 1
2019-2020	8,17,79,875	10,57,72,830	0.773 : 1

Source: Secondary Data

The above chart shows that the proprietary ratio for five years of Planys Technologies Pvt Ltd is decreasing from 1.017 to 0.773. The proprietary ratio for the financial year 2015-16 is 1.017, for 2016-17 is 0.958, for 2017-18 is 0.773, for 2018-19 is 0.863 and for 2019-20 is 0.773. If the ratio is high, this indicates that a company has a sufficient amount of equity to support the functions of the business, and probably has room in its financial structure to take on additional debt, if necessary. Conversely, a low ratio indicates that a business may be making use of too much debt or trade payables, rather than equity, to support operations.

Table 9: RETURN ON SHAREHOLDER'S FUNDS RATIO

$$\textit{Return on Shareholder's Funds Ratio} = \frac{\textit{Net Profit after interest \& tax}}{\textit{Shareholder's Funds}} \times 100$$

FINANCIAL YEAR	NET PROFIT AFTER INTEREST & TAX	SHAREHOLDER'S FUNDS	RATIO
2015-2016	(13,25,728)	1,62,74,272	(8.14) %
2016-2017	(97,81,400)	64,92,872	(150.64) %
2017-2018	(3,19,95,519)	6,14,16,094	(52.091) %
2018-2019	(2,87,42,617)	10,70,22,743	(26.856) %
2019-2020	(1,08,97,447)	8,17,79,875	(13.325) %

**** Shareholder's Funds = Equity Share Capital + Preference Share Capital + Reserves and Surplus**

Source: Secondary Data

The above chart shows that the return on shareholder's funds ratio for five years of Planys Technologies Pvt Ltd is becoming negative. The return on shareholders funds ratio for the financial year 2015-16 is -8.14%, for 2016-17 is -150.64%, for 2017-18 is -52.09%, for 2018-19 is -26.86% and for 2019-20 is -13.33%. This shows that return on shareholder's funds is yielding negative returns and not generating much profits. A low return on shareholder's funds indicates red flag for the investors because it means a company's liabilities exceed its assets.

Table 10 : DEBT EQUITY RATIO

$$\textit{Debt Equity Ratio} = \frac{\textit{Total Long-term debt}}{\textit{Shareholder's Funds}}$$

FINANCIAL YEAR	TOTAL LONG-TERM DEBT	SHAREHOLDER'S FUNDS	RATIO
2015-2016	2,626	1,62,74,272	0.00016 : 1
2016-2017	98,463	64,92,872	0.015 : 1
2017-2018	4,99,498	6,14,16,094	0.008 : 1
2018-2019	10,53,143	10,70,22,743	0.009 : 1
2019-2020	32,06,584	8,17,79,875	0.039 : 1

Source: Secondary Data

The above chart shows the Debt Equity ratio for five years of Planys Technologies Pvt Ltd. The Debt Equity ratio for the financial year 2015-16 is 0.00016, for 2016-17 is 0.015, for 2017-18 is 0.008, for 2018-19 is 0.009 and for 2019-20 is 0.039. A high Debt Equity ratio is considered risky for lenders and investors because it suggests that the company is financing a significant amount of its potential growth through borrowing.A low Debt Equity ratio indicates a lower amount of financing by debt via lenders, versus funding through equity via shareholders.

7. CONCLUSION:

After analysis of the financial performance of Planys Technologies Pvt Ltd for the period of five years from 2015 to 2020, the study reveals that the overall financial performance of the company is improving gradually. However, it needs to minimize the operating expenses to get higher net profit. In order to carry on the business successfully the company should improve its liquidity and solvency position in the long run.

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