



A STUDY ON FINANCIAL STATEMENT ANALYSIS OF SK ENTERPRISES

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Abstract:

This study analyzes the degree of accuracy and efficiency of SK Enterprises' financial records using ratio analysis, trend analysis and comparative analysis. Statement evaluation is done based on the company's available resources, profitability, and growth rate. Results show variability of liquidity ratios, continuity of net losses, and heavy dependence on debt finance. This paper argues the importance of analysis of financial statements for business decisions and sustainability practices of the analyzed organization.

Key Words: Liquidity, Solvency, Profitability, Efficiency, Valuation, Ratio Analysis and Growth

Introduction:

Evaluating a company's financial performance requires scrutiny of its financial statements, which reflect its profitability, liquidity, solvency, and efficiency. Investors, creditors, analysts, and management all have a share in the decision-making process. Financial Statement Analysis (FSA) utilizes ratio analysis, trend analysis, and comparative financial statements to study the underlying patterns in data and evaluate overall business activity. The relevant components include the balance sheet, income statement, cash flow statement, and various financial ratios. FSA helps stakeholders achieve strategic objectives, make investment choices, and meet compliance requirements. This research is based on secondary data, industry averages, and other ratio and trend analyses. On the other side, FSA can be too restrictive, including over emphasis on historical data, differences in accounting practices, and lack of attention to any non-numerical considerations. Nonetheless, FSA remains a fundamental methodology to evaluate risks and strengths while supporting decision making for business operations. The methods used for analyzing financial statements also help the organization plan for finances, assess risk, and prepare for growth in the long term.

Statement of the Problem:

- All financial statements are detailed and complicated, making it a challenge for stakeholders to extract relevant information from them. Making incorrect assumptions based on available data can cause drastic changes in decision-making and operational issues.
- The current strategies employed do not provide a clear pathway to analyze financial performance and determine relevant risks.

Review of Literature:

Sharma (2024) compared the impact of neo-banks on conventional banking systems using a rigorous methodology that combined qualitative literature review with quantitative data collection focusing on transaction values and user patterns. The investigation revealed significant differences between neo-bank and conventional bank business models. However, the use of secondary data from existing literature may not fully capture the difficulties and experiences of neo-banks.

Gupta & Mehta (2024) conducted an empirical study on how financial statement analysis impacts post-M&A performance. Their findings suggested that companies that performed a rigorous analysis of financial statements prior to mergers showed higher financial stability and profitability post-merger. The use of financial ratios, including profitability, liquidity and leverage

Reddy & Thomas (2023) used Altman's Z-Score model in their research to predict bankruptcy and financial distress in companies. The study found that the Z-Score, which incorporates profitability, leverage, liquidity, solvency, and activity ratios, was an effective tool for assessing a company's risk of bankruptcy. It proved especially useful for companies in high-risk sectors like real estate and retail, where sudden market shifts can lead to financial instability.

Desai & Patel (2023) investigated the application of XBRL (eXtensible Business Reporting Language) in automating financial statement analysis. The study showed that XBRL allows for the standardization of financial data, improving transparency and enabling easier comparison across firms. It also facilitates real-time financial statement analysis, which can be particularly beneficial for regulators and investors looking for timely information.

Objectives of the Study:

- SK Enterprises' financial performance will be evaluated through the use of important financial ratios.
- The liquidity, profitability and solvency of the enterprise will be assessed.
- Strategic recommendations will be developed for the enterprise to improve its financial health and stability.

Research Methodology:

The analysis will be conducted through secondary data gathered from the company's audited financial documents. To determine the financial performance of SK Enterprises' finances, the research utilizes ratio, trend, and comparative analysis of the financial statements.

Data Collection:

The data for this study is collected from the company's audited annual reports over a specified period. Since these reports are prepared according to accounting standards and regulatory guidelines, they serve as reliable sources of financial information.

Secondary data, such as financial ratios, trends, and disclosures, are extracted and analyzed to evaluate the company's financial health.

Data Analysis Techniques:

The study employs various financial analysis techniques, including:

- **Ratio Analysis:** Key financial ratios such as profitability, liquidity, solvency and efficiency are calculated to assess financial performance.
- **Comparative Analysis:** Financial performance is compared across different years to identify trends and variations.

Analysis: Liquidity Ratio

Current Ratio:

Measures the relations of current assets to a company's short-term liabilities for which payments are due. The business's current ratio is slightly higher than 1, which illustrates that the firm has some liquidity problems from time to time.

Year	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Ratio	0.87	1.04	0.89	1.04	1.04

Interpretation:

The current ratio fluctuates around 1, indicating that SK Enterprises faces occasional liquidity challenges. Although it improved slightly in some years, the firm may struggle to meet short-term obligations efficiently.

Quick Ratio:

This is even stricter and more powerful ratio. This analysis shows chronic liquidity problems because of the low quick assets available.

Year	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Ratio	0.13	0.04	0.10	0.05	0.04

Interpretation:

The consistently low quick ratio indicates chronic liquidity issues, suggesting that SK Enterprises has minimal quick assets to cover short-term liabilities. This reflects a heavy reliance on inventory or other non-liquid assets for meeting obligations.

Analysis: Profitability Ratio

Net Profit Margin:

Outlines the portion of earnings kept as profit. SK Enterprises has been experiencing net losses which show unstable finances.

Year	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Ratio	-10.31	-0.98	-0.97	-11.55	-8.71

Interpretation:

The negative net profit margin indicates continuous losses, reflecting SK Enterprises' unstable financial health. The sharp declines in 2019-2020 and 2022-2023 suggest significant financial challenges and potential inefficiencies.

Return on Assets:

An indicator for assessing how well assets are translated into profit. A negative return on assets means assets are not well managed.

Year	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Ratio	-15.35	-2.25	-1.98	-15.31	-11.55

Interpretation:

The consistently negative Return on Assets indicates poor asset utilization, leading to financial inefficiencies. Sharp declines in 2019-2020 and 2022-2023 highlight significant struggles in generating profits from assets.

Analysis: Solvency Ratio

Debt to Equity Ratio:

Shows the equity of the company against debt funding. The growing ratio SK Enterprises is indicative of higher financial risk due to debt.

Year	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Ratio	5.13	2.06	4.32	6.23	6.75

Interpretation:

The rising Debt-to-Equity ratio indicates increasing financial risk for SK Enterprises, as the company relies more on debt funding. The sharp rise in 2022-2023 and 2023-2024 suggests growing leverage, which may impact long-term financial stability.

Interest Coverage Ratio:

Measure show how easily a company can pay interest on outstanding debt. A negative ratio shows an inability to service debt.

Year	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Ratio	-1.25	-0.76	-0.82	-1.22	-1.06

Interpretation:

The consistently negative Interest Coverage Ratio indicates that SK Enterprises is struggling to cover its interest expenses, signaling financial distress. This suggests a high risk of default if profitability does not improve.

Analysis: Efficiency Ratio

Inventory Turnover Ratio:

The Inventory Turnover Ratio measures how often a company sells and replaces its inventory in a given period. A higher ratio indicates efficient inventory management, while a lower ratio suggests overstocking or slow sales.

Year	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Ratio	9.94	21.98	9.51	5.70	5.90

Interpretation:

The Inventory Turnover Ratio peaked in 2020-2021, indicating strong inventory management, but the sharp decline afterward suggests inefficiencies, potential overstocking, or slower sales. The consistently low ratios in recent years may reflect demand issues or poor inventory control.

Accounts Receivable Turnover Ratio:

The Accounts Receivable Turnover Ratio measure show efficiently a company collects payments from its customers. A higher ratio indicates timely collections, while a lower ratio may suggest issues with credit policies or delayed payments.

Year	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Ratio	8.70	7.84	7.83	7.82	7.81

Interpretation:

The declining Accounts Receivable Turnover Ratio indicates a slowdown in collections, suggesting potential issues with credit policies or delayed customer payments. This trend may impact cash flow and increase the risk of bad debts over time.

Findings:

- Current Ratio: SK Enterprises' current ratio hovered around 1, pointing towards sporadic issues with liquidity.
- Quick Ratio: The quick ratio was persistently low, confirming a long-term lack of liquidity and quick assets on hand.
- Net Profit Ratio: The net profit margin exhibited continual losses, peaking with the most significant drop in 2022-2023 (-11.55%), showcasing their feeble financial condition.
- Return on Assets: Return on Assets (ROA) stayed negative, reflecting poor profit and asset management.
- Debt-To-Equity Ratio: The debt-to-equity ratio grew over time, reaching 6.75 in 2023-2024, illustrating an increasing level of financial risk from dependency on debts.
- Interest Coverage Ratio: The interest coverage ratio remained negative, signifying the failure to meet interest payments and financial strain.
- Inventory Turnover Ratio: The ratio peaked in 2020-2021, indicating strong inventory management, but declined significantly afterward, suggesting potential overstocking or slower sales in recent years.
- Accounts Receivable Turnover Ratio: A gradual decline in the ratio over the years indicates slower collections, which may point to relaxed credit policies or increasing delays in customer payments.

Suggestions:

- Enhance liquidity by managing working capital and keeping sufficient cash on hand.
- Increase profitability by reducing overall costs and increasing sales in new areas.
- Decrease financial exposure by reducing the amount of debt and consider other forms of financing.

Conclusion:

Financial statement analysis is essential for assessing SK Enterprises' financial health, liquidity, profitability, and solvency. The company faces liquidity challenges, as indicated by low quick and cash ratios, requiring better cash flow management and working capital optimization. Profitability concerns persist due to continuous net losses and declining margins, highlighting the need for cost control and revenue diversification. A high debt burden and negative interest coverage ratio indicate financial strain, necessitating debt restructuring and alternative financing options. Declining inventory turnover and inefficient asset utilization reflect operational inefficiencies, requiring better inventory management and asset optimization. To ensure long-term financial stability, the company must enhance liquidity, reduce debt reliance, improve efficiency, and expand revenue sources. Implementing strategic financial management practices will strengthen stakeholder confidence and market competitiveness, driving sustainable business growth.

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