



A STUDY ON FINANCIAL STATEMENT ANALYSIS OF NATCHI APPAREL (P) LTD, DINDIGUL

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Abstract:

A financial statement is a formal record of the financial activities of a business, person or other entity. Relevant financial information is presented in a structured manner and in a form of easy to understand. They typically include basic financial statements, accompanied by a management discussion and analysis: a balance sheet also referred to as a statement of financial position, reports on a company's assets, liabilities and ownership equity at a given point in time. An income statement also referred as a statement of comprehensive income, statement of revenue and expenses, profit and loss report, report's on company's income, expenses and profit over a period of time. The financial statements are prepared by certain accounting conventions and principles. Accounting itself is a dynamic science, and accountants have developed, from time to time, a number of conventions on the experiences. Even though a number of conventions and assumptions have been propounded in accountancy, their use is affected by the personal judgment of accounts. The financial statements are affected by the personal judgment of accountants and such as they are subjective documents. The company should increase sales volume as well as gross profit. Despite price drops in various products, the company has been able to maintain and grow its market share to make strong margins in market, contributing to the strong financial position of the company.

Key Words: Financial Statements of Natchi Apparel Ltd.

Introduction:

Financial statements refer to formal and original statements prepared by a business concern to disclose its financial information. The transactions affecting the business are recorded in the books and shown in the financial statements at the same values. Accountants always take some facts as accepted or postulates. In other words, business transactions are recorded on certain assumptions such as 'going concern', 'stable value of rupees' etc., these are reflected in the financial statements. The objectives of financial statement are to provide information about the financial position, performance and changes in financial position of the enterprise that is useful to a wide range of users in making economic decisions.

Financial Statements May be Used By Users for Different Purposes:

- Owners and managers require financial statements to make important business decisions that affect its continued.
- Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures.
- These statements are also used as part of management's annual report to the stockholders.
- Employees also need these reports in making collective bargaining agreements with the management, in the case of labor unions or for individuals in discussing their compensation, promotion and rankings.
- Financial institutions use them to decide whether to grant a company with fresh working capital or extend debt securities (such as long-term bank loan or debentures) to finance expansion and other significant expenditures.

Financial Statement Analysis:

"Analysis and interpretation of financial statements are an attempt to determine the significance and meaning of the financial statement data so that forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities (both current and long term) and probability of a sound dividend policy." – Kennedy & Muller

Tools for Financial Statement Analysis:

- The history of financial statement analysis is traced back to the beginning of 20th century. The analysis was started in western countries for the use of credit analysis. Till 1914, the financial institutions used

to rely on the facts of financial statements. But over a period of time, the need for analysis was felt and a number of techniques were invented and made use of the purpose of analysis.

- The most important tools of analysis and interpretation of financial statements are listed below;
 - Ratio analysis
 - Cash flow analysis;
 - Fund flow analysis;
 - Comparative financial statement;
 - Common size analysis;
 - Trend analysis;

Objectives of the Study:

- To identify the financial statements of the Natchi apparel industry.
- To understand the liquidity position and find out the financial statement level.
- To study the decisions that affects its continued operations.
- To study the industries about deciding on investing their funds in a apparel industries.
- To analyses the statements of the company with the help of tools like comparative balance sheet, common-size balance, ratio analysis

Scope of the Study:

Research is conducted only in Natchi Apparel Pvt Ltd at Dindigul. The study is done based on the annual reports and the analysis is done only for financial years from 2018 to 2022. Research has used only profit and loss account and balance sheet for doing the analysis. Results are interpreted only on the basis of analysis.

Methodology:

- Data Collection: The main source of data used for the study was secondary, drawn from the annual profit and loss account and balance sheet. Figures found in annual reports of these selected units. The other data sources and opinions expressed in commercial journals, magazines, accounting literature etc. have been also used in this study.
- Tools Used: Collected data have been processed and tabulated by using ms-excel software. Ratio analysis like liquidity ratio, profitability ratio, leverage ratio and efficiency ratio, comparative statement, common-size statement are used in this study.

Review of Literature:

Kennedy and Muller (2020) has explained that the analysis and interpretation of financial statements are an attempt to determine the significance and meaning of financial statements data so that the forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities (both current and long term) and profitability and sound dividend policy. The study also assesses India's textile and apparel market potential and trade and investment opportunities for U.S. firms as India steps into a more free and transparent trade regime.

Brakus J J et al (2021) Brand experience is conceptualized as sensations, feelings, cognitions, and behavioral responses evoked by brand-related stimuli that are part of a brand's design and identity, packaging, communications, and environments. The authors distinguish several experience dimensions and construct a brand experience scale that includes four dimensions: sensory, affective, intellectual, and behavioral. In six studies, the authors show that the scale is reliable, valid, and distinct from other brand measures, including brand evaluations, brand involvement, brand attachment, customer delight, and brand personality. Moreover, brand experience affects consumer satisfaction and loyalty directly and indirectly through brand personality associations.

Jeemol Unni and Namrata Bali (2021), In recent years there has been a disintegration of the production process and a consequent rise in subcontracting. This could occur due to 'pull' factors, that are productivity enhancing, or 'push' factors such as high costs, high competition or to circumvent labour legislation. The garment industry is based on a sub-contracting system. In this 9paper we study the garment industry in Ahmedabad in the context of the national and international policies that influence it. This is a segmented industry and the lower segment, which is the focus of this study, perhaps grew mainly due to the 'push' factors. Most of the recent policy initiatives in the garment industry would benefit the large manufacturers.

Simpson and Shetty (2021) did a vast study on India's textile industry. The purpose of study is to analyze India's textile and apparel industry, its structural problems, market access barriers, and measurements taken by government of India to enhance the industry's competitiveness in the post - Multifibre Agreement (MFA) era. For the purpose of study exploratory study is done in which in-depth interviews are done with various government officials in Textile Export Promotion

Findings:

- In the beginning of the study periods the current ratios have been very low however due course of time it has been increased.
- All the years the Acid Test ratios are less than the normal ratio. Hence the Natchi Apparel is not in a required liquidity position to meet its short term obligations.

- The sales have been increasing, but the net profit decreasing hence the management should take care of the quality and market situations, to bring good profits to the organization.
- During all the study periods the relationship between sales to total assets are normal. Hence the company's sales were almost directly proportionate in the study periods
- Return on capital employed ratios for the study periods are high hence the firm is inefficiently using its capital.
- In the years of study it is shown that the cost of goods sold is almost one time of the average stock.
- The debtor's turnover ratios are very low hence it indicates that the management of the company is not managing the debtors efficiently and collection of money from the debtors are not fast.
- The Net worth Turnover ratios indicate that the firm is not efficiently utilizing its capital hence it does not have the capability to achieve maximum sales with minimum capital

Suggestions:

- The company's profit over the years has been increasing when compared to previous years.
- Non-operating expense of the company is high all the years. So the management should take necessary steps to reduce the non-operating expenses. The management should take steps to reduce the borrowed capital.
- Management should take initiative steps for the proper utilization of the resources.
- The company should increase the current assets to enjoy credit worthiness.
- The liquidity position of the company is not satisfactory and this can be improved further for the purpose of proper utilization of the liquid assets of the company.
- The sales have been increasing, but the net profit decreasing hence the management should take care of the quality and market situations, to bring good profits to the organization.

Conclusion:

On studying the financial performance of Natchi Apparel for a period of five years from 2017-22, the study reveals that the financial performance is better. Natchi Apparel has been maintaining good financial position and further it can improve if the company concentrates on its Administrative and selling expenses and by reducing expenses. The company should increase sales volume as well as gross profit. Despite price drops in various products, the company has been able to maintain and grow its market share to make strong margins in market, contributing to the strong financial position of the company. The company was able to meet its entire requirements for capital expenditures and higher level of working capital commitment with higher volume of operations and from its operating cash flows.

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