



A STUDY ON FINANCIAL PERFORMANCE ANALYSIS WITH REFERENCE TO PADMAVAHINI TRANSFORMERS PVT LTD

Dr. Prem Anand*, Aalaya K & Niketha N****

* Professor, Department of MBA (PG), Sri Ramakrishna College of Arts & Science,
Coimbatore, Tamil Nadu

** MBA Scholar, Department of MBA (PG), Sri Ramakrishna College of Arts & Science,
Coimbatore, Tamil Nadu

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Abstract:

This study aims to analyze the financial performance of Padmavahini Transformers Pvt Ltd. to assess the company's financial health and identify key areas for improvement. The method employed involves a detailed financial analysis using key financial ratios, including profitability, liquidity, solvency, and efficiency ratios, derived from the company's financial statements over a specified period. The results reveal a stable financial performance in terms of profitability and liquidity, with consistent growth in revenues and assets. However, certain areas related to debt management and operating efficiency require attention, as indicated by the solvency and efficiency ratios. The conclusion suggests that while the company demonstrates a strong financial position overall, strategic adjustments in cost control and debt management could enhance its future stability and growth. Key recommendations include improving operational efficiency, managing debt more effectively, and diversifying investment avenues to ensure long-term sustainability.

Key Words: Financial Performance Analysis, Profitability, Liquidity, Solvency, Padmavahini Transformers Pvt Ltd., Financial Ratios, Debt Management, Operating Efficiency.

Introduction:

In today's competitive world economy, evaluating the financial performance of a company has a great importance not only for managers, creditors and current/potential investors but also for the companies taking place in the same sector. Performance evaluation of companies is generally carried out within the context of financial analyses. As the concept of financial performance is considered under different meanings such as return, productivity, output and economic growth, using the financial ratios in the performance evaluation process can be suitable for both companies and related sectors. Financial ratios derived from the data in income statement and balance sheets are considered as crucial measurement tools in determining performance and financial assets of companies (Chen, K. H., & Shimerda, T. A.). These measures provide useful quantitative financial information to both investors and analysts so that they can evaluate the operation of a company and analyze its position within a sector over time (Gallizo, J. L., & Salvador, M.).

This study focuses on analyzing the financial performance of Padmavahini Transformers Pvt Ltd., a company known for its manufacturing of electrical transformers. The primary objective of this analysis is to evaluate the company's financial statements over a specified period to assess its strengths and weaknesses. The financial performance of a company is not only a reflection of its past operations but also a guiding factor for future growth and strategic decisions. By analyzing key financial ratios, this study aims to provide a comprehensive overview of Padmavahini Transformers Pvt Ltd.'s financial condition. The company's ability to maintain profitability, manage debt effectively, and optimize operational efficiency will be evaluated to determine areas for improvement. Understanding these factors will help the company make strategic adjustments to ensure long-term success and competitive advantage in the market.

Statement of the Problem:

The financial performance of a company plays a crucial role in determining its overall stability and growth potential. This study aims to analyze the financial performance of Padmavahini Transformers Pvt Ltd., a key player in the transformer manufacturing industry. By examining financial statements, key financial ratios, and trends over a defined period, the research intends to evaluate the company's profitability, liquidity, solvency, and operational efficiency. Understanding these aspects will provide insights into the financial health of the company, highlight areas of improvement, and offer a comprehensive overview of its financial standing in the industry. The study seeks to bridge the gap in understanding how financial metrics can influence decision-making and contribute to strategic planning for Padmavahini Transformers Pvt Ltd.

Objectives of the Study:

- To analyse the liquidity position of the company.
- To evaluate the profitability of the company.
- To examine the overall financial performance of the company.

Research Methodology:

Research Design:

The study follows a descriptive research design, aiming to systematically analyze the financial performance of Padmavahini Transformers Pvt. Ltd. The primary objective is to evaluate the company's financial health, profitability, liquidity, solvency, and turnover ratios over the period from 2020 to 2024.

Source of Data Collection:

The data for the study is secondary in nature, sourced from Annual Reports, Company Brochures and Magazines, Balance Sheets and Profit & Loss Accounts, Published Textbooks and Academic Journals etc.

Tools Used for the Study:

- Liquidity Ratios (Current Ratio and Quick Ratio)
- Profitability Ratios (Net Profit Margin, Return on Assets (ROA), and Return on Equity (ROE))
- Turnover Ratios (Inventory Turnover Ratio, Receivables Turnover Ratio, and Asset Turnover Ratio)
- Solvency Ratios (Debt to Equity Ratio, Interest Coverage Ratio)

Period of the Study:

The data for this research was collected from 2020 to 2024, providing a comprehensive view of the company’s financial performance over a five-year period.

Literature Review:

Al Karim, R., & Alam, T. (2013) measured the financial performance of five private sector banks listed on both the Dhaka Stock Exchange and Chittagong Stock Exchange in Bangladesh. The analysis relied on financial ratios that evaluate aspects such as risk-based capital adequacy, credit growth, liquidity, and profitability. Key performance indicators included Return on Assets (ROA), Tobin's Q model (Price/Book ratio), and Economic Value Added (EVA). Using annual data from 2008-2012 and employing multiple regression analysis, the study examined the impact of bank size, credit risk, operational efficiency, and asset management on financial performance. The hypothesis tested indicated that these factors significantly influenced the financial performance of Bangladeshi commercial banks.

Borhan, H., Naina Mohamed, R., & Azmi, N. (2014) explored the impact of financial ratios on the financial performance of Lyondell Basell Industries (LYB), a chemical company. It focused on liquidity ratios (current ratio and quick ratio), leverage ratios (debt ratio and debt-equity ratio), and profitability ratios (operating profit margin and net profit margin). The company faced a decline in financial performance after a merger and the global financial crisis but managed to recover. Data from 2004-2011 was analyzed using a multiple regression model, revealing that the current ratio, debt ratio, and net profit margin had a significant positive impact on the company’s performance. In contrast, the debt-equity ratio and operating profit margin showed a negative relationship with performance.

Ginting, E. S. (2021) analyzed the financial performance based on the ratio of PT. Mustika Ratu, Tbk in the period 2012 to 2017. The data analysis technique used in this study is a descriptive analysis with a qualitative approach. The result obtained is the financial performance experienced fluctuations every year. As for the effect of the fluctuation of PT's financial ratios, which was influenced by several external and internal factors of the company itself, so new measures are needed to improve the company's performance carried out by PT.

Adam, M. H. M. (2014) examined the financial performance of Erbil Bank for Investment and Finance in the Kurdistan Region of Iraq over the period from 2009 to 2013. It utilized financial ratio analysis to assess the bank's financial position, alongside a range of statistical tools to analyze variables affecting the banking system. The findings indicated a positive trend in the bank's financial position, with several financial factors influencing its performance. Specifically, the bank's financial performance showed improvements in liquidity ratios, asset quality ratios, and profitability ratios such as Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE).

Haque, S. (2013) measured the financial performance of some selected private commercial banks in Bangladesh for the period 2006-2011 and to identify whether any relationship exists between a bank’s years of operation and its performance. For this purpose five banks have been selected from different generations. The financial performances of these banks have been scrutinized from the following four dimensions: (1) profitability (2) liquidity (3) credit risk and (4) efficiency. The study concluded that there is no specific relationship between the generation of banks and its performance. The performances of banks are dependent more on the management’s ability in formulating strategic plans and the efficient implementation of its strategies.

Analysis and Interpretation:

Current Ratio:

Particulars	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Current Assets	36099.03	33,325.44	50,256.18	43,454.89	67,204.63
Current Liabilities	15,055.67	15,108.77	26,295.47	26,245.45	33,073.12
Current Ratio	2.40	2.21	1.91	1.66	2.03

Current assets showed a consistent increase from 36,099.03 in 2019-2020 to 67,204.63 in 2023-2024, indicating growth in short-term resources available to meet immediate obligations. However, current liabilities also increased during the same period, rising from 15,055.67 in 2019-2020 to 33,073.12 in 2023-2024, reflecting a growing burden of short-term debt. The current ratio, which measures the company’s ability to cover its short-term liabilities with its short-term assets, showed a decline from 2.40 in 2019-2020 to 1.66 in 2022-2023, suggesting a decreasing buffer for meeting current obligations. However, the ratio improved to 2.03 in 2023-2024, indicating a recovery in liquidity. Overall, while the company’s short-term liquidity position has fluctuated, the improvement in the current ratio in the latest year suggests better preparedness to handle short-term liabilities.

Return on Equity Capital:

Particulars	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Net Profit	7,357.82	8,223.66	3,679.28	275.68	4,676.61
Equity Capital	474.1	476.57	479.01	513.31	514.33
Return On Equity Capital	15.52	17.26	7.68	0.54	9.09

Net profit showed some variation over the years, starting at 7,357.82 in 2019-2020, peaking at 8,223.66 in 2020-2021, but then declining sharply to 275.68 in 2022-2023, before recovering to 4,676.61 in 2023-2024. Equity capital steadily increased from 474.1 in 2019-2020 to 514.33 in 2023-2024, reflecting growth in shareholder investment. The return on equity (ROE), which measures the company’s profitability relative to its equity, followed a similar trend, peaking at 17.26% in 2020-2021, but then plummeting to a low of 0.54% in 2022-2023, before improving to 9.09% in 2023-2024. These fluctuations indicate that while the company faced significant challenges in 2022-2023, particularly in terms of profitability, it showed signs of recovery in the

following year. The decline in ROE during 2022-2023 suggests reduced efficiency in generating profit from shareholders' equity, while the improvement in 2023-2024 indicates a rebound in profitability.

Working Capital Turnover Ratio:

Particulars	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Interest Income	54,985.77	45,780.31	44,542.16	40,988.04	35,478.60
Working Capital in Progress	101.26	206.97	280.96	346.09	272.69
Working Capital Turnover Ratio	543.02	221.19	158.54	118.43	130.11

Interest income declined over the period, dropping from 54,985.77 in 2019-2020 to 35,478.60 in 2023-2024, indicating a reduction in earnings from interest. Meanwhile, working capital in progress showed a steady increase from 101.26 in 2019-2020 to 346.09 in 2022-2023, before slightly falling to 272.69 in 2023-2024. This fluctuation indicates that the company has been investing in or adjusting its working capital, although it did not maintain a consistent upward trend in recent years.

The working capital turnover ratio, which measures the efficiency of a company in utilizing its working capital to generate revenue, has consistently declined from 543.02 in 2019-2020 to 130.11 in 2023-2024. This drop suggests a decrease in the company's efficiency in using its working capital to generate sales, with the lowest efficiency observed in 2022-2023. The improvement in the ratio from 118.43 in 2022-2023 to 130.11 in 2023-2024 signals a slight recovery, although the company's ability to generate revenue from its working capital is still lower than in earlier years.

Debt-Equity Ratio:

Particulars	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Debt	402200.21	457,193.94	519,409.66	601,638.86	701,247.12
Equity	461,932.39	525,467.61	601,467.66	691,329.57	800,996.52
Debt-Equity Ratio	0.87	0.87	0.86	0.87	0.88

Debt consistently increased over the period, rising from 402,200.21 in 2019-2020 to 701,247.12 in 2023-2024, reflecting an expansion in the company's borrowed funds. Similarly, equity also grew steadily, from 461,932.39 in 2019-2020 to 800,996.52 in 2023-2024, indicating an increase in shareholders' investment. Despite the rising levels of both debt and equity, the debt-equity ratio remained relatively stable, fluctuating between 0.86 and 0.88 throughout the period. This stability suggests that the company's financial leverage has not significantly changed, maintaining a balanced approach between debt and equity financing. The consistent ratio indicates that while the company has increased its debt levels, it has done so proportionally with equity, which may help manage the risk of over-leverage.

Findings:

- The analysis of current assets, current liabilities, and the current ratio from 2019 to 2024 shows a general increase in current assets, rising from 36,099.03 in 2019-2020 to 67,204.63 in 2023-2024, indicating growth in short-term resources. However, current liabilities also grew, from 15,055.67 to 33,073.12 over the same period, reflecting a higher short-term debt burden. The current ratio, decreased from 2.40 in 2019-2020 to 1.66 in 2022-2023, signalling reduced liquidity. Despite this, the ratio improved to 2.03 in 2023-2024, suggesting a recovery in the company's liquidity position.
- Net profit increased from 7,357.82 in 2019-2020 to 8,223.66 in 2020-2021 but then declined significantly to 275.68 in 2022-2023, before recovering to 4,676.61 in 2023-2024. Equity capital showed a steady rise from 474.1 in 2019-2020 to 514.33 in 2023-2024, indicating growth in shareholder investment. The return on equity (ROE) followed a similar pattern, peaking at 17.26% in 2020-2021, then dropping sharply to 0.54% in 2022-2023, before recovering to 9.09% in 2023-2024. These trends suggest a significant dip in profitability in 2022-2023, followed by a recovery in the following year, though ROE remains below its peak levels.
- Interest income has steadily declined from 54,985.77 in 2019-2020 to 35,478.60 in 2023-2024, suggesting a reduction in earnings from interest. Working capital in progress showed an increase from 101.26 in 2019-2020 to 346.09 in 2022-2023, followed by a slight decrease to 272.69 in 2023-2024. The working capital turnover ratio, falling from 543.02 in 2019-2020 to 130.11 in 2023-2024, indicating reduced efficiency in utilizing working capital to generate revenue, though there was a slight recovery in the most recent year.
- Debt increased from 402,200.21 in 2019-2020 to 701,247.12 in 2023-2024, indicating a growing reliance on borrowed funds. Similarly, equity also grew from 461,932.39 in 2019-2020 to 800,996.52 in 2023-2024, reflecting a rise in shareholders' investment. Despite the increase in both debt and equity, the debt-equity ratio remained relatively stable, fluctuating between 0.86 and 0.88.

Suggestions:

- The company should consider enhancing its liquidity management by focusing on faster inventory turnover, reducing day's sales outstanding, or maintaining a cash buffer to ensure it can meet short-term obligations more efficiently.
- The company should regularly review and analyze key financial ratios, especially the current ratio, to ensure it maintains a healthy buffer for covering short-term liabilities.
- The sharp decline in net profit in 2022-2023 indicates that the company should prioritize cost-cutting measures, increase operational efficiency, and explore new revenue streams to stabilize and boost profitability in the coming years.
- Company should improve its operational efficiency, such as reducing waste, enhancing productivity, and investing in technology that can lower operational costs and increase profit margins.
- The company should consider diversifying its business activities or investing in new areas that can generate stable income, such as expanding its product offerings or venturing into new markets.
- To counteract the decline in interest income, the company should focus on controlling costs through operational efficiency, automation, and streamlining business processes.
- The company should conduct regular reviews of its capital structure to ensure that it maintains an optimal balance between debt and equity.

Conclusion:

The financial performance analysis of Padmavahini Transformers Pvt Ltd. reveals both positive and challenging trends over the period under review. The company has shown consistent growth in key financial metrics such as current assets and equity, indicating a solid foundation for future growth. However, the analysis also highlights certain areas requiring attention, particularly in liquidity management and profitability. The company's declining current ratio in recent years suggests a reduction in its ability to meet short-term obligations, which could pose a risk if not addressed. Additionally, fluctuations in net profit and return on equity point to periods of reduced profitability, particularly in 2022-2023.

Despite these challenges, Padmavahini Transformers Pvt Ltd. has made significant strides in maintaining a stable debt-equity ratio, which reflects a balanced approach to leveraging debt and equity financing. The company's ability to recover from setbacks, as shown by the improvement in key financial ratios in the most recent year, indicates its resilience and potential for growth. Moving forward, it is crucial for the company to focus on improving liquidity management, optimizing working capital utilization, and exploring new revenue streams to further enhance its financial stability and profitability. By strategically addressing these areas, Padmavahini Transformers Pvt Ltd. can continue to strengthen its financial performance and maintain a competitive edge in the transformer manufacturing industry.

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