

A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF RYDON INDUSTRIES PVT LTD

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Abstract

This study analyses the financial performance of Rydon Industries Pvt Ltd, a manufacturing firm in India's automobile component sector, for the five-year period 2020–21 to 2024–25. Using ratio analysis, trend analysis, and comparative balance sheet review, the study evaluates the company's liquidity, solvency, and profitability. Secondary data was sourced exclusively from the company's annual reports. Key findings indicate that while liquidity improved steadily and total assets expanded significantly, profitability ratios declined over the study period, and the capital structure became increasingly debt-heavy. The study concludes with recommendations for equity restructuring, improved debt collection, and stronger cost management to sustain long-term financial health.

Keywords: Financial performance, ratio analysis, liquidity, solvency, profitability, Rydon Industries.

1. Introduction

Financial performance analysis is a systematic process of evaluating an organisation's financial strengths and weaknesses by examining the relationships between items in the balance sheet and profit and loss account. It provides stakeholders — investors, creditors, employees, and management — with a structured basis for decision-making regarding profitability, liquidity, and solvency.

As Myers (cited in original study) defines it, financial performance analysis is primarily the study of relationships between various financial factors within a business, as revealed by a set of reports and trends. Ratio analysis remains the most widely used tool for such assessment, enabling comparisons across time periods and providing early warning signals for financial distress.

Finance functions as the lifeblood of any organisation. Efficient financial management directly influences production, marketing, and operational effectiveness. Without proper financial planning and control, even viable projects fail. The present study applies financial analysis techniques to Rydon Industries Pvt Ltd, a private limited company engaged in automobile component manufacturing in Coimbatore, India.

1.1 Statement of the Problem

Financial performance analysis enables a deeper understanding of a company's position across liquidity, solvency, and efficiency dimensions — aspects not immediately discernible from audited financial statements alone. Rydon Industries operates in a capital-intensive industry with significant debt obligations. This study investigates the company's financial management to judge its profitability and overall financial soundness.

1.2 Objectives of the Study

- To evaluate the profitability performance of Rydon Industries Pvt Ltd.
- To examine the liquidity, solvency, and capital structure positions over the study period.
- To analyse the company's financial structure and operating performance.
- To offer recommendations for improving the company's financial position.

1.3 Scope and Limitations

The study is confined to Rydon Industries Pvt Ltd and covers five financial years from 2020–21 to 2024–25. Analysis is based entirely on secondary data from the company's annual reports — specifically the profit and loss account and balance sheet. Conclusions are drawn solely from financial data; non-financial and qualitative factors are outside scope.

2. Review of Literature

Vinod Kumar Gupta et al. (2022) established that liquidity ratios are critical in assessing a company's ability to settle current obligations. The study demonstrated that absolute liquidity ratios — specifically the cash position — provide the most stringent test of short-term financial health and are of primary importance to creditors and investors.

Nese Yalcin et al. (2022) argued that traditional accounting-based financial performance (AFP) measures, while widely used, are insufficient for comprehensive evaluation in modern competitive environments. The authors proposed integrating value-based financial performance (VFP) measures to more accurately reflect company value and long-term competitiveness.

Angel Uruburu et al. (2024) found in their study of selected Indian companies that overall financial performance was unstable and fluctuating. They recommended that firms increase the proportion of long-term funds to strengthen their financial base and reduce reliance on non-operating expenses.

Abbas Kebritchi et al. (2025) concluded that profitability analysis is the most holistic indicator of firm performance, as efficient management of all other functions ultimately manifests in profit outcomes. Their study found that steep increases in raw material costs and demand-supply volatility significantly impaired profitability in capital-intensive industries.

3. Research Methodology

3.1 Research Design

The study adopts an analytical research design. It systematically examines financial data to uncover patterns, trends, and relationships in Rydon Industries' financial performance across five years.

3.2 Data Sources and Period

Only secondary data is used in this study. Data was collected from the annual reports of Rydon Industries Pvt Ltd for the financial years 2020–21 to 2024–25. Additional reference material was drawn from relevant journals, textbooks, and industry publications.

3.3 Tools of Analysis

Three analytical tools were employed to assess financial performance:

- Ratio Analysis: Key financial ratios covering liquidity, solvency, capital structure, and profitability were computed and interpreted.

- Trend Analysis: Trend percentages for sales, stock, and profit before tax were calculated with 2020–21 as the base year.
- Comparative Balance Sheet: Year-on-year changes in assets and liabilities were quantified in absolute and percentage terms to reveal structural shifts.

4. Data Analysis and Interpretation

4.1 Liquidity Analysis

Current Ratio

The current ratio measures a firm's ability to meet short-term obligations. A ratio of 2:1 is conventionally regarded as satisfactory.

Year	Current Assets (₹ Lakhs)	Current Liabilities (₹ Lakhs)	Ratio
2020–21	5,482.47	9,415.28	0.58
2021–22	8,437.75	11,984.37	0.70
2022–23	14,208.43	19,531.58	0.73
2023–24	17,265.96	17,792.63	0.97
2024–25	19,892.58	18,782.13	1.06

The current ratio improved consistently from 0.58 (2020–21) to 1.06 (2024–25), indicating gradual strengthening of short-term liquidity. However, the ratio remains below the standard 2:1 benchmark throughout the period, signifying continued dependence on short-term borrowings.

Cash Position Ratio

The cash position ratio (absolute liquidity ratio) measures a firm's ability to meet immediate obligations using cash and bank balances alone. The ratio remained very low across all years (0.01–0.08), peaking at 0.08 in 2023–24 before falling to 0.02 in 2024–25. This indicates that the company holds minimal liquid cash reserves relative to its current liabilities, representing a significant liquidity risk.

4.2 Capital Structure Analysis

Budgetary Control Gearing Ratio

This ratio measures the proportion of long-term debt and preference capital relative to equity shareholders' funds.

Year	Long-Term Debt + Preference (₹ Lakhs)	Equity Shareholders' Fund (₹ Lakhs)	Ratio
2020–21	11,585.10	248.08	46.70
2021–22	11,951.34	284.15	42.06
2022–23	12,302.22	284.15	43.29

2023–24	16,543.79	284.15	58.22
2024–25	24,974.98	302.75	82.49

The gearing ratio rose sharply from 46.70 to 82.49 over the study period, reflecting a dramatically increasing reliance on debt financing. A high gearing ratio indicates thin equity cover and elevated financial risk for lenders and investors.

Proprietary Ratio

The proprietary ratio, measuring shareholders' funds as a proportion of total assets, declined progressively from 0.40 (2020–21) to 0.29 (2024–25). This declining trend confirms that equity financing constitutes a diminishing share of the asset base, further confirming high financial leverage.

4.3 Asset Utilisation Analysis

Fixed Asset to Total Asset Ratio

Fixed assets constitute the dominant portion of total assets. The ratio fluctuated between 0.72 and 0.88 over the period, averaging approximately 0.78. This indicates the capital-intensive nature of the company's operations, with significant investments in plant, machinery, and infrastructure.

Current Asset to Fixed Asset Ratio

This ratio increased from 0.32 (2020–21) to 0.62 (2023–24) before declining to 0.53 in 2024–25, reflecting growing current assets in earlier years, partly from inventory and receivables expansion, followed by some moderation.

4.4 Profitability Analysis

Return on Shareholders' Fund

Year	Net Profit (₹ Lakhs)	Shareholders' Fund (₹ Lakhs)	Ratio (%)
2020–21	2,022.74	9,706.34	20.84
2021–22	2,010.67	17,225.27	11.67
2022–23	1,625.86	18,497.49	8.79
2023–24	1,801.22	19,937.37	9.03
2024–25	1,334.51	24,284.18	5.49

Return on shareholders' fund declined sharply from 20.84% in 2020–21 to 5.49% in 2024–25. While net profit remained positive throughout, the rapid increase in the shareholders' fund base — driven by rising reserves — outpaced profit growth, resulting in diminished returns.

Return on Total Assets

Year	Net Profit After Tax (₹ Lakhs)	Total Assets (₹ Lakhs)	Ratio (%)
2020–21	2,022.74	21,291.44	9.50
2021–22	2,010.67	29,176.61	6.89
2022–23	1,625.86	30,799.71	5.28
2023–24	1,801.22	36,481.16	4.94
2024–25	1,334.51	49,259.16	2.70

Return on total assets followed a consistent declining trend — from 9.50% to 2.70% — as asset growth significantly outpaced net profit growth. Rising depreciation, interest costs, and raw material expenses eroded profitability margins throughout the period.

Payout Ratio

The payout ratio fluctuated across the five years: 8.66% (2020–21), 13.41% (2021–22), 10.12% (2022–23), 12.20% (2023–24), and 21.11% (2024–25). The sharp increase in 2024–25 occurred despite a fall in net profit, indicating that dividend distributions increased even as earnings weakened — a potential concern for retained earnings and reinvestment capacity.

4.5 Comparative Balance Sheet Summary

The comparative balance sheets for 2020–21 to 2024–25 reveal the following key structural changes:

- Total assets grew from ₹21,291 lakhs to ₹49,259 lakhs — an increase of approximately 131% over five years, driven primarily by fixed asset expansion and rising current assets.
- Net worth increased from ₹9,706 lakhs to ₹24,284 lakhs, largely on account of reserve accumulation.
- Total debt grew from ₹11,585 lakhs to ₹24,974 lakhs, with unsecured loans growing at a faster rate than secured loans in later years.
- Inventories more than doubled — from ₹2,585.77 lakhs to ₹6,196.57 lakhs — indicating significant working capital tied up in stock.

4.6 Trend Analysis

Trend analysis was conducted with 2020–21 as the base year (index = 100). Key trends are summarised below:

- Sales: Grew from a base of 100 to 232.81% by 2024–25, reflecting strong top-line growth driven by expanding operations.
- Stock: Increased to 239.64% of base year levels by 2024–25, growing slightly faster than sales — indicating potential inventory management challenges.
- Profit Before Tax: Reached a peak in 2020–21 (base year) and trended downward in subsequent years, with 2021–22 at 95.73%, confirming declining profitability despite rising revenues.

5. Findings

The key findings of this study are as follows:

- Liquidity improved progressively: the current ratio rose from 0.58 (2020–21) to 1.06 (2024–25), though it remains below the standard 2:1 benchmark.
- Cash position remained critically low throughout the study period (0.01–0.08), indicating a persistent inability to meet immediate liabilities from cash reserves.
- The gearing ratio increased sharply from 46.70 to 82.49, reflecting growing financial leverage and debt dependency. The company's capital structure is significantly skewed toward debt.
- The proprietary ratio declined from 0.40 to 0.29, confirming the diminishing equity base relative to total assets.
- Fixed assets dominate the asset structure (ratio: 0.72–0.88), consistent with capital-intensive manufacturing operations.
- Return on shareholders' fund declined from 20.84% to 5.49%, and return on total assets declined from 9.50% to 2.70%, both indicating deteriorating profitability.
- Sales grew by 132.81% over the study period, but net profit declined from ₹2,022.74 lakhs to ₹1,334.51 lakhs — highlighting that cost escalation outpaced revenue growth.
- The payout ratio increased to 21.11% in 2024–25 despite declining net profits, raising concerns about sustainability of dividend policy.
- Earnings per share declined from ₹106.59 to ₹54.05 over the period, reflecting the dual impact of falling profits and increasing share issuance.

6. Conclusion and Suggestions

6.1 Conclusion

Rydon Industries Pvt Ltd demonstrates strong revenue growth and expanding asset base over the study period (2020–21 to 2024–25). Total sales grew by over 132%, and total assets nearly doubled. However, the company's financial health presents several concerns: declining profitability ratios, increasing financial leverage, very low cash reserves, and rising interest and depreciation burdens.

While the company remains profitable and operationally active, the sustained decline in return on assets and return on equity — alongside rapidly rising debt — indicates structural financial pressures. An efficient financial management system is essential to overcome adverse liquidity conditions and sustain long-term growth. The company must balance its expansion ambitions with improved cost control, equity strengthening, and prudent debt management.

6.2 Suggestions

- **Equity Restructuring:** Total debt substantially exceeds owner's equity, creating high financial risk. The company should take strategic steps to increase equity capital or convert a portion of debt into equity to rebalance the capital structure.
- **Debt Collection Management:** The debt collection period is high. Stricter credit control policies and prompt follow-up on receivables are essential to improve working capital efficiency.
- **Cost Management:** Rising raw material and power costs have significantly eroded profit margins. The company should explore cost reduction strategies including alternative sourcing, energy efficiency improvements, and process optimisation.

- **Cash Reserve Enhancement:** The cash position ratio has remained extremely low throughout the study period. Maintaining a minimum cash buffer is critical to meeting short-term obligations without disruption.
- **Dividend Policy Review:** The increasing payout ratio despite declining net profit warrants a reassessment. Retaining more earnings would strengthen reserves and support internal financing of growth.
- **Performance Monitoring:** Regular internal financial reviews and management meetings should be institutionalised to enable timely corrective action on operational and financial performance metrics.

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