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A STUDY ON THE FINANCIAL PERFORMANCE OF “FIRST QUALITY KNITTED GARMENTS-TIRUPUR”.

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INTRODUCTION

Financial Management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. Though it was a branch of economics till 1890 as a separate or discipline it is of recent origin.

Financial Management is concerned with the duties of the finance manager in a business firm. He performs such varied tasks as budgeting, financial forecasting, cash management, credit administration, investment analysis and funds procurement. The recent trend towards globalization of business activity has created new demands and opportunities in managerial finance.

Financial statements are prepared and presented for the external users of accounting information. As these statements are used by investors and financial analysts to examine the firm's performance in order to make investment decisions, they should be prepared very carefully and contain as much investment decisions; they should be prepared very carefully and contain as much information as possible. Preparation of the financial statement is the responsibility of top management. The financial statements are generally prepared from the accounting records maintained by the firm.

Financial performance is an important aspect which influences the long term stability, profitability and liquidity of an organization. Usually, financial ratios are said to be the parameters of the financial performance. The Evaluation of financial performance had been taken up for the study with “First Quality Knitted Garments-Tirupur” as the project.

Analysis of Financial performances are of greater assistance in locating the weak spots at the First Quality Knitted Garments-Tirupur even though the overall performance may be satisfactory. This further helps in

- Financial forecasting and planning.
- Communicate the strength and financial standing of the First Quality Knitted Garments-Tirupur limited.
- For effective control of business.

OBJECTIVES

Primary Objective:

To evaluate the financial efficiency of “First Quality Knitted Garments-Tirupur”.

Secondary Objectives:

- i. To analyze the liquidity solvency position of the firm.
- ii. To study the working capital management of the company.
- iii. To understand the profitability position of the firm.
- iv. To assess the factors influencing the financial performance of the organization.
- v. To understand the overall financial position of the company.

RESEARCH METHODOLOGY

METHODOLOGY:

The project evaluates the financial performance one of the company with help of the most appropriate tool of financial analysis like ratio analysis and comparative balance sheet. Hence, it is essentially fact finding study.

Primary Data:

Primary data is the first hand information that is collected during the period of research. Primary data has been collected through discussions held with the staffs in the accounts department. Some types of information were gathered through oral conversations with the cashier, taxation officer etc.

Secondary Data:

Secondary data studies whole company records and company's balance sheet in which the project work has been done. In addition, a number of reference books, journals and reports were also used to formulate the theoretical model for the study. And some information were also drawn from the websites.

Tools used in analysis:

- Ratio analysis

Period of study:

The study covers the period of 2015-2016 to 2019-2020 in First Quality Knitted Garments-Tirupur

LIMITATIONS

As the study is based on secondary data, the inherent limitation of the secondary data would have affected the study.

The figures in financial statements are likely to be a least several months out of date, and so might not give a proper indication of the company's current financial position.

This study need to be interpreted carefully. They can provide clues to the company's performance or financial situation. But on their own, they cannot show whether performance is good or bad. It requires some quantitative information for an informed analysis to be made.

SCOPE FOR FURTHER STUDY

This study covers the financial performance of the company and activity engaged in manufacturing cables.

Financial performance covers the aspects like liquidity, leverage, activity, and profitability of "First Quality Knitted Garments-Tirupur".

This study further compares the financial statement to know the relative financial position of the company.

Finally, a trend analysis also is carried out to evaluate the trends in financial statements of the company.

4.1 FINANCIAL PERFORMANCE EVALUATION USING RATIO ANALYSIS

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "The Indicated Quotient of Two Mathematical Expressions" and as "The Relationship between Two or More Things". In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of firm. The absolute accounting figures reported in the financial statement do not provide a meaningful understanding of the performance and financial position of a firm. The relationship between two accounting figures, expressed mathematically is known as a financial ratio. Ratios help to summaries large quantities of financial data and to make qualitative about the firm's financial performance.

The point to note is that a ratio reflecting a quantitative relationship helps to form a qualitative judgment. Such is the nature of all financial ratios.

4.1.1 Significance of Using Ratios:

The significance of a ratio can only truly be appreciated when:

1. It is compared with other ratios in the same set of financial statements.
2. It is compared with the same ratio in previous financial statements (trend analysis).
3. It is compared with a standard of performance (industry average). Such a standard may be either the ratio which represents the typical performance of the trade or industry, or the ratio which represents the target set by management as desirable for the business.

4.2 Types of Ratios

4.2.1 Liquidity Ratios

- Liquidity refers to the ability of a firm to meet its short-term financial obligations when and as they fall due.
- The main concern of liquidity ratio is to measure the ability of the firms to meet their short-term maturing obligations. Failure to do this will result in the total failure of the business, as it would be forced into liquidation.

A. Current Ratio

The Current Ratio expresses the relationship between the firm's current assets and its current liabilities. Current assets normally include cash, marketable securities, accounts receivable and inventories. Current liabilities consist of accounts payable, short term notes payable, short-term loans, current maturities of long term debt, accrued income taxes and other accrued expenses (wages).

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Significance:

It is generally accepted that current assets should be 2 times the current liabilities. In a sound business, a current ratio of 2:1 is considered an ideal one. If current ratio is lower than 2:1, the short term solvency of the firm is considered doubtful and it shows that the firm is not in a position to meet its current liabilities in times and when they are due to mature. A higher current ratio is considered to be an indication that of the firm is liquid and can meet its short term liabilities on maturity. Higher current ratio represents a cushion to short-term creditors, "the higher the current ratio, the greater the margin of safety to the creditors".

Table: 4.1**TABLE SHOWING THE CURRENT RATIO**

Year	Current assets Rs. in lakhs	Current Liabilities Rs. in lakhs	Ratio
2015 – 2016	9956.81	775.49	12.83
2016 – 2017	8825.79	644.26	13.69
2017 – 2018	9726.73	1154.12	8.43
2018 – 2019	9884.64	1501.76	6.56
2019 – 2020	11949.47	3905.45	3.06

Interpretation:

As a conventional rule, a current ratio of 2:1 is considered satisfactory. This rule is based on the logic that in a worse situation even if the value of current assets becomes half, the firm will be able to meet its obligation. The current ratio represents the margin of safety for creditors. The current ratio has been decreasing year after year which shows decreasing working capital.

From the above statement the fact is depicted that the liquidity position of the Emami limited is satisfactory because all the five years current ratio is not below the standard ratio 2:1.

B. Quick Ratio

Measures assets that are quickly converted into cash and they are compared with current liabilities. This ratio realizes that some of current assets are not easily convertible to cash e.g. inventories.

The quick ratio, also referred to as acid test ratio, examines the ability of the business to cover its short-term obligations from its “quick” assets only (i.e. it ignores stock). The quick ratio is calculated as follows

$$\text{Quick Ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

Significance:

The standard liquid ratio is supposed to be 1:1 i.e., liquid assets should be equal to current liabilities. If the ratio is higher, i.e., liquid assets are more than the current liabilities, the short term financial position is supposed to be very sound. On the other hand, if the ratio is low, i.e., current liabilities are more than the liquid assets, the short term financial position of the business shall be deemed to be unsound. When used in conjunction with current ratio, the liquid ratio gives a better picture of the firm’s capacity to meet its short-term obligations out of short-term assets.

Table: 4.2**TABLE SHOWING THE QUICK RATIOS**

Year	Quick Assets Rs. in lakhs	Current Liabilities Rs. in lakhs	Ratio
2015 – 2016	6918.43	775.49	8.92
2016 – 2017	4848.16	644.26	7.52
2017 – 2018	6629.47	1154.12	5.74
2018– 2019	6210.06	1501.76	4.13
2019 – 2020	8287.01	3905.45	2.12

Interpretation:

As a quick ratio of 1:1 is considered satisfactory as a firm can easily meet all current claims. It is a more rigorous and penetrating test of the liquidity position of a firm. But the liquid ratio has been decreasing year after year which indicates a high operation of the business.

From the above statement, it is clear that the liquidity position of the Emami limited is satisfactory, because the entire five years liquid ratio is not below the standard ratio of 1:1.

C. Cash ratio:

This is also known as cash position ratio or super quick ratio. It is a variation of quick ratio. This ratio establishes the relationship between absolute liquid assets and current liabilities. Absolute liquid assets are cash in hand, bank balance and readily marketable securities. Both the debtors and the bills receivable are exclude from liquid assets as there is always an uncertainty with respect to their realization. In other words, liquid assets minus debtors and bills receivable are absolute liquid assets. The cash ratio is calculated as follows

$$\text{Cash Ratio} = \frac{\text{Cash in hand \& at bank + Marketable securities}}{\text{Current liabilities}}$$

Significance:

This ratio gains much significance only when it is used in conjunction with the first two ratios. The accepted norm for this ratio is 50% or 0.5:1 or 1:2(i.e.,) Re. 1 worth absolute liquid assets are considered adequate to pay Rs.2 worth current liabilities in time as all the creditors are not expected to demand cash at the same time and then cash may also be realized from debtors and inventories. This test is a more rigorous measure of a firm's liquidity position. This type of ratio is not widely used in practice.

Table: 4.3 TABLE SHOWING THE CASH RATIO

Year	Cash in Hand & at Bank Rs. in lakhs	Current Liabilities Rs. in lakhs	Ratio
2015 – 2016	130.54	775.49	0.17
2016 – 2017	141.15	644.26	0.22
2017 – 2018	46.11	1154.12	0.04
2018– 2019	34.43	1501.76	0.02
2019 – 2020	82.12	3905.45	0.02

Interpretation:

The acceptable norm for this ratio is 50% or 1:2. But the cash ratio is below the accepted norm. So the cash position is not utilized effectively and efficiently.

5.1 FINDINGS OF THE STUDY

- 1) The current ratio is above 2 in all the five years. The same level of current assets and current liabilities may be maintained since the current assets are less profitable, when compared to fixed assets.
- 2) The liquid ratio is decreasing year after year. Though the ratio is above 1 in all the five years, it is preferable to improve upon the situation. This may be due to the fact that the stock is major composition of current assets, which excludes liquid assets. The firm should try to clear the stocks.
- 3) The cash ratio is decreasing year after year. So it shows that the cash position is not utilized effectively and efficiently.
- 4) The average collection period is decreasing year after year so it shows the better is the quality of debtors as a short collection period and implies quick payment by debtors.
- 5) The inventory turnover ratio from the five years indicated a good inventory policy and efficiency of business operations of the company.
- 6) The working capital turnover ratio has been increasing during the five years, which indicates that there is lowest investment of the working capital and more profit. More profit is in the sense that there is higher ratio.
- 7) The proprietary ratio in all the five years is above the satisfactory level, that is, 50%. It indicates the creditors are in a safer side and there is no pressure from them.
- 8) The debt to equity ratio is decreasing year after year, which indicates , the servicing of debt is less burdensome and consequently its credit standing is not adversely affected.

- 9) The Net Profit for the five years has been increasing which shows that the selling and distribution expenses are under control and there is a good operational efficiency of the business concern.
- 10) Comparative balance sheet proves that the financial performance for each succeeding year is very much satisfactory as compared with its previous year during the period of 2015-2020.
- 11) It can be stated that the working capital management of the company seems to be satisfactory. But in certain years there is decrease in working capital, which is due to higher amount of current liabilities especially, increasing in provision for dividend and taxation and creditors. The company should try to decrease the current liabilities and provision by making timely payment.

5.2 SUGGESTION AND RECOMMENDATION

1. The liquidity position of the company can be utilized in a better or other effective purpose.
2. The company can be used the credit facilities provided by the creditors.
3. The debt capital is not utilized effectively and efficiently. So the company can extend its debt capital.
4. Efforts should be taken to increase the overall efficiency in return out of capital employed by making used of the available resource effectively.
5. The company can increase its sources of funds to make effective research and development system for more profits in the years to come.

5.3 CONCLUSION

The study is made on the topic Export procedures and performance using ratio analysis with five years data in First Quality Knitted Garments-Tirupur. The current and liquid ratio indicates the short term financial position of First Quality Knitted Garments-Tirupur. whereas debt equity and proprietary ratios shows the long term financial position. Similarly, activity ratios and profitability ratios are helpful in evaluating the efficiency of performance in First Quality Knitted Garments-Tirupur. The financial performance of the company for the five years is analyzed and it is proved that the company is financially sound.

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