A Study on Financial Statement Analysis of PIPDIC

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Abstract :

This study aims to explore the financial statement analysis of Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC). Emphasizing the crucial role of financial decisions in organizational Growth, the accounting department focuses on assessing performance in terms of Profitability and the significance between net incomes and equity. The research relies entirely on secondary data derived from the historical and current performance of PIPDIC, a financial assistance provider to entrepreneurs. The Profit and Loss Statement is projected for the period of 5 years for which the Company has not finalised the financial statements and it is done with the use of Trend analysis percentage. In order to analyze the financial performance of the Organization, the ratio analysis, comparative balance sheet and trend analysis is used.

Keywords :

Financial Statement Analysis, Ratio Analysis , Comparative Balance Sheet, Comparative Profit & Loss Statement , Trend Analysis and Projected Profit & Loss Statement using Trend Analysis

INTRODUCTION :

Financial statement analysis is a method or process involving specific techniques for evaluating risks, performance, valuation, financial health, and future prospects of an organization. The users of financial statements use it to understand the overall position of an organization and to evaluate financial performance and business value.

The most common ratio metrics used are :
Balance sheet:
It includes current ratio,quick ratio,debt to equity ratio,fixed asset turnover and capital turnover ratio.
Income statement:
It includes gross profit margin ratio, operating profit margin, net profit margin, tax ratio efficiency, and interest coverage ratio.

OBJECTIVES OF THE STUDY :

Primary Objective :

1. To analyse and compare the financial statements of the company.

Secondary Objectives :

1. To know the financial position of PIPDIC.

2. To analyse the annual growth rate of income of the company with the help of Trend analysis.

LITERATURE SURVEY :

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METHODOLOGY :

> ➢ The study has been undertaken for the period of 3 years consisting of 2015 - 16, 2016-17 and 2017 - 18.
> ➢ The company has done audit till the 2017-18 financial year and did not prepare the financial statement for the year 2018-19,2019-20,2020-21,2021-22,2022-23 as the company did not conduct its Annual General Meeting due to pandemic of 2 years.
> ➢ Therefore a Projected Profit and Loss account is prepared for the year 2018-19,2019-20, 2020-21,2021-22,2022-23.

RESEARCH DESIGN:

Research design is defined the overall strategy of the study to choose the integrated components to find the coherent and logical way, to obtain the effective solution for the identifiable research problem; it constitutes the collection, measurement and analysis of data.

DATA TYPE:

The secondary data is used to find the financial position and the profitability ratio of the organization. Secondary data is collected from the internal record, books and annual reports of the organization. The data which is already collected and is used to analyze for some purpose is called secondary data.

RESEARCH TOOLS :

The data were classified and tabulated for analysis. The analytical tools used are as follows :

A. Comparative Balance Sheet & Profit & Loss Statement

B. Ratio Analysis

C. Trend Analysis

Particulars	31-03-2017	31-03-2018	Increase / Decrease (in ₹)	Increase / Decrease (in %)
I. Equity and liabilities :				
1) Shareholders' funds :				
(a) Share capital	40,40,20,500	40,40,20,500	0	0.00
(b) Reserves and surplus	14,94,47,126	15,07,50,066	13,02,940	0.87
Total shareholders' funds	55,34,67,626	55,47,70,566	13,02,940	0.24
2) Share application money pending allotment	4,59,79,500	4,59,79,500	0	0.00
3) Minority interest	0	0	0	0.00
4) Non-current liabilities :				
(a) Long-term borrowings	0	0	0	0.00
(b) Other long-term liabilities	4,50,31,240	4,50,31,240	0	0.00
(c) Long-term provisions	0	0	0	0.00
Total non-current liabilities	4,50,31,240	4,50,31,240	0	0.00
5) Current liabilities :				
(a) Short-term borrowings	0	0	0	0.00
(b) Trade payables	0	0	0	0.00
(c) Other current liabilities	82,24,03,514	82,48,43,519	24,40,005	0.30
(d) Short-term provisions	47,89,247	49,42,749	1,53,502	3.21
Total current liabilities	82,71,92,761	82,97,86,268	25,93,507	0.31
TOTAL EQUITY & LIABILITIES	**1,47,16,71,127**	**1,47,55,67,574**	**38,96,447**	**0.26**
II. Assets :				
1) Non-current assets :				
(i) Fixed assets :				
(a) Tangible assets	5,27,78,450	5,76,70,994	48,92,544	9.27
(b) Intangible assets	0	0	0	0.00
(c) Tangible assets capital work-in-progress	29,92,320	0	-29,92,320	-100.00
(d) Intangible assets under development or work-in-progress	0	9,44,000	9,44,000	0.00
Total fixed assets	5,57,70,770	5,86,14,994	28,44,224	5.10
(ii) Non-current investments	0	0	0	0.00
(iii) Long-term loans and advances	93,28,22,722	86,15,43,785	-7,12,78,937	-7.64
(iv) Other non-current assets	80,89,800	80,89,800	0	0.00
Total non-current assets	99,66,83,292	92,82,48,579	-6,84,34,713	-6.87
2) Current assets :				
(a) Current investments	0	0	0	0.00
(b) Inventories	0	0	0	0.00
(c) Trade receivables	2,78,84,067	2,69,18,949	-9,65,118	-3.46

(d) Cash and bank balances	34,67,99,228	42,09,72,004	7,41,72,776	21.39
(e) Short-term loans and advances	8,34,05,732	8,02,77,489	-31,28,243	-3.75
(f) Other current assets	1,68,98,808	1,91,50,553	22,51,745	13.32
Total current assets	47,49,87,835	54,73,18,995	7,23,31,160	15.23
TOTAL ASSETS	**1,47,16,71,127**	**1,47,55,67,574**	**38,96,447**	**0.26**

A.   (i) Comparative Balance Sheet :

The Comparative Balance Sheet for the financial years ending 31-03-2017 and 31-03-2018 shows a slight overall increase of 0.26% in both assets and liabilities. Notable changes include a 21.39% increase in Cash and Bank Balances and a 7.64% decrease in Long-term Loans and Advances. Fixed Assets rose by 5.10%, while Tangible Assets saw a 9.27% increase. On the liabilities side, there were minor increases in Other Current Liabilities and Short-term Provisions, indicating a stable financial position with slight adjustments.

(ii) Comparative Profit & Loss Statement :

The

Particulars	31-03-2017 (₹ in Lakhs)	31-03-2018 (₹ in Lakhs)	Increase / Decrease (₹ in Lakhs)	Increase / Decrease (in %)
Income from Business Operations	952.29	724.73	-227.56	-23.90
Other Income	304.08	259.21	-44.87	-14.76
Total Income	1256.38	983.94	-272.44	-21.68
Less : Expenses	128	1463.49	1335.49	1043.35
Profit /(Loss) before tax and Extraordinary /exceptional items:	-27.21	-479.54	-452.33	1662.37
Less: Extraordinary / exceptional items:	Nil	Nil	Nil	Nil
Profit/(Loss) before tax:	0.39	-479.54	-479.93	-123058.97
Less : current Income Tax:	Nil	Nil	Nil	Nil
Less :Deferred Tax	Nil	Nil	Nil	Nil
Net/(Loss) Profit after Tax	0.39	-479.54	-479.93	-123058.97
Earnings per share (Basic)	0.1	-11.87	-11.97	-119.97
Earnings per share (Diluted)	0.1	-11.87	-11.97	-119.97

Comparative Income Statement for the financial years ending 31-03-2017 and 31-03-2018 reveals a significant decline in overall performance. Total Income decreased by 21.68%, primarily due to a 23.90% drop in Income from Business Operations and a 14.76% reduction in Other Income. Expenses surged dramatically by 1043.35%, leading to a substantial increase in the Loss before Tax and Extraordinary Items by 1662.37%. Consequently, the Net Loss after Tax escalated from ₹0.39 Lakhs to ₹-479.54 Lakhs, resulting in a sharp decline in Earnings per Share (both Basic and Diluted) from ₹0.1 to ₹-11.87.

B.   RATIO ANALYSIS :

Ratio Analysis			
Ratios	**2015-16**	**2016-17**	**2017-18**
1) Current Ratio	0.52	0.57	0.66
2) Absolute Liquid Ratio	0.37	0.42	0.51
3) Net Profit Ratio	48.06	-66.07	0.04
4) Debt Equity Ratio	0.075	0.0814	0.0812
5) Debt to Total Asset Ratio	0.0299	0.0306	0.0305
6) Proprietary Ratio	0.3983	0.3761	0.376
7) Fixed Asset Turnover Ratio	1.84	1.76	2.14
8) Return on Equity	0.25	0.24	0.31
9) Net Profit to Net Worth Ratio	0.0629	-0.0866	0.0001
10) Capital Turnover Ratio	0.19	0.18	0.24

The Ratio Analysis for the financial years 2015-16, 2016-17, and 2017-18 demonstrates noteworthy trends:

1. Liquidity Ratios:
  - The Current Ratio improved from 0.52 to 0.66, showcasing enhanced short-term liquidity.
  - The Absolute Liquid Ratio rose from 0.37 to 0.51, indicating increased immediate liquidity.

2. Profitability Ratios:
  - The Net Profit Ratio fluctuated significantly, declining from 48.06% to -66.07% before slightly recovering to 0.04%.
  - The Return on Equity increased from 0.25 to 0.31, indicating improved profitability for shareholders.

3. Solvency Ratios:
  - The Debt Equity Ratio remained stable, moving from 0.075 to 0.0812.
  - The Debt to Total Asset Ratio maintained consistency around 0.03.
  - The Proprietary Ratio decreased marginally from 0.3983 to 0.376.

4. Efficiency Ratios:
  - The Fixed Asset Turnover Ratio improved from 1.84 to 2.14, reflecting better utilization of fixed assets.
  - The Capital Turnover Ratio increased from 0.19 to 0.24, indicating enhanced capital efficiency.

5. Return Ratios:
  - The Net Profit to Net Worth Ratio experienced volatility, dropping from 0.0629 to -0.0866 before stabilizing at 0.0001.

C.   PROJECTED PROFIT & LOSS STATEMENT ON THE BASIS OF TREND ANALYSIS :

The above table shows the projected Profit & Loss A/C from 31-03-2019 to 31-03-2023 and inferences are :

Particulars	31-03-2019	31-03-2020	31-03-2021	31-03-2022	31-03-2023
Income from Business Operations	1152.68	1061.53	977.32	899.89	827.89
Other Income	380.1	407.37	436.81	468.2	501.73
Total Income	1532.78	1468.9	1414.13	1368.09	1329.62
Less : Expenses	23.04	46.26	92.72	186.02	373.3
Profit /(Loss) before tax and Extraordinary /exceptional items:	1509.74	1422.64	1321.41	1182.07	956.32
Less: Extraordinary / exceptional items:	Nil	Nil	Nil	Nil	Nil
Profit/(Loss) before tax:	1509.74	1422.64	1321.41	1182.07	956.32
Less : current Income Tax:	Nil	Nil	Nil	Nil	Nil
Less :Deferred Tax	Nil	Nil	Nil	Nil	Nil
Net/(Loss) Profit after Tax	1509.74	1422.64	1321.41	1182.07	956.32
Earnings per share (Basic)	0.373679	0.352121	0.327065	0.292577	0.236701
Earnings per share (Diluted)	0.373679	0.352121	0.327065	0.292577	0.236701

1. Income Trend:
  - Income from business operations has been decreasing steadily over the years, from 1152.68 in 2019 to 827.89 in 2023.
  - Other income has been increasing gradually, from 380.1 in 2019 to 501.73 in 2023.

2. Total Income:
  - Total income has shown a decreasing trend from 1532.78 in 2019 to 1329.62 in 2023. This is mainly due to the decline in income from business operations.

3. Expenses:
  - Expenses have been increasing significantly over the years, from 23.04 in 2019 to 373.3 in 2023. This indicates a potential issue with cost management or increased operational expenses.

4. Profit Before Tax:
  - Profit before tax has been decreasing consistently over the years, from 1509.74 in 2019 to 956.32 in 2023. This indicates a declining profitability trend for the company.

5. Tax and Extraordinary/Exceptional Items:
  - There have been no extraordinary or exceptional items affecting the profit before tax throughout the period.

6. Net Profit After Tax:
  - Net profit after tax has followed a similar declining trend, decreasing from 1509.74 in 2019 to 956.32 in 2023.

7. Earnings Per Share (EPS):
  - Both basic and diluted earnings per share have shown a decreasing trend over the years. This suggests a reduction in the company's ability to generate earnings per share for its shareholders.

In summary, the company's financial performance has been on a declining trajectory over the analyzed period, primarily driven by decreasing income from business operations, increasing expenses, and consequently, declining profits. This trend indicates potential challenges or inefficiencies within the company that may require attention to reverse the decline and improve overall financial health.

SUGGESTIONS :

1.It is recommended that the organization needs to improve the current ratio and proprietary ratio in future for the growth of the organization and needs to use more ratio analysis methods to improve the financial performance.

2.It is also recommended that the organization needs to increase the working capital ratio to ensure profit in future.

3.The organization should immediately take effective measure to increase the return on shareholders' fund and return on total asset for a future period of time.

4.The net profit margin, operating profit margin and fixed assets of the organization should always be maintained in the satisfactory level to avoid loss and needs to maintain the profitability ratio over the long period.

5.The organization should maintain proper liquid ratio and cash position of the Pondicherry Industrial Promotion Development and Investment Corporation Limited.

6.The organisation should maintain the proprietary ratio in order to be equal to the ideal ratio.

7.The organisation should maintain current assets at twice of current liabilities.

CONCLUSION :

➢   The analysis is summarized in order to fulfil the purpose of the research objectives. The financial statement analysis of the Pondicherry Industrial Corporation Development and Investment Corporation Limited is analysed with the overall financial performance of the organization by using the measurement tools like Ratio analysis, Comparative balance sheet and Trend analysis of the company.

➢   The financial performance of the Pondicherry Industrial Corporation Development and Investment Corporation Limited is in satisfactory level during the year 2016- 2018.

➢   The organization should use various strategies to capitalize their current corporate position.

➢   By over viewing the working capital turnover ratio it is clear that the company wants to utilize its working capital efficiently that is the excess current assets should be adjusted according to current scenario.

➢   Though the net profit shows it is increased but it is found that the net profit ratio has been decreased. So the company should increase the sales in order to increase the actual profit.

➢   If the company utilizes its working capital then the company can go heights which it wanted to achieve. The comparative income statement shows increase in the current year of net profit and it depicts the company's current

profit position. To improve the efficiency the company will strive for better performance and increase the loan levels of the company.

➢ The suggestions provided will help the company to improve the operational performance efficiently and effectively.

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