Available online @ www.iaraindia.com
SELP Journal of Social Science - A Blind Review & Refereed Quarterly Journal
ISSN: 0975-9999 (P) 2349-1655 (O)
Impact Factor: 3.655 (CIF), 2.78(IRJIF), 2.5(JIF), 2.77(NAAS)
Volume XV, Issue 56, April-June 2024
Formally UGC Approved Journal (46622),

A STUDY ON FINANCIAL ANALYSIS OF CHOLA MACHINE LLP AT COIMBATORE

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Abstract

The main focus of this research paper is to make a comparative analysis of one of the leading cooking oil by market capitalization. The financial status of this company has been analyzed by leveraging out various financial ratios such as liquidity, profitability, solvency and activity ratios. For the purpose of conducting our research, the data has been collected from secondary sources such as company's annual reports, journals, etc. The study covers a time period from FY19 to FY23. Sampling technique adopted for the purpose of carrying out this research is purposive sampling method. We also used trend analysis to forecast the future growth in sales and profitability of the business. This research also uses simple correlation technique to compute the relationship between liquidity and profitability of the company. More interestingly, this paper also considers the outputs of regression analysis so as to and the cause – and – effect relationship among variables.

Keywords: Ratio analysis, Working capital management.

INTRODUCTION

Finance management is the strategic planning and managing of an individual or organization's finances to better align their financial status to their goals and objectives. Depending on the size of a company, finance management seeks to optimize shareholder value, generate profit, mitigate risk, and safeguard the company's financial health in the short and long term. When working with individuals, finance management may entail planning for retirement, college savings, and other personal investments.

OBJECTIVES OF THE STUDY

- To analyze the operating and financial performance using various financial ratios
- To evaluate the short term and long-term solvency position
- To analyze the overall performance of the company
- To analyze the statement of changes in working capital
- To analyze the liquidity and profitability ratio of the company

LIMITATIONS OF THE STUDY

- Data is taken from company annual report. It has own limitation of the company.
- Competitive nature of organizations prevent of revaluation of a confidential details.
- It is only rearrangement of data given in financial statements
- Analysis and discussions are based on the available data
- The data is taken for analysis covers only period for 5 years

SCOPE OF THE STUDY

- A company's profitability and efficiency can be evaluated only through financial Analysis of its financial statements.
- This study is very much useful to shareholders and creditors of the Company
- This study is very useful to the finance department for taking valuable decision.
- The study mainly covers the analysis of financial position and operating strength/weakness of the company.

REVIEW OF LITERATURE

Ranjeet Kumar Mishra (2020) in his research paper on "Does Working capital Management affect the Firm's Performance", has thoroughly reviewed the global experiences. The author has made a systematic review of 63 empirical evidences. An overview and investigation of these research papers published during 2001 to 2017 revealed that management of different components of working capital had mixed impact, representing positive, negative and insignificant impact.

Amer Morshed (2022) has initiated a study on the relationship between accounting and finance through measuring the impact of efficient working capital management on profitability information was collected from a sample of 16 financial managers to estimate the relationship. The findings of the research revealed that the financing policies and working capital investment had the significant effect on profitability. It was observed that the policies are related to risk and return theory. The author had suggested that accountants and financial managers of the enterprises to be professional for increasing the profitability with a good command on accounting and finance information skills.

Aggarwal & Singla (2023) have studied about developed a single index of financial performance through the technique of Multiple Discriminate Analysis (MDA), by selecting 11 ratios and selected ratios used as inputs. For the purpose of analysis they selected only those ratios, which was relevant in distinguish between profit making units and loss making units in Indian paper industry. They concluded that, the model has correctly classified 82.14 percent of units selected as profit making and loss marking. They mentioned in their study the Inventory turnover ratio, interest coverage ratio, net profit to total assets and earnings per share are the most important indicators of financial performance. Also they suggested suggests that the results of Multiple Discriminate Analysis could be used as predictor of future profitability / sickness.

RESEARCH METHODOLOGY

Research methodology is a process in which the researcher wishes to find out the end result for a given problem and the solution helps in future course of action. The study is based on analytical method. The secondary data is used for analytical study.

Research design: Research design is the basic framework, which provides guidelines for the Research process. It the maps of blue print accounting to which the research to be conducted. The research design specifies the methods for data collection and analysis. In this survey the researcher adopted design.

Tools used for analysis: Ratio analysis, Working Capital

ANALYSIS & INTERPRETATION

a) Ratio Analysis

Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement. Ratio analysis is a cornerstone of fundamental equity analysis

Year	Current asset	Current liabilities	Current ratio
2022-2023	11,421.00	27,846.80	0.41
2021-2022	16,683.00	35,816.40	0.46
2020-2021	21,495.90	43,640.40	0.49
2019-2020	19,514.90	60,701.20	0.32
2018-2019	58,781.30	93211.20	0.63

Interpretation: The table shows that the Current Ratio of CHOLA MACHINE LLP for the study period of the year from 2019-2023. The Current Ratio has increased to 0.63 in the year 2022-2023, when compared to the year 2019-2022.

b) Working capital management

The schedule of changes in working capital can be prepared by comparing the current assets and the current liabilities of two periods. Working capital is the difference between current assets and current liabilities. The schedule of changes in working capital is prepared to find out the increase or decrease in working capital during the year. Current assets and current liabilities are taken to the schedule. Working capital at the end of the current year is compared with that of the previous year. The difference is either increase or decrease in working capital. Then, individual current items are compared to find out the effect of changes in them on working capital. Increase in current asset will lead to increase in working capital and vice versa. On the other hand, increase in current liabilities will lead to decrease in working capital and vice versa. Increase in working capital will appear on the application side of fund flow statement.

Interpretation:

The schedule has shown an increase in the working capital is 4,671.2 for the year 2019 to 2020.

FINDINGS

- A good current ratio between 1.2 to 2 which means the business has 2 times more than Current asset the liabilities its cover debts for the company. The Current Ratio has increased to 0.63 in the year 2022-2023, when compared to the year 2019-2022.
- The working capital turnover ratio has increased to 9.1 in the year 2022-2023, when compared to 2019—2020
- The debtors turnover ratio of for the year of 2018 – 2023 where increased to 2.35 at year of 2021- 2022.
- The creditors turnover ratio for the year of 2018 – 2023 where increased to 5.18 at year of 2018- 2019.

SUGGESTIONS

- The management may take proper decision to maintain their liquidity ratios so that they can maintain their liquidity position in the long run.
- The company may try to maintain the minimum liabilities for having satisfactory financial position of the company.
- The company shall pay off the liabilities and loans so as to increase the working capital and to uplift the financial position of the company.
- The company may try to increase the duration of the average collection period to complete with its competitors by offering the customers high cost in sales.

CONCLUSION

On studying financial performance through Ratio Analysis, schedule of changes in working capital of CHOLA MACHINE LLP for a period of 5 years from 2018 – 2019 to 2022 –2023, the study reveals that the financial performance of the company is in good level. The turnover ratios were found to be comfortable with loans and advances being the most dominant factor, hence, influencing the working capital. From the foregoing analysis working capital management of CHOLA MACHINE LLP, has been effectively and properly maintained with the help of current assets and current liabilities.

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