

“Financial Statement Analysis: Measurement of Financial Position”

Mr. Avinash Bondu¹, Mr. Manoj Sangiseti²

¹Lecturer in Accounting Department, Catholic University in Erbil, Erbil, Kurdistan,

²Lecturer in Accounting Department, Catholic University in Erbil, Erbil, Kurdistan,

Abstract

An important objective of an accounting department in an organization is to prepare financial statements with a true and fair view. Financial statement analysis has been a very functional tool for the management, creditors, investors and other users to understand the financial status as well as measurement of financial performance and financial position of the company. Based on which they will be able to take important decisions like investing in the company, expansion of business etc. It gives an idea about an entity whether it is stable, solvent, liquid or profitable for an investor to make an investment.

The main purpose of this research work is to evaluate and measure the financial position of the Bharat Heavy Electricals Ltd. Company based on the economic conditions and by analyzing the financial statements. It is done by applying accounting tools or techniques such as trend analysis, common size analysis, comparative analysis and ratio analysis to measure and compare the company's performance over the past five years. As per this study the financial position of the company performed in a better manner over the analyzed years.

Index Terms: Accounting Techniques, Financial Statements, Measure & Compare, Position.

Introduction:

In these days of cut-throat competition, every business needs to implement innovative and worthwhile plans to pioneer in the industry. Management have a crucial obligation to maneuver its organization in enhancing the profit-making capacity. There should be some

effective means for the decision-making purpose regarding the future projects, expansion etc. Financial statements provide a structured financial information of a company. All the outcomes of the business organizations are recorded and summarized under these statements. They include

Income statement: It reports the company's profit or loss for a financial year.

Balance sheet: A statement of financial position which reports on assets, liabilities and owner's equity.

Metcalf and Titard defined Financial statement analysis as the process of evaluating the relationship among the components of the financial statements for better understanding of firms' position and performance (1). Myers described the analysis of financial statements is largely a study of relationship among various financial factors in a business as disclosed by a single set of statements (2).

This study involves measuring the financial position of the company in five years (2015-2019) by applying accounting tools such as common size analysis, comparative analysis, trend analysis and ratio analysis for every year followed by interpretation. It may give an idea to users of accounting information to understand the financial statements as well as financial position of the company during the study period.

Objective of the Study:

- To analyze the financial statements of BHEL.
- To measure financial performance from year to year during the study period.

- To evaluate the overall company's financial performance by applying relevant statistical techniques.

Background of the Study:

The introduction of double entry book keeping in the 15th century by Luca Pacioli explained the benefits of debit and credit aspects for each individual transaction to be posted in an account. Gradually, the process of book keeping was transformed into the practice of accounting and the accountants were given much importance by the business organizations to record the financial transactions, analyze, and to prepare financial statements. This data was used to make decisions. Up to the 18th century, investment is made without knowledge where there is no credibility to the information provided by the companies.

In the 20th century, the U.S government Securities Exchange Act in 1934, to prohibit the misrepresentations and fraud in sale of securities. Various accounting standards are formed to guide the preparation of financial statements. Generally Accepted Accounting Principles (GAAP) are set by the Financial Accounting Standards Board of United States to govern the preparation of financial statements and International Accounting Standards (IAS) which are later being amended International Financial Reporting Standards (IFRS) are issued by International Accounting Standards Board (IASB) to have common accounting language among the companies. Amendments to these accounting rules and principles are being made over time to improve the transparency and accuracy in preparing financial statements.

Technical analysis which considers the quantitative charts such as moving averages to determine the price of the security and fundamental analysis which considers the ratios and other financial components to evaluate the intrinsic value of the share are invented. The analysis of financial statements has been very

significant for the management in terms of profitability approach and the investors, creditors in terms of credit approach.

Statement of the Problem:

A problem statement is a concise description of an issue to be addressed or a condition to be improved upon. It identifies the gap between the current (problem) state and desired (goal) state of a process or product. Focusing on the facts, the problem statement should be designed to address the 5 W's – who, what, where, when, and why. The first condition of solving a problem understands the problem, which can be done by way of a problem statement.

Problem statements are widely used by businesses and organizations to execute process improvement projects. A simple and well-defined problem statement will be used by the project team to understand the problem and work toward developing a solution. It will also provide management with specific insights into the problem so that they can make appropriate project-approving decisions. As such, it is crucial for the problem statement to be clear and unambiguous.

Significance of the Study:

Analysis of the financial statements is an attempt to assess the efficiency and measure the financial position of the company. Hence, the analysis and interpretation of financial statements plays a vital role to measure the efficiency, profitability, financial soundness and future prospects of the business units. The purpose of this study is to know some relevant information about the company in terms of financial positions and its trends by applying accounting statistical tools. This study may also useful to the stake holders of the company.

METHODOLOGY OF THE STUDY:

✓ *RESEARCH DESIGN:*

The research design is used in this study is to measure the financial position of the company by using a balance sheet which is historical data and draws conclusions from it.

✓ *NATURE OF DATA:*

The number of data used for the study in secondary data is collected from the five years balance sheet for their analysis part.

✓ *DATA COLLECTION:*

The data needed for the study is being collected from the annual report of the company and which is secondary data.

✓ *DATA USED:*

The research depended entirely on secondary data for analysis was collected directly from company's official website.

Review of Literature:

A comparative study has been done in 2019, by analyzing the financial statements of a company for two years 2015 and 2016. They proved that the company has good financial statements. The techniques applied in their analysis were the liquidity ratios, profitability ratios, turnover assets ratio, and ratios of long-term solvency. It has been observed that the organization have a better ability to meet the current obligations and also the profit earning capacity is comparatively better to the former year [3].

In 2015, A study highlighted the significance of relationship between the financial indicators and financial behavior of an organization and role of the indicators in decision making by the management. 9 listed companies of Borsa Istanbul-30(BIST-30) were considered, and a model had been created to identify the effect of financial ratios viz. Current ratio, Leverage ratios, EPS on the financial performance of the company and hence explained how much the

latter is affected by the former. Higher current ratio increases the expectancy of increasing profitability of a firm. Higher leverage ratio indicates the higher risk in company's financial policies [4].

A study conducted in 2013, on Bambino Agro industries in secunderabad using comparative analysis to assess the financial position of the company. Both the income statement and balance sheet for a period of five years were analyzed and found that the financial performance of the organization was not satisfactory as it could not meet the optimum operations efficiency. Also, fluctuations in revenue from sales had been noticed [5].

In 2012, a research was conducted to understand the use of various financial analysis methods by different organizations in hotel industry and their role in financial decision making. The research witnessed a broader usage of ratio analysis and comparative analysis (horizontal analysis) techniques to evaluate the financial performance of the firms whereas a small sized firm preferred common size analysis (vertical analysis). Of all, the ratio analysis techniques help the organization in surveying each element in a deeper sense [6].

Similar to the present study, comparative analysis is been used to evaluate the financial performance of BSNL company. Balance sheets of years 2009 and 2010 were considered for the research. The results are presented in bar graphs and line charts. The author, based on findings, gave suggestions clearly for every aspect to improve the profitability of the company and for a long-term survival by satisfying investors [7].

A company's financial health is the ultimate wish of its investors. The structure is quite complex in nature where necessity in realizing the outcome of each individual segment appear. Financial analysis can be adopted as multi-dimensional indicator viz. activity, liquidity, profitability and indebtedness of a business firm [8].

An attempt has been made in study the performance of the Indian Hotel Company Ltd. using ratio analysis in 2016. According to the

author, in order to determine both the historical and current financial performance of a company, its financial statements needs to interpret and it could be done through a systematic use of ratio analysis technique [9].

A survey was conducted in 2014, to evaluate the role of ratio analysis in business decision making. For this purpose, few members of Management and Non-management staff were provided with questionnaires and the author came up with the outcome that financial ratios should be carefully understood and analyzed for the future activities of any business enterprise [10].

There is a significant relationship between ratio analysis and organizational performance.

Financial ratios highlight the effective management of the firm in enhancing profitability. It was suggested that financial ratios should be calculated periodically to reveal the strengths and weaknesses of an enterprise. Also, they act as a major tool in establishing relationship among various components of the financial statements [11].

Analysis of Data

This research was conducted by analyzing the balance sheet of the company for the previous five years. Vertical analysis, Horizontal analysis and comparative analysis are the techniques used to measure performance of the entity during the study period.

Table: 1

Bharat Heavy Electricals Ltd.		in crore Rs.			
	Mar 19	18-Mar	17-Mar	16-Mar	15-Mar
Balance sheet					
EQUITIES AND LIABILITIES					
SHAREHOLDER'S FUNDS					
Equity Share Capital	696.41	734.28	489.52	489.52	489.52
Total Share Capital	696.41	734.28	489.52	489.52	489.52
Reserves and Surplus	30,703.45	31,866.80	31,804.92	31,691.56	33,595.08
Total Reserves and Surplus	30,703.45	31,866.80	31,804.92	31,691.56	33,595.08
Total Shareholders' Funds	31,399.86	32,601.08	32,294.44	32,181.08	34,084.60
NON-CURRENT LIABILITIES					
Long Term Borrowings	95.45	57.18	89.55	126.29	61
Other Long-Term Liabilities	4,410.39	3,957.55	3,719.19	4,507.51	5,358.84
Long Term Provisions	5,454.54	4,923.11	5,001.35	7,624.50	6,755.21
Total Non-Current Liabilities	9,960.38	8,937.84	8,810.09	12,258.30	12,175.05
CURRENT LIABILITIES					

Short Term Borrowings	2,457.27	0	0	0	0
Trade Payables	11,375.11	10,586.86	8,709.16	8,698.34	8,798.94
Other Current Liabilities	6,737.91	7,880.60	7,224.95	8,689.32	9,123.31
Short Term Provisions	2,485.48	3,782.77	4,191.56	3,335.90	4,285.23
Total Current Liabilities	23,055.77	22,250.23	20,125.67	20,723.56	22,207.48
Total Capital and Liabilities	64,416.01	63,789.15	61,230.20	65,162.94	68,467.13
ASSETS					
NON-CURRENT ASSETS					
Tangible Assets	2,883.92	2,977.53	3,491.12	3,825.12	3,982.20
Intangible Assets	83.07	91.31	104.76	137.36	158.32
Capital Work-In-Progress	223.21	194.53	159.51	309.5	500.5
Intangible Assets Under Development	12.23	8.23	8.83	8.38	17.3
Fixed Assets	3,202.43	3,271.60	3,764.22	4,280.36	4,658.32
Non-Current Investments	669.36	690.74	661.42	664.16	417.67
Deferred Tax Assets [Net]	3,514.53	3,625.88	3,841.37	3,659.23	2,220.73
Long Term Loans And Advances	82.82	84.28	78.04	65.62	1,219.05
Other Non-Current Assets	18,606.98	12,928.26	9,991.19	11,368.29	11,413.82
Total Non-Current Assets	26,076.12	20,600.76	18,336.24	20,037.66	19,929.59
CURRENT ASSETS					
Inventories	8,113.49	6,258.76	7,372.38	9,602.15	10,101.66
Trade Receivables	12,009.57	22,771.49	22,075.56	22,430.12	26,223.50
Cash And Cash Equivalents	7,503.34	11,291.18	10,491.79	10,085.99	9,812.70
Short Term Loans And Advances	157.45	147.12	138.88	176.61	2,224.65
Other Current Assets	10,556.04	2,719.84	2,815.35	2,830.41	175.03
Total Current Assets	38,339.89	43,188.39	42,893.96	45,125.28	48,537.54
Total Assets	64,416.01	63,789.15	61,230.20	65,162.94	68,467.13

Vertical Analysis:

Vertical analysis is also popularly known as common size balance sheet analysis statement. It enables the analyst to understand the changes that have taken place from year to year in relation to total assets and total liabilities. It shows the percentages where each item bears

with its total assets or total liabilities or the relation of each asset item to total assets and each liability item to total liabilities. In this method, each and every component of the assets and liabilities in the balance sheet is compared with the total assets' as well as total liabilities' components. As the total assets and total liabilities are equal to 100% each, and the

percentage of each component is derived based on this aspect, it is so called a component

percentage statement or 100 per cent statement.

$$\text{Formula for computation:} = \frac{\text{Value of the component}}{\text{Total Assets/ Liabilities}} \times 100$$

Table: 2

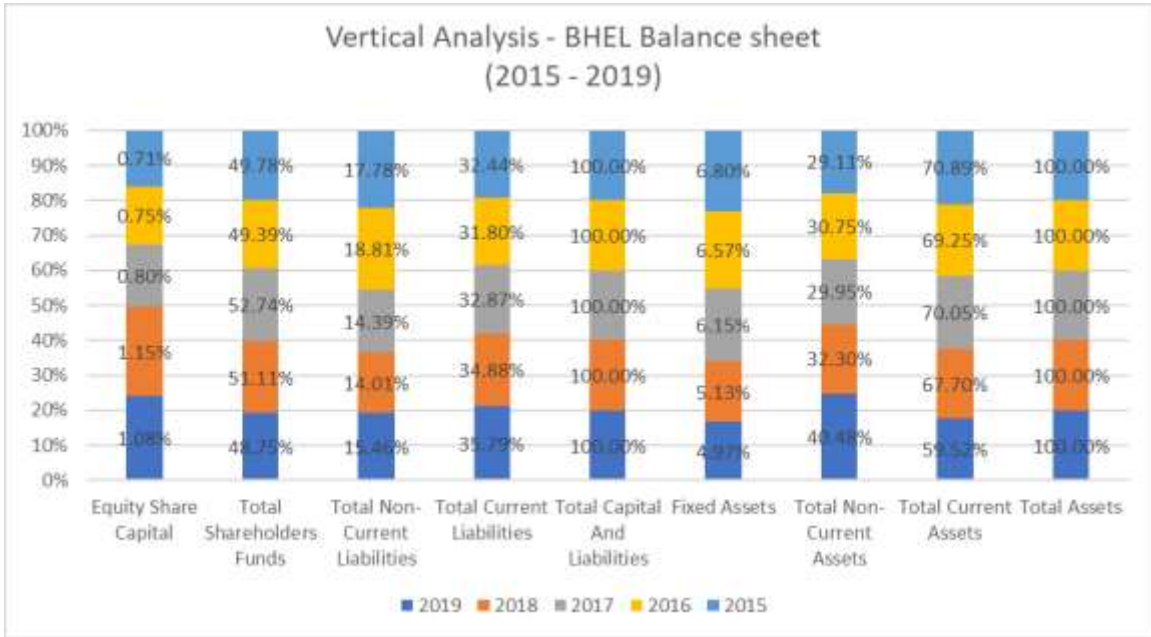
EQUITIES AND LIABILITIES	19-Mar	18-Mar	17-Mar	16-Mar	15-Mar
SHAREHOLDER'S FUNDS					
Equity Share Capital	1.08%	1.15%	0.80%	0.75%	0.71%
Total Share Capital	1.08%	1.15%	0.80%	0.75%	0.71%
Reserves and Surplus	47.66%	49.96%	51.94%	48.63%	49.07%
Total Reserves and Surplus	47.66%	49.96%	51.94%	48.63%	49.07%
Total Shareholders' Funds	48.75%	51.11%	52.74%	49.39%	49.78%
NON-CURRENT LIABILITIES					
Long Term Borrowings	0.15%	0.09%	0.15%	0.19%	0.09%
Other Long-Term Liabilities	6.85%	6.20%	6.07%	6.92%	7.83%
Long Term Provisions	8.47%	7.72%	8.17%	11.70%	9.87%
Total Non-Current Liabilities	15.46%	14.01%	14.39%	18.81%	17.78%
CURRENT LIABILITIES					
Short Term Borrowings	3.81%	0.00%	0.00%	0.00%	0.00%
Trade Payables	17.66%	16.60%	14.22%	13.35%	12.85%
Other Current Liabilities	10.46%	12.35%	11.80%	13.33%	13.33%
Short Term Provisions	3.86%	5.93%	6.85%	5.12%	6.26%
Total Current Liabilities	35.79%	34.88%	32.87%	31.80%	32.44%
Total Capital and Liabilities	100.00%	100.00%	100.00%	100.00%	100.00%

ASSETS					
NON-CURRENT ASSETS					
Tangible Assets	4.48%	4.67%	5.70%	5.87%	5.82%
Intangible Assets	0.13%	0.14%	0.17%	0.21%	0.23%
Capital Work-In-Progress	0.35%	0.30%	0.26%	0.47%	0.73%
Intangible Assets Under Development	0.02%	0.01%	0.01%	0.01%	0.03%
Fixed Assets	4.97%	5.13%	6.15%	6.57%	6.80%
Non-Current Investments	1.04%	1.08%	1.08%	1.02%	0.61%
Deferred Tax Assets [Net]	5.46%	5.68%	6.27%	5.62%	3.24%
Long Term Loans and Advances	0.13%	0.13%	0.13%	0.10%	1.78%
Other Non-Current Assets	28.89%	20.27%	16.32%	17.45%	16.67%
Total Non-Current Assets	40.48%	32.30%	29.95%	30.75%	29.11%
CURRENT ASSETS					
Inventories	12.60%	9.81%	12.04%	14.74%	14.75%
Trade Receivables	18.64%	35.70%	36.05%	34.42%	38.30%
Cash and Cash Equivalents	11.65%	17.70%	17.13%	15.48%	14.33%
Short Term Loans and Advances	0.24%	0.23%	0.23%	0.27%	3.25%
Other Current Assets	16.39%	4.26%	4.60%	4.34%	0.26%
Total Current Assets	59.52%	67.70%	70.05%	69.25%	70.89%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%

Graphical Representation of Vertical Analysis:

Fig:1

PRDG



Interpretations:

- Although there is an increase in the proportion of equity share capital, a decrease in total shareholders’ funds have been observed due to a decline in the reserves and surplus.
- The proportion of non-current liabilities is more in 2015 and 2016.
- Increase in credit purchases over the years have resulted a slight increase in the proportion of current liabilities in 2019.
- Overall proportions of non-current assets have become more year by year and a decline is observed in the proportion of current assets.
- Analyzing the statements using vertical analysis, the company decided to increase its non-current assets and the portion of current assets is reduced.

Comparative analysis:

Comparative statements are prepared to trace the periodic changes in the financial performance of a company. This kind of balance sheet analysis would highlight the trend of various items and group of items appearing in two or more balance sheets of a firm for different years. The percentage change from year to year is detected under this analysis.

Formula for Percentage change under comparative analysis is

$$= \frac{\text{Current Year Component} - \text{Previous Year Component}}{\text{Value of Previous year component}} \times 100$$

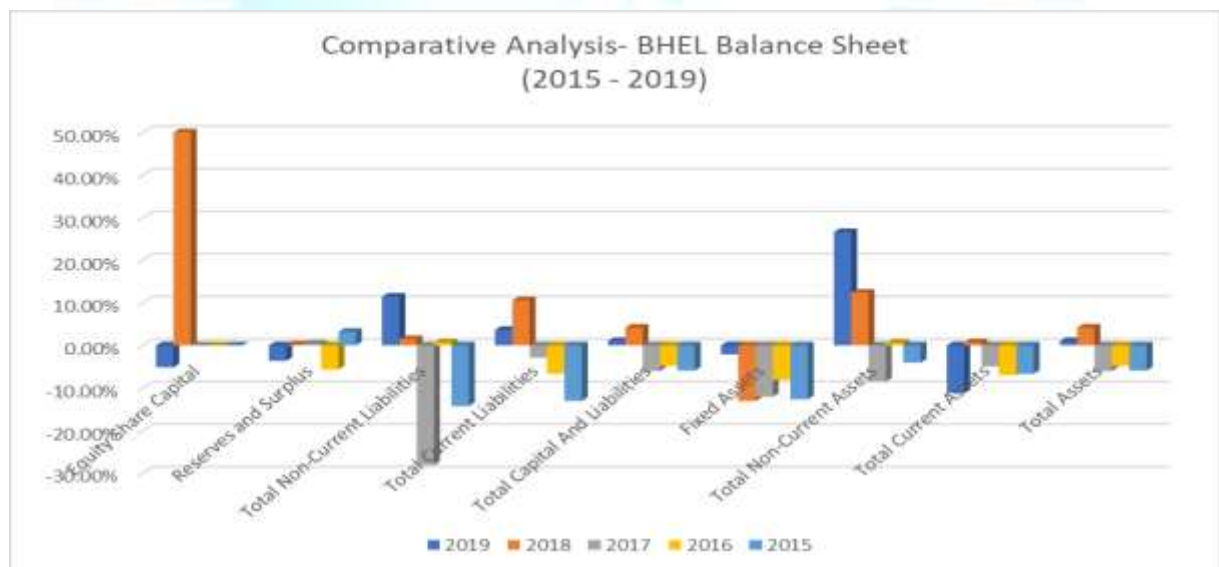
Table:3

EQUITIES AND LIABILITIES	19-Mar	18-Mar	17-Mar	16-Mar	15-Mar
SHAREHOLDER'S FUNDS					
Equity Share Capital	-5.16%	50.00%	0.00%	0.00%	0.00%
Total Share Capital	-5.16%	50.00%	0.00%	0.00%	0.00%
Reserves and Surplus	-3.65%	0.19%	0.36%	-5.67%	3.19%
Total Reserves and Surplus	-3.65%	0.19%	0.36%	-5.67%	3.19%
Total Shareholders' Funds	-3.68%	0.95%	0.35%	-5.58%	3.14%
NON-CURRENT LIABILITIES					
Long Term Borrowings	66.93%	-36.15%	-29.09%	107.03%	-41.78%
Other Long-Term Liabilities	11.44%	6.41%	-17.49%	-15.89%	-18.81%
Long Term Provisions	10.79%	-1.56%	-34.40%	12.87%	-9.89%
Total Non-Current Liabilities	11.44%	1.45%	-28.13%	0.68%	-14.27%
CURRENT LIABILITIES					
Short Term Borrowings	2457%	0.00%	0.00%	0.00%	-100.00%
Trade Payables	7.45%	21.56%	0.12%	-1.14%	0.92%
Other Current Liabilities	-14.50%	9.07%	-16.85%	-4.76%	-20.28%
Short Term Provisions	-34.29%	-9.75%	25.65%	-22.15%	51.44%
Total Current Liabilities	3.62%	10.56%	-2.89%	-6.68%	-13.06%
Total Capital and Liabilities	0.98%	4.18%	-6.04%	-4.83%	-5.94%
ASSETS					
NON-CURRENT ASSETS					
Tangible Assets	-3.14%	-14.71%	-8.73%	-3.94%	-12.00%
Intangible Assets	-9.02%	-12.84%	-23.73%	-13.24%	-5.66%
Capital Work-In-Progress	14.74%	21.95%	-48.46%	-38.16%	-19.54%
Intangible Assets Under Development	48.60%	-6.80%	5.37%	-51.56%	-13.97%
Fixed Assets	-2.11%	-13.09%	-12.06%	-8.11%	-12.68%
Non-Current Investments	-3.10%	4.43%	-0.41%	59.02%	-0.59%
Deferred Tax Assets [Net]	-3.07%	-5.61%	4.98%	64.78%	12.79%
Long Term Loans and Advances	-1.73%	8.00%	18.93%	-94.62%	4.45%
Other Non-Current Assets	43.92%	29.40%	-12.11%	-0.40%	-3.93%

Total Non-Current Assets	26.58%	12.35%	-8.49%	0.54%	-4.06%
CURRENT ASSETS					
Inventories	29.63%	-15.11%	-23.22%	-4.94%	3.10%
Trade Receivables	-47.26%	3.15%	-1.58%	-14.47%	-6.58%
Cash and Cash Equivalents	-33.55%	7.62%	4.02%	2.79%	-17.35%
Short Term Loans and Advances	7.02%	5.93%	-21.36%	-92.06%	9.92%
Other Current Assets	288.11%	-3.39%	-0.53%	1517.10%	-30.69%
Total Current Assets	-11.23%	0.69%	-4.94%	-7.03%	-6.69%
Total Assets	0.98%	4.18%	-6.04%	-4.83%	-5.94%

Graphical Representation of Comparative Analysis:

Fig:2



Interpretations:

- Company raised its equity share capital in 2018.
- The reserve funds were utilized in 2016.
- Long term borrowings are increased more in 2016 and 2019.
- A peer adjustment has been observed to non-current investments, deferred tax assets and long-term advances in the year 2016.
- The cash receipts from trade receivables and the utilization of company's cash and reserves have somewhat added up for the inventories and other current assets.

Horizontal or Trend analysis:

www.ijreat.org

Trends analysis studies the variations of different components of the balance sheet over a period of time. This statistical tool provides the horizontal comparison of the data and observes the behavioral pattern of each item in the financial statements. It is the most used tool for financial analysis and has been proven itself reliable for any company by presenting the fair figures of variation.

The trend is traced by taking a base year and comparing the components of all other required years balance sheet with that. Analysis of trend percentages may be taken carefully based on the absolute figures and it is to be noted that all the base year components are made equal to hundred percent and then derive the change.

The following formula should be considered in computing trend analysis

$$\text{Trend Percentage} = \frac{\text{Value of the item in Current year}}{\text{Value of the item in Base year}} \times 100$$

Table:4

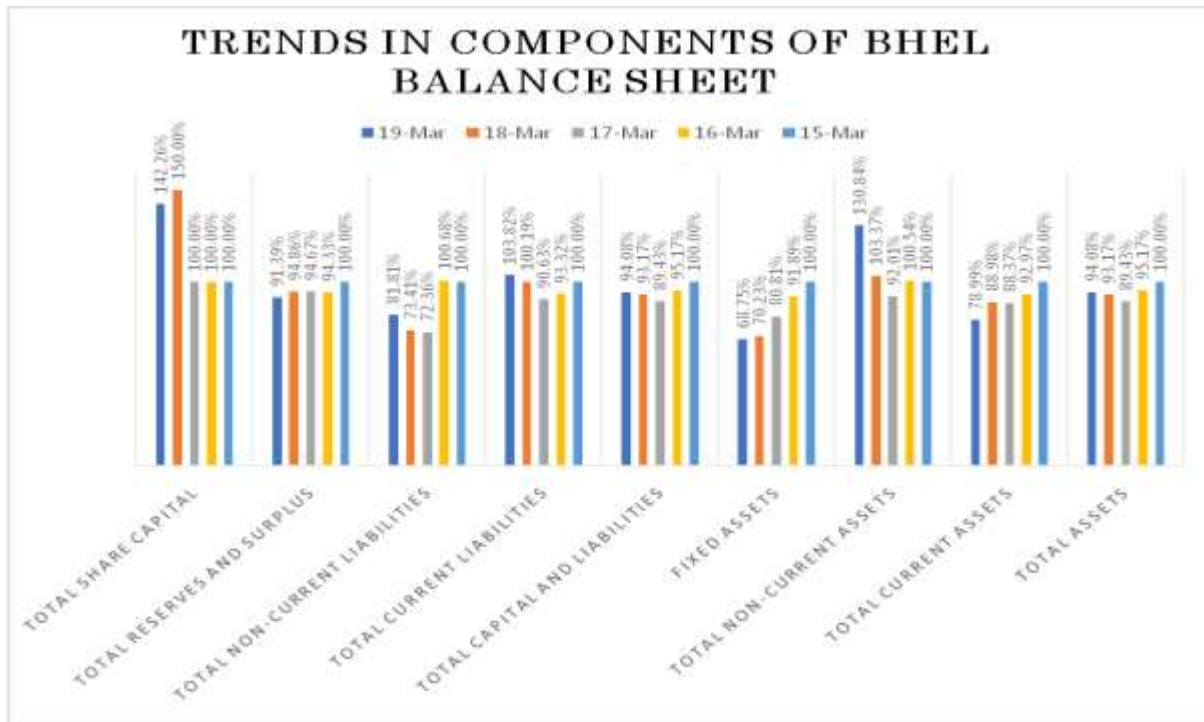
EQUITIES AND LIABILITIES	19-Mar	18-Mar	17-Mar	16-Mar	15-Mar
SHAREHOLDER'S FUNDS					
Equity Share Capital	142.26%	150.00%	100.00%	100.00%	100.00%
Total Share Capital	142.26%	150.00%	100.00%	100.00%	100.00%
Reserves and Surplus	91.39%	94.86%	94.67%	94.33%	100.00%
Total Reserves and Surplus	91.39%	94.86%	94.67%	94.33%	100.00%
Total Shareholders' Funds	92.12%	95.65%	94.75%	94.42%	100.00%
NON-CURRENT LIABILITIES					
Long Term Borrowings	156.48%	93.74%	146.80%	207.03%	100.00%
Other Long-Term Liabilities	82.30%	73.85%	69.40%	84.11%	100.00%
Long Term Provisions	80.75%	72.88%	74.04%	112.87%	100.00%
Total Non-Current Liabilities	81.81%	73.41%	72.36%	100.68%	100.00%
CURRENT LIABILITIES					
Short Term Borrowings	2475.20%	100.00%	100.00%	100.00%	100.00%
Trade Payables	129.28%	120.32%	98.98%	98.86%	100.00%
Other Current Liabilities	73.85%	86.38%	79.19%	95.24%	100.00%
Short Term Provisions	58.00%	88.27%	97.81%	77.85%	100.00%
Total Current Liabilities	103.82%	100.19%	90.63%	93.32%	100.00%
Total Capital and Liabilities	94.08%	93.17%	89.43%	95.17%	100.00%
ASSETS					

NON-CURRENT ASSETS					
Tangible Assets	72.42%	74.77%	87.67%	96.06%	100.00%
Intangible Assets	52.47%	57.67%	66.17%	86.76%	100.00%
Capital Work-In-Progress	44.60%	38.87%	31.87%	61.84%	100.00%
Intangible Assets Under Development	70.69%	47.57%	51.04%	48.44%	100.00%
Fixed Assets	68.75%	70.23%	80.81%	91.89%	100.00%
Non-Current Investments	160.26%	165.38%	158.36%	159.02%	100.00%
Deferred Tax Assets [Net]	158.26%	163.27%	172.98%	164.78%	100.00%
Long Term Loans and Advances	6.79%	6.91%	6.40%	5.38%	100.00%
Other Non-Current Assets	163.02%	113.27%	87.54%	99.60%	100.00%
Total Non-Current Assets	130.84%	103.37%	92.01%	100.54%	100.00%
CURRENT ASSETS					
Inventories	80.32%	61.96%	72.98%	95.06%	100.00%
Trade Receivables	45.80%	86.84%	84.18%	85.53%	100.00%
Cash and Cash Equivalents	76.47%	115.07%	106.92%	102.79%	100.00%
Short Term Loans and Advances	7.08%	6.61%	6.24%	7.94%	100.00%
Other Current Assets	6030.99%	1553.93%	1608.50%	1617.10%	100.00%
Total Current Assets	78.99%	88.98%	88.37%	92.97%	100.00%
Total Assets	94.08%	93.17%	89.43%	95.17%	100.00%

Graphical representation of trend analysis:

The presentation of the above calculated values of trend analysis in a graphical form makes comparison much easier and clearer for any analyst. It gives a clear interpretation about the change in items from particular base year. In the below graph group components are taken and represented to give a quick and clear picture of the fluctuations.

Fig: 1



Interpretations:

- Total share capital has been same over three years starting from 2015 and later on the company have raised its capital in 2018.
- There was a slight decrease in reserves and surplus in all other years compared to the base year 2015.
- Non-current liabilities decreased from 2017 and was increasing with a small variation.
- Fixed assets were decreased over the period and total non-current liabilities have been increasing from march, 2018 as there were high investments during the period.
- The total current assets have a declining impression in which trade receivables had a highest fall over the period and the investments in current assets became high.
- Total assets, and Total capital and liabilities decreased in the year 2017 and was getting close to that of 2015 in the year 2019.

Ratio Analysis:

One of the important tools of financial statement analysis of a company is the ratio analysis. It plays a vital role in ascertaining an organization’s financial performance.

A firm’s financial performance can be analyzed based on the active indicators like Liquidity, Investment evaluation and Profitability. The above ratios are considered to analyze the performance of BHEL company.

1. Liquidity:

Liquidity of a business ensures the ability of it to convert its assets into cash in a less period of time, without making big loss. Generally current assets can be easily converted into cash with small reduction in the value, while fixed assets may absorb more value to be converted into cash. Investors prefer a firm which is more liquid.

- a) Current Ratio: The speed at which a firm's current assets are converted into cash is given by current ratio. This cash may be used to pay off the current liabilities.

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

	Mar '19	Mar '18	Mar '17	Mar '16	Mar '15
Current Ratio	1.71	1.92	1.97	1.83	1.85

b) Quick Ratio:

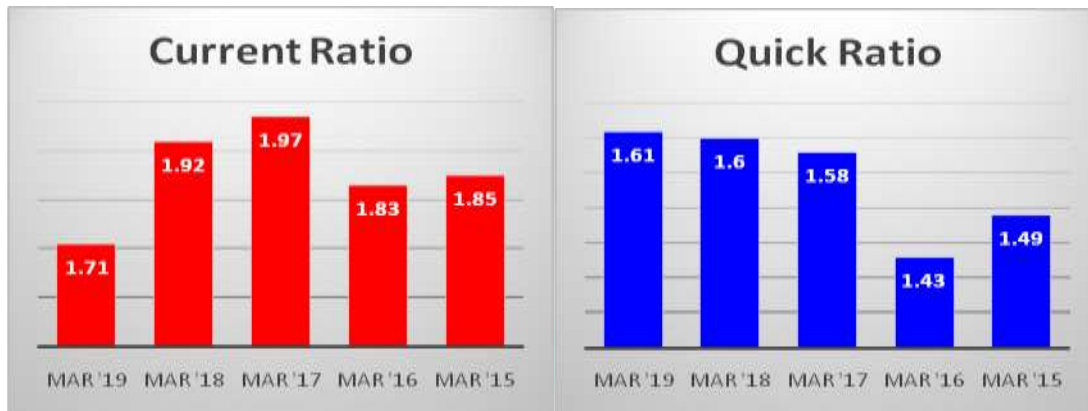
As it is assumed that inventories are the less liquid components of the current assets, many analysts believe that a better measure of liquidity can be obtained by reducing inventories from the current liabilities. This is given by quick ratio.

$$\text{Quick ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current Liabilities}}$$

	Mar '19	Mar '18	Mar '17	Mar '16	Mar '15
Quick Ratio	1.61	1.6	1.58	1.43	1.49

Fig:4

Fig:5



2. Investment Evaluation Ratios:

Any investor's ultimate aim is to gain more return from what he has invested. So, these ratios give a clear-cut information about a company's pay out proportion.

c) Dividend per share:

Dividend is the part of profit paid to the shareholders and thus it plays a major role to satisfy the investors and also to retain them. It is very useful to attract new investors and to gain a better position in the industry.

$$\text{Dividend per share} = \frac{\text{Annual dividend}}{\text{Number of shares}}$$

	Mar '19	Mar '18	Mar '17	Mar '16	Mar '15
Dividend Per Share	2	1.82	1.58	0.4	1.16

d) Bonus in Equity Capital:

Bonus shares are distributed by a company for its existing shareholders at free of cost. When issue of bonus shares is done, the number of outstanding shares will be increased and a reduction in the existing value per share decreases. It is allotted as a reward to shareholders.

	Mar '19	Mar '18	Mar '17	Mar '16	Mar '15
Bonus in Equity Capital	66.66	66.66	50	50	50

Fig:6

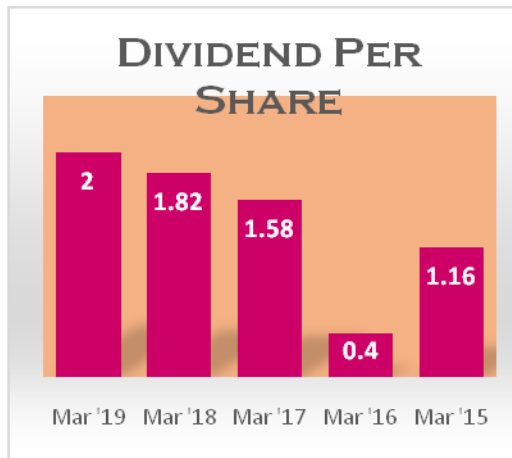


Fig:7



3. Profitability Ratios:

The success of a business organization is given its profit earned from its investment. The first and important requirement for any investor is the profit. It gives a reliable information about a firm and its capacity.

e) Net Profit Margin:

It indicates the management ability to obtain sufficient success not only in earning revenue for the period by covering the operating expenses, costs of merchandise, costs of borrowed funds but also to leave a margin to compensate for the risk of the owners.

$$\text{Net Profit Margin Ratio} = \frac{\text{Net profit}}{\text{Total Revenue}}$$

	Mar '19	Mar '18	Mar '17	Mar '16	Mar '15
Net Profit Margin(%)	4	2.78	1.74	-2.66	4.7

f) Return on Capital Employed:

It is the ratio that reflects the organization's ability to gain back the absolute reward for capital employed. It assesses the capacity of the firm in generating its profits. This ratio is useful to understand whether the company is able to earn more from its rupee.

$$\text{Return on Capital Employed} = \frac{\text{Operating Profit}}{\text{Capital Employed}}$$

	Mar '19	Mar '18	Mar '17	Mar '16	Mar '15
Return on Capital Employed (%)	6.9	5.63	3.02	-2.49	6.56

g) Return on Long Term Funds:

This particular ratio investigates the return from the investments made for a long-term perspective. This helps the management to scrutinize and make decisions regarding fixed investments. The following formula is considered for the computation.

$$\text{Return on Long Term Funds} = \frac{\text{Earnings before Interest and Tax}}{\text{Capital Employed} - \text{Current Liabilities}}$$

	Mar '19	Mar '18	Mar '17	Mar '16	Mar '15
Return on Long Term Funds (%)	7.44	5.63	3.02	-2.49	6.56

Fig:8



Fig:9



Fig:10



Interpretations:

- ✓ The liquidity position of the firm is observed to be stable over the period of five years of study.
- ✓ When the investment evaluation ratios are considered, a steep decline in the dividend payout was observed in year 2016 compared to 2015. Thereafter the firm marked a growth in dividend per share from year to year which is absolutely better than 2015.
- ✓ Bonus issue was also made in the years 2018 and 2019 which is a good sign for the existing shareholders.
- ✓ All the profitability ratios devastated in the year 2016 and thereafter the firm is quite able to pull back and earn more in the further years. It is noticed that the profitability ratios in 2019 are similar and quite more than 2015.
- ✓ While the ratios of five years are compared, the organization's performance reflected a negative impact in the year 2016. However, growth rate is being observed thereafter.

Findings and Conclusion:

- After the analysis of the balance sheet of BHEL company, using common sized, comparative, trend analysis and ratio analysis, it could be concluded that the company's financial performance is being better when compared to the past years.
- Long term investments absorbed major portion of the capital employed and its proportion to overall liabilities increased.
- A growth rate in the profitability ratio indicates the healthy performance of the organization over the recent years.
- As it is maintaining a stable range of current ratio, moreover it is more than 1.5 indicating a lesser level of distress.
- However, the current ratio is observed declined in the year 2019 compared to 2018, but not less than the classic figure.

- Considering the increasing rate of quick ratio, the liquidity strength of the company can be determined.
- Raising dividend per share is sign of relief for the investors.
- The outgrowth from the investment made in long term projects is astounding.
- It is be assumed that there is an implementation of effective management of operations activities and also optimum cost control techniques by the results obtained from profitability ratios.

References:

- 1) Richard W. Metcalf, Pierre L. Titard, "Principles of Accounting," W.B. Saunders Company, 1976, ISBN: 0721663133, 9780721663135.
- 2) John Myer, "Financial Statement Analysis," Prentice Hall, 1959, ASIN: B001E05KQO.
- 3) PetritHasanaj and BekeKuqi, "Analysis of Financial Statements: The Importance of Financial Indicators in Enterprise" Humanities and Social Science Research; Vol. 2, No. 2; 2019.ISSN 2576-3024 E-ISSN 2576-3032.
- 4) Eda OrucErdogan, Murat Erdogan, VesilOmurbek, "Evaluating the effects of various financial ratios on company financial performance: Application in Borsa Istanbul" Business and Economics Research Journal, Vol.6, No.1, 2015. ISSN: 1309-2448.
- 5) Dr.DonthuRavinder,MuskulaAnitha, "Financial Analysis-A study", IOSR Journal of Economics and Finance,2013 e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 2, Issue 3.
- 6) Panagiotadionyssopoulou, Stiliani Asvesta "The role of financial statement analysis in decision making procedures of hotel units" International Journal of Integrated Information Management, Vol. 1(2012), DOI:10.15556/IJIIM.
- 7) J. Pavithra, DilipGurukrishnan, "A Study on Financial Analysis of BSNL," International Journal of Pure and Applied Mathematics, Volume 119, No. 12, 2018, ISSN 1314-3395.
- 8) Dusan Baran, Andrej pastyr, Daniela Baranova, "Financial Analysis of A Selected Company" Research Papers Faculty of Materials Science and Technology in TRNAVA, Volume 24, No. 37, 2016.
- 9) Damjibhai, SanghaniDivyesh, "Performance Measurement through Ratio Analysis: The Case Study of Indian Hotel Company Ltd." IUP Journal of Management Research, Vol. 15, No. 1, January 2016.
- 10) Mohammed Nuhu, "Role of Ratio Analysis in Business Decisions: A Case Study in NBC Maiduguri Plant", Journal of Educational and Social Research, Vol.4, No. 5, July 2014, ISSN 2239-978X, ISSN 2240-0524.
- 11) 2222-1697, e-ISSN 2222-2847, Vol. 5, No. 19, 2014.