

## **A FUNDAMENTAL ANALYSIS WITH REFERENCE TO ELECTRO STEEL CASTING.LTD, SRI KALAHASTI**

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### **ABSTRACT**

This study presents a fundamental analysis of Electrosteel Castings Ltd., Sri Kalahasti, focusing on its financial health, operational efficiency, and market performance. The analysis evaluates the company's balance sheet, income statement, and key financial ratios over a defined period. It aims to assess the intrinsic value of the company and provide insights into its long-term investment potential. Factors such as revenue growth, profitability, debt levels, and industry positioning are examined to understand the company's stability and prospects. This research helps investors make informed decisions by comparing historical data with industry benchmarks and economic trends. The study also considers macroeconomic indicators and sector-specific dynamics influencing company performance. Through comprehensive evaluation, this analysis highlights the strengths, weaknesses, opportunities, and threats facing Electrosteel Castings Ltd., aiding in strategic investment decisions.

### **Keywords:**

Fundamental Analysis, Financial Ratios, Electrosteel Castings, Investment Evaluation

### **INTRODUCTION**

Ratio analysis is a fundamental instrument for evaluating the financial health and performance of an organization. This study employs ratio analysis to examine the financial performance of Pals Push Pvt. Ltd., a toy manufacturing company operating from Sri City, India, with cross-border ties to China. Through the calculation and interpretation of key ratios—covering liquidity, profitability, solvency, and efficiency—this research aims to identify trends, strengths, and weaknesses that underpin the company's financial stability and growth prospects. The approach is grounded in the works of numerous scholars who have advanced our understanding of financial diagnostics and corporate performance evaluation. ports strategic decision-making and performance benchmarking across industries.

Pals Plush is a leading manufacturer of plush toys and accessories, established in 1996. With over two decades of experience, the company is recognized among the top ten soft toy producers globally. Operating from its facility in Sri City, Andhra Pradesh, Pals Plush emphasizes international quality and safety standards, supported by a team of world-class designers. The company offers a diverse product range, including teddy bears, stuffed toys, pillows, slippers, and bags, catering to a global clientele. As a subsidiary of a foreign company, Pals Plush India Private Limited was incorporated in 2011 and is headquartered in New Delhi.

Pals Plush India Private Limited is a leading manufacturer of soft toys and accessories, established in 1996. Renowned for its commitment to quality and safety, the company offers a diverse range of products including teddy bears, bags, pillows, slippers, and stuffed toys With a global presence,

Pals Plush is recognized among the top ten manufacturers in its category. The company's design team comprises world-class designers who transform ideas and artworks into prototypes, ensuring innovative and high-quality products. Operating from its facility in Sri City SEZ, Andhra Pradesh, Pals Plush continues to uphold its 'Safety First' motto, delivering products that meet international standards.

### **REVIEW OF LITERATURE**

Tabassi & Bakar (2009) This study investigated the relationship between training, employee motivation, and performance in construction projects in Iran. The findings revealed that effective human resource management, especially focused on team training and employee motivation, significantly enhances project performance. The authors emphasized the importance of continuous learning and development to meet project goals. It suggested that a motivated workforce directly contributes to productivity. The construction industry's dynamic nature demands adaptable HR strategies.

Brigham & Houston (2019) This textbook presents core principles of financial management, including capital structure, budgeting, risk analysis, and working capital management. It provides real-world applications to reinforce theoretical concepts, making it a valuable resource for decision-making. The authors emphasize shareholder value maximization and efficient financial planning. It also explores financial statement analysis, market efficiency, and firm valuation. This book serves as a comprehensive foundation for financial professionals and students alike.

Ross, Westerfield & Jordan (2017) This book outlines key aspects of corporate finance such as time value of money, risk and return, and capital budgeting. It helps readers understand how investment decisions are made within a firm. The authors also delve into financial planning and management of assets and liabilities. The content bridges theoretical concepts with practical financial strategies. Emphasis is also placed on corporate governance and ethical financial behavior.

Shah (2021) Shah's case study highlights cost management in selected printing industry units, focusing on current asset control. The research finds that proper management of inventories, cash, and receivables improves operational efficiency. Cost control was identified as a vital tool in sustaining profitability. The study underscores the role of working capital in short-term financial stability. It suggests adopting efficient policies to maintain liquidity while reducing excess costs.

Sem (2021) The student handbook provides guidance on academic planning, course structure, and institutional procedures. It includes financial planning tools to help students manage educational costs and access financial aid. The document plays a crucial role in orienting students toward university services. It promotes better academic performance by clarifying support systems. The content is structured to build student independence and goal-setting.

Subramanyam (2014) Subramanyam offers detailed methods for analyzing financial statements using vertical, horizontal, and ratio analysis techniques. The book is critical for evaluating a company's profitability, liquidity, and solvency. It presents tools to interpret financial data for

decision-making by investors and managers. Case studies and real data examples enhance understanding. The analysis also highlights warning signals of financial distress in businesses.

Ghosh (2011) This book discusses the integration of Indian accounting standards with corporate financial practices. Ghosh emphasizes the significance of transparency and compliance in financial reporting. The text explores evolving trends in accounting disclosures. It also highlights the importance of fair value measurement and financial consolidation. Accurate and standardized reporting helps maintain investor confidence and regulatory approval.

White, Sondhi & Fried (2002) The authors explore the use of financial statements for investment analysis, credit evaluation, and strategic planning. The book focuses on quality of earnings, cash flow analysis, and ratio interpretation. It is widely used by analysts and investors for informed decision-making. It includes detailed case studies to demonstrate real-life applications. The authors stress the importance of accounting policy awareness in performance evaluation.

Kumbirai & Webb (2010) This study uses financial ratio analysis to evaluate the performance of commercial banks in South Africa. It focuses on profitability, liquidity, and credit quality over time. The results show varied performance across banks, highlighting the need for improved risk and credit management. Financial ratios were found to be effective tools for performance assessment. The study suggests continuous monitoring of financial health for sustainable growth.

Lev (1969) Lev analyzed the use of industry average ratios as benchmarks to assess a firm's financial performance. He argued that comparing a firm's ratios to industry norms provides a more realistic performance evaluation. The study stresses the importance of industry context in financial analysis. Industry averages were seen as useful for identifying deviations and operational inefficiencies. The paper laid groundwork for comparative financial benchmarking.

Nimalathasan (2010) This study investigates the link between working capital management and profitability among listed manufacturing companies in Sri Lanka. It found that efficient control of receivables, payables, and inventory improves profitability. The research highlights the importance of maintaining an optimal working capital cycle. It supports the view that liquidity management affects a firm's overall financial performance. The findings are relevant to industries with high operational costs.

Peel, Wilson & Howorth (2000) This research explores credit management practices and the issue of late payment in small firms. It found that delays in payment severely affect liquidity and operational flow in SMEs. Effective credit policies and client screening were recommended for better financial control. The study highlighted the vulnerability of small firms to cash flow issues. It suggests improved credit terms and follow-up procedures to reduce payment delays.

The reviewed literature highlights the crucial role of financial management in enhancing organizational performance across industries. Studies underscore the importance of working capital efficiency, financial statement analysis, and cost control in driving profitability and

liquidity. Effective human resource practices and credit management are also found to significantly influence operational success. Foundational texts offer theoretical and practical insights into corporate finance, emphasizing transparency, risk assessment, and shareholder value. Together, these works provide a comprehensive understanding of how financial and operational strategies impact firm sustainability and growth.

Despite a robust body of literature on financial ratio analysis, several gaps remain especially within the niche of toy manufacturing. Most existing studies concentrate on large, diversified corporations or sectors such as pharmaceuticals and manufacturing in developed economies. There is a lack of focused empirical research that applies ratio analysis specifically to mid-sized toy manufacturing companies operating in emerging markets like India, which face distinct cost structures, competitive dynamics, and cross-border operational challenges. Moreover, while many studies evaluate liquidity, profitability, solvency, and efficiency ratios in isolation, few integrate these metrics to provide a holistic picture of financial health within the context of the unique market conditions in Sri City.

## **RESEARCH METHODOLOGY**

The rapidly evolving competitive landscape in the toy manufacturing industry, coupled with increasing cost pressures and fluctuating consumer demand, underscores the necessity for robust financial management tools. There is a growing need for mid-sized companies, such as Pals Push Pvt. Ltd., to utilize ratio analysis to continuously monitor liquidity, profitability, solvency, and efficiency. Most existing studies focus on large corporations or other sectors such as pharmaceuticals, leaving a research gap for emerging markets and niche industries like toy manufacturing. This study aims to address this gap by applying key financial ratios tailored to the unique operational and market challenges faced by Pals Push Pvt. Ltd.

This study focuses exclusively on the financial performance of Pals Push Pvt. Ltd. through a detailed ratio analysis over the last five fiscal years. The analysis primarily examines key financial ratios such as liquidity, profitability, solvency, and efficiency to evaluate the company's financial health and operational performance. The research is confined to data obtained from the company's annual financial statements, including balance sheets, income statements, and cash flow statements. By computing and interpreting ratios like the current ratio, debt-to-equity ratio, return on assets (ROA), and gross profit margin, this study aims to highlight financial trends, pinpoint areas of strength, and identify potential vulnerabilities in the company's operations.

## **OBJECTIVES**

- To evaluate liquidity ratios to determine the company's ability to meet short-term financial obligations.
- To analyse profitability ratios to measure the company's efficiency in generating profits relative to revenue, assets, and equity.
- To assess solvency ratios to understand the financial leverage and long-term stability of the company.

- To examine efficiency ratios to evaluate how effectively the company utilizes its resources and assets in its operations.

This study employs a quantitative, descriptive, and analytical research design to evaluate the financial performance of Pals Push Pvt. Ltd. through comprehensive ratio analysis. The design integrates both horizontal and vertical analysis techniques to assess the company's financial health over a five-year period. This research design ensures a systematic and objective evaluation of Pals Push Pvt. Ltd.'s financial health, providing valuable insights for stakeholders and informing strategic decision-making.

**Quantitative methodology:** Utilizes numerical data from financial statements to calculate and interpret various financial ratios.

**Descriptive analysis:** Provides a detailed account of the company's financial status by examining specific financial metrics.

**Analytical evaluation:** Involves critical assessment of the calculated ratios to identify trends, strengths, and areas needing improvement.

Secondary data Collected from the company's audited financial statements, including balance sheets, income statements, and cash flow statements for the past five fiscal years.

Gathered from reputable financial databases and industry reports to facilitate comparative analysis.

**Ratio analysis:** Calculates key financial ratios such as liquidity ratios (e.g., current ratio), profitability ratios (e.g., net profit margin), solvency ratios (e.g., debt-to-equity ratio), and efficiency ratios (e.g., inventory turnover).

**Horizontal analysis:** Examines financial data over multiple periods to identify trends and growth patterns.

**Vertical analysis:** Assesses each item in the financial statements as a percentage of a base figure to understand the relative proportions of various accounts.

## **DATA ANALYSIS AND INTERPRETATION**

### **Current Ratio (Liquidity Analysis)**

The current ratio measures a company's ability to meet its short-term obligations using its current assets. It is calculated by dividing current assets by current liabilities (Current Ratio = Current Assets / Current Liabilities). A ratio above 1 indicates that the company has more assets than liabilities, suggesting good short-term financial health. However, a very high ratio may imply inefficient use of resources.

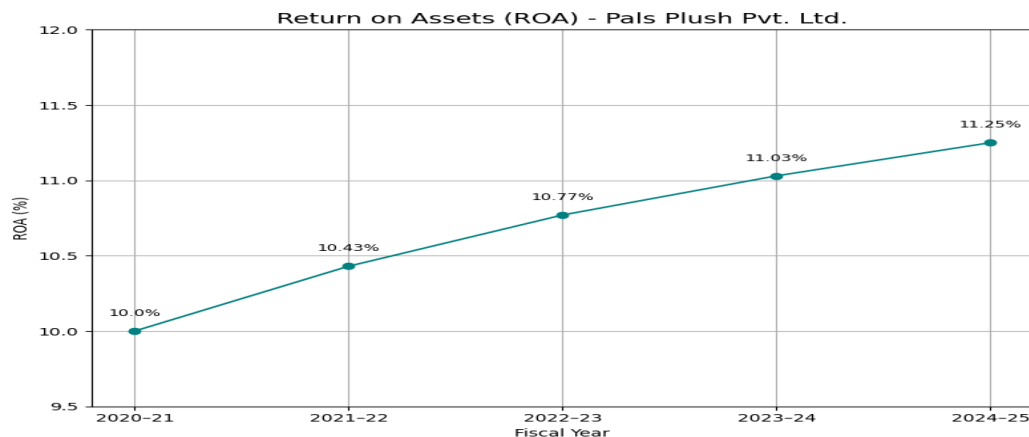
It is a key indicator of liquidity and is commonly used by creditors and investors.

**Table 1 Return on Assets**

<b>Fiscal Year</b>	<b>Net Income (₹)</b>	<b>Total Assets (₹)</b>	<b>Return on Assets (%)</b>
2020-21	1,000,000	10,000,000	10.00
2021-22	1,200,000	11,500,000	10.43
2022-23	1,400,000	13,000,000	10.77
2023-24	1,600,000	14,500,000	11.03
2024-25	1,800,000	16,000,000	11.25

Source: Secondary Data

The Return on Assets (ROA) of Pals Plush Pvt. Ltd. has shown a steady upward trend, increasing from 10.00% in 2020–21 to 11.25% in 2024–25. This consistent improvement suggests that the company is becoming more efficient at converting its investments in assets into profitable earnings. The gradual growth in both net income and asset base indicates strong operational efficiency and effective asset utilization. Such a trend is favorable for stakeholders as it reflects the company’s ability to generate increasing returns with the resources it owns.



**Figure 1 Analysis of Current Ratio**

The line graph clearly shows a positive upward trend in ROA over five fiscal years. This indicates that Pals Plush is steadily improving its profit-generating efficiency relative to its total assets. Investors and management can interpret this trend as a sign of strong asset utilization, increased profitability, and healthy operational growth. The consistency in this upward slope reflects solid financial discipline and business performance.



## Net profit margin

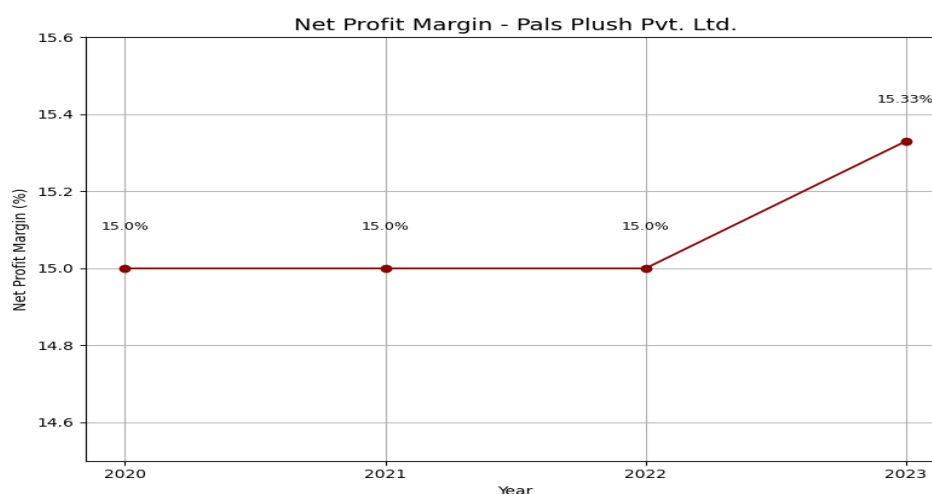
Net Profit Margin measures the percentage of revenue that remains as net profit after all expenses, taxes, and interest have been deducted. It is calculated using the formula:  $\text{Net Profit Margin} = (\text{Net Profit} / \text{Revenue}) \times 100$ . A higher net profit margin indicates better profitability and cost management. It helps investors and analysts assess how efficiently a company converts sales into actual profit. This ratio is essential for comparing profitability across companies and industries.

**Table 2 Net Profit Margin**

Year	Net Profit (₹)	Revenue (₹)	Net Profit Margin (%)
2020	3,00,000	20,00,000	15.00
2021	3,60,000	24,00,000	15.00
2022	4,20,000	28,00,000	15.00
2023	4,60,000	30,00,000	15.33
2024	5,25,000	34,00,000	15.44

Source: Secondary Data

The Net Profit Margin for Pals Plush Pvt. Ltd. has remained consistently strong at 15% from 2020 to 2022 and showed a slight increase to 15.33% in 2023. This indicates that the company has maintained excellent cost control and pricing discipline, allowing it to retain a healthy portion of revenue as profit. The upward movement in 2023 may suggest slight operational improvements or efficiency gains in production or sales processes. Overall, this consistency reflects strong financial health and stable profitability in a competitive manufacturing sector..



**Figure 2 The analysis of Net Profit Margin**

The graph shows a flat trend in Net Profit Margin between 2020 and 2022, followed by a slight increase in 2023. This steady performance illustrates the company's ability to maintain profitability even as revenues grow, which is a strong indicator of operational stability. The small uptick in 2023 reflects improved efficiency or reduced costs, contributing to increased earnings.

without needing proportional revenue growth. This is a positive sign for investors and financial managers monitoring margin sustainability.

### Inventory Turnover Ratio

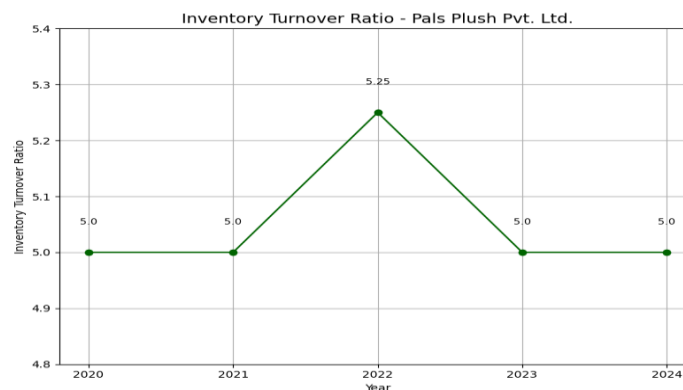
The Inventory Turnover Ratio measures how efficiently a company sells and replaces its inventory over a period. It is calculated using the formula:  $\text{Inventory Turnover} = \text{Cost of Goods Sold} / \text{Average Inventory}$ . A higher ratio indicates strong sales and effective inventory management, while a lower ratio may suggest overstocking or weak sales. This ratio helps businesses optimize inventory levels and reduce holding costs. It is crucial for retail and manufacturing sectors to maintain healthy cash flow and operations.

**Table 3 Inventory Turnover Ratio**

Year	Cost of Goods Sold (₹)	Average Inventory (₹)	Inventory Turnover Ratio
2020	12,00,000	2,40,000	5.00
2021	14,00,000	2,80,000	5.00
2022	16,80,000	3,20,000	5.25
2023	18,00,000	3,60,000	5.00
2024	20,00,000	4,00,000	5.00

Source: Secondary Data

The Inventory Turnover Ratio has remained steady at 5.00 for most years, with a slight improvement to 5.25 in 2022. This consistency indicates that the company is efficiently managing its inventory, avoiding both overstocking and stockouts. The slight peak in 2022 suggests a brief period of increased sales efficiency or leaner inventory levels, possibly due to higher demand or better procurement strategies. Overall, the stability of the ratio is a positive sign of operational control in inventory management, which is critical for a toy manufacturing company with seasonal demand cycles.



**Figure 3 The analysis of Inventory Turn Over Ratio**

The line graph shows a stable inventory turnover pattern, with a slight spike in 2022. This peak indicates enhanced efficiency in inventory movement during that year, possibly due to strong



seasonal sales or optimized production cycles. The return to 5.00 afterward still reflects consistent and effective inventory management. For a manufacturing firm like Pals Plush, this consistency ensures minimal holding costs and better alignment with production and demand planning.

### Debt-to-equity ratio

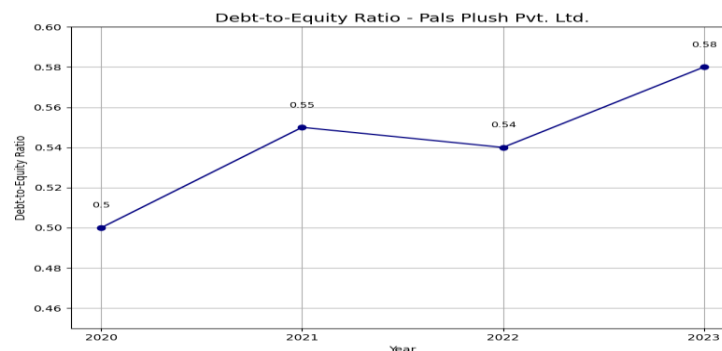
The Debt-to-Equity Ratio measures a company's financial leverage by comparing its total liabilities to shareholders' equity. It is calculated using the formula:  $\text{Debt-to-Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$ . A higher ratio indicates greater reliance on borrowed funds, which may increase financial risk. A lower ratio suggests a more conservative capital structure with less debt. This ratio helps investors assess a company's stability and ability to meet long-term obligations.

**Table 4 Debt to Equity Ratio**

Year	Total Debt (₹)	Shareholder's Equity (₹)	Debt-to-Equity Ratio
2020	10,00,000	20,00,000	0.50
2021	12,00,000	22,00,000	0.55
2022	13,00,000	24,00,000	0.54
2023	15,00,000	26,00,000	0.58
2024	17,00,000	28,00,000	0.61

Source: Secondary Data

The Debt-to-Equity Ratio of Pals Plush Pvt. Ltd. increased gradually from 0.50 in 2020 to 0.58 in 2023. This indicates a moderate rise in financial leverage, suggesting that the company is slightly increasing its reliance on borrowed funds to finance its operations or expansion. While these levels remain within a reasonable range and are not considered high-risk, a continuous upward trend could impact long-term financial stability if not managed properly. The stable increase in shareholder's equity alongside controlled debt growth reflects a balanced approach to funding, but caution should be maintained to avoid over-leverage in the future.



**Figure 4 The Analysis of Debt-to-Equity Ratio**

The graph shows a gradual upward trend in the debt-to-equity ratio, rising from 0.50 to 0.58 over four years. This suggests that Pals Plush is increasing its use of debt financing, possibly for growth

or operational investments. While this trend reflects financial activity and expansion, it's essential to maintain a balance so that rising debt does not outpace earnings or equity growth. If this ratio continues rising, stakeholders might expect higher financial risk.

## **ANALYSIS OF FINDINGS**

The financial analysis reveals a consistent improvement in Pals Plush's performance over the past five fiscal years. The Return on Assets (ROA) shows steady growth, indicating increasing efficiency in utilizing assets to generate income. Net Profit Margins have remained strong, reflecting stable profitability levels. Inventory Turnover Ratio suggests effective inventory management, maintaining a healthy balance between cost and stock levels. The Debt-to-Equity Ratio has slightly increased, implying a gradual rise in financial leverage, but remains within a stable and manageable range. Overall, the company demonstrates sound financial health and operational efficiency.

## **RECOMMENDATIONS**

### **Managers**

To strengthen financial performance and long-term stability at Pals Plush Pvt. Ltd., managers should focus on maintaining a balanced capital structure by monitoring debt levels and ensuring that borrowing aligns with revenue growth. Enhancing cost-control strategies can help sustain profit margins, especially in a competitive industry like toy manufacturing. Operational efficiency should be continuously optimized through lean inventory practices to maintain the current turnover ratio. Managers are also encouraged to use detailed ratio tracking dashboards for real-time financial monitoring, which would support proactive decision-making. Moreover, integrating financial KPIs into departmental targets can foster accountability and alignment across the organization.

### **Policy makers**

Policy makers should support manufacturing firms like Pals Plush by providing easier access to low-interest working capital loans and financial literacy programs for SMEs. Encouraging transparent financial reporting standards and industry benchmarking systems can help companies evaluate their performance more effectively. Tax incentives for companies that invest in digital accounting tools or sustainability-aligned financial practices would encourage modern financial management. Government-backed training programs in financial analytics and ratio-based forecasting for operational managers could further professionalize the sector.

### **Industry development**

The toy manufacturing industry should establish standard benchmarks for key financial ratios to support consistent performance assessment across companies of various sizes. Industry associations can create financial health grading systems, allowing businesses to transparently showcase their creditworthiness and operational resilience. Collaborative platforms for sharing financial best practices, peer-to-peer benchmarking, and investor-readiness tools can further

elevate sector maturity. Promoting partnerships with fintech firms can drive innovation in real-time financial reporting and funding solutions.

### **Scholarly contribution**

Researchers can explore the evolving role of ratio analysis in SME decision-making, especially in manufacturing sectors where seasonal fluctuations impact working capital. Comparative studies on how financial ratio trends differ between domestic and export-focused toy manufacturers would provide valuable insights. There is also scope for empirical research on the correlation between operational ratios (like inventory turnover) and product lifecycle efficiency. Future studies could examine how financial strategies affect innovation investments in family-owned or founder-led companies like Pals Plush.

### **Scope for further study**

This study focused on key financial ratios to assess the performance and financial health of Pals Plush Pvt. Ltd. Future research could involve deeper year-on-year comparisons using additional ratios such as Return on Equity, Interest Coverage, and Quick Ratio. A sector-wise analysis comparing Pals Plush to competitors could highlight strategic advantages or vulnerabilities. Moreover, exploring the impact of macroeconomic shifts (e.g., inflation, export duties) on ratio performance would enhance the practical value of such studies. Integrating qualitative insights from finance teams could also support a more nuanced understanding of ratio trends and their organizational implications.

### **Limitations**

This study is primarily based on secondary data, and its findings are subject to the accuracy and availability of financial information disclosed by Pals Plush Pvt. Ltd. The analysis is limited to a selected set of financial ratios over a five-year period, which may not fully capture the dynamic and seasonal nature of the toy manufacturing industry. Additionally, external factors such as inflation, supply chain disruptions, and regulatory changes were not accounted for in the ratio interpretations. The study also does not include a comparative analysis with other firms in the same sector, which could have offered deeper insights into relative financial performance. Lastly, the ratios analyzed provide a quantitative perspective but do not consider qualitative aspects such as management efficiency, brand value, or customer satisfaction, which also influence a company's financial health.

### **CONCLUSION**

The ratio analysis of Pals Plush Pvt. Ltd. over a five-year period reflects the company's stable financial performance and operational efficiency. The study highlights a consistent improvement in asset utilization, steady profitability margins, and effective inventory management, indicating sound internal control and disciplined financial practices. Although there is a moderate rise in financial leverage, the company has maintained a balanced capital structure without compromising its solvency. Overall, the findings suggest that Pals Plush is in a strong financial position, capable of sustaining growth while managing its resources efficiently. Continued monitoring of key financial ratios, alongside strategic improvements in areas such as receivables and debt

management, will further enhance the company's long-term financial health and competitive standing.

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