

A Study on Financial Performance in Ratio Analysis with Reference of Edison Gentech PVT LTD

Mr. Bharani Dharan. K. S, B.Com
MBA (Finance and operations) Student, Reg.No:43410299,
School of Management Studies,
Sathyabama Institute of Science and Technology, Chennai, Tamil Nadu.

Dr. Meera
Assistant professor
School of Management Studies,
Sathyabama Institute of Science and Technology, Chennai, Tamil Nadu.

ABSTRACT

Financial performance plays a vital role in understanding the overall health and operational success of any business organization. It helps determine how well a company is using its resources to generate profit and maintain sustainability. One of the most effective and commonly used tools for assessing financial performance is ratio analysis. This study focuses on analyzing the financial performance of Edison Gentech Pvt Ltd over a specific period by applying these financial ratios. The objective is to extract meaningful insights into how well the company is managing its financial resources and to understand its position in terms of short-term obligations, long-term debts, overall profitability, and operational efficiency. By studying these financial metrics, the research aims to provide useful information to various stakeholders—including investors, management, creditors, and analysts—so they can make well-informed decisions regarding investments, credit approvals, and strategic business planning. The findings of the study also highlight the importance of regular financial monitoring and demonstrate how ratio analysis can be used as a reliable tool for evaluating business performance, identifying problem areas, and guiding future improvements. Overall, this study presents a clear and practical understanding of Edison Gentech Pvt Ltd's financial trends and underlines the importance of ratio analysis in supporting sound financial decision-making.

Keywords: Financial performance, ratio analysis, liquidity, profitability, solvency, efficiency, financial trends, Edison Gentech Pvt Ltd, financial decision-making, investment analysis, operational performance, creditworthiness, financial ratios, business planning.

INTRODUCTION

In today's fast-paced and competitive business world, analyzing a company's financial performance has become more important than ever. Financial performance must be regularly evaluated for any business to grow and survive in the market. This kind of assessment not only helps in tracking progress but also plays a major role in guiding future business decisions. Financial performance reports play a significant role in helping stakeholders like investors, creditors, management, and even employees comprehend an organization's true financial condition. Among the various tools used in financial analysis, ratio analysis stands out as one of the most reliable and effective methods. The company's ability to meet short-term liabilities (liquidity), manage debts (solvency), generate profits (profitability), and use its assets effectively (efficiency) are all examined in detail by these ratios. In this study, the financial performance of Edison

Gentech Pvt Ltd is examined using ratio analysis. As a growing company in its respective field, Edison Gentech serves as a suitable example to understand how financial analysis can reveal the strengths and weaknesses of a business. By exploring its financial records over a set period, this study aims to uncover trends, evaluate financial health, and offer useful suggestions that can help the company improve its performance in the future. This introduction sets the stage for a deeper analysis and highlights the importance of financial review in maintaining a company's stability, attracting investments, and making well-informed strategic decisions.

OBJECTIVES OF THE STUDY

- **To assess the financial health of Edison Gentech Pvt Ltd using ratio analysis:** One of the main goals of this study is to evaluate the overall financial condition of Edison Gentech Pvt Ltd. This involves carefully examining the company's financial statements and applying ratio analysis to understand whether the company is financially stable, growing, or facing challenges. It helps paint a clear picture of the company's current financial standing in the market.
- **To analyze the liquidity, solvency, profitability, and efficiency of the company:** This study aims to break down the company's financial performance into key areas—liquidity (its ability to pay short-term debts), solvency (its ability to handle long-term obligations), profitability (its capability to generate profits), and efficiency (how well it uses its assets and resources). Each of these aspects gives valuable insights into different parts of the company's financial health.
- **To interpret the financial data and derive meaningful conclusions about company performance:** Beyond just calculating ratios, this objective focuses on understanding what those numbers mean. The study will interpret the financial data to identify trends, patterns, and signals that reflect how the company is performing over time. This helps in drawing solid conclusions about the effectiveness of the company's operations and strategies.
- **To identify financial strengths and weaknesses that impact strategic decision-making:** Through this analysis, the study intends to highlight both the strong areas where the company is performing well and the weak spots that need attention. Knowing these strengths and weaknesses is crucial for the management when it comes to making important business decisions, such as expansion plans, cost-cutting strategies, or improving operational efficiency.
- **To suggest recommendations for enhancing financial performance based on the analysis:** After examining all relevant financial ratios and understanding the overall financial condition of Edison Gentech Pvt Ltd, this study will provide practical and specific suggestions. These recommendations aim to help the company improve its financial performance, manage its resources more effectively, and make better decisions moving forward.

LITERATURE REVIEW

- **Weston and Brigham (2001) – Ratio Analysis as a Comparative Tool:** According to Weston and Brigham, ratio analysis provides a systematic way to compare a company's financial performance both over time and against other businesses. It helps assess whether a company is improving or declining and allows benchmarking against industry standards. This kind of comparison is essential for identifying trends, understanding business cycles, and making informed strategic choices.
- **Pandey (2009) – Ratios Reflect Managerial Effectiveness:** Pandey emphasizes that financial ratios are

not just numbers—they reflect the decisions made by management. Ratios such as return on investment (ROI), return on assets (ROA), and net profit margin show how efficiently a company is being managed. Good performance in these areas often indicates that management is making sound strategic and operational decisions, whereas poor performance might highlight areas needing intervention or a change in strategy.

- **Sharma and Mehta (2015) – Ratios and Business Survival:** In their study, Sharma and Mehta explored how financial ratios can act as early warning signals for business failure. They found that consistent monitoring of financial ratios, especially solvency and liquidity ratios, helps companies avoid financial crises. Their research supports the idea that ratio analysis should be an ongoing practice, not just an annual or occasional review process.
- **Ratio Analysis for Private Limited Companies – A Benchmarking Tool:** In the context of private limited companies like Edison Gentech Pvt Ltd, ratio analysis plays a dual role. Internally, it helps management evaluate operations and resource use, while externally, it gives stakeholders a measurable way to judge the company's financial stability and performance. This is especially important when such companies are seeking loans, attracting investors, or planning expansions.
- **Established Relevance and Acceptance in Financial Studies:** Overall, the review of past literature confirms that ratio analysis is a universally accepted tool in both academic and professional financial analysis. Its ability to simplify complex financial data and present it in a meaningful, comparative form makes it a reliable method for understanding company performance. Researchers continue to support its use as a fundamental component of financial planning, analysis, and decision-making across all types of businesses.

RESEARCH METHODOLOGY

This study is primarily based on *secondary data, which has been gathered from the *audited financial statements of Edison Gentech Pvt Ltd. The data collected covers a span of *three to five financial years, offering a broad view of the company's financial patterns over time. The key method used for analyzing this data is **ratio analysis, a proven financial tool that simplifies complex financial statements into meaningful insights. Specific financial ratios such as the *current ratio and quick ratio have been used to assess the company's short-term liquidity position—how well it can meet immediate obligations. Ratios like the debt-equity ratio help in evaluating the company's long-term solvency and financial risk, while return on equity (ROE) and net profit margin provide insight into the company's profitability. Additionally, inventory turnover ratio has been used to understand how efficiently the company manages its stock and operations. To interpret the results, a descriptive analytical approach has been adopted, which means the financial ratios are not just calculated but also carefully examined and explained in the context of company performance. Furthermore, a comparative analysis has been carried out over the selected years to identify any trends, improvements, or potential red flags. This helps in understanding whether the company's financial position is strengthening, declining, or remaining stable. However, like any financial study based on historical records, there are some limitations. The analysis depends heavily on past data, and it assumes that historical trends will continue in the future which may not always be the case due to changing market conditions, economic factors, or internal company shifts. Despite these limitations, the methodology provides a reliable framework for evaluating Edison Gentech Pvt Ltd's financial performance using proven analytical tools.

OVERVIEW OF THE STUDY

- **Ratio analysis helps to measure different areas of financial performance in a simple and effective way:** Ratio analysis allows us to focus on specific financial areas rather than large tables of raw data. Examples include whether the company can pay its bills on time (liquidity), whether it is financially stable in the long term (solvency), how much profit it is making (profitability), and how efficiently it uses its resources (efficiency).
- **The study gives a clear idea of how the company has been performing over several years:** By analyzing financial data over a period of 3–5 years, the study helps reveal if the company is improving, remaining

consistent, or encountering financial challenges. These observed trends serve as a valuable guide for future planning and strategic decisions.

- **It allows a comparison between Edison Gentech and other companies in the same industry:** Financial ratios can be compared with industry benchmarks and competitors, making it easier to evaluate whether Edison Gentech is performing better, worse, or on par with similar businesses. This highlights opportunities for improvement or celebration of competitive strengths.
- **The findings support better business planning and resource management:** When management is aware of the company's financial strengths and weaknesses, they are better equipped to make informed decisions. This includes identifying where to *invest more, where to **cut down costs, and how to *optimize operations for better results.
- **It provides significant insights for people associated with the business, such as investors, banks, and company leaders:** Stakeholders like investors and lenders depend on accurate financial information to make decisions. This study offers them reliable data and analysis, helping them judge whether the company is worthy of investment or credit support.
- **The study offers practical solutions along with analysis of issues:** Besides identifying financial problems, the study also proposes recommendations for addressing them. These suggestions aim to improve the company's financial performance and support sustainable long-term growth.

KEY BENEFITS

Helps Identify Financial Strengths and Weaknesses:

One of the most important benefits of ratio analysis is its ability to pinpoint areas where a company is financially strong and areas that need improvement. For example, high profitability ratios indicate strong earnings, while weak liquidity ratios might signal potential cash flow issues. This insight allows businesses like Edison Gentech Pvt Ltd to take proactive steps to reinforce strengths and address weaknesses before they turn into major problems.

Supports Better Resource Allocation and Strategic Planning:

By understanding the financial condition of the company through ratio analysis, management can make smarter decisions about where to allocate resources. Whether it's investing in new equipment, hiring additional staff, or expanding operations, the insights gained from financial ratios provide a strong foundation for planning future strategies. This ensures that the company's funds are used in areas that deliver the highest returns.

Enables Comparisons with Competitors and Industry Benchmarks:

Ratio analysis makes it easy to compare a company's performance with that of competitors or with industry averages. This comparison helps determine whether Edison Gentech Pvt Ltd is keeping pace with market expectations or falling behind. It also helps the company identify best practices from top-performing competitors, which can then be used to enhance its own performance.

Assists Investors and Lenders in Decision-Making:

Investors and financial institutions rely heavily on ratio analysis to assess the risk and return potential of a company. Strong financial ratios can boost investor confidence and improve chances of securing funding. On the other hand, weak ratios may raise red flags. This study gives a transparent view of Edison Gentech's financial position, helping lenders and investors make well-informed decisions about whether to invest or extend credit.

Encourages Operational Efficiency and Sound Financial Management:

Regular analysis of financial ratios helps in promoting discipline within the organization. It pushes the management to focus on reducing costs, improving productivity, and managing assets more effectively. This continuous focus on financial performance leads to overall operational improvements and strengthens the financial management system within the company.

MAJOR OBSTACLES

Inaccurate or Manipulated Financial Data Can Distort the Analysis:

One of the biggest challenges in ratio analysis is the reliability of the data. If the financial statements contain errors, outdated information, or have been manipulated—intentionally or unintentionally—the results of the analysis will be misleading. This can lead to incorrect conclusions about a company's financial health, which is risky for investors, management, and decision-makers.

External Economic Conditions Are Not Considered in Ratio Analysis:

Ratio analysis only looks at internal numbers and does not account for factors like inflation, market trends, changing consumer behavior, or global economic shifts. For example, a company might seem less profitable in a given year due to a major economic slowdown, but this won't be clear just from the ratios. This lack of context can lead to an unfair or incomplete understanding of performance.

Heavy Dependence on Historical Data May Not Reflect Present or Future Situations:

Since ratio analysis is based on past financial statements, it cannot always capture the real-time financial status of a business. A company that has recently improved its operations might still appear weak if the most recent data hasn't been recorded yet.

Differences in Accounting Methods Affect the Accuracy of Comparisons:

Companies often follow different accounting policies when recording income, expenses, depreciation, and asset valuation. These variations can significantly impact the financial ratios, making it difficult to compare two companies accurately. Even when two businesses are in the same industry, different accounting styles may cause confusion or unfair comparisons.

Ratios Alone Do Not Provide a Complete Picture Without Qualitative Analysis:

While ratios are helpful for spotting trends and issues, they don't tell the full story. Important factors like employee satisfaction, leadership quality, market reputation, customer loyalty, or innovation cannot be measured through numbers alone. Relying only on ratios without considering these qualitative aspects can lead to shallow or incomplete decision-making.

CONCLUSION

This study clearly demonstrates that financial ratio analysis is an essential tool for evaluating the overall financial health of a company like *Edison Gentech Pvt Ltd. Through a careful examination of key financial ratios, the study provides meaningful insights into important areas such as liquidity, solvency, profitability, and operational efficiency. The findings confirm that ratio analysis helps simplify complex financial data and presents it in a form that is easier to interpret and act upon. It not only supports *transparency in financial reporting but also empowers stakeholders—including investors, creditors, and management—to make well-informed and strategic decisions based on actual performance indicators. Even though the method has its limitations, such as dependency on historical data and the exclusion of qualitative factors, its benefits far outweigh its drawbacks. Ratio analysis remains a powerful, cost-effective, and practical approach for internal review and strategic planning. Furthermore, the study opens the door for future research to include comparative analysis between similar companies or industries, which can enhance benchmarking and provide a broader understanding of

financial positioning in competitive markets. In conclusion, this research underlines the enduring value of ratio analysis in modern financial management and encourages its consistent use for sustained business growth.

REFERENCES

1. Pandey, I.M. (2009). Financial Management. Vikas Publishing House.
2. Weston, J.F., & Brigham, E.F. (2001). Essentials of Managerial Finance. The Dryden Press.
3. Sharma, R., & Mehta, D. (2015). "Predicting Financial Distress using Ratio Analysis in Indian Firms." International Journal of Finance and Accounting.
4. Annual Reports of Edison Gentech Pvt Ltd (Relevant Years).
5. Khan, M.Y., & Jain, P.K. (2010). Financial Management: Text, Problems and Cases. Tata McGraw-Hill.