A Project Report on

STUDY ON FINANCIAL PERFORMANCE USING RATIO ANALYSIS AT EMAMI LTD

Submitted by

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Declaration

I Onkar Raogaonkar, of MBA-2: Seat No MBA2019131 hereby declare that the Project work titled which has been submitted to University of Pune, is an original work of the undersigned and has not been reproduced from any other source. I further declare that the material obtained from other sources has been duly acknowledged in the report.

Date:22nd Oct 2020 **Signature**

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Executive Summary

In this project, titled "**A STUDY ON FINANCIAL PERFORMANCE USING RATIO ANALYSIS AT EMAMI LTD**" the aim is to analyze the liquidity and profitability position of the company using the financial tools.

This study based on financial statements such as Ratio Analysis, Comparative balance sheet. The study is made to evaluate the financial position, the operational results as well as financial progress of the business concern.

This study explains ways in which ratio analysis can be of assistance in long-rang planning, budgeting and asset management to strengthen financial performance and help avoid financial difficulties.

The study not only throws light on the financial position of a firm but also serves as a steppingstone to remedial measures for Emami Limited.

This project helps to identify and give suggestions on the area of weaker position of business transactions in "**EMAMI LTD**".

Company Profile

1.1 COMPANY PROFILE

1.1.1 HISTORY OF THE COMPANY:

Emami, which started as a cosmetics manufacturing company in the year 1974, advancing with increased momentum has expanded into Emami Group of Companies of today. Even though cosmetics and toiletries continue to be the main thrust area, the other companies in the Emami Group are performing equally brilliantly. From health care institution to medicines, from real estate to retailing and, from paper to writing instruments, Hospital, Emami is creating one success story after another.

1.1.2 Vision and Mission:

Vision

A company, which with the help of nature, caters to the consumers' needs and their inner cravings for dreams of better life, in the fields of personal and health care, both in India and throughout the world.

Mission

a. To sharpen consumer insights to understand and meet their needs with value-added differentiated products which are safe, effective & fast.
b. To integrate our dealers, distributors, retailers and suppliers into the Emami family, thereby strengthening their ties with the company.
c. To recruit, develop and motivate the best talents in the country and provide them with an environment which is demanding and challenging.
d. To strengthen and foster in the employees, strong emotive feelings of oneness with the company.
e. To uphold the principals of corporate governance and move towards decentralization to generate long term maximum returns for all stake owners.
f. To contribute whole heartedly towards the environment and society and to emerge as a model corporate citizen.

1.1.3 Values:

Respect for people:

We treat individuals with dignity and respect. We continue to be honest, open and ethical in all our interactions with dealers, distributors, retailers, suppliers, shareholders, customers and with each other.

Consumers delight:

We understand that our business can succeed only if we can create and keep customers. We manufacture products that offer value for money, which are differentiated and deliver safe, effective and fast solutions.

Integrity:

People at every level are expected to adhere to the highest standards of business ethics. Anything less is unacceptable. Our ethical conduct transcends beyond policies. It is ingrained in our corporate tradition that is transferred from one generation of employees to another. We comply with applicable government laws and regulations in the geographies where we are present.

Quality:

We are committed to excellence in everything we do. Our credo: There is always a better way- We must think creatively, continuously innovate and pursue new ideas to achieve uncommon solutions to common problems.

Teamwork:

Teamwork is the cornerstone of our business that helps deliver value to our customers. We work together across titles, job responsibilities and organizational structure to share knowledge and expertise.

The right environment:

It is our responsibility to create an environment that helps employees realize their full potential.

Leadership:

We recognize that we can be a leading company through active delegation and by creating leaders at every level of the organization.

Community development:

We continue to contribute to the communities in which we operate and address social issues responsibly. Our products are safe to make and use. We conserve natural resources and continue to invest in a better environment.

Transparency and shareholder value:

We are committed to be driven by our conscience and regulatory standards, to deliver value to our shareholders, commensurate with our management and financial strength.

1.1.4 Profile of the Organization:

Emami Limited is in the business of manufacturing personal, beauty and health care products. The company manufactures herbal and Ayurvedic products through the use of modern scientific laboratory practices. This blend enables the company to manufacture products that are mild, safe and effective. The company's product basket comprises over 20 products, the major being Boroplus Antiseptic Cream, Navratna Oil, Boroplus Prickly Heat Powder, Sona Chandi Chyawanprash and Amritprash, Mentho Plus Pain Balm, Fast Relief, Golden Beauty Talc, Madhuri Range of Products and others. The products are sold across all states in India and in countries like Nepal, Sri Lanka, the Gulf countries, Europe, Africa and the Middle East, among others.

1.1.5 Manufacturing:

Emami's products are manufactured in Kolkata, Puducherry, Guwahati and Mumbai. The company commenced operations at its fully automated manufacturing unit in Amingaon, Guwahati in 2003-04.

1.1.6 Network:

The company's dispersed manufacturing facilities are complemented with a strong product throughput, facilitated by a robust distribution network of over 2100 direct distributors and 3.9 lakhs retail outlets. With a view to reach its products deeper into the country, direct selling has been extended to rural villages. Emami is headquartered in Kolkata. The company's branch offices are located across 27 cities in India.

1.1.7 Promoters:

Emami is promoted by Shri R.S.Agarwal and Shri R.S.Goenka, Kolkata based industrialists. Emami's shares are listed on the Calcutta Stock Exchange, Bombay Stock Exchange and National Stock Exchange.

1.1.8 IT BACKBONE

INTEGRATED INFORMATION TECHNOLOGY

An efficient information technology network is necessary for a dynamic FMCG company where the market demands change faster than perhaps in any other industry. At Emami, the integration of information technology transpires on a continuous basis. This ensures that the company responds to changing market place realities faster than its competitors and that its products reach retail shelves just when they are required. In turn, this enhances brand loyalty and retains customers.

A successful implementation of the ERP in the offices, factories and depots increased the company's overall efficiency. It enabled single-point data entry and multi-point information access. The status of raw materials, packing materials, finished goods, indents and sales information gets constantly updated through ERP. This has become possible due to the Point to Point Leased Line connections.

As Emami is growing rapidly, the augmented business requirement calls for a Standard ERP system. This would provide Real-Time information to the Management, which would facilitate to take quick decision. The information could also be available through email and Mobile phones. So

Emami would be implementing a Standard ERP system very shortly. Sales Forecasting, Demand Planning, Process Management, Supply Chain Management, Primary and Secondary Sales, I-Supplier, I-Expenses, I-Sales will be an integral part of the Standard ERP system.

Emami adopts the latest Technology for IT and communication system.

1.1.9 SALES AND DISTRIBUTION NETWORK

Our Marketing & Distribution Network:

Wide, penetrative and all encompassing. That is how Emami has planned its distribution network. The success of Emami has been largely due to its superior products that have reached the consumers even in the remotest regions of the country and abroad.

Current Distribution Infrastructure:

- 5 Regions
- 25 Depots / C&F Agents
- 2,182 Direct Distributors
- 899 Distributors for Rural Coverage
- Over 3,86,940 Retail outlets

Distribution Network

Four Mother depots

- Kolkata
- Vijayawada
- Delhi
- Nagpur

Literature Review

1. **Doron Nissim, Stephen H. Penman (2001)** Calculation of various ratios to study the practical implication of Ratio Analysis and Equity Valuation for the period. It forecasted the time series behavior of many ratios and their typical "long-run, steady-state" levels were documented.

2. **Henry W. Collier, Timothy Grai, Steve Haslitt and Carl B.Mc Gowan** (2004) To construct a financial and industry analysis for corporation. Segment analysis, Industry analysis and Financial Ratio Analysis. It demonstrates that that financial ratio analysis is complicated for companies that it does not so easily fall into a single industry

3. **Florenz C. Tuges** (2012): To analyze the financial statements of three firms for the three-year period. The researcher calculated liquidity ratios, activity ratios, leverage ratios, profitability Ratios, and market value ratios to perform the financial ratio analysis. The researcher ranked three firms for each of the ratio calculated.

4. **Omar Durrah, Abdul Aziz Abdul Rahman, Syed Ashan Jamil, Nouraldeen Ghafeer** (2016) To examine the relationship between liquidity ratios and indictors of financial performance in the food industrial companies listed in Amman Bursa during the period. calculations of various ratios. The study pointed the existence of a positive relationship between quick ratio, interval ratio and operating cash flow margin. this is a positive relationship between liquidity ratios and on assets.

5. **Prof. Vijay S Patel, Prof Chandresh B Mehta** (2012) Calculation of various profitability ratio. This paper attempts to study the profitability ratio of KrishakBharati Co-operative Ltd. Its study reveals that the income of the company is based on the subsidy provided by the government, therefore the Company should try to minimize the operating expenses so as to maintain profit and it should not back too much on the subsidy.

Research Methodology

Research Methodology

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. So, the research methodology not only talks about the research methods but also considers the logic behind the method used in the context of the research study.

Research Design

A Research design is the specification of method and procedure for accruing the information needed. It is overall operational pattern of framework of project that stipulates what information is to be collected for source by that procedures.

Descriptive Research design is appropriate for this study. Descriptive study is used to study the situation. This study helps to describe the situation. A detail descriptive about present and past situation can be found out by the descriptive study. In this involves the analysis of the situation using the secondary data.

In view of the objects of the study listed above an exploratory research design has been adopted. Exploratory research is one which is largely interprets and already available information and it lays emphasis on analysis and interpretation of the existing and available information.

- To know the financial status of the company.
- To know the credit worthiness of the company.
- To offer suggestions based on research finding.

Ratio Analysis:

Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement. Ratio analysis is a cornerstone of fundamental equity analysis.

- Ratio analysis compares line-item data from a company's financial statements to reveal insights regarding profitability, liquidity, operational efficiency, and solvency.
- Ratio analysis can mark how a company is performing over time, while comparing a company to another within the same industry or sector.
- While ratios offer useful insight into a company, they should be paired with other metrics, to obtain a broader picture of a company's financial health.

TYPES OF RATIOS:

1. Liquidity Ratios:

The importance of adequate liquidity in the sense of the ability of a firm to meet current/short-term obligations when they become due for payment can hardly be overstresses. In fact, liquidity is a prerequisite for the very survival of a firm. The short-term creditors of the firm are interested in the short-term solvency or liquidity of a firm. The short-term creditors of the firm are interested in the short-term solvency or liquidity of a firm. But liquidity implies from the viewpoint of utilization of the funds of the firm, that funds are idle or they earn very little. A proper balance between the two contradictory requirements, that is, liquidity and profitability, is required for efficient financial management. The liquidity ratios measures the ability of a firm to meet its short-term obligations and reflect the short-term financial strength and solvency of a firm.

A. Current Ratio:

The current ratio is the ratio of total current assets to total current liabilities. It is calculated by dividing current assets by current liabilities:

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

The current assets of a firm, as already stated, represent those assets which can be, in the ordinary course of business, converted into cash within a short period of time, normally not exceeding one year and include cash and bank balances, marketable securities, inventory of raw materials, semi-finished (work-in-progress) and finished goods, debtors net of provision for bad and doubtful debts, bills receivable and prepaid expenses. The current liabilities defined as liabilities which are short-term maturing obligations to be met, as originally contemplated, within a year, consist of trade creditors, bills payable, bank credit, provision for taxation, dividends payable and outstanding expenses.

B. Quick Ratio

The liquidity ratio is a measure of liquidity designed to overcome this defect of the current ratio. It is often referred to as quick ratio because it is a measurement of a firm's ability to convert its current assets quickly into cash in order to meet its current liabilities. Thus, it is a measure of quick or acid liquidity.

The acid-test ratio is the ratio between quick assets and current liabilities and is calculated by dividing the quick assets by the current liabilities.

$$\text{Quick Ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

The term quick assets refers to current assets which can be converted into cash immediately or at a short notice without diminution of value. Included in this category of current assets are

(i) cash an bank balance;

(ii) short-term marketable securities and

(iii) debtors/receivables.

Thus, the current which are included are: prepaid expenses and inventory. The exclusion of expenses by their very nature are not available to pay off current debts. They merely reduce the amount of cash required in one period because of payment in a prior period.

C. Cash Ratio:

This ratio is also known as cash position ratio or super quick ratio. It is a variation of quick ratio. This ratio establishes the relationship absolute liquid asserts and current liabilities. Absolute liquid assets are cash in hand, bank balance and readily marketable securities. Both the debtors and bills receivable are excluded from liquid assets as there is always an uncertainty with respect to their realization. In other words, liquid assets minus debtors and bills receivable are absolute liquid assets. In this form of formula:

$$\text{Cash Ratio} = \frac{\text{Cash in hand \& at bank + Marketable securities}}{\text{Current liabilities}}$$

2. Activity Ratios:

Activity ratios are concerned with measuring the efficiency in asset management. These ratios are also called efficiency ratios or asset utilization ratios. The efficiency with which the assets are used would be reflected in the speed and rapidity with which assets are converted into sakes. The greater is the rte of turnover or conversion, the more efficient is the utilization of asses, other thongs being equal. For this reason, such ratios are designed as turnover ratios. Turnover is the primary mode for measuring the extent of efficient employment of assets by relating the assets to sales. An activity ratio may, therefore, be defined as a test of the relationship between sales and the various assets of a firm.

A. Average collection period:

In order t know the rate at which cash is generated by turnover of receivables, the debtors turnover ratio is supplemented by another ratio viz., average collection period. The average collection period states unambiguously the number of days' average credit sales tied up in the amount owed by the buyers. The ratio indicates the extent to which the debts have been collected in time. In other words, it gives the average collection period. Prompt collection of book debts will release such funds which may, then, put to some other use. The ratio may be calculated by

$$\text{Average collection period} = \frac{360 \text{ days}}{\text{Debtors turnover ratio}}$$

B. Inventory Turnover Ratio:

This ratio indicates the number of times inventory is replaced during the year. It measures the relationship between the cost of goods sold and the inventory level. The ratio can be computed in

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

The average inventory figure may be of two types. In the first place, it may be the monthly inventory average. The monthly average can be found by adding the opening inventory of each month from, in case of the accounting year being a calendar year, January through January an dividing the total by thirteen. If the firm's accounting year is other than a calendar year, say a financial year, (April and March), the average level of inventory can be computed by adding the opening inventory of each month from April through April and dividing the total by thirteen. This approach has the advantage of being free from bias as it smoothens out the fluctuations in inventory level at different periods. This is particularly true of firms in seasonal industries. However, a serious limitation of this approach is that detailed month-wise information may present practical problems of collection for the analyst. Therefore, average inventory may be obtained by using another basis, namely, the average of the opening inventory may be obtained by using another basis, namely the average of the opening inventory and the closing inventory.

C. Working Capital Turnover Ratio:

This ratio should the number of times the working capital results in sales. In other words, this ratio indicates the efficiency or otherwise in the utilization of short tern funds in making sales. Working capital means the excess of current over the current liabilities. In fact, in the short run, it is the current liabilities which play a major role. A careful handling of the short term assets and funds will mean a reduction in the amount of capital employed, thereby improving turnover. The following formula is used to measure this ratio:

$$\text{Working capital turnover ratio} = \frac{\text{Sales}}{\text{Net Working Capital}}$$

D. Fixed Assets Turnover Ratio:

As the organization employs capital on fixed assets for the purpose of equipping itself with the required manufacturing facilities to produce goods and services which are saleable to the customers to earn revenue, it is necessary to measure the degree of success achieved in this bearing. This ratio expresses the relationship between cost of goods sold or sales and fixed assets. The following is used for measurement of the ratio.

$$\text{Fixed Assets Turnover} = \frac{\text{Sales}}{\text{Net fixed assets}}$$

In computing fixed assets turnover ratio, fixed assets are generally taken at written down value at the end of the year. However, there is no rigidity about it. It may be taken at the original cost or at the present market value depending on the object of comparison. In fact, the ratio will have automatic improvement if the written down value is used.

It would be better if the ratio is worked out on the basis of the original cost of fixed assets. We will take fixed assets at cost less depreciation while working this ratio.

3. Financial Leverage (Gearing) Ratios

The long-term lenders/creditors would be judge the soundness of a firm on the basis of the long-term financial strength measured in terms of its ability to pay the interest regularly as well as repay the instalment of the principal on due dates or in one lump sum at the time of maturity. The long-term solvency of a firm can be examined by using leverage or capital structure ratios. The leverage or capital structure ratios may be defined as financial ratios which throw light on the long-term solvency of a firm as reflected in its ability to assure the long-term lenders with regard to

(i) periodic payment of interest during the period of the loan and

(ii) (ii) repayment of principal on maturity or in predetermined instalments at due dates.

A. Proprietary Ratio:

This ratio is also known as 'Owners fund ratio' (or) 'Shareholders equity ratio' (or) 'Equity ratio' (or) 'Net worth ratio'. This ratio establishes the relationship between the proprietors' funds and total tangible assets. The formula for this ratio may be written as follows.

$$\text{Proprietary Ratio} = \frac{\text{Proprietors' funds}}{\text{Total tangible assets}}$$

Proprietors funds mean the sum of the paid-up equity share capital plus preference share capital plus reserve and surplus, both of capital and revenue nature. From the sum so arrived at, intangible assets like goodwill and fictitious assets capitalized as "Miscellaneous expenditure" should be deducted. Funds payable to others should not be added. It may be noted that total tangible assets include fixed assets, current assets but exclude fictitious assets like preliminary expenses, profit & loss account debit balance etc.

B. Debt to Equity Ratio

The relationship between borrowed funds and owner's capital is a popular measure of the long-term financial solvency of a firm. The relationship is shown by the debt-equity ratios. This ratio reflects the relative claims of creditors and shareholders against the assets of the firm. The relationship between outsiders' claims and owner's capital can be shown in different ways and, accordingly, there are many variants of the debt-equity ratio.

$$\text{Debt to Equity Ratio} = \frac{\text{Total debt}}{\text{Total equity}}$$

The debt-equity ratio is, thus, the ratio of total outside liabilities to owners' total funds. In other words, it is the ratio of the amount invested by the owners of business.

C. Interest Coverage Ratio

It is also known as 'time interest-earned ratio'. This ratio measures the debt servicing capacity of a firm insofar as fixed interest on long-term loan is concerned. It is determined by dividing the operating profits or earnings before interest and taxes (EBIT) by the fixed interest charges on loans. Thus,

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest charges}}$$

It should be noted that this ratio uses the concept of net profits before taxes because interest is tax-deductible so that tax is calculated after paying interest on long-term loan. This ratio, as the name suggests, indicates the extent to which a fall in EBIT is tolerable in that the ability of the firm to service its interest payments would not be adversely affected. For instance, an interest coverage of 10 times would imply that even if the firm's EBIT were to decline to one-tenth of the present level, the operating profits available for servicing the interest on loan would still be equivalent to the claims of the lenders. On the other hand, a coverage of five times would indicate that a fall in operating earnings only up to one-fifth level can be tolerated. Form the point of view of the lenders, the larger the coverage, the greater is the ability of the firm to handle fixed-charge liabilities and the more assured is the payment of interest to term, however, too high a ratio may imply unused debt capacity. In contrast, a low ratio is a danger signal that the firm is using excessive debt and does not have to offer assured payment of interest to the lenders.

4. Profitability Ratios

The main object of a business concern is to earn profit. A company should earn profits to survive and to grow over a long period. The operating efficiency of a business concern is ultimately adjudged by the profits earned by it. Profitability should be distinguished from profits. Profits refer to the absolute quantum of profit, whereas profitability refers to the ability to earn profits. In other words, an ability to earn the maximum from the maximum use of available resources by the business concern is known as profitability. Profitability reflects the final result of a business operation. Profitability ratios are employed by the management in order to assess how efficiently they carry on business operations. Profitability is the main base for liquidity as well as solvency. Creditors, banks and financial institutions are interest obligations and regular and improved profits enhance the long-term solvency position of the business.

A. Gross Profit Margin

The gross profit margin is also known as gross margin. It is calculated by dividing gross profit by sales. Thus,

$$\text{Gross Profit Margin} = \frac{\text{Gross profit}}{\text{Sales}} * 100$$

Gross profit is the result of the relationship between prices, sales volume and cost. A change in the gross margin can be brought about by changes in any of these factors. The gross margin represents the limit beyond which fall in sales price are outside the tolerance limit. Further, the gross profit ratio/margin can also be used in determining the extent of loss caused by theft, spoilage, damage, and so on in the case of those firms which follow the policy of fixed gross profit margin in pricing their products.

A high ratio of gross profit to sales is a sign of good management as it implies that the cost of production of the firm is relatively low. It may also be indicative of a higher sales price without a

corresponding increase in the cost of goods sold. It is also likely that cost of sales might have declined without a corresponding decline in sales price. Nevertheless, a very high and rising gross margin may also be the result of unsatisfactory basis of valuation of stock, that is, overvaluation of closing stock and/or undervaluation of opening stock.

A relatively low gross margin is definitely a danger signal, warranting a careful and detailed analysis of the factors responsible for it. The important contributory factors may be (i) a high cost of production reflecting acquisition of raw materials and other inputs on unfavorable terms, inefficient utilization of current as well as fixed assets, and so on; and (ii) a low selling price resulting from severe competition, inferior quality of the product, lack o f demand, and so on. A through investigation of the factors having a bearing on the low gross margin is called for. A firm should have a reasonable gross margin to ensure adequate coverage for operating expenses of the firm and sufficient return to the owners of the business, which is reflected in the net profit margin.

B. Net Profit margin:

It is also known as net margin. This measures the relationship between net profits and sales of a firm.

$$\text{Net Profit Margin} = \frac{\text{Earnings after interest and taxes}}{\text{Net Sales}} * 100$$

A high net profit margin would ensure adequate return to the owners as well as enable a firm to withstand adverse economic conditions when selling price is declining, cost of production is rising and demand for the product is falling.

A low net profit margin has the opposite implications. However, a firm with low profit margin can earn a high rate of return on investment if it has a higher turnover. This aspect is covered in detail in the subsequent discussion. The profit margin should, therefore, be evaluated in relation to the turnover ratio. In other words, the overall rate of return is the product of the net profit margin and the investment turnover ratio. Similarly, the gross profit margin and the net profit margin should be jointly evaluated.

C. Return on Investment:

The basic objective of making investments in any business is to obtain satisfactory return on capital invested. The nature of this return will be influenced by factors such as, the type of the industry, the risk involved, the risk of inflation, the comparative rate of return on gilt-edged securities and fluctuations in external economic conditions. For this purpose, the shareholders can measure the success of a company in terms of profit related to capital employed. The return on capital employed can be used to show the efficiency of the business as a whole. The overall performance and the most important, therefore, can be judged by working out a ratio between profit earned and capital employed. The resultant ratio, usually expressed as a percentage, is called rate of return or return on capital employed to express the idea, the purpose is to ascertain how much income the use of Rs.100 of capital generates. The return on "capital employed" may be based on gross capital employed or net capital employed. The formula for this ratio may be written as follows.

$$\text{Return on Investment} = \frac{\text{Operating profit}}{\text{Capital Employed}}$$

D. Return on Equity (ROE)

This is also known as return on net worth or return on proprietors' fund. The preference shareholders get the dividend on their holdings at a fixed rate and before dividend to equity shareholders, the real risk remains with the equity shareholders. Moreover, they are the owners of total profits earned by the firms after paying dividend on preference shares. Therefore this ratio attempts to measure the firm's profitability in terms of return to equity shareholders. This ratio is calculated by dividing the profit after taxes and preference dividend by the equity capital. Thus

$$\text{Return on Equity} = \frac{\text{Net profit after taxes and preference dividend}}{\text{Equity capital}}$$

E. Return on Total Assets

This ratio is also known as the profit-to-assets ratio. This ratio establishes the relationship between net profits and assets. As these two terms have conceptual differences, the ratio may be calculated taking the meaning of the terms according to the purpose and intent of analysis. Usually, the following formula is used to determine the return on total assets ratio.

$$\text{Return on Total Assets} = \frac{\text{Net profit after taxes and interest}}{\text{Total assets}} * 100$$

5. Comparative Balance sheet:

Comparative balance sheets as on two or more different dates can be used for comparing assets, liabilities, capital and finding out any increase or decrease in those items. In the words of Foulke "comparative balance sheet analysis is the study of the trend of the same items, group of items and computed items in two or more balance sheets of the same business enterprise on different dates". Such analysis often yields valuable information as regards progress of business concern. While the single balance sheet represent balances of accounts drawn at the end of an accounting period, the comparative balance sheet represent not nearly the balance of accounts drawn on two different dates, but also the extent of their increase or decrease between these two dates. The single balance sheet focuses on the financial status of the concern as on a particular date, the comparative balance sheet focuses on the changes that have taken place in one accounting period. The changes are the direct outcome of operational activities, conversion of assets, liability and capital form into others as well as a various interactions among assets, liability and capital.

Data Collection

g. **Primary Data:**

Primary data is that which is collected by sociologists themselves during their own research using research tools such as experiments, survey questionnaires, interviews and observation. Primary data can take a quantitative or statistical form, e.g. charts, graphs, diagrams and tables. It is essential to interpret and evaluate this type of data with care. The primary data was collected mainly with the interactions and discussions with the internal guide and finance manager.

h. **Secondary Data:**

Secondary data studies whole company records and company's balance sheet in which the project work has been done. In addition, several reference books, journals and reports were also used to formulate the theoretical model for the study. And some information was also drawn from the websites.

Tools used in analysis:

i. Comparative statement.
j. Common Size Statement.
k. Trend Percentage.
l. Ratio Analysis.

5. Objectives, Scope, Limitation

Objective

i. To analyze the liquidity solvency position of the firm.

ii. To study the working capital management of the company.

iii. To understand the profitability position of the firm and return on capital employed.

Scope

The scope of the study covers the financial performance of Emami Limited. It is limited to collecting financial data published in the annual report of the company. It is made by making comparison of the past year. It helps to express the relationship between the company's financial performance through ratio analysis. Using the ratio analysis, companies' past, present performance can be analyzed. The analysis is done to suggest the possible solution. The present study covers the time space of 3 years from the co-operative year 2016-17 to 2019-20. The study analyses profitability, liquidity, short term financial strength, long-term financial strength and capital structure analysis.

Limitations

- As the study is based on secondary data, the inherent limitation of the secondary data would have affected the study.
- The figures in a financial statement are likely to be a least several months out of date, and so might not give a proper indication of the company's current financial position.
- This study needs to be interpreted carefully. They can provide clues to the company's performance or financial situation. But on their own, they cannot show whether performance is good or bad. It requires some quantitative information for an informed analysis to be made.

6. Data Analysis & Interpretation

FINANCIAL PERFORMANCE EVALUATION USING RATIO ANALYSIS

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "The Indicated Quotient of Two Mathematical Expressions" and as "The Relationship between Two or More Things". In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of firm. The absolute accounting figures reported in the financial statement do not provide a meaningful understanding of the performance and financial position of a firm. The relationship between two accounting figures, expressed mathematically is known as a financial ratio. Ratios help to summaries large quantities of financial data and to make qualitative about the firm's financial performance.

The point to note is that a ratio reflecting a quantitative relationship helps to form a qualitative judgment. Such is the nature of all financial ratios.

1) **Current Ratio**

The Current Ratio expresses the relationship between the firm's current assets and its current liabilities. Current assets normally include cash, marketable securities, accounts receivable and inventories. Current liabilities consist of accounts payable, short term notes payable, short-term loans, current maturities of long term debt, accrued income taxes and other accrued expenses (wages).

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Significance:

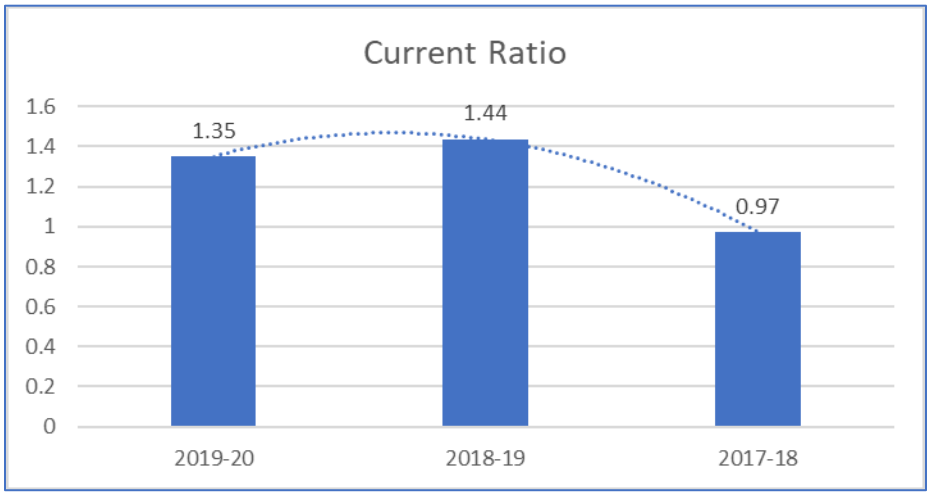
It is generally accepted that current assets should be 2 times the current liabilities. In a sound business, a current ratio of 2:1 is considered an ideal one. If current ratio is lower than 2:1, the short-term solvency of the firm is considered doubtful and it shows that the firm is not in a position to meet its current liabilities in times and when they are due to mature. A higher current ratio is considered to be an indication that of the firm is liquid and can meet its short-term liabilities on maturity. Higher current ratio represents a cushion to short-term creditors, "the higher the current ratio, the greater the margin of safety to the creditors".

Year	Current Assets in Rs. Cr.	Current Liabilities in Rs. Cr.	Ratio
2019-20	785.04	581.25	1.35
2018-19	655.06	455.89	1.44
2017-18	541.95	556.91	0.97

Interpretation:

As a conventional rule, a current ratio of 2:1 is considered satisfactory. This rule is base on the logic that in a worse situation even if the value of current assets becomes half, the firm will be able to meet its obligation. The current ratio represents the margin of safety for creditors.

From the above statement the fact is depicted that the liquidity position of the Emami Limited is not that good because all the three years current ratio is below the standard ratio 2:1.



2) Quick Ratio

Measures assets that are quickly converted into cash and they are compared with current liabilities. This ratio realizes that some of current assets are not easily convertible to cash e.g. inventories. The quick ratio, also referred to as acid test ratio, examines the ability of the business to cover its short-term obligations from its "quick" assets only (i.e. it ignores stock). The quick ratio is calculated as follows

$$\text{Quick Ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

Significance:

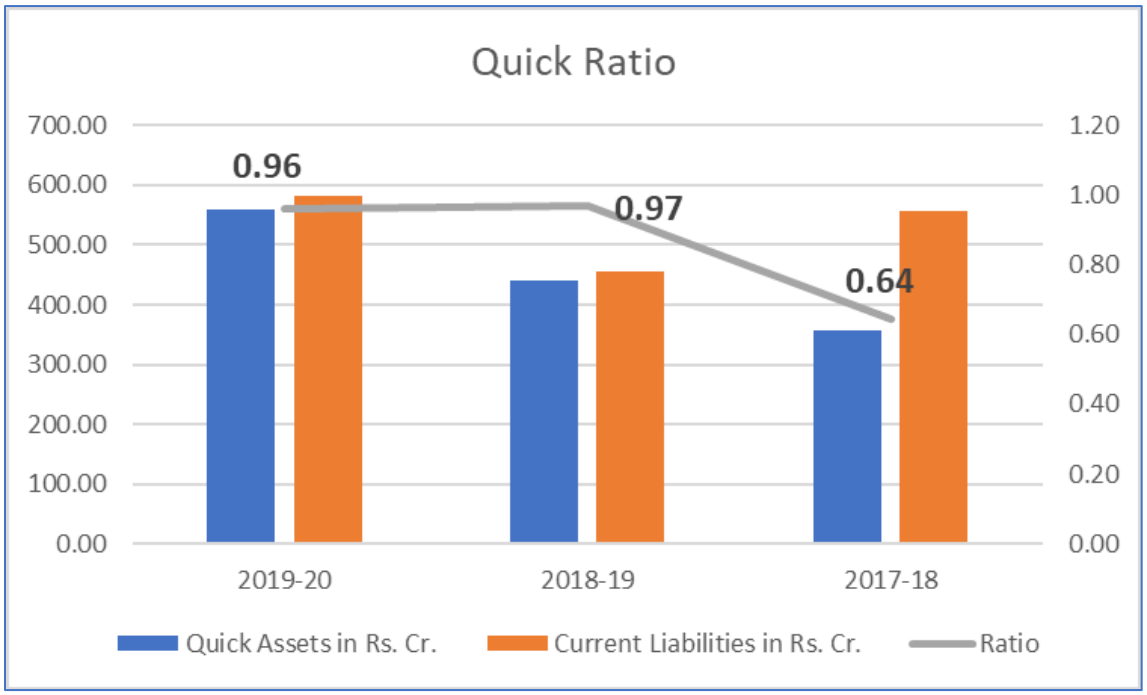
The standard liquid ratio is supposed to be 1:1 i.e., liquid assets should be equal to current liabilities. If the ratio is higher, i.e., liquid assets are more than the current liabilities, the short-term financial position is supposed to be very sound. On the other hand, if the ratio is low, i.e., current liabilities are more than the liquid assets, the short-term financial position of the business shall be deemed to be unsound. When used in conjunction with current ratio, the liquid ratio gives a better picture of the firm's capacity to meet its short-term obligations out of short-term assets.

Year	2019-20	2018-19	2017-18
Quick Assets in Rs. Cr.	559.16	441.52	358.10
Quick Liabilities in Rs. Cr.	581.25	455.89	556.91
Ratio	0.96	0.97	0.64

Interpretation:

As a quick ratio of 1:1 is considered satisfactory as a firm can easily meet all current claims. It is a more rigorous and penetrating test of the liquidity position of a firm. But the liquid ratio has been decreasing year after year which indicates a high operation of the business.

From the above statement, it is clear that the liquidity position of the Emami Limited is not satisfactory because for last 3 years liquid ratio is below the standard ratio of 1:1**.**



3) Cash Ratio

This is also known as cash position ratio or super quick ratio. It is a variation of quick ratio. This ratio establishes the relationship between absolute liquid assets and current liabilities. Absolute liquid assets are cash in hand, bank balance and readily marketable securities. Both the debtors and the bills receivable are exclude from liquid assets as there is always an uncertainty with respect to their realization. In other words, liquid assets minus debtors and bills receivable are absolute liquid assets. The cash ratio is calculated as follows

$$\text{Cash Ratio} = \frac{\text{Cash in hand \& at bank + Marketable securities}}{\text{Current liabilities}}$$

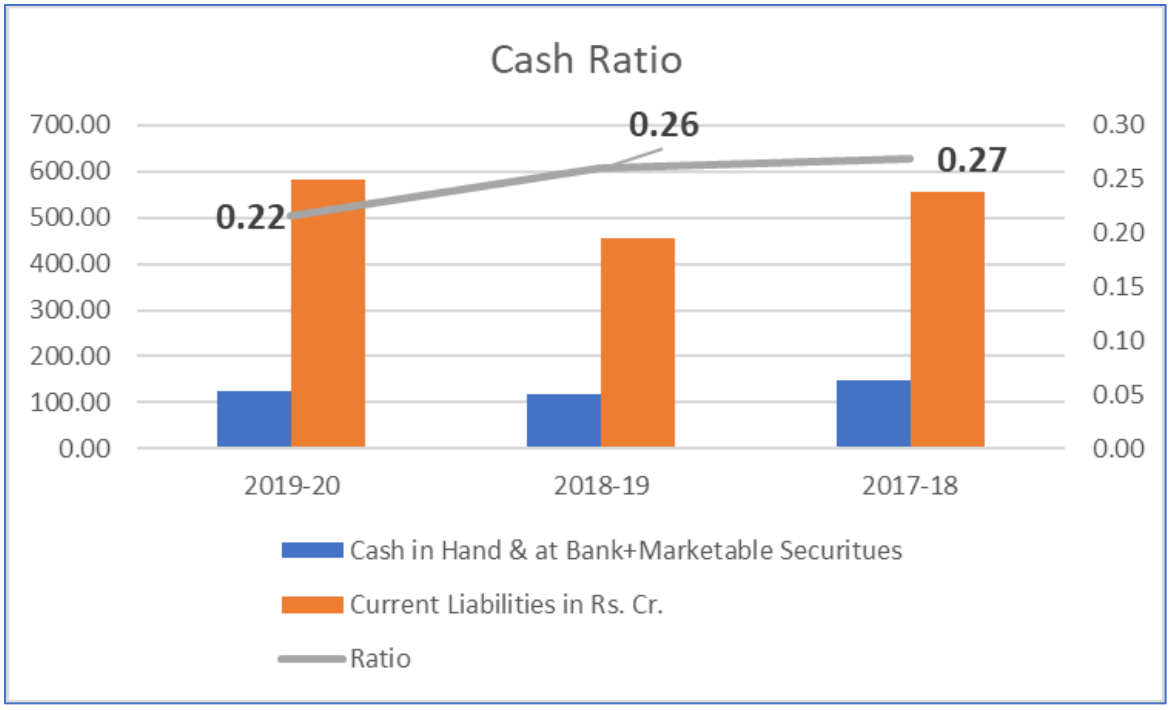
Significance:

This ratio gains much significance only when it is used in conjunction with the first two ratios. The accepted norm for this ratio is 50% or 0.5:1 or 1:2(i.e.,) Re. 1 worth absolute liquid assets are considered adequate to pay Rs.2 worth current liabilities in time as all the creditors are not expected to demand cash at the same time and then cash may also be realized from debtors and inventories. This test is a more rigorous measure of a firm's liquidity position. This type of ratio is not widely used in practice.

Year	2019-20	2018-19	2017-18
Cash in Hand & at Bank	125.63	118.53	149.61
Current Liabilities in Rs. Cr.	581.25	455.89	556.91
Ratio	0.22	0.26	0.27

Interpretation:

The acceptable norm for this ratio is 50% or 1:2. But the cash ratio is below the accepted norm. So, it can be concluded that the cash position is not utilized effectively and efficiently.



4) Fixed Asset Turnover Ratio

The fixed assets turnover ratio measures the efficiency with which the firm has been using its fixed assets to generate sales. It is calculated by dividing the firm's sales by its net fixed assets as follows:

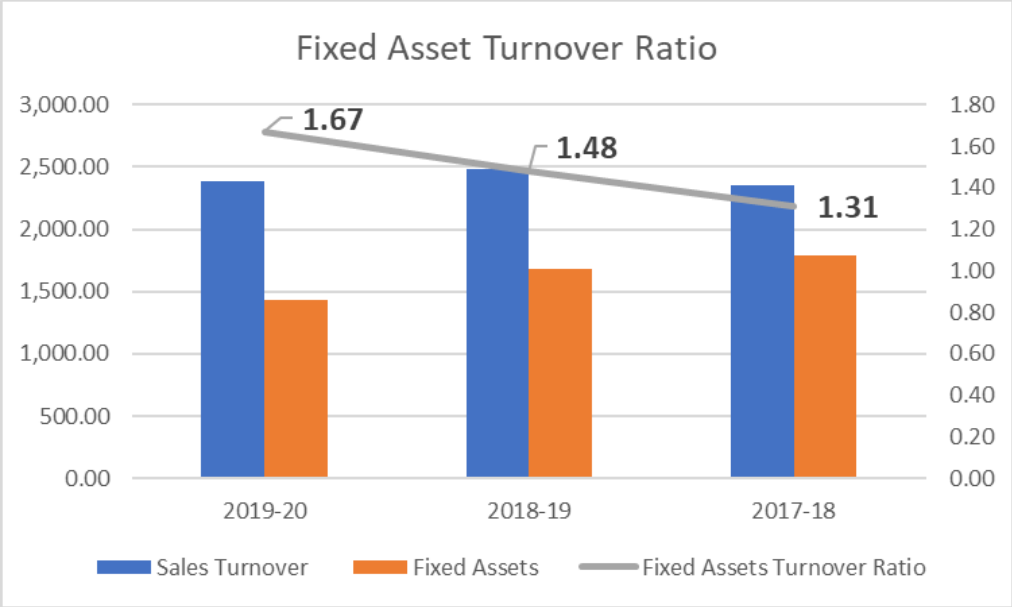
$$\text{Fixed Assets Turnover} = \frac{\text{Sales}}{\text{Net fixed assets}}$$

Significance:

This ratio gives an ideal about adequate investment or over investment or under investment in fixed assets. As a rule, over-investment in unprofitable fixed assets should be avoided to the possible extent. Under-investment is also equally bad affecting unfavorably the operating costs and consequently the profit. In manufacturing concerns, the ratio is important and appropriate, since sales are produced not only by use of working capital but also the capital invested in fixed assets. An increase in this ratio is the indicator of efficiency in work performance and a decrease in this ratio speaks of unwise and improper investment in fixed assets.

FIXED ASSETS TURNOVER RATIO

Year	2019-20	2018-19	2017-18
Sales Turnover Rs. In Cr.	2,389.92	2,483.27	2,353.99
Fixed Assets Rs. In Cr.	1,430.13	1,679.68	1,793.37
Fixed Assets Turnover Ratio	1.67	1.48	1.31



Interpretation:

The fixed assets turnover ratio is increasing year after year. The overall higher ratio indicates the efficient utilization of the fixed assets. Thus, the fixed assets turnover ratio for the 3 years is satisfactory as such there is no underutilization of the fixed assets.

5) Debt Equity Ratio

This ratio indicates the extent to which debt is covered by shareholders' funds. It reflects the relative position of the equity holders and the lenders and indicates the company's policy on the mix of capital funds. The debt to equity ratio is calculated as follows:

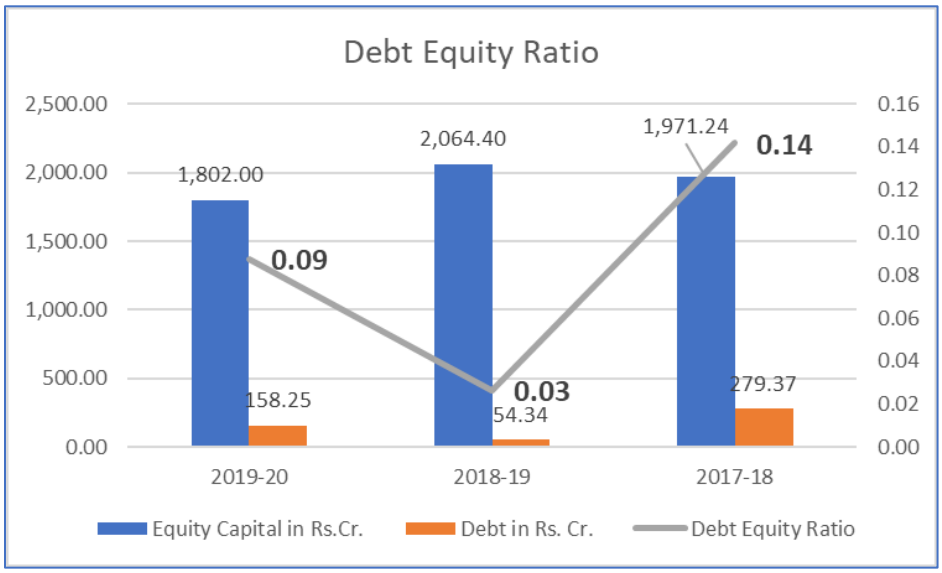
$$\text{Debt to Equity Ratio} = \frac{\text{Total debt}}{\text{Total equity}}$$

Significance:

The importance of debt-equity ratio is very well reflected in the words of Weston and brigham which are reproduced here: “Debt-equity ratio indicates to what extent the firm depends upon outsiders for its existence. For the creditors, this provides a margin of safety. For the owners, it is useful to measure the extent to which they can gain the benefits of maintaining control over the firm with a limited investment:” The debt-equity ratio states unambiguously the amount of assets provided by the outsiders for every one rupee of assets provided by the shareholders of the company.

DEBT TO EQUITY RATIO

Year	2019-20	2018-19	2017-18
Equity Capital in Rs. Cr.	1,802.00	2,064.40	1,971.24
Debt in Rs. Cr.	158.25	54.34	279.37
Debt Equity Ratio	0.09	0.03	0.14



Interpretation:

A low debt equity ratio is considered favorable from management point of view. It means greater claim of shareholders over the assets of the company than those of creditors. For the company also, the servicing of debt is less burdensome and consequently its credit standing is not adversely affected. Therefore, it can be concluded that Debt Equity ratio of Emami Limited is satisfactory.

6) Return on Investment (ROI)

Income is earned by using the assets of a business productively. The more efficient the production, the more profitable the business. The rate of return on total assets indicates the degree of efficiency with which management has used the assets of the enterprise during an accounting period. This is an important ratio for all readers of financial statements.

Investors have placed funds with the managers of the business. The managers used the funds to purchase assets which will be used to generate returns. If the return is not better than the investors can achieve elsewhere, they will instruct the managers to sell the assets and they will invest elsewhere. The managers lose their jobs and the business liquidates.

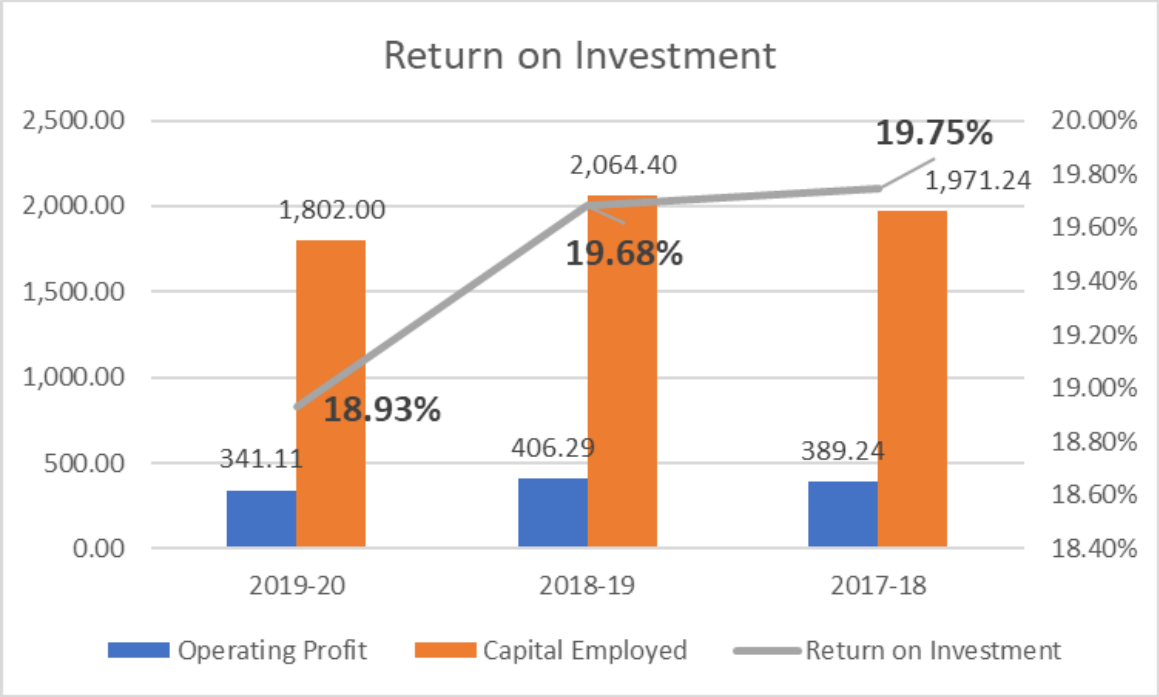
$$\text{Return on Investment} = \frac{\text{Operating profit}}{\text{Capital Employed}}$$

Significance:

Return on capital employed shows overall profitability of the business. At first minimum return on capital employed should be determined and then the actual rate of return on capital employed should be determined and compared with the normal return. The return and capital employed is a fair measure of the profitability of any concern with the result that even the result of dissimilar industries may be compared.

RETURN ON INVESTMENT

Year	2019-20	2018-19	2017-18
Operating Profit	341.11	406.29	389.24
Capital Employed	1,802.00	2,064.40	1,971.24
Return on Investment	18.93%	19.68%	19.75%



Interpretation:

This ratio indicates that how much of the capital invested is returned in the form of net profit. This ratio is increasing year after year which indicates the capital employed is returned in the form of net profit. In the same manner, returns from capital employed for the succeeding years are good.

Thus, the Return on Investment ratio for the past 3 years shows the efficiency of the business which is very much satisfactory.

7) Gross Profit Margin

Normally the gross profit has to rise proportionately with sales. It can also be useful to compare the gross profit margin across similar businesses although there will often be good reasons for any disparity.

$$\text{Gross Profit Margin} = \frac{\text{Gross profit}}{\text{Sales}} * 100$$

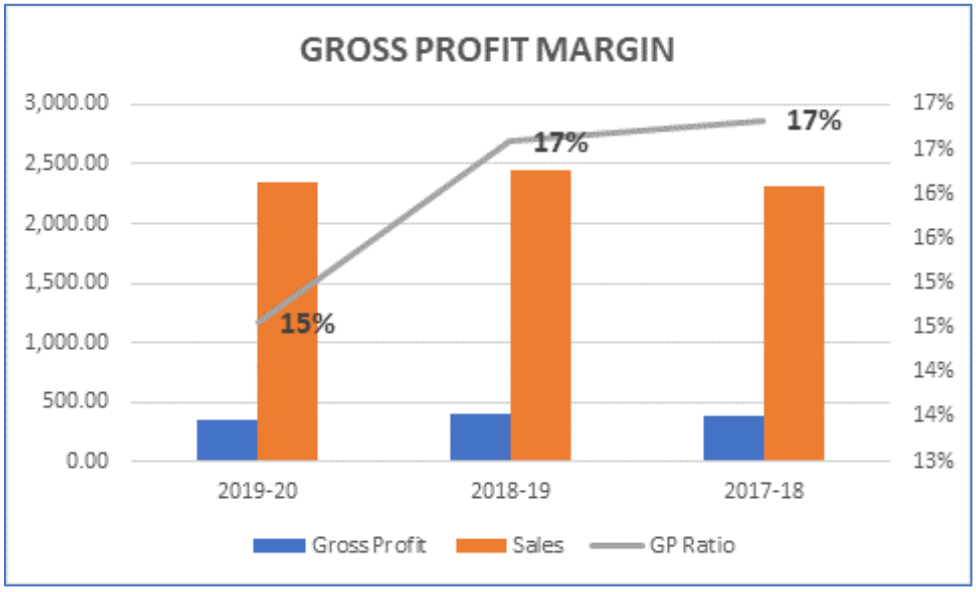
Significance:

The gross profit ratio helps in measuring the results of trading or manufacturing operations. It shows the gap between revenue and expenses at a point after which an enterprise has to meet the expenses related to the non-manufacturing activities, like marketing, administration, finance and also taxes and appropriations.

The gross profit shows the gap between revenue and trading costs. It, therefore, indicates the extent to which the revenue has a potential to generate a surplus. In other words, the gross profit reveals the mark up on the sales. Gross profit ratio reveals profit earning capacity of the business with reference to its sale. Increase in gross profit ratio will mean reduction in cost of production or direct expenses or sale at a reasonably good price and decrease in the will mean increased cost of production or sales at a lesser price. Higher gross profit ratio is always in the interest of the business.

GROSS PROFIT MARGIN

Year	2019-20	2018-19	2017-18
Gross Profit	341.11	406.29	389.24
Sales	2,342.07	2,449.25	2,313.17
GP Ratio	15%	17%	17%



Interpretation:

During past 3 years gross profit margins have been relatively stable and consistent. It can be said that company is in a good shape to maintain these margins in coming years too.

8) Net Profit Margin

This is a widely used measure of performance and is comparable across companies in similar industries. The fact that a business works on a very low margin need not cause alarm because there are some sectors in the industry that work on a basis of high turnover and low margins, for examples supermarkets and motorcar dealers. What is more important in any trend is the margin and whether it compares well with similar businesses.

$$\text{Net Profit Margin} = \frac{\text{Earnings after interest and taxes}}{\text{Net Sales}} * 100$$

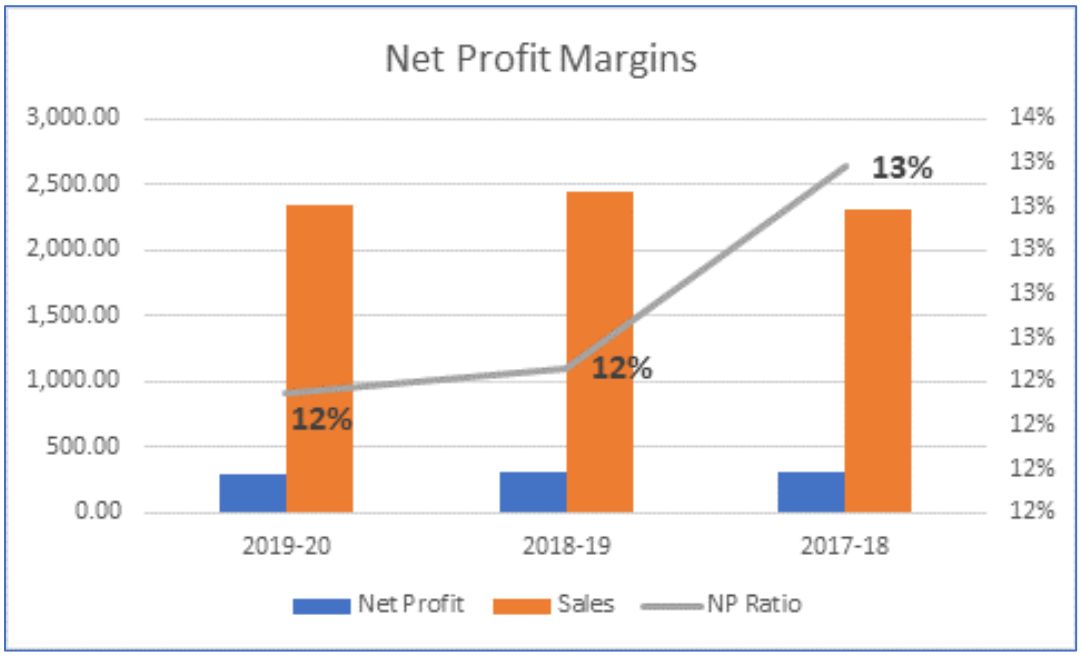
Significance:

An objective of working net profit ratio is to determine the overall efficiency of the business. Higher the net profit ratio, the better the business. The net profit ratio indicates the management's ability to earn sufficient profits on sales not only to cover all revenue operating expenses of the business, the cost of borrowed funds and the cost of merchandising or servicing, but also to have a sufficient margin to pay reasonable compensation to shareholders on their contribution to the firm. A high ratio ensures adequate return to shareholders as well as to enable a firm to with stand adverse economic conditions. A low margin has an opposite implication.

NET PROFIT MARGIN

Year	2019-20	2018-19	2017-18
Net Profit	289.12	305.24	309.52
Sales	2,342.07	2,449.25	2,313.17
NP Ratio	12%	12%	13%

NET PROFIT MARGIN



Interpretation:

Net Profit margins have been stable during past 3 years to 12-13%. There is no major deviation when compared year over year. So overall outlook of the company is good and stable.

9) Return on Total assets

This ratio is also known as the profit-to-assets ratio. This ratio establishes the relationship between net profits and assets. As these two terms have conceptual differences, the ratio may be calculated taking the meaning of the terms according to the purpose and intent of analysis. Usually, the following formula is used to determine the return on total assets ratio.

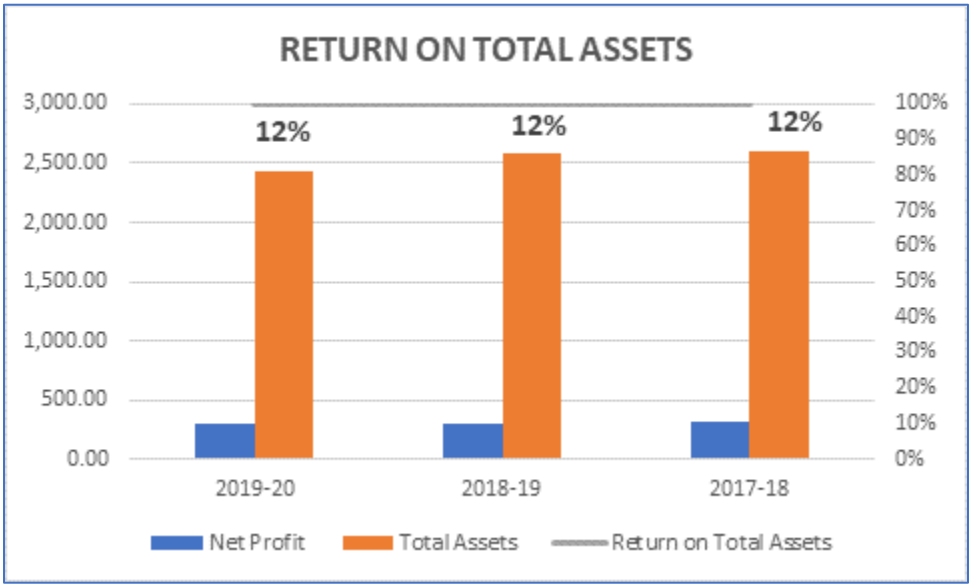
Return on total assets = (Net profit after taxes and interest / Total assets) * 100

Significance:

This ratio measures the profitability of the funds invested in a firm but does not reflect on the profitability of the different sources of total funds. This ratio should be compared with the ratios of other similar companies or for the industry as a whole, to determine whether the rate of return is attractive. This ratio provides a valid basis for inter-industry comparison.

RETURN ON TOTAL ASSETS

Year	2019-20	2018-19	2017-18
Net Profit	289.12	305.24	309.52
Total Assets	2,434.78	2,583.04	2,597.88
Return on Total Assets	12%	12%	12%



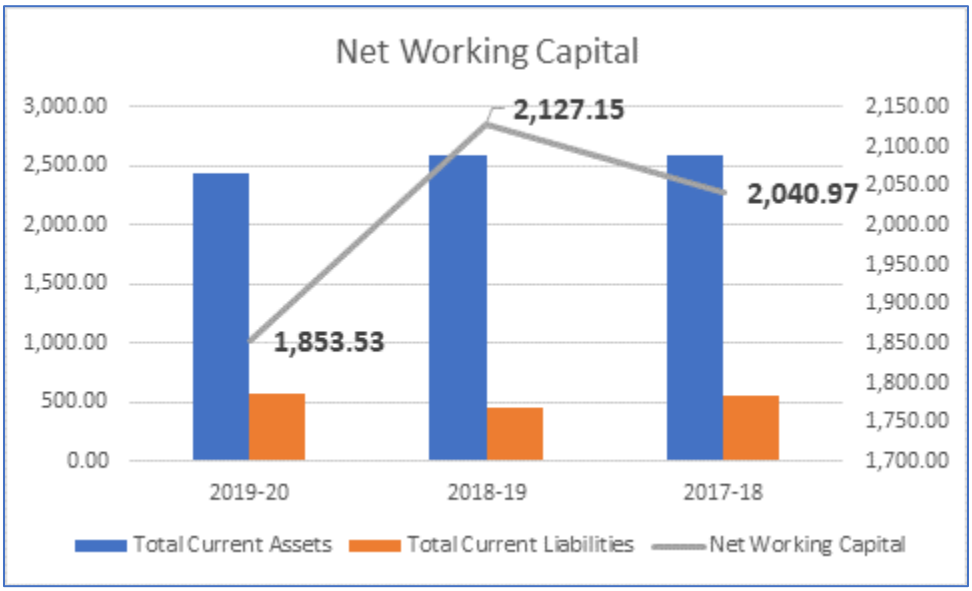
10) Working Capital

Working capital, also known as net working capital (NWC), is the difference between a company's current assets, such as cash, accounts receivable (customers' unpaid bills) and inventories of raw materials and finished goods, and its current liabilities, such as accounts payable. Net operating working capital is a measure of a company's liquidity and refers to the difference between operating current assets and operating current liabilities. In many cases these calculations are the same and are derived from company cash plus accounts receivable plus inventories, less accounts payable and less accrued expenses.

Working capital: Current Asset - Current Liabilities

Year	2019-20	2018-19	2017-18
Total Current Assets	2,434.78	2,583.04	2,597.88
Total Current Liabilities	581.25	455.89	556.91
Net Working Capital	1,853.53	2,127.15	2,040.97

Net Working Capital



Interpretation:

As compared to FY 2017-18 and 2018-19, FY 2019-20 has lower trade working capital. Working capital is important for running and operating of any business organization and it shall be kept ready in adequate amount to avoid any operational issues due to lack of funds. So prima facia, it can be concluded that Emami Limited needs to pay attention to its working capital requirements to avoid any issues in future.

FINDINGS

FINDINGS OF THE STUDY

1) The cash ratio is decreasing year after year. So it shows that the liquidity position is not utilized effectively and efficiently.
2) The Gross and Net Profit for the 3 years has been stable which shows that the direct and indirect expenses like selling and distribution expenses, are under control and there is a good operational efficiency of the business concern.
3) It can be stated that the working capital management of the company seems to be satisfactory. But in certain years there is decrease in working capital, which is due to higher amount of current liabilities especially increasing provision for dividend and taxation and creditors. The company should try to decrease the current liabilities and provision by making timely payment.

Suggestions

SUGGESTION AND RECOMMENDATION

1. The liquidity position of the company can be utilized in a better or other effective purpose.
2. Efforts should be taken to increase the overall efficiency in return out of capital employed by making used of the available resource effectively.
3. The company can increase its sources of funds to make effective research and development system for more profits in the years to come.

CONCLUSION

CONCLUSION

Through this exercise I have observed that Emami is a good company with strong fundamentals and business prospects. There are number of consumer products which it offers and in many categories its products are market leaders.

The current and liquid ratio indicates the short term financial position of Emami Ltd. whereas debt equity and proprietary ratios shows the long term financial position. Similarly, activity ratios and profitability ratios are helpful in evaluating the efficiency of performance in Emami Ltd. The financial performance of the company for the 3 years is analyzed and it is observed that the company is financially sound.

Overall, Emami, has been performing well from its inception and it can be said that company has great potential to grow in future with its strong product lineup and vision of the Board of Directors.

References

Websites-

www.investopedia.com

www.emamigroup.com

Emami Limited Annual Reports 2018-20

Balance Sheet

in Rs. Cr.	2019-20	2018-19	2017-18
EQUITIES AND LIABILITIES			
SHAREHOLDER'S FUNDS			
Equity Share Capital	45.32	45.39	22.7
Total Share Capital	45.32	45.39	22.7
Reserves and Surplus	1,756.68	2,019.01	1,948.54
Total Reserves and Surplus	1,756.68	2,019.01	1,948.54
Total Shareholders Funds	1,802.00	2,064.40	1,971.24
NON-CURRENT LIABILITIES			
Long Term Borrowings	0	0	0
Deferred Tax Liabilities [Net]	0	15.49	13.94
Other Long Term Liabilities	32.98	30.57	34.11
Long Term Provisions	18.55	16.68	21.68
Total Non-Current Liabilities	51.53	62.74	69.73
CURRENT LIABILITIES			
Short Term Borrowings	158.25	54.34	279.37
Trade Payables	239.12	224.99	184.34
Other Current Liabilities	137.55	145.33	74.7
Short Term Provisions	46.33	31.23	18.5
Total Current Liabilities	581.25	455.89	556.91
Total Capital And Liabilities	2,434.78	2,583.04	2,597.88
ASSETS			
NON-CURRENT ASSETS			
Tangible Assets	746.68	727.18	720.25
Intangible Assets	630.77	870.56	996.01
Capital Work-In-Progress	6.86	35.22	22.13
Intangible Assets Under Development	1.19	1.12	7.9
Other Assets	44.63	45.6	47.09
Fixed Assets	1,430.13	1,679.68	1,793.37
Non-Current Investments	92.63	179.17	187.26
Long Term Loans And Advances	49.73	9.71	8.16
Other Non-Current Assets	77.25	59.42	67.14
Total Non-Current Assets	1,649.74	1,927.98	2,055.93
CURRENT ASSETS			
Current Investments	68.33	7.86	128.06
Inventories	225.89	213.54	183.85
Trade Receivables	181.69	142.25	70.03
Cash And Cash Equivalents	57.3	110.67	21.55
Short Term Loans And Advances	65.31	4.43	2.66
OtherCurrentAssets	186.53	176.31	135.8
Total Current Assets	785.04	655.06	541.95
Total Assets	2,434.78	2,583.04	2,597.88

OTHER ADDITIONAL INFORMATION			
CONTINGENT LIABILITIES, COMMITMENTS			
Contingent Liabilities	115.63	124.45	103.62
CIF VALUE OF IMPORTS			
Raw Materials	32.03	27.45	30.18
Capital Goods	19.02	6.58	4.1
EXPENDITURE IN FOREIGN EXCHANGE			
Expenditure In Foreign Currency	25.43	26.83	5.74
REMITTANCES IN FOREIGN CURRENCIES FOR DIVIDENDS			
Dividend Remittance In Foreign Currency	-	-	-
EARNINGS IN FOREIGN EXCHANGE			
FOB Value Of Goods	-	99.77	98.45
Other Earnings	141.12	7.61	7.84
BONUS DETAILS			
Bonus Equity Share Capital	35.88	35.88	13.18
NON-CURRENT INVESTMENTS			
Non-Current Investments Quoted Market Value	39.33	136.67	152.32
Non-Current Investments Unquoted Book Value	53.3	42.5	34.93
CURRENT INVESTMENTS			
Current Investments Quoted Market Value	-	-	-
Current Investments Unquoted Book Value	68.33	7.86	128.06

Profit & Loss account (in Rs. Cr.)	2019-20	2018-19	2017-18
INCOME			
Revenue From Operations [Gross]	2,342.07	2,449.25	2,323.44
Less: Excise/Sevice Tax/Other Levies	0.00	0.00	10.28
Revenue From Operations [Net]	2,342.07	2,449.25	2,313.17
Other Operating Revenues	47.85	34.02	40.82
Total Operating Revenues	2,389.92	2,483.27	2,353.99
Other Income	94.09	42.63	28.28
Total Revenue	2,484.01	2,525.89	2,382.27
EXPENSES			
Cost Of Materials Consumed	710.45	743.03	629.15
Purchase Of Stock-In Trade	99.36	146.90	159.42
Changes In Inventories Of FG,WIP And Stock-In Trade	-3.56	-14.47	-10.48
Employee Benefit Expenses	255.70	237.29	215.94
Finance Costs	18.90	19.29	33.17
Depreciation And Amortisation Expenses	326.10	318.04	305.31
Other Expenses	735.95	669.51	660.51
Total Expenses	2,142.90	2,119.60	1,993.03
	43,910.00	**43,909.00**	**43,908.00**
Profit/Loss Before Exceptional, ExtraOrdinary Items And Tax	341.11	406.29	389.24
Exceptional Items	-3.26	-9.80	0.00
Profit/Loss Before Tax	337.86	396.50	389.24
Tax Expenses-Continued Operations			
Current Tax	64.27	86.37	65.65
Less: MAT Credit Entitlement	0.00	0.00	-14.00
Deferred Tax	-15.53	4.88	0.07
Tax For Earlier Years	0.00	0.00	0.00
Total Tax Expenses	48.74	91.25	79.72
Profit/Loss After Tax And Before ExtraOrdinary Items	289.12	305.24	309.52
Profit/Loss From Continuing Operations	289.12	305.24	309.52
Profit/Loss For The Period	289.12	305.24	309.52
	43,910.00	**43,909.00**	**43,908.00**
OTHER ADDITIONAL INFORMATION			
EARNINGS PER SHARE			
Basic EPS (Rs.)	6.37	6.72	13.64
Diluted EPS (Rs.)	6.37	6.72	13.64
VALUE OF IMPORTED AND INDIGENIOUS RAW MATERIALS			
Imported Raw Materials	0.00	0.00	0.00
Indigenous Raw Materials	0.00	0.00	0.00
STORES, SPARES AND LOOSE TOOLS			
Indigenous Stores And Spares	0.00	0.00	0.00

DIVIDEND AND DIVIDEND PERCENTAGE			
Equity Share Dividend	363.15	158.88	119.16
Tax On Dividend	74.65	31.34	22.98
Equity Dividend Rate (%)	400.00	400.00	700.00