

# Estimation of Financial Ratio Analysis between Different Selective Construction Companies in Pune

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**Abstract**—This paper is about financial management of construction companies by using financial ratios. The focus of financial analysis is on key figure in the financial statements and the significant relationship that exist between them. The analysis of financial statements is a process of evaluating the relationship between component parts of financial statement to obtain a better understanding of the firm's position and performance. The first task of the financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statements. The second step is to arrange the information in a way to highlight significant relationship. The final step is interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of selection, relation and evaluation.

**Keywords**-Balance sheet, Profit and Loss sheet, Financial Ratios.

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## I. INTRODUCTION

Finance may be defined as the art and science of managing money. The major areas of finance are (1) financial services (2) managerial finance / corporate finance / financial management. While financial services is concerned with the design and delivery of advice and financial products to individuals, businesses and governments within the areas of banking and related institutions, personal financial planning, investments, real estate, insurance, and so on, financial management is concerned with the duties of the financial managers activity manage the financial affairs of any type of business, namely, financial and non-financial, private and public, large and small, profit seeking and not for profit. They perform such varied tasks as budgeting, financial forecasting, cash management, credit administration, investment analysis, funds management and so on. In recent years, the changing regulatory and economic environments coupled with the globalization of business activities have increased the complexity as well as the importance of the financial manager's duties. As a result, the financial management function has become more demanding and complex.

## II. OBJECTIVES

1. To judge the financial position of a business firm from long term as well as the short term perspectives.
2. To focus on performance report of construction companies with the help of the ratio analysis.

3. To provide suggestions for improving the overall finance performance of the selective companies.

## III. LITERATURE REVIEW

1. **Gaurav R. Desai, A. M. Joshi. ( Financial Performance Analysis of Selective Construction Companies Using Ratios, 2015)**

Financial analysis is useful for every business entity to enhance their performance, competitive strength and access their stability and profitability of the firm. It is the process of identifying of the firm. It is the process of identifying the financial strengths and loss account. Ratio analysis is the most powerful tool of financial analysis. The ratio analysis of two companies is done by establishing relationship between the different items of financial statements.

2. **Prasanna Chandra( Fundamentals of Financial Management, 4th Edition 2005)**

Financial management provides a conceptual and analytical framework for financial decision making. The finance function covers both acquisitions of funds as well as their allocations. Thus apart from the issues in acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses. Defined in broad sense, it is viewed as an integral part of overall management.

#### IV. RATIO ANALYSIS

RATIO ANALYSIS OF SELECTIVE CONSTRUCTION COMPANIES					
SR. NO.	RATIO'S	COMPANY	2014	2015	2016
<b>Liquidity and Solvency Ratios</b>					
1	Current Ratio	SAD	36.81	30.62	43.81
		SAV	30.22	26.56	36.34
		SAA	10.01	11.51	12.53
		SB	0.32	0.92	1.015
2	Quick ratio	SAD	18.18	28.23	39.94
		SAV	1.23	2.15	0.77
		SAA	1.36	0.93	2.86
		SB	1.36	0.82	0.41
3	Debt Equity Ratio	SAD	1.42	2.23	0.42
		SAV	1.23	2.22	0.4
		SAA	0.22	0.1	0.619
		SB	2.22	1.12	0.75
<b>Management Efficiency Ratio</b>					
4	Inventory Turnover Ratio	SAD	2.92	1.61	3.22
		SAV	0.98	1.32	2.82
		SAA	0.62	3.62	2.258
		SB	28.28	40.02	30.45
5	Debtors turnover Ratio	SAD	30.36	40.32	53.40
		SAV	2.02	1.32	3.03
		SAA	17.68	15.36	20.95
		SB	2.13	0.63	1.23
6	Fixed Assets Turnover Ratio	SAD	15.32	8.56	9.52
		SAV	99.23	168.02	152.89
		SAA	503.32	601.12	709.37
		SB	32.32	48.13	64.95
7	Total Assets Turnover Ratio	SAD	0.33	2.02	1.51
		SAV	1.99	1.92	1.85
		SAA	1.36	3.36	2.95
		SB	1.32	0.68	0.32
<b>Profitability ratio</b>					
8	Operating Profit Margin	SAD	38.37	58.27	66.01
		SAV	16.96	27.12	33.12
		SAA	42.12	30.18	62.31
		SB	70.73	122.22	169.97
10	Gross Profit Margin	SAD	6.65	8.3	12.63
		SAV	33.33	20.2	22.79
		SAA	18.92	25.26	27.61
		SB	16.81	10.13	11.86
11	Net profit Margin	SAD	0.32	0.28	1.84
		SAV	1.86	3.2	2.5
		SAA	3.32	1.8	2.56
		SB	0.98	0.32	loss
12	Return on net Worth	SAD	0.09	0.1	0.03
		SAV	0.32	0.22	0.12
		SAA	0.72	0.76	0.13
		SB	0.23	0.05	loss
<b>Debt Coverage Ratio</b>					
13	Interest Coverage Ratio	SAD	32.63	34.43	49.86
		SAV	65.53	40.34	72.75
		SAA	32.31	25.39	40.56
		SB	34.13	26.89	loss

SAD= Shree AshtavinayakDevelopers

SAV=SaiAshtavinayak Venture

SAA= Shree Ashtavinayak Associates

SB = Sai Builders

#### V. INTERPRETATION

##### 1) Current Ratio

Sai builder maintain current ratio among all four companies but Shree Ashtavinayak Developers can't maintain current ratio in last three years

##### 2) Quick Ratio

The Quick Ratio of Shree Ashtavinayak Associates is more than 1 in year 2015 & 2016 which is satisfactory but Sai Builder has fewer ratios.

##### 3) Debt-equity Ratio

In 2016, Shree Ashtavinayak Developers has lower ratio which is good for the company and safe for shareholder, but SaiAshtavinayak Venture has more ratio in 2015.

##### 4) Inventory turnover Ratio

Sai builder has too much high inventory ratio which is unsatisfactory results but Shree Ashtavinayak Developers has lower ratio which is good for the company.

##### 5) Debtors turnover Ratio

Debtor's turnover ratio shows how promptly debtors are making payments. Higher ratio shows debtors are paying frequently. ShreeAshtavinayak Developers has high debtor's turnover ratio, but Sai Builder has very low ratio.

##### 6) Fixed Assets turnover ratio

Shree Ashtavinayak Associates has very high fixed assets turnover ratio, it is very great achievement for the company, but Sai Builders has very low ratio, company should take more efforts to improve this ratio.

##### 7) Total assets turnover ratio

This ratio indicates number of times total assets are being turned over in year. Shree Ashtavinayak Associates has a ratio in increasing order which is satisfactory, but Sai builder has a low ratio.

##### 8) Operating Profit Margin

This ratio indicates profitability position of the company. Shree Ashtavinayak Associates has more ratio which is good for the company. Other companies like Sai Venture and Sai builders has low ratio.

##### 9) Gross profit Margin

Shree Ashtavinayak Associates gets more gross profit on sales and revenue i.e. company has low direct expenses but Shree Ashtavinayak Developers has low ratio as well as Sai Builders has also low ratio.

##### 10) Net profit margin

Among all four companies shreeAshtavinayak Associates has more net profit ratio which great achievement for the company but Sai Builders has loss in 2015 which is bad result for company.

### 11) *Return on net worth*

The ratio indicates how well management of funds. This is supplied by creditors and owners. Among all four companies no one company give the satisfactory result but shreeAshtavinayak Associates trying to reach upto satisfying result.

### 12) *Interest coverage ratio*

Higher ratio indicates that the firm is conservative in using the debt over the years which are satisfactory. Shree Ashtavinayak Associates increase this ratio in 2015 but Sai Venture & Sai Builder has low ratio. Company should improve this ratio.

## VI. RECOMMENDATION AND SUGGESTION

1. All four companies should try to maintain an adequate quantum of net current assets in relation of current liabilities throughout the year.
2. The companies should tighten the debt collection efforts and should reduce the amount tied up in debtors. In order to improve the quality of debtors and also to bring down the amount tied up in debtors a periodical report of overdue may be prepared and effective action may be taken by the management time to time to expedite the collection.
3. Inventory turnover ratio is less in all companies which indicates insufficient management of inventories. So it is advisable to keep fewer inventories to minimize costs and improve efficiency.
4. Both companies SaiAshtavinayak Venture and Sai Developers are more traditionally financed with low debt and more of equity financing so in future debt should be preferred for financing to bring ratio close to the ideal ratio of 1:1.
5. The management of all four companies should also try to maintain a definite proportion among various components of working capital in relation to overall current assets to keep an adequate quantum of liquidity all the time.

## VII. CONCLUSION

1. Sales turnover of shreeAshtavinayak Associates has more increased from Rs. 2403179.86 in 2014 to Rs. 22931629.99 in 2015.
2. The Operating profit of Sai Builders has tremendously increased from Rs.15969108.4 in 2014 to Rs.52104959.10 in 2015.
3. The Net Profit of Sai Builders has tremendously decreased in 2016. In 2016 company was in loss.
4. The debtor turnover ratio is lower for Sai builders as compare to Shree Ashtavinayak Developers which show that the debtors are less liquid implying insufficient management of debtors and sales.
5. The quick ratio is more than 1 of Shree Ashtavinayak Associates in 2014 and 2016 but Sai Builder has very low Quick ratio in 2015 and 2016.
6. The Net worth of SaiAshtavinayak Venture has increased successively in 2015 but Sai Builder has very low hence company is in loss.
6. The performance of Shree Ashtavinayak Associates from 2014 to 2016 is satisfying as compared to SaiAshtavinayak Venture, Shree Ashtavinayak Developers and Sai Builders.

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