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INNOVATIONS AND CHALLENGES ON RATIO ANALYSIS WITH REFERENCE TO SRI VENKATA SAI ENTERPRISES PVT LTD, FROM 2019-23

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ABSTRACT

Ratio analysis is a critical financial tool used to evaluate the performance, efficiency, profitability, and financial health of a business. By comparing numerical relationships derived from financial statements, such as the balance sheet and income statement, ratio analysis provides meaningful insights into a company's operations. It involves key categories like liquidity ratios, solvency ratios, profitability ratios, and efficiency ratios, each addressing specific financial aspects. The ratios were able to provide a clear view of the overall performance of the company. From the ratios we can say that the month of November 2019 has not been profitable mainly because of high expenditures mainly rates and insurance. Gross Profit margin is very good which implies that direct costs are properly monitored.
Keywords: Liquidity, profitability, solvency, Gross profit Margin.

INTRODUCTION

Sri Venkata Sai Enterprises Pvt Ltd is a name associated with multiple businesses across Telangana and Andhra Pradesh, involved in sectors ranging from electrical manufacturing to retail and service. One such entity based in Hyderabad is classified as a micro-enterprise under MSME and engages in the manufacture of electrical equipment. It was established in December 2010 and operates from Ambedkar Colony, Patancheru. Another prominent company, Venkat Sai Enterprises Private Limited, incorporated in August 2013, operates in the automotive sector and is known for its strong financial performance and substantial workforce. Headquartered in Kompally, Hyderabad, it reported a notable 13.81% revenue growth in FY 2023.

Regional Impact Strong presence across Telangana and Andhra Pradesh, serving urban and rural markets. Industry Contribution Engaged in electrical manufacturing, automotive services, and industrial equipment support, contributing to critical infrastructure. MSME Recognition Registered under MSME, promoting small-scale entrepreneurship and economic inclusion. Economic Growth Demonstrates steady financial performance and expansion—contributing to local employment and GDP. Economically, these enterprises drive job creation by offering employment to both skilled and unskilled workers, especially in sectors like manufacturing, automotive services, and infrastructure support. They foster local investment and help develop supply chains, creating business opportunities for vendors, distributors, and technicians.

Industrially, they enable essential services through the production of electrical equipment, generator services, and pump distribution, supporting critical sectors such as agriculture, rural electrification, and small-scale industries. This helps bridge the infrastructure gap in underserved areas. Net Profit Margin shows how much profit is retained from revenue, reflecting value creation and cost efficiency. Return on Equity (ROE) highlights how well the company uses shareholder capital, supporting investor confidence and economic value. Current Ratio demonstrates the company's ability to pay short-term obligations, ensuring operational

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stability and supplier confidence. Debt-to-Equity Ratio reflects the balance between owned and borrowed funds, promoting sustainable financing.

Ratio analysis is an essential financial tool used to evaluate and interpret the financial health of a company. By examining various financial ratios derived from the company's financial statements— such as the balance sheet and income statement—ratio analysis helps assess a company's performance in areas such as profitability, liquidity, solvency, and efficiency. This study focuses on the application of ratio analysis in assessing a company's financial status, understanding its operational effectiveness, and providing key insights for investors, management, and other stakeholders. Pandey (2019) emphasizes the importance of ratios such as current ratio, debt-equity ratio, and return on capital employed as indicators of liquidity, leverage, and profitability, respectively. These metrics allow managers and investors to benchmark company performance over time and against industry peers. Gupta and Sharma (2020) examined the role of financial ratios in strategic planning and found that consistent monitoring of financial indicators aids in better decision-making and resource allocation. Several empirical studies have also highlighted the utility of ratio analysis in small and medium enterprises (SMEs). Patel and Mehta (2021**)** noted that SMEs, such as Sri Venkata Sai Enterprises Pvt. Ltd., can benefit significantly from ratio analysis due to limited access to capital markets and the need for efficient internal management tools. Khan and Jain (2018) describe ratio analysis as a key tool in financial decision-making, highlighting its role in understanding liquidity, profitability, and solvency.

REVIEW OF LITERATURE

Paul (2011) focuses on evaluating the financial performance of selected Non-Banking Financial Companies (NBFCs) in India. The study compares the financial performance of these firms using a range of financial ratios and performance indicators. The analysis includes profitability, liquidity, solvency, and efficiency ratios, highlighting how these measures can be used to assess the overall financial health of NBFCs, which play a significant role in the Indian financial system by providing credit to underserved sectors.

Christina (2011) examines the financial performance of *Wheels India Ltd.* (Chennai), a company involved in the manufacturing of wheels and related products. The study utilizes key financial ratios such as profitability, liquidity, solvency, and efficiency ratios to evaluate the company's financial health. The research is important for understanding how manufacturing companies, particularly in the automotive sector, can maintain financial stability while facing economic volatility.

Riedl and Srinivasan (2010) explore the concept of signaling theory in the context of financial reporting. Their study investigates how firms use financial statement presentation, specifically through special items (e.g., one-time gains or losses), to signal their financial performance to investors and other stakeholders. The authors suggest that the way firms present special items can influence perceptions of their financial health and affect stock prices.

Gaur (2010) investigates the financial performance of companies affiliated with business groups, focusing on the Indian non-metallic mineral products industry. The study employs financial performance measures such as profitability, liquidity, and efficiency ratios to

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evaluate the performance of firms in this sector. The study is particularly concerned with how business group affiliation influences financial outcomes and whether group affiliation provides any competitive advantage in terms of financial performance.

Bhunia (2010) examines the financial performance of the Indian pharmaceutical industry, focusing on profitability, liquidity, and solvency of pharmaceutical firms. The study is significant as it delves into the financial metrics and performance of key players in the industry, shedding light on the factors driving growth and profitability in a competitive and regulated market.

Vinith and Ragothaman (2020) examine the financial performance of a leading newspaper company, analyzing key financial indicators such as profitability, liquidity, and efficiency. The study focuses on how these metrics reflect the newspaper's ability to generate revenue, manage costs, and maintain financial stability in a highly competitive and digitalized media landscape.

Burange and Yamini (2009) analyze the performance of the Indian cement industry within the context of its competitive landscape. The study evaluates key performance indicators such as production capacity, profitability, market share, and cost efficiency, while also exploring the competitive forces shaping the industry.

Capon, James, and Hulbert (1994) explore the link between strategic planning and financial performance, building upon prior research that had suggested a positive relationship. They analyze empirical evidence to assess whether firms that engage in formal strategic planning achieve superior financial outcomes compared to those that do not.

Edmister (1972) examines the role of financial ratio analysis in predicting small business failure. The study empirically tests whether specific financial ratios can serve as reliable predictors of business insolvency. Using data from small firms, Edmister attempts to identify the key financial ratios that provide early warning signs of potential business failure.

Altman (1968) introduced the Z-score model, which is widely regarded as one of the most influential tools for predicting corporate bankruptcy. In this study, Altman employed a combination of five financial ratios in a discriminant analysis model to differentiate between bankrupt and non-bankrupt firms.

The review of literature highlights that financial ratio analysis plays a crucial role in understanding the economic contributions of enterprises, particularly in the MSME sector. Several studies confirm that profitability ratios, such as Net Profit Margin and Return on Equity (ROE), are key indicators of a company’s ability to generate internal value, which can be reinvested to support business expansion and economic development. Liquidity ratios, including the Current Ratio and Quick Ratio, are emphasized as important measures of short-term financial health. These ratios reflect a company’s capacity to meet its obligations, which in turn contributes to financial stability within local economies and fosters trust among employees, suppliers, and creditors.

While ratio analysis is widely recognized as a foundational tool in financial performance evaluation, there remain notable gaps in both theoretical and applied research. Much of the existing literature centers around large corporations with transparent financial disclosures, leaving a lack of insight into how ratio analysis functions within small and medium-sized enterprises (SMEs) and privately held firms. These businesses often face unique financial

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constraints and reporting practices, which can influence how ratios are calculated and interpreted. Additionally, many studies approach ratio analysis in isolation—focusing on liquidity, profitability, or solvency independently—without integrating these dimensions into a holistic financial picture. There is also a scarcity of longitudinal research that tracks financial ratios over time to assess trends and their implications on long-term performance.

RESEARCH METHODOLOGY

One of the primary needs for ratio analysis in this enterprise is to monitor financial stability and cash flow management, ensuring that short-term obligations can be met without liquidity issues. It also helps management understand whether the company is utilizing its resources effectively and generating adequate returns on investments. For example, profitability ratios like Return on Capital Employed (ROCE) can assist in assessing whether the business strategy is yielding the desired financial results.

This study is confined to internal financial data and does not extend to market-based metrics, as the company is a privately held enterprise and not listed on any stock exchange. The scope also includes trend analysis to assess the company's financial progress over the selected financial years, and comparative analysis with industry benchmarks where applicable.

Objectives

- To Calculate and analyze various financial ratios, including liquidity, profitability, efficiency, and solvency ratios.
- To assess the company's financial performance and position over a period of time.
- To identify areas of strength and weakness in the company's financial management.
- To provide recommendations for improving the company's financial performance and reducing financial risk.
- To evaluate the effectiveness of the company's financial strategies and policies.

The research design of this study is descriptive and analytical in nature. It aims to systematically examine the financial performance of Sri Venkata Sai Enterprises Pvt. Ltd. through the application of ratio analysis techniques over a defined time period. The descriptive aspect involves collecting and presenting the company's financial data, while the analytical part focuses on interpreting key financial ratios to assess the firm's performance, stability, and operational efficiency.

The study adopts a quantitative approach, utilizing secondary data derived from the company's financial statements—such as the balance sheet, profit and loss account, and cash flow statement—for a period of three to five years. Based on this data, a variety of financial ratios will be calculated, including Liquidity Ratios (e.g., Current Ratio, Quick Ratio) Profitability Ratios (e.g., Net Profit Margin, Return on Capital Employed) Solvency Ratios (e.g., Debt-Equity Ratio) Activity Ratios (e.g., Inventory Turnover Ratio, Debtors Turnover Ratio)

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Secondary data, the data that are already available, it refers to the data which have already been collected and analyzed by someone else. The secondary data re collected from company profile and website. Mostly the data used for the project are secondary data.
The collected financial data will be analyzed using various financial tools and techniques Liquidity Ratios (e.g., Current Ratio, Quick Ratio) Profitability Ratios (e.g., Net Profit Margin, Return on Capital Employed) Solvency Ratios (e.g., Debt-Equity Ratio) Activity Ratios (e.g., Inventory Turnover Ratio, Debtors Turnover Ratio)

DATA ANALYSIS AND INTERAPRETATION
CURRENT RATIO:

Current ratio represents the liquidity position and measures how far the society is able to pay to its obligation. This has been calculated by dividing current assets by current liabilities which indicates the availability of current assets in rupee for every one rupee of current liabilities. Generally, a current ratio of 2:1 is considered to represent a satisfactory current financial condition.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\textit{Current Liabilites}}$$

Table 1: Current Ratio

YEAR	Current Assets	Current Liabilities	Ratio
2019	17035.58	25593.65	0.67
2020	20019.19	30871.16	0.64
2021	29254.04	30016.06	0.98
2022	31285.52	53665.93	0.59
2023	33945.62	46432.03	0.73

Sources Topic: Secondary Data

Implications of the study

It is inferred from the table that from 2021 current ratio is in increasing stage and from 2022 to 2023 is in decreasing stage. However, the ratio was above the standard norm so, the ratio was not satisfactory.

2. QUICK RATIO:

The quick ratio, also known as the acid-test ratio, is a financial metric used to evaluate a company's short-term liquidity and its ability to meet immediate liabilities without selling inventory. It's calculated by dividing the sum of a company's cash, cash equivalents, short-term investments, and accounts receivable by its current liabilities. A higher quick ratio indicates a stronger liquidity position, suggesting that a company is be er equipped to cover its short-term debts.

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

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Table -2: Showing Quick Ratio

Year	Quick Assets	Quick Liabilities	Ratio's
2019	5780.19	25563.64	0.25
2020	9292.52	30871.03	0.30
2021	16416.88	30067.06	0.55
2022	11346.62	53664.83	0.21
2023	13153.96	46437.03	0.28

Sources Topic : Secondary Data

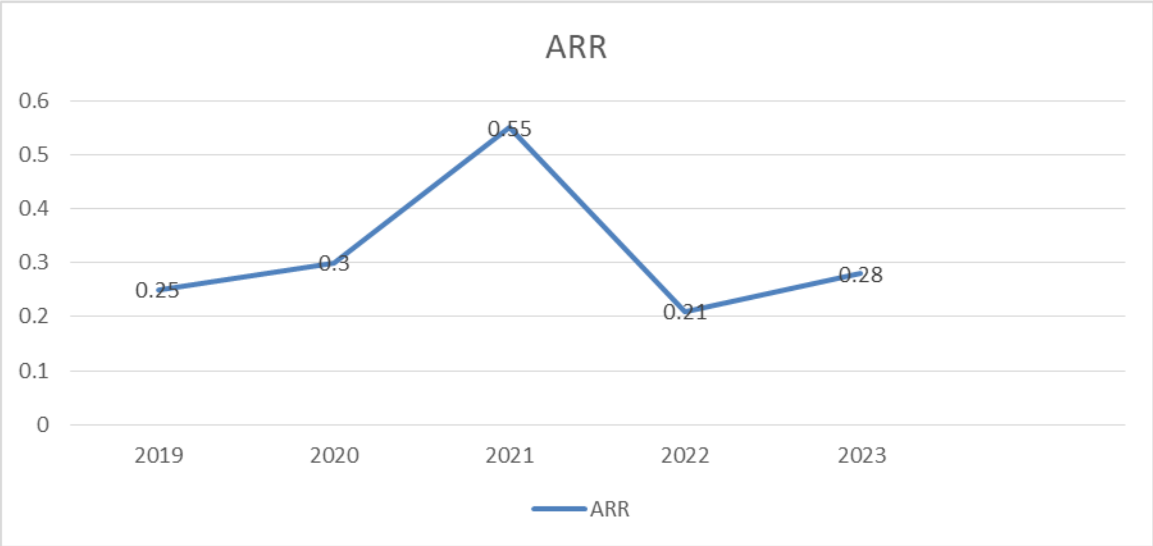

Fig 1: Graphical representation Quick Ratio

Implications of the study

It is inferred from the table that from 2021 quick ratio is in increasing stage and from 2022-2023 is in decreasing stage. Quick ratio indicates the extent to which you could pay current liabilities without relying on the safe of inventory. The standard norm for the quick ratio is 1:1. However, the ratio was above the standard norm.

CASH RATIO:

Cash is considered the most liquid asset, as it can be readily used to settle immediate financial obligations without undergoing any form of conversion, making it crucial for assessing a company's short-term financial health. In financial analysis, the cash ratio serves as a key metric to evaluate a company's ability to meet its current liabilities solely through its cash holdings and cash equivalents, without depending on receivables or inventory sales. Cash equivalents typically include highly liquid assets such as trade investments, short-term marketable securities, and other instruments that can be easily converted into cash with negligible risk of value fluctuation. These components are included in the computation of the cash ratio to provide a more thorough and accurate reflection of a company's liquidity position. A higher cash ratio indicates stronger liquidity and a greater ability to handle sudden

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financial demands, whereas a lower ratio may signal potential short-term solvency concerns. By closely analyzing the cash ratio, financial analysts and stakeholders gain critical insights into a company's financial resilience, operational stability, and risk exposure, helping them make informed decisions regarding investments, credit, and future financial strategies.

$$\text{Cash Ratio} = \frac{\text{Cash} + \text{Marketable securities}}{\textit{Current Liabilities}}$$

Table -3: CALCULATION OF CASH RATIO

Financial Years	**Cash**	**Current liabilities**	**Ratio**
2019	1000	101150	0.01
2020	2500	103500	0.02
2021	4000	100900	0.04
2022	5000	126400	0.04
2023	8500	100700	0.08

Source Topic : Secondary Data

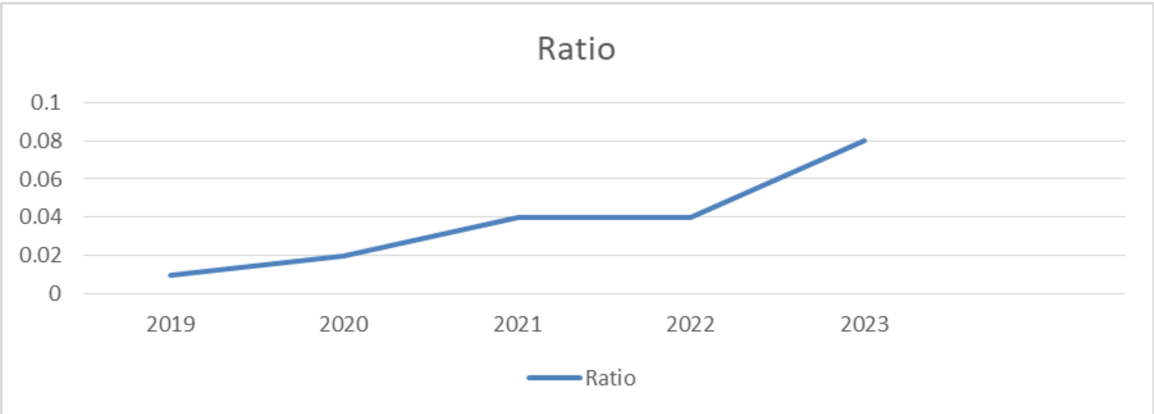

Fig 3: Graphical representation of Cash Ratio

ANALYSIS OF FINDINGS

The cash ratio measures a company's ability to pay off short-term liabilities with its cash and cash equivalents. Over the years, the cash ratios of 0.01, 0.02, 0.04, 0.04, and 0.08 show a gradual improvement in liquidity. Despite this positive trend, the ratios remain low, indicating that the company still has limited cash reserves relative to its short-term liabilities. This suggests ongoing liquidity challenges, and the company should continue to strengthen its cash position to ensure it can meet its short-term obligations more comfortably.

The research analysis reveals important insights into the company's financial health, particularly regarding its liquidity position. The company has achieved the standard current ratio of 2:1 in the present year, which indicates its favorable position to meet short-term

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liabilities. Additionally, the company is maintaining a solid level of quick assets, ensuring that these can cover its quick liabilities. However, fluctuations in the current ratio between 2019 and 2023 highlight some inconsistency in the company's ability to manage its short-term obligations. While the current ratio has been satisfactory overall, the company should take measures to further improve its liquidity position. In particular, the drop in the current ratio in 2022 suggests potential liquidity issues, though the slight recovery in 2023 offers hope for more stability. Overall, while the company is well-positioned to meet its short-term liabilities, continued attention to liquidity management is necessary to ensure long-term financial stability.

RECOMMENDATIONS

Based on the findings from the ratio analysis of Sri Venkata Sai Enterprises Pvt. Ltd., several strategic recommendations can be made to assist the management in improving the company's financial health and operational performance. First, it is crucial for the company to strengthen its liquidity position. If the current and quick ratios indicate low short-term financial flexibility, the management should consider optimizing working capital by accelerating receivables collection, managing inventory more efficiently, and renegotiating payment terms with suppliers.

To further drive industry growth, investment should be directed toward technological integration, including the adoption of digital accounting tools, ERP systems, and cloud-based financial platforms. These innovations not only improve data accuracy and accessibility but also enable real-time financial monitoring through ratio dashboards—enhancing decision-making capabilities across the sector.

This study on the ratio analysis of Sri Venkata Sai Enterprises Pvt. Ltd. contributes to the academic understanding of financial management practices within small and medium-sized enterprises (SMEs), a segment that remains underrepresented in financial research. Based on the findings, several recommendations can be made to scholars and researchers for furthering academic inquiry in this field.

SCOPE FOR FURTHER RESEARCH

This study aims to Future research could also incorporate a longitudinal approach, tracking financial ratios over a longer time period to evaluate performance consistency, the impact of business cycles, and strategic financial decisions. This would help identify patterns that may not be visible in a shorter-term analysis.

LIMITATIONS

The scope of the study is limited to a specific time frame, and hence may not fully capture long-term financial trends, cyclical business fluctuations, or external factors such as market disruptions and economic policy changes that influence financial performance over time.

CONCLUSION

The present study on ratio analysis in Sri Venkata Sai Enterprises Pvt. Ltd. has provided a detailed evaluation of the company's financial performance over a selected period. By applying key financial ratios—including liquidity, solvency, profitability, and efficiency

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metrics—the study has offered valuable insights into the strengths and weaknesses of the enterprise's financial health.

The analysis revealed that ratio analysis is not only a practical tool for internal decision-making but also serves as a benchmark for external stakeholders to assess the company's creditworthiness and operational efficiency. It has been observed that regular financial monitoring through ratio analysis can help in identifying early signs of financial distress, improving resource allocation, and enhancing overall business strategy.

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