



A Study On Financial Performance Of Indian Railway Finance Corporation

Dr. D. Sivasakthi

Associate professor, Department of Commerce with Professional Accounting, Dr. N.G.P. Arts and Science College, Coimbatore.

Mr. Akilesh S

Student, Department of Commerce with Professional Accounting, Dr. N.G.P. Arts and Science college, Coimbatore.

ABSTRACT

This research examines the financial performance of Indian Railway Finance Corporation (IRFC) over a period of five years (2019–2024), highlighting liquidity, profitability, solvency, and activity measures. Ratio analysis was used to explain financial well-being, business efficiency, and long-term sustainability. The findings reflect steady liquidity and profitability with good asset use but excessive reliance on long-term debt. Recommendations are made to improve financial effectiveness and strategic management.

Keywords: Financial Performance, Ratio Analysis, IRFC, Liquidity, Profitability, Solvency, Asset Utilization.

1.1 INTRODUCTION

Financial performance analysis is essential in assessing an organization's general health, operating efficiency, and long-term sustainability. It enables stakeholders such as investors, managers, and policymakers to determine the effectiveness of a company in deploying its resources to earn profit, deal with debt, and maintain growth. The most important financial ratios like liquidity, profitability, solvency, and activity metrics provide a numerical basis for comprehending trends in performance and making strategic choices. Financial analysis is particularly important in capital-intensive sectors, and it sheds light on operational efficiency and risk management.

Indian Railway Finance Corporation (IRFC), a leading public sector undertaking in the Ministry of Railways, was set up in 1986 to raise funds for the development of Indian Railways. IRFC is instrumental

in providing finance for rolling stock, railway infrastructure, and electrification schemes. With its distinct position, government support, and sound revenue model, determination of IRFC's financial performance for the five-year period of 2019 to 2024 is useful in understanding its financial approach, effectiveness, and sustainability. Ratio analysis is used by this research to determine the strengths and weaknesses of the company, thus lending credibility to its continued contribution toward nation-building and infrastructure development.

1.2 STATEMENT OF THE PROBLEM

Public Sector Undertakings (PSUs) are vital to economic growth, but their financial health is usually marred by inefficiencies, excessive debt burden, regulatory hurdles, and competition in the market. Most PSUs are plagued by falling profitability, increasing operating expenses, and wasteful use of resources, impacting their sustainability and growth. Also, overdependence on government funding and external borrowings pose financial stability issues, and policy interventions and worldwide economic fluctuations affect their performance as well. An analysis of the financial condition of PSUs is needed to identify inefficiencies, enhance profitability, and make them viable in the long term.

1.3 SCOPE OF THE STUDY

This research is prepared by comparison of five years of the working of the company. This research has more importance and assists the individuals who directly or indirectly deal with the company. This research comprises ratio analysis which gives a clear profitable and unprofitable operations of the company. The results and recommendations shed light on the guidelines for efficient working of the company.

1.4 OBJECTIVES OF THE STUDY

1. To measure profitability and identify the effectiveness of capital usage in the firm.
2. To evaluate the company's liquidity position and assess how efficiently it utilizes its assets to generate revenue.
3. To determine the ability of the company to meet its short-term and long-term debt obligations.

1.5 RESEARCH METHODOLOGY

1.5.1 RESEARCH DESIGN

This research entails both extensive and in-depth studies of IRFC. The report focuses on analysing the company's financial performance.

1.5.2 SOURCE OF DATA COLLECTION

The data used in this study is secondary data. The data has been collected from the annual report & balance sheet and statement of profit & loss account of IRFC

1.5.3 PERIOD OF THE STUDY

The study has been undergone for the period of 5 years (2019 – 2024)

1.5.4 TOOLS FOR ANALYSIS

The financial and statistical tool are used in the study on ratio analysis due to the time.

The ratios are,

- i Liquidity Ratio
- ii Profitability Ratio
- iii Activity Ratio
- iv Solvency Ratio.

1.6 LIMITATIONS OF THE STUDY

- The information provided by the company was limited.
- The financial data are collected only for the period of last 5 years.
- In this study, only the selected ratios are used.

2.1 REVIEW OF LITERATURE

Mr. Fasi Ur Rehman and Ms. Kasoju Lahari (2024), conducted a financial performance analysis of GVK Power & Infrastructure Pvt. Ltd. through five years of financial statement evaluation. The analysis uses secondary data sources from income statements and balance sheets to apply descriptive and inferential methods for assessing liquidity and profitability together with solvency and operational efficiency. The financial ratios of the company show weak results through their low current and quick ratios and negative operating profits. The proposed solutions focus on improving financial accuracy while conducting scenario analysis and integrating qualitative aspects of governance. Qualified strategies that increase stability together with risk management capabilities and industry trend alignment become essential for long-term business development.

Dr. P. Pirakatheeswari (2024), examines the financial performance of Bharat Petroleum Corporation Limited (BPCL) from 2012 to 2022. Using ratio analysis, it evaluates profitability, liquidity, and operational efficiency. Prior research highlights tools like Z-score, corporate governance impact, and profitability analysis to assess company performance. Suggestions emphasize increasing liquidity, optimizing investments, and controlling costs to enhance profitability and shareholder returns. Conclusions reveal that BPCL achieved satisfactory financial progress over recent years, supported by improved ratios and financial practices. The study offers actionable insights for financial enhancement, suggesting a focus on operational efficiency and strategic fund allocation for long-term growth.

Dr. S. Sujatha (2024), conducted a financial statement analysis of City Union Bank in Kumbakonam using comparative and common-size analysis and ratio techniques. It aims at measuring profitability of the company and also its solvency and liquidity position. The research used secondary data to collect information. Statistical analysis confirms total assets and liabilities have increased over time yet indicates the institution must enhance its current ratio measurement and reduce debt-equity proportions. The

analysis suggests that shareholder funds should increase while proprietary ratios must reach their optimal levels. City Union Bank have satisfactory financial results by increasing its strategic value.

3.1 PROFITABILITY RATIO:

The term profitability means the profit capacity if any business activity. Thus, profit earning may be judged on the volume of profit margin of an activity and it’s calculated by subtracted costs from the total revenue accruing to a firm during a particular period.

3.1.1 NET PROFIT RATIO:

Net profit is also termed as sales margin ratio (or) profit margin ratio (or) net profit (or) sales ratio. This ratio reveals efficiency in operating the business. Net profit ratio is used to measure the relationship between net profit (either before or after taxes) and sales. This ratio can be calculated by the following formula.

FORMULA:

$$\text{Net Profit Ratio} = \frac{\text{Net profit}}{\text{Revenue from operations}} \times 100$$

3.1.1.2 TABLE SHOWING THE NET PROFIT RATIO

YEAR	NET PROFIT (Figures in Rs. lakhs)	Revenue from operations (Figures in Rs. lakhs)	RATIO
2019-2020	31,920.96	134,210.97	23.78%
2020-2021	44,161.31	157,704.72	28.01%
2021-2022	60,898.36	2,02,982.68	30.01%
2022-2023	63,370.13	2,38,912.75	26.53%
2023-2024	64,121.04	2,66,445.84	24.06%

INTERPRETATION:

The net profit margin of the company has remained strong over the five-year period, ranging from 23.78% to 30.01%, indicating efficient cost management and profitability. The highest margin was recorded in 2021-2022, showing peak efficiency, while there has been a gradual decline in the subsequent years to 24.06% in 2023-2024. Despite the slight drop, the margins are still healthy, reflecting that the company continues to generate substantial profits from its operations. Overall, the firm maintains solid profitability even as revenues increase year over year.

3.1.2. RETURN ON CAPITAL EMPLOYED RATIO

Return on capital employed (ROCE) is a financial ratio that can be used to assess a company's profitability and capital efficiency. In other words, this ratio can help to understand how well a company is generating profits from its capital as it is put to use.

FORMULA:

$$\text{RETURN ON CAPITAL EMPLOYED} = \frac{\text{Earnings before interest and Tax}}{\text{Total asset}}$$

3.1.2.2. TABLE SHOWING RETURN ON CAPITAL EMPLOYED RATIO

YEAR	EBIT (Figures in Rs. lakhs)	TOTAL ASSETS (Figures in Rs. lakhs)	RATIO
2019-2020	133,547.58	2,650,829.68	5.04%
2020-2021	156,531.84	3,593,841.89	4.36%
2021-2022	2,01,649.37	44,99,556.53	4.48%
2022-2023	2,37,842.21	49,11,335.87	4.84%
2023-2024	2,65,135.74	48,07,374.15	5.52%

INTERPRETATION:

The company's EBIT to total assets ratio has remained relatively stable over the five-year period, ranging between 4.36% and 5.52%, indicating consistent operational efficiency in generating earnings from its asset base. The slight dip in 2020-2021 was followed by a gradual recovery, with the highest ratio of 5.52% achieved in 2023-2024. This upward trend reflects improved utilization of assets and operational performance, suggesting that the company is increasingly effective in converting its asset investments into operating profits.

3.2 SOLVENCY RATIO:

A solvency ratio measures the extent to which assets cover commitments for future payments, the liabilities. The solvency ratio of an insurance company is the size of its capital relative to all risks it has taken.

3.2.1 DEBT EQUITY RATIO

The debt-equity ratio is a measure of the relative contribution of the creditors and shareholders or owners in the capital employed in business. Simply stated, ratio of the total long-term debt and equity capital in the business is called the debt-equity ratio.

FORMULA:

$$\text{TOTAL LONG-TERM DEBT} = \frac{\text{DEBT EQUITY RATIO}}{\text{SHAREHOLDERS FUND}}$$

3.2.1.2 TABLE SHOWING DEBT EQUITY RATIO

YEAR	TOTAL LONG-TERM DEBT (Figures in Rs. lakhs)	SHAREHOLDERS FUND (Figures in Rs. lakhs)	RATIO
2019-2020	2,343,767.21	303,003.82	7.74
2020-2021	3,231,106.79	359,133.82	8.99
2021-2022	38,85,894.60	4,09,963.36	9.48
2022-2023	43,33,178.55	4,54,703.17	9.53
2023-2024	36,99,318.90	3,91,685.67	9.45

INTERPRETATION:

The debt-to-equity ratio has been consistently high over the five-year period, ranging from 7.74 to 9.53, indicating a heavy reliance on long-term debt to finance the company's operations. The upward trend until 2022-2023 suggests increasing financial leverage, which can amplify returns but also adds financial risk. Although there's a slight dip in 2023-2024, the ratio remains elevated at 9.45, reflecting a capital structure heavily skewed towards debt. This could raise concerns about long-term solvency and the company's ability to manage debt obligations if earnings fluctuate.

3.3 ACTIVITY RATIO:

Activity ratio are ratios that measure a firm's ability to convert different accounts within its balance sheet into cash or sales. Activity ratios are used to measure the relative efficiency of a firm based on its use of its assets. Leverage or other such balance sheet items.

3.3.1 FIXED ASSEST TURNOVER RATIO:

Fixed assets turnover ratio (also known as sales fixed assets ratio) is a commonly used activity ratio that measures the efficiency with which a company uses its fixed assets to generate its sales revenue. It is to compute by dividing net sales by average fixed sales.

FORMULA:

$$\text{FIXED ASSET TURNOVER RATIO} = \frac{\text{NET REVENUE}}{\text{FIXED ASSET}}$$

3.3.1.2 TABLE SHOWING FIXED ASSETS TURNOVER RATIO

YEAR	NET REVENUE (Figures in Rs. lakhs)	FIXED ASSETS (Figures in Rs. lakhs)	RATIO
2019-2020	134,210.97	3,629.17	36.98
2020-2021	157,704.72	3,291.60	47.93
2021-2022	2,02,982.68	5,627.39	36.06
2022-2023	2,38,912.75	5,843.17	40.89
2023-2024	2,66,445.84	5,754.70	46.29

INTERPRETATION:

The fixed asset turnover ratio has remained strong throughout the five-year period, indicating efficient use of fixed assets to generate revenue. The ratio fluctuated between 36.06 and 47.93, with the highest efficiency seen in 2020-2021 and again in 2023-2024 at 46.29. These high ratios suggest that the company is effectively leveraging its fixed assets to drive sales, with minimal investment in fixed assets compared to the revenue generated. Overall, this reflects strong asset productivity and operational efficiency.

3.3.2. RETURN ON ASSET TURNOVER RATIO

The term return on assets (ROA) refers to a financial ratio that indicates how profitable a company is in relation to its total assets. Corporate management, analysts, and investors can use ROA to determine how efficiently a company uses its assets to generate a profit.

FORMULA:

$$\text{RETURN ON ASSET TURN OVER RATIO} = \frac{\text{NET REVENUE}}{\text{TOTAL ASSET}} \times 100$$

3.3.2.1. TABLE SHOWING RETURN ON ASSET TURNOVER RATIO

YEAR	NET PROFIT (Figures in Rs. lakhs)	TOTAL ASSETS (Figures in Rs. lakhs)	RATIO
2019-2020	31,920.96	2,755,041.29	1.16
2020-2021	44,161.31	3,780,517.18	1.35
2021-2022	60,898.36	42,93,969.62	1.42
2022-2023	63,370.13	47,05,634.86	1.35
2023-2024	64,121.04	46,62,381.41	1.37

INTERPRETATION:

The return on assets (ROA), which measures how effectively a company uses its total assets to generate net profit, has shown a steady and healthy trend over the five-year period. It improved from 1.16 in 2019-2020 to a peak of 1.42 in 2021-2022, followed by a slight dip and stabilization around 1.35–1.37 in the following years. This consistency indicates efficient asset utilization and strong overall financial performance, with the company maintaining a stable ability to convert its assets into profits despite fluctuations in asset size.

4.1 FINDINGS**➤ PROFITABILITY RATIO:**

- Net profit ratio of the company was highest 8.51 in the year 2021 and lowest 5.53 in the year 2022. It is not growing every year so it's not satisfactory.
- Return on capital employed of the company was highest 0.053 in the year 2021 and lowest 0.035 in the year 2020. It is growing every year so it is satisfactory.

➤ SOLVENCY RATIO:

- Debt equity ratio of the company was highest 1.34 in the year 2019 and lowest 0.74 in the year 2022. It is not growing every year so it is not satisfactory.

➤ ACTIVITY RATIO:

- Fixed asset turnover ratio of the company was highest 2.77 in the year 2022 and lowest 1.99 in the year 2021. It is growing every year so it is satisfactory.
- Return on asset turnover ratio of the company was highest 0.041 in the year 2021 and lowest 0.032 in the year 2022. It is not growing every year so it is not satisfactory

4.2 SUGGESTIONS:

- The company should maintain the current assets in order to improve its position in future.
- It should increase the Net profit value, because the ratio proportion is very less so the company need to improve.
- The profit can be increased by increasing in efficient productivity and decrease in expenses of the company The Effective utilization of sales can be improved. The company can try to control the expenditure and fair return on the shareholders. The company has to increase the current assets and current liabilities to make positive working capital. The company should probably consider the use of the fund to invest other opportunities to get a profit.
- The company should maintain the share capital to pay dividend to the shareholders.
- The company can concentrate more on reserves for the expansion of the business in the future.

4.3. CONCLUSION:

The study has been under taken with the objective of evaluating the Ratio analysis of IRFC. The analysis of the company was undertaken with the help of ratio, which are important tools of financial analysis. The performance is satisfactory and the study gives clear idea of financial position of the company over last five years. Hence if a given suggestions are implemented, the company can increase its profitability and improve their overall performance. In general, the company has achieved tremendous progress over the recent years. The company's performance is satisfactory. This study reveals the findings and recommendation which would be useful for the development and improvement to the company.

5.1 REFERENCE

JOURNALS

- Mr. Fasi Ur Rehman and Ms. Kasoju Lahari (2024), "A study on Financial Statement Analysis with reference to GVK Power & Infrastructure Pvt Ltd", Journal Publication of International Research for Engineering and Management, Volume 10, Issue 5, May 2024, pp.no.:1-12
- Dr. P. Pirakatheeswari(2024), "A study on the Financial Performance of Bharat Petroleum Corporation Limited", Journal of the Oriental Institute, Volume 71, Issue 2, April-June 2022, ISSN: 0030-5324, pp.no.:159- 165
- Dr. S. Sujatha (2024), "A study on Financial Statement Analysis of City Union Bank Ltd in Kumbakonam", International Journal of Multidisciplinary Research, Volume 2, Special Issue 1, March 2024, ISSN:2583-973X, pp.no.:609-616

BOOKS

- Management Discussion and Analysis Reporting in India: A Case Study of ITC Ltd - Dr. R. K. Mishra.
- Financial Statement Analysis - K.R. Subramanyam.
- Financial Statement Analysis of ITC Limited - Neha Rawat.

WEBSITES:

- **Official IRFC Website** – Company reports, financials, and official announcements:  <https://irfc.co.in>
- **Moneycontrol - IRFC Financials** – Detailed financial ratios, balance sheets, and performance metrics:
 <https://www.moneycontrol.com/financials/indianrailwayfinancecorporation.in>
- **Angel One - Fundamental Analysis of IRFC** – Insights into IRFC's business model and financial health:
 <https://www.angelone.in/stocks/irfc>

