



INTERNATIONAL JOURNAL OF ADVANCE RESEARCH, IDEAS AND INNOVATIONS IN TECHNOLOGY

ISSN: 2454-132X

Impact Factor: 6.078

(Volume 10, Issue 5 - V10I5-1309)

Available online at: <https://www.ijariit.com>

A Study on Financial Performance and Working Capital in Yuvaraj Scaffolding Private Limited, Madurai

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ABSTRACT

Working capital is considered to be the life force of an economic entity and its efficient management decides the tradeoff between liquidity and profitability. The words of H. G. Guthmann clearly explain the importance of working capital. "Working Capital is the life-blood and nerve center of the business." In the words of Walker, "A firm's profitability is determined in part by the way its working capital is managed." The object of working capital management is to manage firm's current assets and liabilities in such a way that a satisfactory level of working capital is maintained. If the firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy. Thus, need for working capital to run day-to-day business activities smoothly can't be overemphasized. So, in this perspective, the present study is undertaken to examine and evaluate the working capital management of Yuvaraj scaffolding private limited by adopting Ratio Analysis.

Keywords: Balance Sheet, Comparative Statement, Ratios, Working Capital, Profitability.

INTRODUCTION

Financial statements are the bedrock of financial reporting and analysis for businesses. They are comprehensive documents that provide a detailed overview of a company's financial performance and its overall financial health. These statements are prepared on a regular basis, often quarterly and annually, and they serve as a vital tool for both internal and external stakeholders in understanding a company's fiscal standing and trajectory. The core financial statements typically include the income statement (or profit and loss statement), the balance sheet, and the cash flow statement. Each of these statements offers unique insights into different facets of a company's financial activities. The income statement provides a comprehensive view of a company's revenues, expenses, and profits over a specific period. It showcases how much revenue the company generated, the costs and expenses it incurred to earn that income, and ultimately, whether the company made a profit or incurred a loss during the reporting period. The cash flow statement traces the flow of cash in and out of the company during a given period. It is categorized into three sections: operating activities (cash flows related to the day-to-day operational functions of the business), investing activities (cash flows associated with investments in assets), and financing activities (cash flows derived from borrowing, repaying debt, or issuing equity).

Investors, creditors, regulators, and analysts rely on these documents to evaluate a company's financial stability, growth potential, and investment attractiveness. They provide a transparent and standardized means to gauge a company's financial performance and ensure transparency and credibility in financial reporting and analysis. Financial performance analysis has become a critical tool for organizations to gauge their operational effectiveness, profitability, and overall financial health. This study focuses on Yuvaraj Engineering, a company dedicated to delivering innovative engineering solutions across various sectors. The analysis will encompass a comprehensive evaluation of the company's financial statements, including the balance sheet, income statement, and cash flow statement, to assess its financial viability and performance trends over recent years. Yuvaraj Engineering operates in an increasingly competitive industry where the ability to make informed financial decisions is paramount. Understanding financial performance not only aids in identifying strengths and weaknesses but also assists stakeholders, including investors, management, and employees, in making strategic decisions.

By analyzing key financial ratios such as liquidity, profitability, efficiency, and solvency, this study aims to provide a clear picture of how well Yuvaraj Engineering is managing its resources and generating value for its stakeholders.

The importance of financial performance analysis extends beyond internal management; it is vital for external stakeholders who assess the company's stability and growth potential. Investors look for solid financial performance indicators to justify their investment decisions, while creditors evaluate financial health to determine creditworthiness. This analysis will also take into consideration industry benchmarks and economic conditions that may influence the company's performance. As Yuvaraj Engineering continues to evolve, understanding its financial performance will be crucial for strategic planning and operational adjustments. This study will leverage quantitative method to provide a holistic view of the company's financial landscape. The goal is to offer insights that will support Yuvaraj Engineering in navigating challenges and capitalizing on opportunities in the engineering sector. Through a thorough exploration of financial data and market positioning, this research will contribute to the broader understanding of financial performance analysis as an essential element of corporate governance and strategic management.

OBJECTIVE OF THE STUDY

1. To assess the overall financial health of Yuvaraj by analysing financial statements and ratios over recent years.
2. To identify trends and patterns in the company's financial performance that can inform strategic decision-making and operational improvements.
3. To compare company's financial metrics with industry benchmarks to understand its competitive position and identify areas for enhancement.

SCOPE OF THE STUDY

The scope of this study on the financial performance analysis of Yuvaraj encompasses a comprehensive examination of the company's financial statements, including the income statement, balance sheet, and cash flow statement, over a defined period. It will analyse financial ratios such as liquidity, profitability, efficiency, and solvency to evaluate the company's financial health and operational effectiveness. The study will benchmark companies' performance against industry standards and competitors to contextualize its financial standing within the engineering sector. The scope extends to providing actionable information and recommendations that can guide strategic decision-making for stakeholders at all levels, contributing to the company's sustainable growth and competitiveness.

STATEMENT OF THE PROBLEM

The financial performance of Yuvaraj is a critical concern in an increasingly competitive engineering landscape. Despite the company's efforts to innovate and deliver high-quality solutions, fluctuations in revenue, cost management, and profitability metrics raise questions about its long-term financial sustainability. Stakeholders, including management, investors, and creditors, need a comprehensive understanding of the underlying factors influencing these financial trends. This study aims to address the problem of assessing Yuvaraj Engineering's financial health by systematically analysing its financial statements and performance indicators. By identifying key issues affecting its financial stability and growth potential, the study will provide actionable insights that can inform strategic decisions and enhance the company's competitive position in the market.

REVIEW OF LITERATURE

1. **Modi (2020)** in her study attempts to measure the liquidity status of selected automobile companies in India. The data has been collected from annual reports of the sample companies. In order to measure the liquidity position, current ratio and quick ratio were calculated for the period of five years i.e. from 2014-15 to 2018-19. Apart from this, statistical tools like mean, standard deviation, and coefficient of variances were used to analyze the data. This study concluded that Ashok Leyland Limited, Bajaj Auto Limited, and Eicher Motors have a weak liquidity position while Hero Motor Corp has a good liquidity position. On the other hand, Force Motors Ltd. has a strong liquidity position during the study period.
2. **Chhatrola and Ransariya (2019)** conducted a study to analyze the liquidity performance of BSE 30 companies for the period commencing from 2012-13 to 2016-17. For this purpose, the liquidity ratios like current ratio and quick ratio are calculated. In addition to that the ANOVA has been used for testing the hypothesis. The result reveals that the liquidity position of Infosys Ltd is found good among all units listed in BSE-30 companies during the study period. The study also reveals that HDFC Ltd. and Tata Motors Ltd. have the lowest liquidity position during the study period. Furthermore, the study found that there is no significant difference in current ratio and quick ratio of the sample companies during the study period.
3. **Nandhakumar and Magesh (2019)** examined the performance of textile and apparel industry in India based on literature review on the basis of various factors like market size, investment, government initiatives and key market and export destinations. The author concludes that Indian Textile and apparel industry is a growing industry and Government is also providing various facilities to promote this sector by setting-up of integrated textile park, technology fund for up-gradation and provide 100% foreign direct investment and so on.
4. **Gupta (2018)** evaluated the performance of textile companies based on their liquidity, solvency, profitability and managerial efficiency. It is concluded that there is a significant difference between Return on Capital Employed, Net Profit Margin, Current Ratio, Debt equity and fixed turnover ratio.
5. **Mohammed (2017)** examined the financial performance of four selected public sector textile units (Barshi Textile Mills, India United Mill No.5, Polar Mills and Tata Mills) based on turnover, solvency and liquidity for the period of 10 years starting from 2006- 2016. The author investigated the reasons for slow pace of growth of textile companies in Maharashtra. It is found out that solvency ratio and liquidity has significant impact on profitability but turnover ratio has insignificant impact on profitability of selected textile units in Maharashtra.

RESEARCH METHODOLOGY

This study will adopt a descriptive research design to provide a detailed analysis of Yuvaraj Engineering's financial performance. The research will focus on both quantitative and qualitative data to evaluate the financial health of the company. The aim is to systematically investigate key financial metrics and trends over a specific period, offering insights into areas that require improvement.

DATA COLLECTION

- a) Secondary Data: The study will primarily rely on secondary data, which includes financial statements such as the balance sheet, income statement, and cash flow statement of Yuvaraj Engineering. These documents will be sourced from company reports, annual financial disclosures, and industry databases.

ANALYTICAL TOOL

Used the following are major tools is used analysis and interpretation

- Comparative balance sheet
- Ratio analysis
- Trend Analysis

ANALYSIS & INTERPRETATION

RATIO ANALYSIS

CURRENT RATIO

PARTICULARS	YEAR				
	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
CURRENT ASSETS	27992500	35109784	29446287	34473692	46828197
CURRENT LIABILITIES	15470332	17754066	9264193	14568383	11677058
CURRENT RATIO	1.80943111	1.977562999	3.178505348	2.366336195	4.010273564

SOURCE: SECONDARY DATA

INTEPRETATION

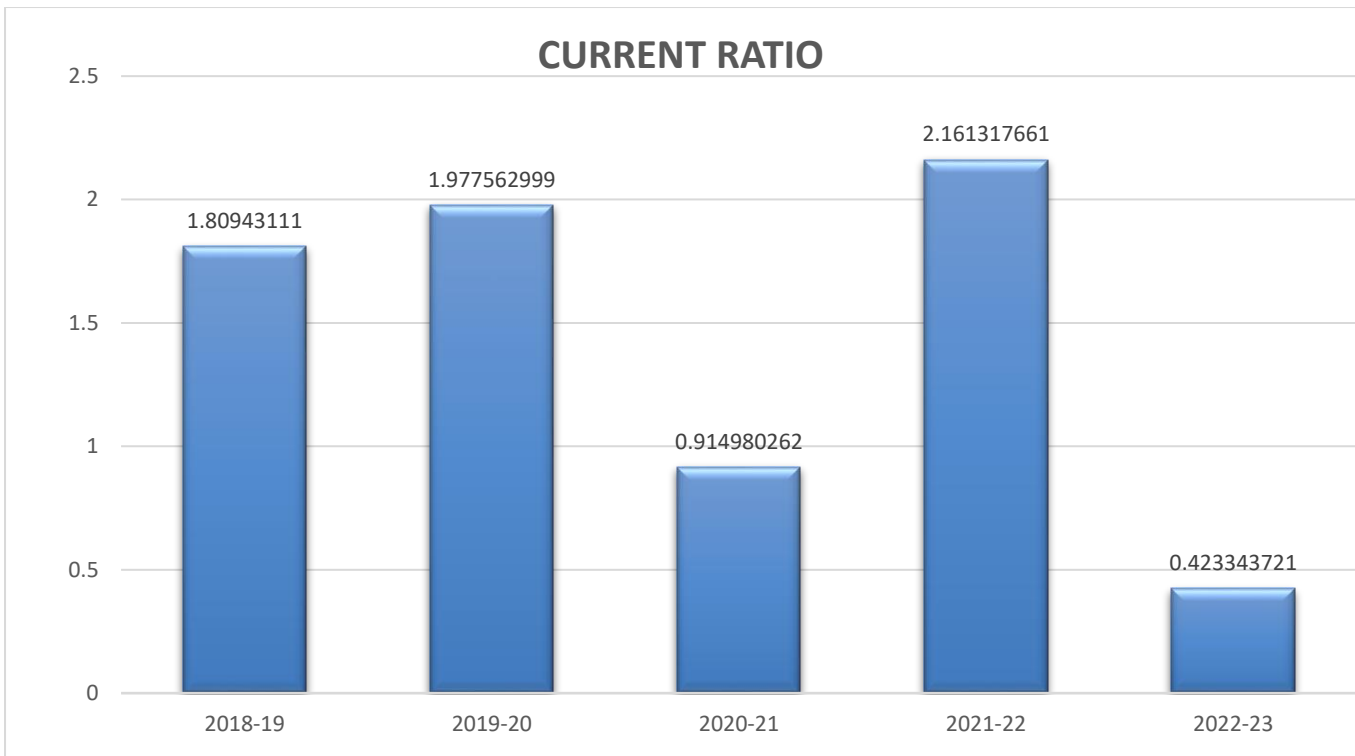
2018-2019: The current ratio of 1.8094 indicates that the company had sufficient current assets to cover its short-term liabilities, but it was not significantly above the industry average.

2019-2020: The current ratio increased slightly to 1.9776. This suggests that the company improved its liquidity position, possibly due to increased cash inflows or reduced short-term debt.

2020-2021: The current ratio saw a significant jump to 3.1785. This indicates a strong liquidity position, likely due to factors such as government stimulus, reduced business activity, or increased cash reserves.

2021-2022: The current ratio decreased to 2.3663. This could be attributed to increased business activity, higher inventory levels, or increased short-term debt.

2022-2023: The current ratio increased again to 4.0103, indicating a very strong liquidity position. This could be due to factors such as continued economic recovery, reduced operating expenses, or increased cash reserves.



2. CURRENT ASSETS TURN OVER RATIO

PARTICULARS	YEAR				
	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
SALES	21978020	35911370	31219425	15225271	31639959
CURRENT ASSETS	27992500	35109784	29446287	34473692	46828197
CURRENT ASSETS TURN OVER RATIO	0.785139591	1.022830844	1.060216013	0.441648983	0.675660415

SOURCE: SECONDARY DATA

INTEPRETATION

2018-2019: 0.785139591

- The company was using its current assets to generate sales 0.79 times during the year. This indicates a relatively low efficiency in utilizing current assets.

2019-2020: 1.022830844

- The ratio improved to 1.02, suggesting that the company became more efficient in using current assets to generate sales.

2020-2021: 1.060216013

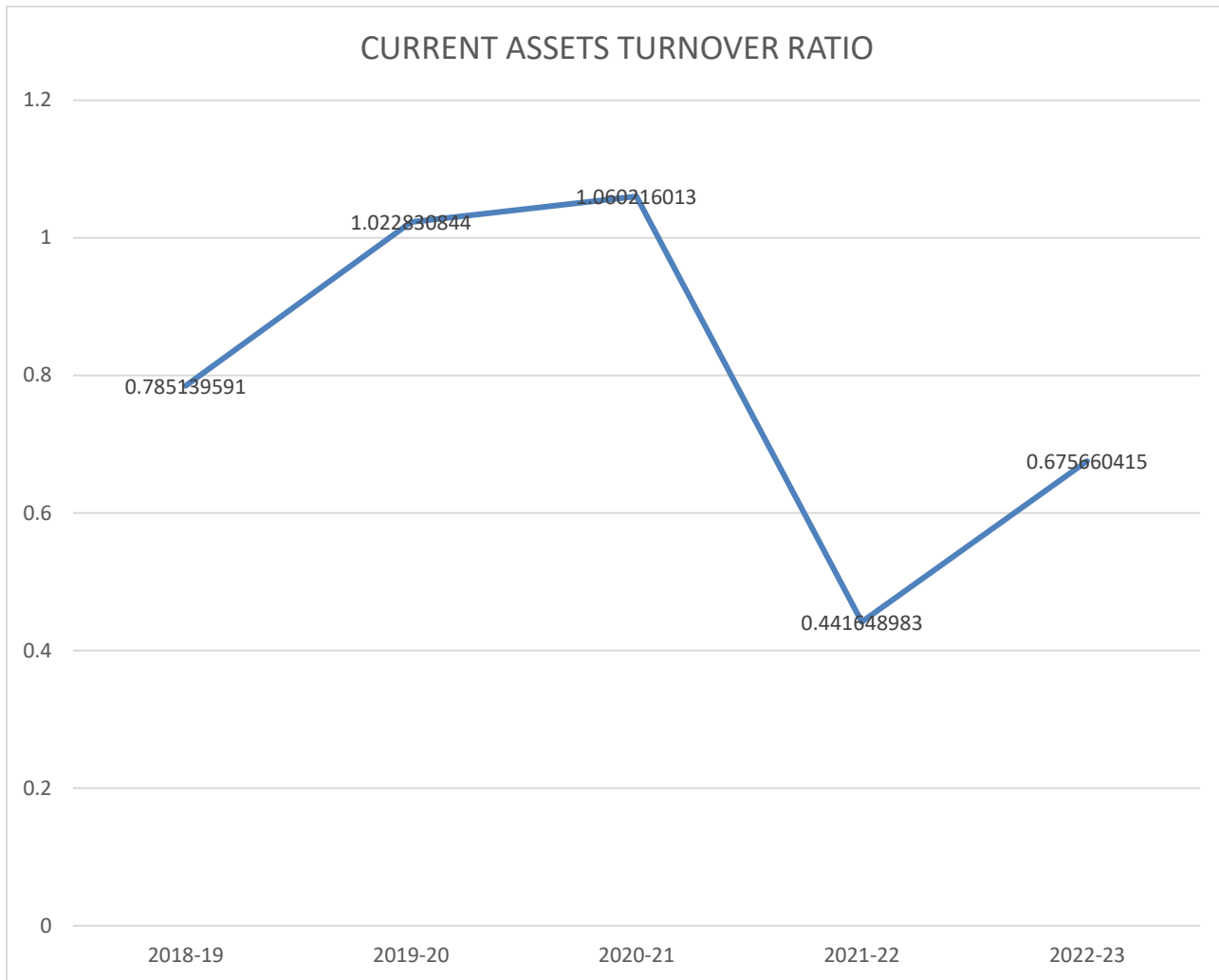
- The ratio continued to improve slightly, indicating further efficiency in current asset utilization.

2021-2022: 0.441648983

- The ratio declined significantly to 0.44, suggesting a significant decrease in efficiency. The company was using its current assets less effectively to generate sales.

2022-2023: 0.675660415

- The ratio improved from the previous year but remained below the levels seen in 2019-2021.



FINDINGS

CURRENT ASSETS TURNOVER RATIO

- ✓ The company's current asset turnover ratio has fluctuated over the years.
- ✓ The improvement in 2019-2021 suggests that the company became more efficient in using its current assets.
- ✓ The significant decline in 2021-2022 indicates a potential issue with inventory management or receivables collection.
- ✓ A lower ratio can indicate that the company is holding too much inventory or is facing difficulties in collecting payments from customers.

CONCLUSION

Based on the comprehensive analysis of the company's financial performance, it is evident that the company has faced challenges in maintaining a strong liquidity position, managing leverage, and improving operational efficiency. While there have been periods of improvement in certain areas, the company needs to implement targeted strategies to address these issues and enhance its overall financial health.

The recommendations outlined in this report provide a roadmap for the company to improve its financial performance. By focusing on liquidity management, reducing leverage, enhancing efficiency, and increasing profitability, the company can strengthen its position in the market and create sustainable value for its shareholders.

It is important to note that this analysis is based on the provided data and may not capture all relevant factors. The company should conduct a more in-depth analysis, considering industry trends, economic conditions, and internal factors to develop a tailored action plan.

SUGGESTION

- **Increase cash reserves:** The company should strive to maintain adequate cash reserves to cover unexpected expenses and meet short-term obligations.
- **Improve cash flow management:** Implement strategies to improve cash inflows and reduce cash outflows, such as optimizing inventory levels, accelerating collections, and negotiating favorable payment terms with suppliers.
- **Reduce current liabilities:** Consider strategies to reduce current liabilities, such as negotiating extended payment terms with suppliers or refinancing short-term debt.
- **Manage debt levels:** The company should carefully monitor its debt levels and avoid excessive leverage to mitigate financial risk.

- **Explore alternative financing options:** Consider equity financing or other less risky financing options to reduce reliance on debt.
- **Improve profitability:** Increasing profitability can help the company meet its debt obligations and reduce leverage.
- **Optimize inventory management:** Implement efficient inventory management practices to reduce excess inventory and improve turnover.
- **Improve receivables management:** Implement strategies to accelerate the collection of receivables, such as offering discounts for early payment or using more effective collection methods.
- **Review payables management:** Negotiate favorable payment terms with suppliers and avoid unnecessary delays in payments.
- **Increase sales revenue:** The company should explore strategies to increase sales, such as product innovation, market expansion, or improved marketing efforts.

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