INTERNATIONAL RESEARCH STARS

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

A COMPREHENSIVE STUDY ON RATIO ANALYSIS IN CIFAL HERBAL PVT. LTD

*A. Vamsi[1], and Dr. R. Eswaraiah[2]

Department of management studies, Narayana Engineering College (Autonomous), Gudur

ABSTRACT

The aim of the study is ratio Analysis as a vital financial tool used to assess a company's performance and financial health. It involves evaluating profitability, liquidity, solvency, and efficiency through various financial ratios. The objective is to interpret financial statements for better decision-making. A specific company's data is analysed over a period of time. This helps stakeholders understand trends and identify strengths and weaknesses. The study emphasizes the role of ratio analysis in strategic planning. Financial data was collected from annual reports and by collecting 5 years profit and loss account statement and balance sheets of the company. The company has shown improvement in liquidity over the years, as seen in the rising current and quick ratios. However, decreasing current asset turnover and gross profit margin indicate declining efficiency and profitability that need strategic attention.

Keywords: Liquidity, Profitability, Solvency, Efficiency.

INTRODUCTION

Cifal Herbal Pvt. Ltd. operates within the rapidly growing herbal and Ayurvedic products industry in India, which holds significant importance due to increasing consumer preference for natural and traditional health remedies. The industry benefits from India's rich heritage of Ayurveda, rising health awareness, and a global shift towards organic and plant-based products. Cifal Herbal contributes to this industry by offering a range of herbal formulations that cater to wellness, immunity, and chronic ailments, aligning with the demand for sustainable and side-effect-free alternatives to conventional medicine. Its presence supports the domestic economy, promotes indigenous knowledge systems, and enhances India's position in the global herbal products market.

Cifal Herbal Pvt.Ltd is an Indian private limited company engaged in the production and distribution of herbal and ayurvedic healthcare products. Established with a mission to promote wellness through nature-based solutions, the company integrates traditional Ayurvedic wisdom with modern research and development. Its product range often includes herbal supplements, skincare products, immunity boosters, and wellness solutions, catering to the growing demand for alternative medicine and holistic health practices. Cifal Herbal operates within the fmcg (Fast-Moving Consumer Goods) and Ayurveda/Herbal wellness sectors.

Ratio analysis is a quantitative analysis of information contained in a company's financial statements. Ratio analysis is based on line items in financial statements like the balance sheet, income statement and cash flow statement; the ratios of one item or a combination of items - to another item or combination are then calculated. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency.

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

While ratio analysis provides valuable quantitative insights, it should be complemented by qualitative analysis. For instance, a company with a strong ROE but facing regulatory scrutiny may not be a sound investment. Therefore, analysts often integrate both financial ratios and strategic factors to arrive at comprehensive judgments. In emerging economies like India and Brazil, ratio analysis plays a pivotal role in financial inclusion and corporate governance. Regulatory bodies encourage ratio disclosures for transparency, especially for small and medium enterprises (SMEs) seeking credit or public funding. However, inconsistent accounting standards and limited data availability sometimes hinder its effective use. Technological advancements and big data analytics have revolutionized ratio analysis. Software tools now allow real-time financial tracking, automated ratio computation, and integration with predictive models.

REVIEW OF LITERATURE

Coenders & Arimany-Serrat (2023) explored the application of compositional data analysis (CoDa) to financial statement analysis at the industry level. The study addressed challenges such as skewness, non-normality, and outliers in traditional financial ratios. By applying CoDa, the authors demonstrated how to compute industry means of financial ratios, visualize firms using compositional principal-component analysis, and classify them into homogeneous financial performance profiles. The research included an application to Spanish wineries using DuPont analysis and provided a tutorial on using CoDaPack software. The findings offer a novel approach to analysing financial statements and can be accessed on arXiv.

Alqudah & Alrowais (2023) examined the impact of financial ratios on the financial performance of Saudi food production companies listed on the Saudi Exchange Market (Tadawul) from 2019 to 2022. Using statistical analysis, the study found a significant positive relationship between financial performance and debt ratios, current ratio, productivity, and customer satisfaction. Conversely, company size exhibited a negative relationship with financial performance. The research highlights the importance of specific financial ratios in assessing the performance of food production companies in Saudi Arabia. The full article is published in the Finance and Business Economies Review.

Sawitri (2023) investigated the influence of financial ratios—Current Ratio (CR), Debt Equity Ratio (DER), Total Asset Turnover (TOTA), and Return on Assets (ROA)—on company performance, as proxied by Return on Equity (ROE), with Sustainability Report (SR) serving as an intervening variable. The study focused on five cruise companies from 2019 to 2021. Using Structural Equation Modelling with SmartPLS, the research found that these financial ratios significantly influenced ROE and SR. The findings suggest that financial ratios play a crucial role in enhancing company performance through sustainability reporting. The article is published in Atestasi: Jurnal Ilmiah Akuntansi.

Amin & Cek (2023) investigated the effect of golden ratio-based capital structure on firm financial performance. Analysing data from manufacturing and services sectors, they found a significant association between capital structure deviations and financial performance. The study suggests that a 38.2% equity and 61.8% debt ratio optimizes performance. It introduces the golden ratio as a novel approach in capital structure decisions. The research provides empirical evidence supporting the golden ratio's applicability in finance. It offers a new perspective for financial

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

managers in structuring capital. The study bridges the gap between mathematical concepts and financial strategies. It contributes to the literature by proposing an innovative framework for capital allocation. The findings have implications for improving market acceptance and financial outcomes. Published in Sustainability.

Sharma & Luciani (2023) explored the relationship between financial ratios and total stock returns in Thai banking firms. The study utilized rank normalization to compare the rankings of banks based on financial ratios and total stock returns. Findings indicated no strong positive relationship between the two rankings, suggesting that financial ratios alone may not predict stock performance effectively. However, the similarity in rankings implies that financial ratios still hold some relevance in assessing stock returns. The research underscores the complexity of stock performance determinants in the banking sector. It highlights the need for incorporating additional variables beyond traditional financial ratios in investment analysis. The study provides insights for investors seeking to evaluate banking stocks in Thailand. It contributes to the literature by questioning the predictive power of financial ratios on stock returns. The research suggests a more comprehensive approach to stock valuation. Published in the International Journal of Multidisciplinary in Management and Tourism.

Indrawati & Dambe (2021) analysed the financial performance of PT. Papua Regional Development Bank using financial ratio analysis. The study examined liquidity, profitability, and solvency ratios to assess the bank's financial health. Results indicated areas of strength and weakness in the bank's financial structure. The research provides a framework for evaluating regional banks' performance. It contributes to understanding the financial dynamics of development banks. The study offers practical implications for bank management and policymakers. It emphasizes the significance of ratio analysis in financial decision-making. The research suggests regular financial assessments to ensure stability. It highlights the role of financial ratios in strategic planning. Published in Jurnal ULET (Utility, Earning and Tax).

Hananiyah & Jaya (2023) investigated the impact of financial ratios on financial distress in Indonesian Sharia commercial banks. Using the Altman Z-score model, they analysed data from 2017 to 2022. Findings revealed that ROA and Current Ratio positively influence financial distress. Conversely, ROE and Debt-to-Equity Ratio have a negative effect. Non-Performing Financing showed no significant impact. The study underscores the importance of monitoring financial ratios in Islamic banking. It provides insights into early warning systems for financial instability. The research contributes to risk management strategies in Sharia banking. It highlights the relevance of traditional financial metrics in modern Islamic finance. Published in I-Finance: A Research Journal on Islamic Finance.

Rochmah et al. (2024) examined the relationship between financial ratios and Price Earnings Ratio (PER) in Indonesian technology companies during the COVID-19 pandemic. The study found that Current Ratio significantly affects PER, while ROE and Debt-to-Equity Ratio do not. Company size did not moderate these relationships. The research suggests that investors prioritize liquidity over profitability and leverage during economic uncertainties. It challenges the applicability of Signaling Theory in crisis periods. The study provides insights into investor behaviour in the tech sector. It underscores the dynamic nature of financial indicators in volatile markets. The research

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

contributes to the literature on financial analysis during pandemics. It offers guidance for corporate financial strategy in uncertain times. Published in the Proceedings of the BISTIC Business Innovation Sustainability and Technology International Conference.

The studies reviewed highlight various applications of financial ratio analysis across different sectors. Coenders & Arimany-Serrat (2023) introduced compositional data analysis for industry-level financial profiling, focusing on Spanish wineries. Alqudah & Alrowais (2023) demonstrated the significance of financial ratios in the performance of Saudi food companies. Sawitri (2023) showed that financial ratios significantly influence Return on Equity and sustainability reporting in cruise companies. Amin & Cek (2023) proposed the use of the golden ratio for optimizing capital structure. Sharma & Luciani (2023) explored the limited predictive power of financial ratios for Thai banking stock returns. Indrawati & Dambe (2021) assessed the financial performance of PT. Papua Regional Development Bank through ratio analysis. Hananiyah & Jaya (2023) applied the Altman Z-score to evaluate financial distress in Indonesian Sharia banks. Together, these studies underline the importance of financial ratios in decision-making and performance evaluation across various industries.

The research gap in the study is, herbal and Ayurvedic product industry has unique characteristics (inventory of raw herbs, seasonal variations, specific regulatory requirements) that may not be adequately reflected in general financial ratio benchmarks. Therefore, there is a need for research that establishes industry-specific ratio benchmarks, allowing for more accurate and relevant financial analysis of Cifal Herbal Pvt Ltd.

RESEARCH METHODOLOGY

Financial forecasting is an integral part of financial planning. Forecasting uses past data to estimate the future financial requirement. Ratio analysis is a powerful tool of financial analysis. Ratios help to summarizes large quantities of financial data and to make qualitative judgment about the firm's financial performance. The purpose of the project is to study the working of the company with reference to financial management.

The purpose of ratio analysis in Cifal Herbal Pvt Ltd, is to evaluate the company's financial health and performance through the interpretation of financial ratios. This involves Financial Performance Evaluation, Internal and External Comparisons, Decision-Making Support. This study aims to benefit a wide group of users including investors, financial analysts, academicians, creditors, and management personnel by providing insights into the financial soundness and operational performance of the firms under review.

Objectives of the study

- To assess the financial health and performance of CIFAL Herbal Private Limited.
- To study the short-term liquidity positions of company.
- To analyse the asset turnover ratio.
- To study the effectiveness of credit management of the company.

Research Design

The research follows a descriptive and analytical design. The descriptive aspect involves presenting the financial condition of selected firms using historical data, while the analytical

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

component focuses on interpreting financial ratios to assess performance, efficiency, and stability. The study is comparative in nature, examining multiple firms within a particular industry over a specific time frame (usually 3 to 5 years) to identify patterns and differences in financial performance.

The study is entirely based on secondary data. The required data has been collected from annual reports, company websites, financial portals such as Moneycontrol and Screener, and publications from regulatory authorities like SEBI and RBI. The study covers the period from 2019 to 2024. The key financial variables considered for analysis include liquidity ratios (such as Current Ratio and Quick Ratio), profitability ratios (such as Net Profit Margin and Return on Equity), and solvency ratios (such as Debt-Equity Ratio and Interest Coverage Ratio).

DATA ANALYSIS AND INTERPRETATION

The collected financial data is analyzed using various tools and techniques, with a primary focus on Ratio Analysis. This method involves evaluating the financial performance of an organization through several key categories of ratios. Liquidity Ratios are used to assess the company's ability to meet its short-term obligations, providing insights into its short-term financial health. Profitability Ratios help measure the organization's ability to generate earnings relative to its revenue, assets, and equity, reflecting its overall efficiency and performance. Solvency Ratios are used to evaluate the long-term financial stability of the organization by examining its ability to meet long-term obligations. Finally, Activity Ratios focus on how efficiently the organization utilizes its assets in generating sales or revenue. Together, these ratios provide a comprehensive view of the financial position and operational effectiveness of the entity under study.

CURRENT RATIO

The current ratio is a liquidity ratio that measures a company's ability to pay off its short-term liabilities with its short-term assets. It provides a snapshot of the company's short term financial health and its efficiency in managing working capital.

Table 1 Current Ratio

Financial Year	Current Assets (Rs in Lakhs)	Current Liabilities (Rs in Lakhs)	Current Ratio (Times)
2019-20	67700	101150	0.67
2020-21	116500	103500	1.13
2021-22	101500	100900	1.01
2022-23	183000	126400	1.45
2023-24	170500	100700	1.69

Source: secondary data

Table 1 presents the current ratio analysis of the firm over a five-year period from 2019–20 to 2023–24. The current ratio, which is a measure of a company's ability to meet its short-term obligations using its short-term assets, showed significant improvement during the observed period. In 2019–20, the current ratio was at a low of 0.67 times, indicating that the company had insufficient current assets to cover its current liabilities, potentially reflecting liquidity stress.

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

However, in 2020–21, the ratio rose sharply to 1.13 times, suggesting better short-term financial health. Although there was a slight decline to 1.01 times in 2021–22, the ratio still indicated a near-balanced liquidity position. In 2022–23 and 2023–24, the current ratio further improved to 1.45 and 1.69 times respectively, highlighting a strong liquidity position and a better ability to meet short-term obligations without financial strain. This upward trend in the current ratio reflects the company's effective management of current assets and liabilities, pointing toward improved financial stability and operational efficiency over time.

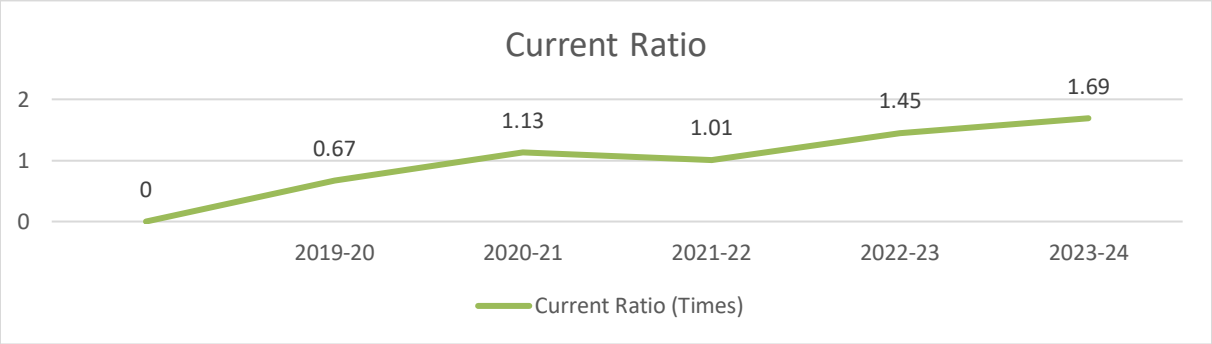

Figure 1 Current Ratio

The above figure 1 shows a consistent improvement in the company's short-term liquidity position over the five-year period. In 2019–20, the ratio was below 1 (0.67), indicating that current liabilities exceeded current assets, suggesting potential liquidity issues. However, from 2020–21 onwards, the ratio crossed the benchmark of 1 and continued to rise, reaching 1.69 in 2023–24.

Quick Ratio

Quick Ratio, also called Acid Test Ratio, A Quick Ratio express the relationship between the quick assets and current liabilities. It is obtained by measure quick assets by current liabilities. A quick ratio of 1:1 considered adequate. For every one-rupee current liabilities there should be maintained one rupee of worth of quick assets.

Table 2: Quick Ratio

Financial Year	Current Assets (₹ in Lakhs)	Inventory (₹ in Lakhs)	Current Liabilities (₹ in Lakhs)	Quick Ratio
2019-20	67700	14000	101150	0.53
2020-21	116500	20000	103500	0.93
2021-22	101500	30000	100900	0.7
2022-23	183000	40000	126400	1.13
2023-24	170500	60000	100700	1.09

Source: secondary data

The Quick Ratio, a key measure of a company's short-term liquidity excluding inventory, reveals significant fluctuations over the five-year period from 2019–20 to 2023–24. In the financial year 2019–20, the ratio stood at a low 0.53, indicating that the company's most liquid assets were insufficient to cover its current liabilities. A notable improvement occurred in 2020–21 as the ratio

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

rose to 0.93, driven by a sharp increase in current assets and a marginal rise in current liabilities. However, this momentum was not sustained in 2021–22, as the quick ratio declined to 0.70 due to a reduction in current assets and an increase in inventory, which does not contribute to quick assets. The financial year 2022–23 marked the strongest liquidity position with a peak quick ratio of 1.13, suggesting that the company had more than enough liquid assets to meet its short-term obligations. Though there was a slight dip to 1.09 in 2023–24, the quick ratio remained above the ideal benchmark of 1.0, indicating stable and sufficient liquidity. The trend reflects effective liquidity management in the later years, with improved financial health and responsiveness to short-term liabilities.

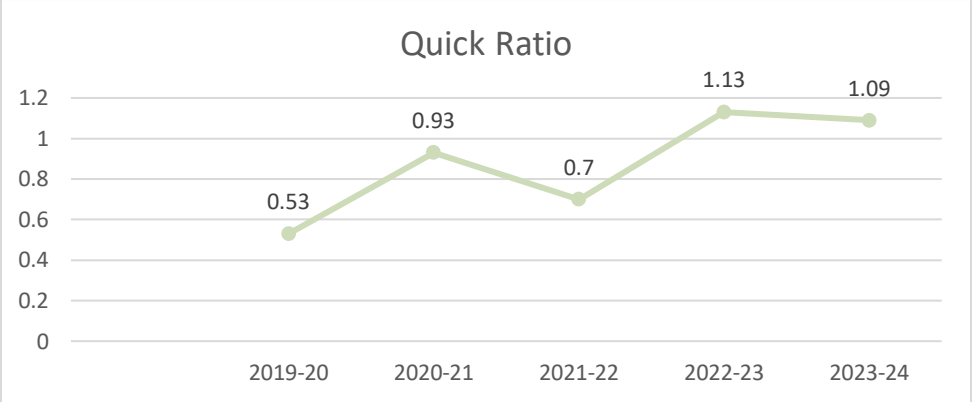

Figure 2 Quick Ratio

The above figure 2 shows quick ratio, which excludes inventory from current assets to assess immediate liquidity, shows a gradual improvement over the years. In 2019–20, the ratio was only 0.53, indicating a weak ability to meet short-term liabilities without relying on inventory. By 2020–21, it improved to 0.93, nearing the ideal benchmark of 1. Although there was a slight dip in 2021–22 (0.70), the ratio recovered in the following years, reaching 1.13 in 2022–23 and maintaining a strong position at 1.09 in 2023–24.

Debt Ratio

Debt Ratio used to analyse the long-term solvency of a firm. The firm interested in knowing the proportion of the interest-bearing debt in the Capital Structure. It may therefore, compute debt ratio by dividing total debt by capital employed.

Table 3 Debt Ratio

Financial Year	Total Debt	Total Debt + Net worth	Debt Ratio
2020	4050	-19000	-0.2
2021	8500	-5700	-1.5
2022	11500	16000	0.7
2023	12600	53000	0.2
2024	14000	78500	0.2

Source: secondary data

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

The above table 3 shows debt ratio moved from -0.2 in 2020 to -1.5 in 2021, indicating a deepening negative leverage.In 2022, it shifted to a positive 0.7, reflecting a reversal in the debt structure.By 2023, the ratio stabilized at 0.2, showing an improved and steadier debt position.

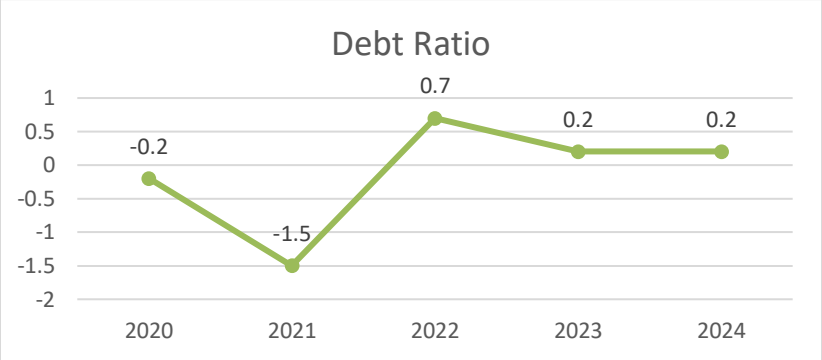

Figure 3 Debt Ratio

Table 3 presents the Debt Ratio over the five financial years from 2020 to 2024. The Debt Ratio, calculated as Total Debt divided by the sum of Total Debt and Net Worth, reflects the proportion of a company's financing that comes from debt. In 2020 and 2021, the company recorded negative values of -0.2 and -1.5 respectively, indicating a negative net worth during these years. This suggests financial instability or accumulated losses that exceeded the equity base. However, a positive turnaround is observed from 2022 onwards, where the Debt Ratio improved to 0.7, reflecting a strengthened equity position and improved financial structure. By 2023 and 2024, the Debt Ratio stabilized at 0.2, suggesting a lower reliance on debt and a more balanced capital structure. This trend indicates that the company made significant efforts to improve its net worth while managing its debt levels effectively, contributing to greater financial stability in the recent years.

Debt Equity Ratio

The relationship describing the lender's c is called Debt-Equity ratio. The debt equity measures the long-term financial solvency of a business concern. Debt equity ratio is directly computed by dividing total debt by net worth.

Table 4 Debt Equity Ratio

Financial Years	Total Debt	Net Worth	Ratio
2020	4050	-23050.0	-0.2
2021	8500	-14200.0	-0.6
2022	11500	4500.0	2.6
2023	12600	40400.0	0.3
2024	14000	64500.0	0.2

Source: secondary data

Table 4 presents the Debt-Equity Ratio over five financial years, from 2020 to 2024. In 2020 and 2021, the company recorded negative net worths of -₹23,050 and -₹14,200 respectively, resulting in negative debt-equity ratios of -0.2 and -0.6. These negative values indicate a financially distressed position where the company's liabilities exceeded its equity, highlighting a potential

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

insolvency risk. However, a significant turnaround was observed in 2022, with the net worth shifting to a positive ₹4,500, resulting in a sharp rise in the debt-equity ratio to 2.6. This spike suggests the company was still heavily reliant on debt financing despite the recovery in equity. In 2023 and 2024, the company's financial position showed further improvement, with net worths increasing to ₹40,400 and ₹64,500 respectively. Correspondingly, the debt-equity ratios declined to more stable levels of 0.3 in 2023 and 0.2 in 2024. This trend indicates reduced financial risk and improved solvency, as the company became less dependent on debt and demonstrated stronger equity backing. The data reflect a remarkable recovery in financial health, moving from negative equity and high leverage to a more balanced and sustainable capital structure.

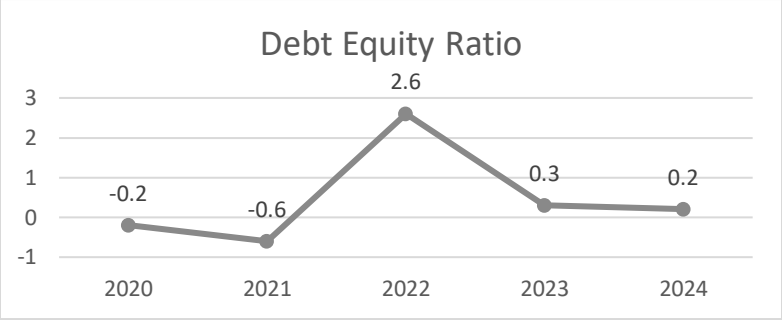

Figure 4 Debt Equity Ratio

Above figure 4 shows debt-to-equity ratio reflects the company's financial leverage and reliance on borrowed funds compared to shareholders' equity. In 2020 and 2021, the ratio is negative (**-0.2** and **-0.6**) due to negative net worth, indicating a highly risky and unsustainable financial position. In 2022, the ratio jumps to **2.6**, showing heavy dependence on debt. However, a strong recovery is seen in 2023 and 2024, with the ratio improving to **0.3** and **0.2**, respectively.

Gross Profit Ratio

The first Profitability Ratio in relation to Sales is the Gross Profit Margin Gross Margin Ratio) The Gross Profit Margin reflects the efficiency with which management produces each unit of product.it is calculated by gross profit by sales. It also helps in ascertaining whether the average percentage of mark-up on the goods in maintained.

Table 5 Gross Profit Ratio

Financial Year	Gross Profit	Sales	Gross Profit Ratio
2019-20	95300	140000	0.7
2020-21	120300	185000	0.7
2021-22	59300	150000	0.4
2022-23	38000	120000	0.3
2023-24	78000	200000	0.4

Source: secondary data

The analysis of the gross profit ratio over the five-year period from 2019–20 to 2023–24 reveals notable fluctuations in the company's profitability efficiency. In the initial two financial years, 2019–20 and 2020–21, the gross profit ratio remained consistent at 0.7, indicating a strong profit margin and effective cost management relative to sales. However, in 2021–22, the ratio dropped

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

significantly to 0.4, suggesting a decline in cost efficiency or a rise in production or operational expenses that reduced the gross margin. The situation worsened in 2022–23, where the ratio further declined to 0.3, marking the lowest point in the observed period and signaling a concerning drop in profitability. A moderate recovery was observed in 2023–24, with the gross profit ratio rising to 0.4, indicating some improvement, possibly due to better sales performance or cost adjustments. Overall, the trend highlights an initial phase of stability followed by a dip in profitability, underscoring the need for strategic review and enhanced cost control measures in the later years.

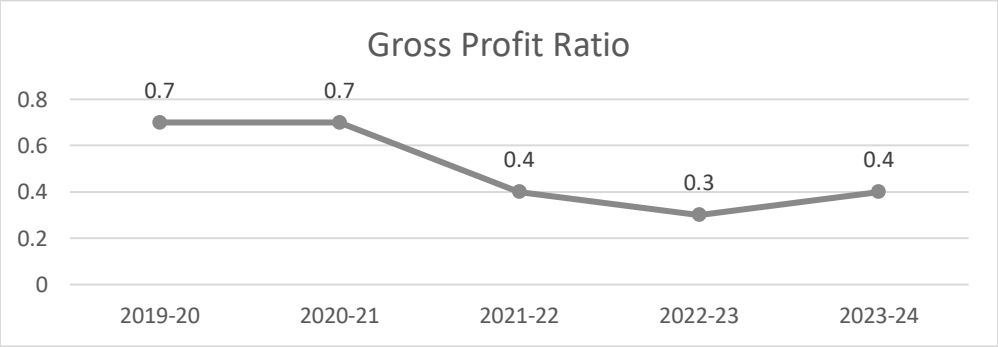

Figure 5 Gross Profit Ratio

The above figure 5 shows gross profit margin indicates the company's efficiency in managing production and direct costs. In 2019–20 and 2020–21, the margin was strong at 0.7, showing high profitability from sales. However, there was a sharp decline in 2021–22 (0.4) and further to 0.3 in 2022–23, reflecting increased cost of goods sold or pricing pressures.

Net Profit Ratio

Net Profit is obtained when Operating Expenses, Interest and Taxes are subtracted from the Gross Profit. This ratio establishes a relationship between Net Profit (or) Profit after Tax (PAT) and Sales. It indicates, management's Administering and selling the products. This ratio is the overall measure of the Profit firm with high Net Profit Margin (NPM) can make better use of favorable conditions, such as rising Selling Prices, falling Costs of Production or Increasing demand for the Product.

Table 6 Net Profit Ratio

Financial Year	Sales	Net Sales	Net Profit Ratio
2019-20	140000	74900	1.9
2020-21	185000	97900	1.9
2021-22	150000	39100	3.8
2022-23	120000	20600	5.8
2023-24	200000	59200	3.4

Source: secondary data

The analysis of the Net Profit Ratio over the five-year period from 2019-20 to 2023-24 reveals significant insights into the profitability performance of the company. In the financial years 2019-20 and 2020-21, the Net Profit Ratio remained constant at 1.9%, indicating a period of stability but relatively low profitability. However, in 2021-22, there was a marked improvement as the ratio doubled to 3.8%, suggesting better cost management or increased efficiency in operations. The

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

upward trend continued in 2022-23, where the Net Profit Ratio reached its peak at 5.8%, reflecting a strong improvement in profitability despite a decrease in sales, possibly due to effective control of expenses or better margins. In 2023-24, although sales rose significantly, the Net Profit Ratio declined to 3.4%, indicating that the rise in profits did not keep pace with the increase in sales, which might point to higher operating costs or other financial inefficiencies. Overall, while the company demonstrated growth in profitability over the five-year span, the fluctuating trend suggests the need for continued focus on cost control and efficient resource utilization to sustain and improve profit margins.

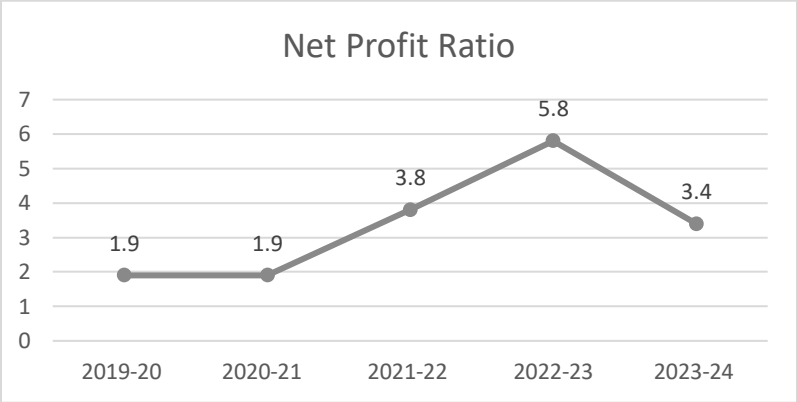

Figure 6 Net Profit Ratio

The above figure 6 shows Net Profit Ratio remained stable at 1.9% during 2019–20 and 2020–21, indicating consistent but modest profitability. A notable rise to 3.8% in 2021–22 suggests an improvement in operational efficiency or revenue growth. The ratio reached its peak at 5.8% in 2022–23, reflecting strong financial performance and effective cost management. However, it declined to 3.4% in 2023–24, signaling a possible dip in efficiency or an increase in expenses.

FINDINGS AND RECOMMENDATIONS

Over the five-year period, the company has shown significant improvement in its financial health and liquidity. The current ratio rose steadily from 0.67 in 2019–20 to 1.69 in 2023–24, reflecting enhanced short-term solvency and better working capital management. Similarly, the quick ratio increased from 0.53 to over 1, indicating improved immediate liquidity and reduced reliance on inventory. The debt ratio, initially negative due to negative net worth, turned positive and stabilized at 0.2 by 2023–24, suggesting stronger financial stability. The debt-equity ratio also moved from negative figures to a moderate 0.2, reflecting improved capital structure and reduced financial risk. However, gross profit margin declined from 0.7 to 0.4, revealing margin pressures despite a slight recovery in the last year. In contrast, the net profit ratio improved markedly from 1.9% to a peak of 5.8%, before settling at 3.4% in 2023–24, pointing to better cost control and profitability. Overall, the company's financial indicators suggest stronger liquidity, better leverage management, and moderately improving profitability.

Recommendations to Managers

Financial ratio analysis reveals crucial insights into a firm's operational efficiency, liquidity position, and overall financial health. Managers should incorporate ratio analysis not just as a retrospective diagnostic tool but also as a forward-looking strategic instrument. By continuously

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

monitoring key ratios such as Return on Assets (ROA), Debt-to-Equity (D/E), and Current Ratio, they can make informed decisions on investment, cost control, and capital structure. This proactive approach can enhance internal financial discipline and performance forecasting. Moreover, managers must benchmark their ratios against industry standards to identify relative strengths and weaknesses, fostering competitive advantage through data-driven strategies.

Recommendations to Policy Makers

Policy makers can utilize aggregated industry-level ratio analysis to gauge the financial stability and resilience of key economic sectors. This data is instrumental in shaping regulatory frameworks that promote transparency, accountability, and sustainable financial practices. Encouraging the standardization of financial reporting and ratio disclosure across firms will enable more accurate industry comparisons and risk assessments.

Recommendations for Industry Development

For the broader industry, ratio analysis should be institutionalized as a best practice for governance and investor communication. Industry associations can develop benchmarking reports and sector-wide ratio dashboards to support smaller firms in performance evaluation. Training programs and digital tools that simplify financial ratio interpretation can help improve financial literacy among business owners and entrepreneurs.

Recommendations for Scholarly Contribution

Academicians and researchers can expand the scope of ratio analysis by integrating it with predictive modelling and machine learning techniques to forecast financial distress and sectoral shifts. There is significant scope for scholarly exploration in correlating financial ratios with macroeconomic variables, market behaviour, and firm-specific attributes like governance structures. Longitudinal and cross-industry studies could provide deeper insights into the causal relationships between ratio trends and firm performance.

SCOPE FOR FURTHER STUDY

While ratio analysis provides a foundational understanding of a firm's financial standing, future research can delve into more dynamic and integrated approaches. There is substantial scope to combine traditional ratio metrics with advanced statistical and econometric models for predictive insights, such as forecasting bankruptcy or identifying early warning signs of financial distress. Cross-border comparative studies can further highlight the impact of regulatory environments, cultural factors, and economic structures on financial performance. Additionally, incorporating environmental, social, and governance (ESG) metrics alongside financial ratios could offer a more holistic evaluation of long-term sustainability

LIMITATIONS

Despite its widespread use, ratio analysis has inherent limitations that must be acknowledged. Firstly, it is primarily based on historical financial data, which may not reflect current market realities or future performance. Ratios are also sensitive to accounting policies and practices, which can vary significantly across firms and distort comparability. Moreover, external factors such as inflation, interest rate fluctuations, and economic policy changes are not captured in standard ratio analysis, potentially leading to incomplete interpretations

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

CONCLUSION

The ratio analysis reveals that the company has shown significant improvement in its financial performance over the five-year period. Liquidity ratios like the current and quick ratios indicate enhanced short-term financial stability. Leverage ratios reflect a shift from high debt dependency to a more balanced capital structure. Profitability ratios show fluctuating margins but an overall positive trend in earnings. The company has managed to recover from earlier financial stress and is now on a stable growth path. Continued focus on cost control and efficient resource management will further strengthen its financial position.

REFERENCES

Damodaran, A. (2012). *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset* (3rd ed.). Wiley.

Bhattacharyya, A. K. (2006). *Financial Accounting for Business Managers* (3rd ed.). PHI Learning.

Pillai, R. (2010). Ratio analysis: The future of SME financing in India. *The Chartered Accountant*, 58(12), 1734–1740.

Krahel, J. P., & Titera, W. R. (2015). Consequences of big data and formalization on accounting and auditing standards. *Accounting Horizons*, 29(2), 409–422. https://doi.org/10.2308/acch-51065

Coenders, G., & Serrat, N. A. (2023). Accounting statement analysis at industry level. A gentle introduction to the compositional approach. *arXiv preprint arXiv:2305.16842*.

Alqudah, M. A., & Alrowais, S. S. (2023). The Impact of Financial Ratios on Financial Performance of Saudi Food Production Companies. *Finance and Business Economies Review*, *7*(4), 153-165.

Sawitri, N. N. (2023). Analysis of Financial Ratio on Financial Performance and Sustainability Report as Intervening Variable. *Atestasi: Jurnal Ilmiah Akuntansi*, *6*(2), 661-670.

Amin, H. I. M., & Cek, K. (2023). The effect of golden ratio-based capital structure on firm's financial performance. *Sustainability*, *15*(9), 7424.

Sharma, K., & Luciani, K. (2023). Evaluating The Relationship Between Financial Ratios and Firm's Total Stock Returns: A Study of Thai Banking Firms. *International Journal of Multidisciplinary in Management and Tourism*, *7*(2), 163-178.

Indrawati, A., & Dambe, D. N. (2021). Analysis of the Company's Financial Performance at PT. Papua Regional Development Bank Based on Financial Ratio Analysis. *Jurnal ULET*, *5*(2), 1-18.

Hananiyah, W. M., & Jaya, T. J. (2023). The Effect of Financial Ratio on Financial Distress in Indonesia Sharia Commercial Banks. *I-Finance: a Research Journal on Islamic Finance*, *9*(2), 148-167.

Rochmah[1], W. N. (2024). Financial Ratio and Price Earnings Ratio: Analysis of Technology Companies Listed on the IDX. In *Proceedings of the 4th Business Innovation Sustainability and Technology International Conference (BISTIC 2024)*. (p. 230). Springer Nature.

