Evaluation of Financial Performance

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ABSTRACT : The paper entitled as " A STUDY ON EVALUATION OF FINANCIAL PERFORMANCE OF EQUITAS MICRO FINANCE PRIVATE LIMITED IN CHENNAI." The objectives of the study are mainly focused on analyzing the performance of finance which is revealed through profitability position of the concern for the study period. All the components which are influencing the financial strength could be analyzed. The study covers only last five years statement which if 2008-2012. The data collected from the study were both primary and secondary data in nature the primary data was collected through personal contacts with the executive and official of the financial division of Equitas Micro Finance Private Limited In Chennai. The secondary data was collected from annual report, department manuals brochures mainly from balance sheet and mainly from website. From the analysis, findings and recommendations were drawn to improve the performance of Equitas Micro Finance Private Limited In Chennai.

I.INTRODUCTION

1.MEANING OF FINANCE

Finance may be defined, as the provision of money at the time is wanted. However, as management function it has a special meaning of funds and their effective utilization. Finance is concerned with everything that takes place in the conduct business.

2.IMPORTANCE OF FINANCE

Finance is regarded as the life blood of a business enterprise. This is because in the modern money oriented economy, finance is one of the basis foundations of all kinds of economic activities. It has been rightly been said that "Business needs money to make money". It is also true that money be gets more, only when it is properly managed. It has rightly been said that business needs money to make more money. However , it is also true that money can earn more money only when it is property manages.

3. FINANCIAL PERFORMANCE ANALYSIS

The financial statement provides the basic data for financial performance analysis.

Basic limitation of the financial statement comprising the balance sheet and the profit and loss account is that they do not give all the information regarding the financial operations of firm. Nevertheless, they provide some useful information to the extent the balance sheet mirrors the financial position on a particular date in terms of the structure of asset, liabilities and owners equity, and so on. The profit and loss account shows the result of operation during a certain period of time in terms of the revenues obtained a summarized view of the financial position and operation of firm. Therefore, much can be learn about a firm from a careful examination of its financial statement as invaluable document / performance reports. The analysis of financial statements is, thus, an important aid to financial analysis.

The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The analysis of financial statements is a process of evaluation relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance

4.OBJECTIVES OF THE STUDY

1.To analysis the overall financial performance of the company.

2.To study the financial health of the company by using various tools of financial analysis.

3.To analysis the relationship existing between current asset and current liability

4.To know the financial trend of the study

5.To offer suitable suggestion on the study in needed.

5.SCOPE OF THE STUDY

The scope of the study is to find out the financial performance of "equitas micro finance private limited company''. for the past five years. A sincere attempt has been made to include all the aspect relating to the study. For this purpose, analysis of financial performance of the company has done from the last five year published financial statement and all aspects the researcher should be included in the report.

6.NEED FOR THE STUDY

Financial analysis is a powerful mechanism which helps in ascertaining the strengths and weakness in the operation and financial position of an enterprise.

Financial analysis is the starting point for making plans, before using any sophistical forecasting and planning procedures.

7.IMPORTANCE OF THE STUDY

1.This study helps to understand financial position of the company.

2.This study suggests possible solution to overcome working capital problem.

II.REVIEW OF LITERATURE

Performance evaluation of an economic entity requires approaching several criteria, such as industry and economic entity type, managerial and entrepreneurial strategy, competitive environment , human and material resources available, using a system of appropriate performance indicators for this purpose. The exigencies of communication occurred on the growing number of phenomena that marked the global economy in recent decades internationalization and relocation of business crises and turmoil in financial markets , demand performance measurement to be made in a comprehensive way by financial and non – financial criteria indicators are measures of performance used by management to measure , report and improve performance of the economic entity. The relationship between indicators and management is ensured by the existence of performance measurement systems. Studies to date indicate that economic entities using balanced performance measurement systems as a key management tool registered superior performance compared to entities not using such systems. This study attempts to address the issue of performance evolution by systems. We tried to do this literature review because sustainable development and, therefore, globalization require new standards of performance that exceeds the economic field , both for domestic companies as well as international ones . so , these standards should be integrated into corporate strategy development to ensure sustainability of activities undertaken by harmonizing the economic, social and environmental objectives.

M.Y.Khan and P.K.Jain."Management Accounting" in (2007) "Financial performance is the process of selection, relation and evaluation the focus of financial performance is on buy figures I the financial statement and significant relationship that exists between them. The analysis of financial statement is a process of evaluating the relationship between component parts of financial statement to obtained a better understanding of the firm's position and performance".

Mr.Ashok Kumar Lahr's(1981)study on "liquidity behavior of

Indian business firms" presents some independent evidence of the period 1971-74 in support of the existence of economics of scale and inter-industry differences. He found that in majority of the industries the elasticity coefficient is substantially less than unity. This indicates the existence of scale in money.

III.RESEARCH METHODOLOGY

1.MEANING RESEARCH

Research is common parlance refers to a search for knowledge. Once can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact research is an art of scientific investigation.

2.RESEARCH DESIGN :

The research design for this study is descriptive in nature. The descriptive research design tries to descriptive of data and information which are already available with out changing its nature and dimension of the data. The reason for selecting the descriptive research design to evaluate the data especially the data is of secondary in nature. The Primary data is collected by conservation by the research of the functioning of the unit. To analyze the amount tied-up in various components of working capital by equitas micro finance private limited company. To examine the liquidity position during the period under the study on the basis of some important parameter of liquidity management such as Current Ratio, absolute ratio, To analysis the Trend analysis of the company. To measure the extent of relationship between income and expenditure and using correlation Co-efficient. The data which is being used for this research is fully in secondary Natures. The data collected from all sources are scrutinized, Financial analysis techniques like Ratio analysis and executed to analyze the financial data and also correlation Co-efficient etc. Case study method has been followed for this study. In the present study an effort has been made to study the practice, procedures and techniques adopted by the Equitas micro finance. For the management and control of current asset and current liabilities. The secondary data for the present study were collected from annual reports and accounts. The sources of data are Purely secondary. Secondary data is collected through information gathered from books, journals, magazines and annual report of equitas micro finance private limited company.

Period of study is five years from 2008-2012

3.FINANCIAL AND STATISTICAL TOOLS USED

1.Correlation co-efficient.

2.Ratios analysis.

3.Trend analysis.

IV.ANALYSIS AND INTERPRETATION

1. CURRENT RATIO

It is calculated by dividing the total current asset by total Current liabilities. It is an important measures by analyzing the firm's ability to pay off its current obligations out of its Short – term resources. The rule of thumb about the Current Ratio is 2:1

CURRENT RATIO

Current asset = Current asset

Current Liabilities

Year	Current	Current	Ratio

	Asset	Liabilities	
2007-08	16,525	17,000	0.97
2008-09	26,462	17,799	1.48
2009-10	26,818	14,715	1.82
2010-11	27,455	18,952	1.44
2011-12	63,605	32,110	1.99

Sources : Secondary Data

INFERENCE :

From the table shows that the current Ratio. In the year 2011-2012 the current Ratio is very high to compare with other 4 years . The higher the Current Ratio, the higher is the amount available per rupee of current obligations.

2.ABSOLUTE & LIQUIDITY RATIO

This ratio is also known as " Acid Test Ratios" and" "Liquidity Ratio". This ratio is ascertained by comparing the liquid asset to current liabilities. Prepaid expenses and stock are not take as quick assets. Bank overdraft is not taken as quick liability. The ideal is 1.

Absolute ratio =   **Cash & Bank balance**

Current Liabilities

ABSOLUTE & LIQUIDITY RATIO

Year	Cash & bank balance	Current Liabilities	Ratio
2007-08	9,95,419	17,000	58.5
2008-	9,47,544	17,799	53.2

09			
2009-10	6,79,365	14,715	46.2
2010-11	7,75,068	18,952	40.8
2011-12	8,14,811	32,110	25.3

Sources : Secondary Data

INFERENCE :

From the above the table 07 -08 the ratio is higher of 58.5. It shows the absolute liquidity ratio higher compare to other year.

3.CORRELATION CO-EFFICENT BETWEEN INCOME AND EXPENSES

The relationship between income and expenses of equitas micro finance by computing correlation co-efficient. An attempt has also been made to whether the computed value of such correlation co-efficient is has further been applied.

CORRELATION CO-EFFICENT BETWEEN INCOME AND EXPENSES

YEAR	INCOME (X)	EXPENSES (Y)	$\sum x^2$	$\sum y^2$	$\sum xy$
2008	28,772	12,716	827827984	16169656	36586475 2
2009	25,234	5,122	636754756	26234884	12924854 8
2010	23,946	11,667	573410916	13616556 1	27942587 4

	x	y	x^2	y^2	xy
2011	25,829	8,878	667137241	78818884	229309862
2012	19,138	16,356	366263044	267518736	313021128
Total	$\sum x$ =1,22,919	$\sum y$ =54,741	$\sum x^2$ =3071393941	$\sum y^2$ =670434721	$\sum xy$ =1316870164

$$R = \frac{n\sum xy - \sum x\, [\sum y]}{\sqrt{n\sum x^2 - (\sum x)^2}\ \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$r = \frac{5\,(1316870164) - (122919)(54741)}{\sqrt{5\,(3071393941) - (122919)^2}\ \sqrt{5(670434721) - (54741))^2}}$$

$$r = \frac{6584350820 - 6728708979}{\sqrt{15356969705 - 15109080561}\ \sqrt{3352173605 - 2996577081}}$$

$$r = \frac{-144358159}{\sqrt{247189140}\ \sqrt{355596524}}$$

$$r = \frac{-144358159}{296478713.2}$$

r = - 0.48

INFERENCE

The variables which are correlated differently. The year of 2008-2012. The income and expenses are deviated in the range of correlation analysis.

4.TREND ANALYSIS

The term "Trend analysis" refers to the concept of collecting information and attempting to sport a pattern, or trend, in the information. In some fields of study, the term "Trend analysis" has more formally – defined meanings. Although trend analysis is often used to predict future events, it could be used to estimate uncertain events in the past, such as how many ancient kings probably ruled between two dates, based on dada such as the average years which other knows kings reigned.

Trend   y = a + bx

YEAR	INCOME(Y)	(X-2010)	XY	X^2
2008	28,772	-2	-57,544	4
2009	25,234	-1	-25,234	1
2010	23,946	0	0	0
2011	25,829	1	25,829	1
2012	19,138	2	38,276	4
TOTAL	1,22,919	0	-18,673	10

Y = a + bx

$\sum y = Na + b \sum x$

$\sum xy = a\sum x + b\sum x^2$

$\sum y = Na + b\sum x$

$122919 = 5a + b$

$= 5a + b = 122919$

$\sum xy = a\sum x + b\sum x^2$

$-18673 = 0 + 10b$

$= a + 10b = -18673$

$Y = 24583.8$

X = - 1867.3

Y = 24583.8 + (- 1867.3 X)

INCOME IN FUTURE

YEAR	INCOME y = a + bx	
2015	24583.8 + (-1867.3) (5)	1524.3
2017	24583.8 + (-1867.3) (7)	11512.7
2019	24583.8 + (-1867.3) (9)	7778.1

INFERENCE

The trend Analysis is mainly give the importance for pre determination for future activities .This study is analysis for forecasting income. It is give the result for Increasing trend on the basis of present process.

V.FINDINGS

1.In the year 2011 – 2012 the current ratio is higher of 1.99%

2.Absolute liquidity ratio has been gradually decreased expected last year.

3.The correlation analysis it shows that is negative relationship between the income and expenses and assets and liabilities as show to negative relationship.

4.From the trend analysis it shows the net income has been increasing trend it predict the income .

5.From the table 2008 to 2009 current asset increased in previous year and fixed asset also increased.

VI. SUGGESTIONS

1.The company should be maintain an optimum level of cash and bank balanced in the day to day activities

2.If the working capital increased the current assets and then only the firm current financial position can be increased.

3.The firm should increased it sales volumes to earn more profit.

4.The must be taken to decrease the current liabilities and the company should effective utilize the current assets.

5.The financial manager to correlate the income and expenses of the company. Negative relationship to modifies the income and expenses.

VII.CONCLUSION

A study has been undertaken on the evaluation of financial performance of company. Financial analysis is important to plan an control the firm's financial resources. Researcher has used various research techniques to find the evaluation of financial performance of the company. It would be helpful to the Equitas Micro Finance Private Limited In Chennai." company to concentrate on gray area. That continue grow f or future period.

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