

A Study on Financial Performance Analysis of Fine Tech Enterprises at Chennai

OPEN ACCESS

Manuscript ID:
MGT-2024-12038451

Volume: 12

Issue: 3

Month: January

Year: 2025

P-ISSN: 2321-4643

E-ISSN: 2581-9402

Received: 12.11.2024

Accepted: 20.12.2024

Published Online: 01.01.2025

Citation:
Anand, S. T., and Felinda Pradeep. "A Study on Financial Performance Analysis of Fine Tech Enterprises at Chennai." *Shanlax International Journal of Management*, vol. 12, no. 3, 2025, pp. 31-37.

DOI:
<https://doi.org/10.34293/management.v12i3.8451>



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Abstract

Due to globalization and other aspects, at this time period the market has become very competitive. It becomes essential to evaluate the financial performance of the firm to know and understand what the strengths and weaknesses of the firm are. Knowing that clearly will allow the management to make appropriate decisions as to the firm's improvement in future. The primary objective is to identify the financial strength and weakness of the firm by studying the liquidity, solvency and profitability. Secondary data is used for this study. Tools used in this study include ratio analysis and trend analysis. Through this analysis, researcher aims to analyze liquidity and solvency position of the firm, financial strength of the firm and financial growth of the firm. This study also helps to identify the weakness of the firm so decisions can be made for improvisation.

Keywords: Liquidity, Solvency, Profitability

Introduction

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. It is needed for various purposes and is important for any organization. Financial performance analysis examines the company's financial statements for a specific period of time from the recent past. The financial performance identifies how well a company generates revenues and manages its assets, liabilities, and the financial interests of its stakeholders and stockholders.

Need for the Study

Business needs money to make money, it is true that money can earn more money only when it is properly managed. Financial analysis helps to ascertain the profitability of the firm. It also measures the earning potential of the business. Financial analysis is the starting point to make plans, before using any sophisticated forecasting and planning procedures.

Management of the firm would be interested in every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm are used most effectively and efficiently. Trends of profitability, liquidity and solvency allows management to understand clearly if the firm is being managed efficiently. For a firm to improve their financial performance, it is essential to identify the trends and potential problems which are possible with financial analysis.

Different stakeholders of business need financial analysis for different reasons. Trade creditors are interested in firms' ability to meet their claims over a very short period of time. Their analysis will, therefore, be confined to the evaluation of the firm's liquidity position. Suppliers of long-term debt, on the other hand, are concerned with the firm's long-term solvency and survival. Investors, who have invested their money in the firm's shares, are most concerned about the firm's earnings.

The study will enable researchers to find means to help improve the productivity of the company by analysing and identifying the deviations caused in financial analysis.

Objectives

- To study the liquidity and solvency position of an enterprise.
- To evaluate the financial growth of the enterprise using trends.
- To assess the overall financial strength of the enterprise.

Limitations

- The study is mainly carried out based on the secondary data provided in financial Statement.
- The study is based on the past five-year financial statement so it may not be sufficient to analyse all aspects.
- False accounting data gives a false ratio.
- The result of the study cannot be generalised for other organisations and we cannot predict the future financial position of the company based on the study.
- The data used in the analysis is based on the company's published past results. As a result, analysis metrics are not always indicative of future company performance.

Review of Literature

(Mahendran and Kishor Kumar) analysed the profitability, liquidity and solvency position of the firm using ratio analysis. They found that even though the company is financially sound, it should be cautious. Suggested further analysis and examination is needed to understand its financial position and to take appropriate decisions.

(Singh and Kaur) studied the Financial Performance analysis of Bharat Heavy Electricals Limited through Du Post model concluded that financial performance of the company was not good and suggested the company to form appropriate financial and strategies to improve financial position.

(Sai Naik and Basaiah) on their study on ratio analysis in Anantha PVC Pipes Pvt Ltd used liquidity ratios, profitability ratios, leverage ratios and activity ratios to conclude that the company's leverage, activity and profitability positions are good and so the financial position is good, but suggested the company to increase its liquidity position for better performance.

(Bhad) measured profitability ratio, return ratio, leverage ratio and efficiency ratio and concluded that the company's financial position is good, but suggested to focus on input cost to avoid decrease in profitability and to focus on supply chain to increase sales.

(Surendar) studied the financial performance using ratio analysis. They found that liquidity and profitability of the company is good and the financial position is satisfactory.

Data Collection

The present data is based on secondary data obtained from the annual reports of the Company from 2018-2022.

Primary data: Primary data are those collected directly or which are first hand data and thus they are original in nature. Primary data is not used in the research.

Secondary data: Secondary data are the readily available data that do not require the trouble of construction tools and administering them. This research uses secondary data.

Data Analysis

Ratio Analysis

Liquidity Analysis

Current Ratio

Current Ratio = Current Assets / Current Liabilities

Table 1 Current Ratio

Year	Current Assets	Current Liabilities	Current Ratio
2018	21.06	11.52	1.82
2019	20.96	12	1.74
2020	28.34	15.38	1.84
2021	30.09	17.86	1.68
2022	33.6	19.06	1.76

Quick Ratio

Liquid Ratio = Liquid Assets / Current Liabilities

Table 2 Liquid Ratio

Year	Liquid Assets	Current Liabilities	Liquid Ratio
2018	13.03	11.52	1.13
2019	13.28	12	1.11
2020	20.4	15.38	1.33
2021	21.03	17.86	1.17
2022	23.35	19.06	1.12

Solvency Ratio

Proprietary Ratio

Proprietary Ratio = Proprietors fund / Tangible Assets

Table 3 Proprietary Ratio

Year	Proprietors fund	Tangible Assets	Proprietary Ratio
2018	13.21	13.08	1.01
2019	12.22	12.9	0.95
2020	14.54	12.67	1.13
2021	14.02	16.16	0.87
2022	14.76	15.95	0.93

Debt to Equity Ratio

Debt to equity ratio = Debt / Shareholders fund

Table 4 Debt to Equity Ratio

Year	Long Term Debt	Share Holders Fund	Debt to Equity Ratio
2018	5.12	13.21	0.39
2019	5.54	12.22	0.45
2020	6.11	14.54	0.42
2021	9.67	14.02	0.69
2022	10.70	14.76	0.72

Asset to Equity Ratio

Asset to Equity = Total Assets / Total Equity

Table 5 Asset to Equity Ratio

Year	Total Assets	Total Equity	Financial Leverage
2018	35.78	13.21	2.71
2019	35.47	12.22	2.9
2020	43.11	14.54	2.96
2021	49.41	14.02	3.52
2022	53.12	14.76	3.6

Profitability Ratios

Gross Profit Ratio = Gross profit / Net Sales * 100

Table 6 Gross Profit Ratio

Year	Total Assets	Total Equity	Financial Leverage
2018	8.43	69.51	12.12%
2019	11.24	75.42	14.9%
2020	10.88	83.87	12.97%
2021	14.3	99.47	14.38%
2022	16.41	118.41	13.86%

Net Profit Ratio

Net Profit Ratio = Net Profit / Net sales * 100

Table 7 Net Profit Ratio

Year	Net Profit	Net Sales	Net Profit Ratio
2018	2.52	69.51	3.62
2019	3.18	75.42	4.21
2020	4.76	83.87	5.67
2021	8.11	99.47	8.15
2022	9.13	118.41	7.71

Operating Ratio

Operating ratio = Operating costs / Net sales * 100

Table 8 Operating Ratio

Year	Operating Cost	Net Sales	Operating Ratio
2018	69.32	69.51	99.72
2019	72.18	75.42	95.70
2020	80.82	83.87	96.36
2021	93.81	99.47	94.30
2022	112.08	118.41	94.65

Capital Turnover Ratio

Capital Turnover Ratio = Sales / Shareholders Equity

Table 9 Capital Turnover Ratio

Year	Sales	Capital Employed	Capital Turnover Ratio
2018	69.51	13.21	5.26
2019	75.42	12.22	6.17
2020	83.87	14.54	5.76
2021	99.47	14.02	7.09
2022	118.41	14.76	8.02
Total			32.3
Average			6.46

Fixed Assets Turnover Ratio

Fixed Asset Turnover Ratio = Sales / Net Fixed Assets

Table 10 Fixed Asset Turnover Ratio

Year	Sales	Net Fixed Asset	Fixed Assets Turnover Ratio
2018	69.51	13.08	5.31
2019	75.42	12.9	5.85
2020	83.87	12.67	6.62
2021	99.47	16.16	6.16
2022	118.41	15.95	7.42
Total			31.36
Average			6.27

Total Assets Turnover Ratio

Total Assets Turnover Ratio = Sales / Total Assets

Table 11 Total Assets Turnover Ratio

Year	Sales	Total Assets	Total Assets Turnover Ratio
2018	69.51	33.78	1.94
2019	75.42	35.47	2.13
2020	83.87	43.11	1.95
2021	99.47	49.41	2.01
2022	118.41	53.12	2.23
Total			10.26
Average			2.052

Debtors Turnover Ratio

Debtors Turnover Ratio = Sales / Debtors

Table 12 Debtors Turnover Ratio

Year	Sales	Debtors	Debtors Turnover Ratio
2018	69.51	6.86	10.13
2019	75.42	7.16	10.53

2020	83.87	8.23	10.19
2021	99.47	8.45	11.77
2022	118.41	9.15	12.94
Total			55.96
Average			11.19

Current Assets Turnover Ratio

Current Assets Turnover Ratio = Sales / Current Assets

Table 13 Current Assets Turnover Ratio

Year	Sales	Current Assets	Current Assets Turnover Ratio
2018	69.51	21.06	3.3
2019	75.42	20.96	3.6
2020	83.87	28.34	2.96
2021	99.47	30.09	3.31
2022	118.41	33.6	3.52
Total			16.7
Average			3.34

Trend Analysis

Trend analysis for current assets

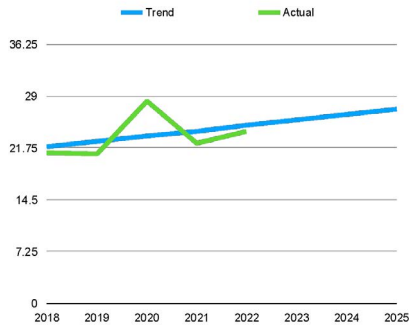
Table 14 Trend Analysis for Current Assets

Year	X	y	x ²	Xy	Trend value
2018	-2	21.06	4	-42.12	21.88
2019	-1	20.96	1	-20.96	22.63
2020	0	28.34	0	0	23.38
2021	1	22.49	1	22.49	24.03
2022	2	24.04	4	48.08	24.88
		116.89	10	7.49	

Table 15 Projected Trend for Current Assets

Year	Future Trend
2023	25.63
2024	26.38
2025	27.13

Chart 1 Trend Analysis for Current Asset



2022	2	16.41	4	32.82	16.05
		61.26	10	19.02	17.95

Table 19 Projected Trend for Gross Profit Year Future Trend

Year	Future Trend
2023	25.63
2024	26.38
2025	27.13

Trend Analysis of Current Liabilities

Table 16 Trend Analysis of Current Liabilities

Year	X	y	x ²	Xy	Trend value
2018	-2	11.52	4	-23.04	10.96
2019	-1	12	1	-12	13.06
2020	0	15.38	0	0	15.16
2021	1	17.86	1	17.86	17.25
2022	2	19.06	4	38.12	19.35
		75.82	10	20.94	

Table 17 Projected Trend for Current Liabilities

Year	Future Trend
2023	21.45
2024	23.55
2025	25.66

Chart 2 Trend Analysis for Current Liabilities

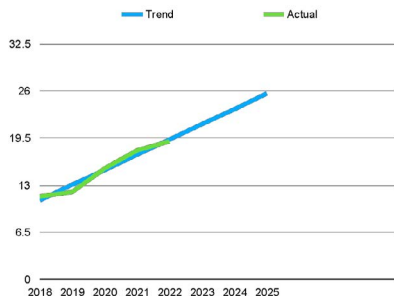
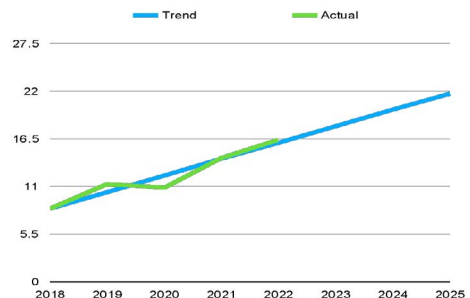


Chart 3 Trend Analysis for Gross Profit



Trend Analysis of Net Profit

Table 20 Trend Analysis for Net Profit

Year	X	y	x ²	Xy	Trend value
2018	-2	2.52	4	-5.04	1.84
2019	-1	3.18	1	-3.18	3.69
2020	0	4.76	0	0	5.54
2021	1	8.11	1	8.11	7.39
2022	2	9.13	4	18.26	9.24
		27.7	10	18.15	

Table 21 Projected Trend for Net Profit

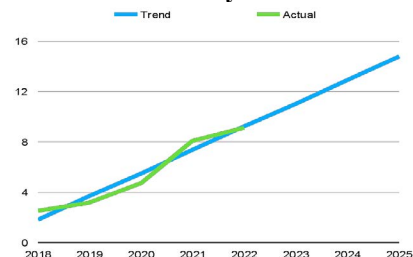
Year	Future Trend
2023	11.09
2024	12.94
2025	14.79

Trend Analysis of Gross Profit

Table 18 Trend Analysis of Gross Profit

Year	X	y	x ²	Xy	Trend value
2018	-2	8.43	4	-16.86	8.45
2019	-1	11.24	1	-11.24	10.35
2020	0	10.88	0	0	12.25
2021	1	14.3	1	14.3	14.15

Chart 4 Trend Analysis for Net Profit



Finding

- Firms current ratios are nearly equal to ideal values indicating the ability of the firm to meet its current obligations. Quick ratio shows steady increase except for dip in 2021. So, these ratios imply that the firm's liquidity position is good.
- A favourable proprietary ratio indicates that the business is in a good position and provides relief to creditors. Even though the overall debt to equity ratio is within range, increasing high levels of debt in a business can prove to be detrimental for the firm. Asset to Equity ratio is increasing and may mean the debts might be increasing over the years.
- Low gross profit margin may reflect higher cost of goods sold and management being inefficient in generating profit. Net profit margin is increasing but the ratio is in low margin means the company is not efficient at converting sales into actual profit. A higher operating ratio is unfavourable since it will leave a small amount of operating income to meet interest, dividends etc.
- A higher capital turnover is better, and indicates that a company can generate a larger number of sales. The firm's capital turnover is increasing. Fixed assets turnover ratio keeps increasing gradually which means the firm's ability to generate sales from fixed assets. Total assets turnover ratios are higher than current assets turnover ratio and are increasing, which means the firm is utilising its total assets in gaining profit. Debtors' turnover ratio is increasing except for dip in 2020, means the company is collecting its receivables more quickly. The ratio has not increased much over the period of 5 years but maintains a steady value means the firm makes good utilisation of current assets to gain profit.
- Liquidity trend, while both current assets and current liabilities show uptrend, rate of the increase of current liabilities is slightly more than that of current assets.
- Profitability trend, gross and net profit trend shows uptrend meaning the firm will have good profitability.

Suggestions

- Even though the firm's liquidity position is

good for now, the firm should concentrate on ways to improve the current assets and if it falls any further, it may cause serious issues to the business.

- The company's debt status is gradually increasing through the years, which is considered risky for lenders and investors because it suggests that the company is financing a significant amount of its potential growth through borrowing. The firm should put efforts on utilising its assets and borrowing less money from the market.
- Management should plan on reducing its expenses by improving cost structure and pricing strategies, which in turn will increase the profitability of the firm.
- Management efficiently uses its assets to improve profits and should continue to do so.

Conclusion

This project will be more useful in the future to analyse company position. Financial performance analysis reference to determine financial strength and weakness of the firm by establishing between the items of the balance sheet and profit and loss account. The study is made on the topic financial performance using ratio analysis with five years data in Fine Tech Enterprises. While analysing the financial performance, it is understood that the firm is performing good in terms of profitability and efficiency. Liquidity can be improved by increasing current assets. Solvency of the firm should be improved i.e firms should put efforts in improving their pricing strategy and lowering the expenses thereby improving the sales and increasing profit. From the study, it can be concluded that the growth of the firm is good and the financial position of the firm is satisfactory.

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