

FINANCIAL STATEMENT ANALYSIS WITH RESPECT TO HEMA INDUSTRIES

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ABSTRACT

Financial statement analysis is a critical tool for evaluating a company's financial health, operational efficiency, and long-term sustainability. This study focuses on the financial performance of Hema Industries, a manufacturing enterprise, by analyzing its financial statements over a specific period. The primary objective is to assess the company's profitability, liquidity, solvency, and efficiency through the use of key financial tools such as comparative statements, common-size analysis, trend analysis, and financial ratios. By examining the income statement and balance sheet, the study highlights important trends in revenue, expenses, assets, and liabilities. The analysis reveals the company's strengths, such as consistent revenue growth and manageable debt levels, while also identifying areas that require improvement, such as cost control and working capital management. Insights from this study provide valuable information to stakeholders including management, investors, and creditors for informed decision-making. The research concludes that regular and detailed financial statement analysis can enhance financial planning, support strategic goals, and improve the overall performance of Hema Industries.

Keywords: Financial Statement Analysis, Hema Industries, Balance Sheet, Income Statement, Profitability, Liquidity, Solvency, Ratio Analysis, Trend Analysis, Financial Performance.

1. INTRODUCTION

Financial Statement Analysis is the process of evaluating a company's financial reports to assess its performance, profitability, liquidity, and overall financial health. This analysis involves examining key financial statements, including the Balance Sheet, Income Statement, and Cash Flow Statement, to understand trends and make informed business decisions. By using various techniques such as ratio analysis, trend analysis, and comparative analysis, stakeholders can identify strengths, weaknesses, and areas for improvement. Financial statement analysis is crucial for investors, creditors, and management to evaluate a company's efficiency in utilizing resources and generating returns.

There are two primary approaches to financial statement analysis: Quantitative analysis, which involves financial ratios like profitability ratios (e.g., net profit margin), liquidity ratios (e.g., current ratio), and solvency ratios (e.g., debt-to-equity ratio); and Qualitative analysis, which considers factors such as industry conditions, market trends, and management effectiveness. By combining both approaches, businesses can gain a comprehensive understanding of their financial standing. This analysis helps in strategic planning, investment decisions, and risk management, ensuring the company remains financially stable and competitive in the market.

2. RESEARCH METHODOLOGY

SOURCES OF DATA

Primary data collection is necessary when a researcher cannot find the data needed in secondary sources. Three basic means of obtaining primary data are observation, surveys, and experiments. The choice will be influenced by the nature of the problem and by the availability of time. For this research study Questionnaire was the Primary Data source which is applied.

SAMPLE SIZE:

It refers to the number of elements of the population to sample. Sample size here is 150.

DATA PROCESSING

The study has been carried out with the help of the following data:

Primary data

The primary data was collected through the use of structured questionnaire from the target respondents using survey method.

Secondary data

The secondary data was collected from journals and internet.

TOOLS FOR ANALYSIS

- Percentage Analysis
- Chart Analysis

3. DATA ANALYSIS

Analysis of financial statements is the process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance. The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The first task of the financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statements. The second step is to arrange the information in a way to highlight significant relationships. The final step is interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of selection, relation and evaluation.

Financial performance analysis is, therefore, the process of identifying the financial strengths and weakness of a firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. Financial performance analysis involves careful selection of data from financial statements for the purpose of forecasting the financial health of the firm. This is accomplished by examining trends in key financial data, comparing financial data across firms, and analyzing key financial ratios. It also involves the assessment of firm's past, present and anticipated future financial condition.

In this an attempt has been made to analysis how efficiently the analysis of financial statement is managed in Hema industries. Financial tools such as schedule of changes in ratio analysis, method of least squares and comparative statements have been used for the purpose of analysis. The financial statement involves recording, classifying and summarizing of various business transactions. It is prepared for the purpose of presenting a periodical review or report of the progress made by the concern and deals with the state of the investment, in the business and 'result achieved' during the accounting period. Financial statement, income statement and position statement are the outcome of accounting process.

4.1 Financial statements are indicators of the two significant factors:

1. Profitability
2. Financial Soundness

Analysis and interpretation of financial statements therefore refers to such a treatment of the information contained in the income statement and the balance sheet so as to afford full diagnosis of the profitability and financial soundness of the business.

The term "analysis" means methodical classification of the data given in the financial statements. The term "interpretation" means explaining the meaning and significance of the data so simplified.

4.1.1 Types of financial Analysis

Financial analysis can be classified in to different categories depending upon.

- A. The material used
- B. The modus operand of analysis

A. On the basis of materials used:

According to this basis financial analysis can be of two types.

a) External Analysis

Those who are outsider for the business do this analysis. The outsiders include investors, credit agencies. Government agencies and other creditors who have no access to the internal records of the company. These persons mainly depend upon, the published financial statements. Their analysis serves only a limited purpose. The position of this analysis has improved in recent times on account of increased governmental control over companies and governmental regulations requiring more detailed disclosures of information by the companies in their financial statement

b) Internal analysis:

This analysis is done by persons who have access to the books of account and other information to the books of accounts related to the business., Executives and employees of the organization or by officers appointed for this purpose by the government or the court under powers vested in them can therefore do such an analysis. The analysis is done depending upon the objective to be active and depending upon the objective to be achieved through this analysis.

B. On the basis of modus operandi:

According to this, financial analysis can also be two types

a) Horizontal Analysis:

In case of this type of analysis financial statements for a number of years are reviewed and analyzed. The current year's figures are compared with the standard or base year. The analysis statement usually contains figures for two or more years and the changes are shown regarding each item from the base year usually in the form of percentages. Such as analysis given the management considerable insight into levels and areas of strength and weakness. Since this type

of analysis is based on the date from year to year rather than on one date, it is also termed as ‘Dynamic Analysis’.

b) Vertical Analysis:

In case of this type of analysis a study is made of the quantitative relationship of the various items in the financial statements on a particular type, such an analysis is useful in comparing the performance of several companies in the same group, or divisions or departments in the same company. Since this analysis depends on the data for one period, is nor very conductive financial position. It is also called ‘Static

Analysis’ as it frequently used to ratios developed on one date or for one accounting period. Tools or Techniques used for Analysis:

1. Ratio Analysis
2. Comparative statement Analysis.

LIQUIDITY RATIOS

i) CURRENT RATIO:

Current ratio may be defined as the relationships between current assets and current liabilities. It is the most common ratio for measuring liquidity. It is calculated by dividing current assets by current liabilities. Current assets are those, the amount of which can be realized within a period of one year. Current liabilities are those amounts which are payable within a period of one year. A current ratio of 2:1 is considerable ideal.

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

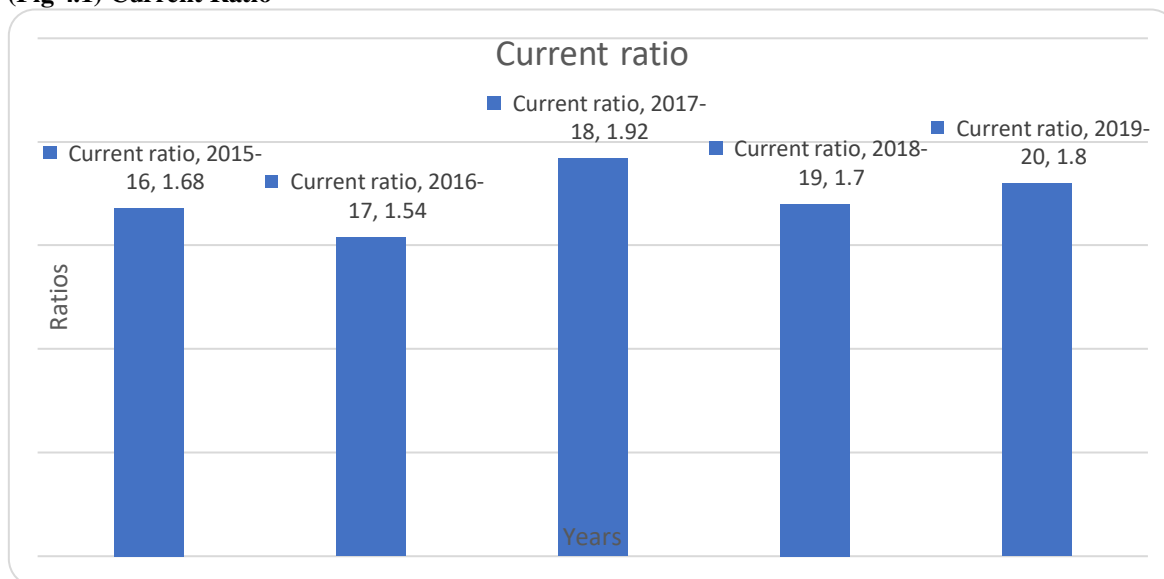
Years	Current assets	Current Liabilities	Current ratio
2015-16	8,09,04,249	4,79,43,538	1.68:1
2016-17	10,08,08,626	6,53,38,107	1.54:1
2017-18	10,72,83,084	5,57,33,063	1.92:1
2018-19	15,15,30,427	8,90,24,312	1.70:1
2019-20	15,16,77,671	8,39,84,132	1.80:1

Current ratio(table4.1):

Interpretation:

The current ratio explains about the profit and financial position of the company. The ratio 2:1 is considered as standard ratio. From the above table we can conclude that all ratios during the five accounting years i.e., from 2015-2020, is below standard ratio. The ratios was recorded as 1.68 in 2015-16,1.54 in 2016-17,1.92 in 2017-18,1.70 in 2018-19,1.68 in 2019-20.the company is sufficient in the year 2017-18 comparing to all other years.

(Fig 4.1) Current Ratio



ii. ABSOLUTE LIQUIDITY RATIOS:

Quick ratio establishes a relationship between quick, or liquid, assets and current liabilities. The term quick assets refer to current assets which can be converted into cash immediately or at a short notice without diminution of value. The acid test ratio is a measure of liquidity designed to overcome this defect of the current ratio. It is often referred to as quickly into cash in order to meet its current liabilities. The quick ratio is a more penetrating test of liquidity than the current ratio. Quick ratio is calculated by dividing the quick assets by the current liabilities;

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

Quick assets include cash and bank balance, short-term marketable securities and debtors/receivables. Thus, which are excluded is pre-paid exclusion of

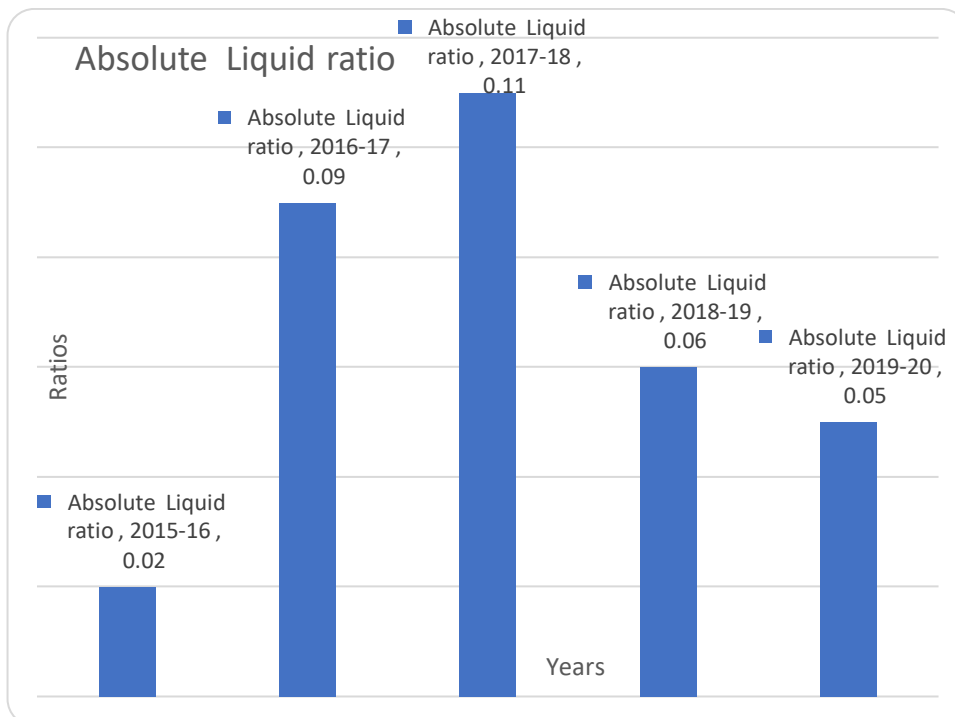
Inventory is based on the reasoning that it is not easily and readily convertible into cash. And pre-paid expenses by their very nature are not available to payoff current debts. Generally, a quick ratio of 1 to 1 is considered to represent a satisfactory current financial condition. It is more does not necessarily imply sound liquidity position. It should be remembered that all debtors may not be liquid, and cash may be immediately needed to pay operating expenses. And it indicates that high value of quick ratio may really be prospering and paying its current obligation in time if it has been turning over its inverses efficiently.

Years	Absolute Liquid Assets	Current Liabilities	Absolute Liquid Ratio
2015-16	14,23,999	4,79,43,538	0.02:1
2016-17	65,16,399	6,53,38,107	0.09:1
2017-18	66,65,907	5,57.33,063	0.11:1
2018-19	60,17,144	8,90,24,312	0.06:1
2019-20	45,87,894	8,39,84,132	0.05:1

Interpretation:

The super quick ratio explains brief about the liquidity position of the firm. The ratio 0.5:1 is considered as a standard ratio. The ratio was recorded as 0.02:1 in 2015-16, 0.09:1 in 2016-17, 0.11 in 2017-18, 0.06 in 2018-19, 0.05 in 2019-20. The absolute liquidity ratio is satisfactory except in 2015-16.

(Fig 4.2) ABOSLUTE LIQUIDITY RATIOS:



4. CONCLUSION

From this study it is identified that the company overall financial performance and financial position of Hema industries is satisfactory. The study identified some drawbacks in few areas. The company has to improve its performance in the current year and the effort should made to decrease the expenses efficiently there by increasing the sales and profits.

The financial statement analysis of Hema Industries reveals important insights into the company's overall financial health, operational efficiency, and profitability over the analyzed period. By examining key financial indicators such as liquidity ratios, solvency ratios, profitability margins, and turnover ratios, it is evident that the company has maintained a stable financial position with room for improvement in certain areas.

The company shows a satisfactory level of short-term liquidity, indicating its ability to meet current liabilities. However, the solvency ratios suggest that careful monitoring of long-term obligations is necessary to avoid potential financial stress. Profitability ratios highlight the firm's moderate returns, which can be improved through better cost management and revenue enhancement strategies.

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