

Comprehensive Ratio Analysis of Rane Brake Lining Limited: Assessing Profitability, Liquidity, Solvency, And Efficiency

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ABSTRACT:

The study is an outcome of the Project Work titled “Ratio Analysis and Rane Brake Lining Limited”. This project aims to analyse the financial performance of Rane Brake Lining Limited company using ratio analysis to evaluate the Company’s profitability, liquidity, solvency & efficiency and to analyse the asset utilization and Liabilities management of the company over a four – year period. Then, compared the performance of the company with its major competitor. This analysis was made using the financial data extracted from the Balance sheet, Income statement and Cash flow statement of the Rane Brake Lining Limited Company, focusing on Current ratio, debt ratios, Net profit margin and return on assets ratio. The findings reveal that the company has consistent improvement in profitability and operational efficiency but need to focus on proprietary ratio of the company, since it is a debt-free company the raising financial risk has minimal possibilities even though the need to improve their equities from the shareholders. This study provides valuable insights to the shareholder and investors to evaluate the Rane Brake Lining Limited Company’s financial health and makes informed decisions.

Keywords:

Ratio Analysis, Financial Performance, Profitability, Liquidity, Solvency, Efficiency, Asset Utilization, Liabilities Management.

INTRODUCTION

A **Ratio analysis** is a quantitative analysis of information contained in a company’s financial statements. Ratio analysis is based on line items in financial statements like the balance sheet, income statement and cash flow statement; the ratios of one item – or a combination of items - to another item or combination are then calculated. Ratio analysis is used to evaluate various aspects of a company’s operating and financial performance such as its efficiency, liquidity, profitability and solvency. The trend of these ratios over time is studied to check whether they are improving or deteriorating. Ratios are also compared across different companies in the same sector to see how they stack up, and to get an idea of comparative valuations. Ratio analysis is a quantitative procedure of obtaining a look into a firm’s functional efficiency, liquidity, revenues, and profitability by analysing its financial records and statements. Ratio analysis is a very important factor that will help in doing an analysis of the fundamentals of equity. Analysts and investors make use of the methods for ratio analysis to study and evaluate the fiscal wellbeing of businesses by closely examining the historical performance and monetary statements. Ratio analysis is mainly performed by external analysts as financial statements are the primary source of information for external analysts The data or information thus obtained during the analysis is helpful in determining whether the financial position of a company is improving or deteriorating.

REVIEW OF LITERATURE

1. Keerthi K., & Eswari S. (2020), in this article they made a study on Financial Performance Using Ratio Analysis of Kumbakonam Central Co-operative Bank. The main objective of this article is to analyse the overall financial position of the bank using ratio analysis which it shows whether the firm is improving or worsening in past years. There are many various types of ratios each of them will helps to find a part of the financial position of the bank which include liquidity ratios, profitability ratios, solvency ratios are analysed in this study. And they said that this study will not only

helps to get about the financial position of the firm but also helps to identify the problems and offer suggestions to improve its performance.

2. Sucipto T. N., & Hasibuan R. (2020), in this article he discusses about the return on assets is an important percentage that provides how much profit a company can generate from its assets. The return on assets (ROA) also measures how efficient a company's management is in earning a profit from their economic resources or assets on their balance sheet. He also said that companies with a low ROA usually have more assets involved in generating profit, while companies with a high ROA have fewer assets. The net profit figure that should be used is the amount of income after all expenses, including taxes.

3. Labrador, M. & Luengo O. (2021), in this article he has made an integration of vitro allergy test results with the help of ratio analysis for the diagnosis and treatment of allergic patients (INTEGRA). In this he has substantially improved the diagnosis and management of allergic patients by allowing clinicians to precisely identify the allergenic molecule responsible for immunoglobulin E (IgE)-mediated allergies. It is very challenging for him to accurately interpret the results of molecular assays, partly due to the limited evidence base. So, he prepared for the panel of experts with extensive experience in interpreting in vitro measures of total and serum specific IgE reviewed the available scientific evidence. Finally, the experts developed a series of recommendations on the clinical application of ratio analysis to optimize and complement the classical approach to allergy diagnosis.

4. Aslamiah S., & Digidowiseiso K. (2023), in this article he expresses about the liquidity ratio which is an analysis of the financial statements used to measure company's performance. It also analyses of the income statement and balance sheet. Investors and lending institutions will often use ratio analyses of the financial statements to determine a company's profitability and liquidity. When analysing a company, they have to see a company with liquidity ratios above 1.0. A company with healthy liquidity ratios is more likely to be approved for credit. If the ratios indicate poor performance, investors may be reluctant to invest. An acceptable current ratio will be higher than an acceptable quick ratio. Both will be higher than an acceptable cash ratio. Therefore, the current ratio or working capital ratio, measures current assets against current liabilities.

5. Kalita K. & Chakraborty S. (2023), in this article he has narrated a review on Multi-Objective Optimization on the basis of Ratio Analysis (MOORA) method in decision making. It is a type of vector optimization that has been applied in many fields where optimal decisions need to be taken in the presence of trade-offs between two or more objectives. He uses the application of the Multi-Objective Optimization on The Base of Ratio Analysis (MOORA) method as a Decision support system which is a simple method in ranking alternative business locations, so it is expected that the use of decision support systems in the selection will provide large benefits for business sectors. They used (MOORA) method for material selection in the manufacturing process and also used the Reference point approach and MULTIMOORA for comparison. MOORA uses a ratio system in which each response of an alternative on an objective is compared to a denominator, which is representative for all alternatives concerning that objective.

OBJECTIVES

- To evaluate the Company's profitability, liquidity, solvency & efficiency through various financial ratios.
- To analyze the asset utilization and liabilities management of the company.
- To compare the performance of the company with its major competitor.

BENEFITS OF THE STUDY

One of the uses of ratio analysis is to compare a company's financial performance to similar firms in the industry to understand the company's position in the market. Obtaining financial ratios, such as Price/Earnings, from known competitors and comparing them to the company's ratios can help management identify market gaps and examine its competitive advantages, strengths, and weaknesses. The management can then use the information to formulate decisions that aim to improve the company's position in the market. Companies can also use ratios to see if there is a trend in financial performance. Established companies collect data from financial statements over a large number of reporting periods. The trend obtained can be used to predict the direction of future financial performance, and also

identify any expected financial turbulence that would not be possible to predict using ratios for a single reporting period. The management of a company can also use financial ratio analysis to determine the degree of efficiency in the management of assets and liabilities. Financial ratios can also help to determine if the financial resources are over- or under-utilized.

LIMITATIONS OF THE STUDY

Ratio analysis is based on past financial statements, which reflect historical performance and not future prospects. This becomes a limitation because past data may not always represent the current or future financial health of the company, especially in dynamic industries where conditions change rapidly. The usefulness of ratio analysis largely depends on comparing a company's ratios with industry averages or competitors. However, when reliable industry benchmarks are unavailable, it becomes difficult to interpret whether a company's ratios indicate strong or weak performance. Companies may engage in "window dressing" to temporarily manipulate financial statements, making their ratios appear more favourable than they truly are. This can mislead analysts and investors, as the ratios may not represent the company's actual financial condition. Ratio analysis focuses purely on numerical data and ignores qualitative aspects such as employee morale, customer satisfaction, innovation, or brand reputation. These non-financial factors often play a crucial role in a company's long-term success but are not captured by financial ratios. Financial statements are usually prepared on a historical cost basis, which may not reflect current market realities, especially during inflationary periods. As a result, ratios involving fixed assets or inventories can be distorted, leading to inaccurate conclusions about performance and efficiency.

SCOPE OF THE RESEARCH

The research includes an investigation in a field of industry in India. Indian Automobile Industry has been considered as population of the study. Because of importance of automobile industry in Indian economy, it has been selected as statistical population. India's passenger car and commercial vehicle manufacturing industry is the sixth largest in the world. The industry has a turnover of more than USD \$35 billion and provides direct and indirect employment to over 13 million people. India emerged as Asia's fourth largest exporter of passenger cars, behind Japan, South Korea, and Thailand.

STATEMENT OF THE PROBLEM

Ratio analysis is used to evaluate various aspects of a company's operating and financial efficiency, liquidity profitability and solvency. The trend of these ratios over time is studied to check whether they are improving or deteriorating. Ratio analysis is widely used as a powerful tool of financial statement analysis to check the company's operations or financial performance is difficult task by some other tools for the company. So, the study on ratio analysis at Rane Brake Lining Limited Puducherry is taken as the study to measure the performance of the company.

RESEARCH DESIGN

The research design, the focus is on systematically collecting and interpreting financial data to evaluate a company's performance and financial position. This involves identifying relevant financial statements selecting appropriate ratios to analyse, and determining how to compare them with industry benchmarks or against competitors. The design may involve quantitative methods like calculating and comparing ratios, and qualitative methods like interpreting the meaning of the ratios and their implications for the company's financial health. Ultimately, the research design aims to provide insights into areas like profitability, liquidity, solvency, and efficiency, helping stakeholders understand the company's strengths and weaknesses.

SOURCES OF DATA COLLECTION

In this study secondary data have been used as sources of data collection. Secondary data refers to the information that has been collected by someone else other than a researcher for the purpose other than those' involved in the research. These data have been obtained from the annual financial reports of the Rane Brake lining limited company for four years (2021-24). These data have been supplemented with other published material, various reports of

organizations and information in journals relating to economic, financial and commercial matters. In this research, I have used three secondary data's which are collected from the financial reports of the company for the ratio analysis, they are_

- a. Income Statement
- b. Balance Sheet
- c. Cash Flow Statement

Income Statement: The Income Statement, also known as the Profit and Loss Statement, is a crucial financial document that summarizes a company's financial performance over a specific period, such as a quarter or a year. It provides a detailed breakdown of revenues, expenses, and profits, helping stakeholders assess the company's operational efficiency and profitability.

Balance Sheet: The Balance Sheet, also known as the Statement of Financial Position, is a fundamental financial document that provides a snapshot of a company's financial condition at a specific point in time. It summarizes what the company owns and owes, along with the shareholders' equity.

Cash Flow Statement: The Cash Flow Statement is a critical financial document that provides a detailed account of a company's cash inflows and outflows over a specific period, such as a quarter or a year. It shows how cash is generated and used in operating, investing, and financing activities, offering insights into the company's liquidity and overall financial health.

STRATEGIC TOOLS USED FOR RATIO ANALYSIS

Profitability Ratio –

- Net Profit Margin
- Operating Profit Margin
- Return On Asset
- Return On Equity
- Earnings per Share
- Return on capital employed

Liquidity Ratio –

- Current Ratio
- Quick Ratio (Acid-test Ratio)
- Cash Ratio

Solvency Ratio -

- Proprietary Ratio
- Debt to Equity Ratio
- Debt to Asset Ratio
- Interest Coverage Ratio

Turnover Ratio -

- Inventory Turnover Ratio
- Fixed Asset Turnover Ratio
- Total Assets Turnover Ratio
- Debtor Turnover Ratio
- Creditor Turnover Ratio

DATA ANALYSIS &

INTERPRETATIONS

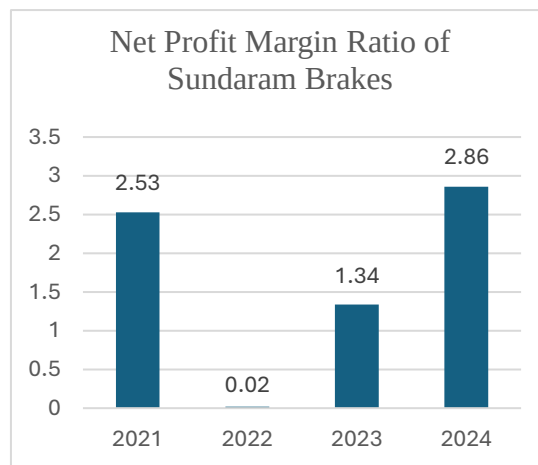
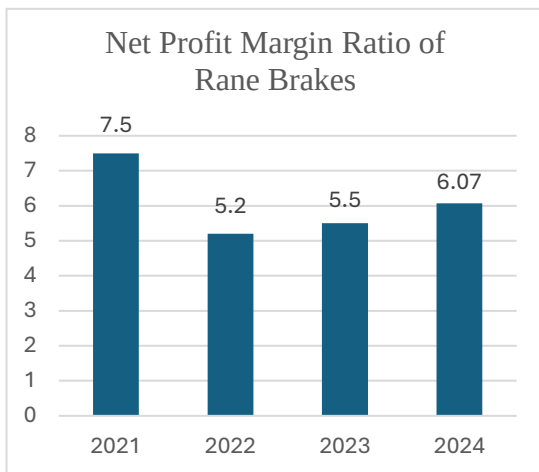
- Rane Brake Lining Company exhibits strong profitability ratios, showing a consistent upward trend in recent years. The company's profitability metrics, such as return on assets and return on equity, are well above industry averages, indicating effective cost management and revenue generation. This robust profitability performance underscores the company's competitive advantage and operational efficiency, positioning it as a leading performer within the industry.
- Rane Brake Lining Company demonstrates a strong turnover ratio, reflecting its efficient management of assets and inventory. The company's turnover ratios have shown an upward trend, outperforming industry benchmarks, which suggests effective operational strategies that contribute to higher sales relative to its assets. This superior asset utilization highlights the company's efficiency in generating revenue from its resources, setting it apart from other players in the industry.

- Rane Brake Lining Company's liquidity ratios indicate a strong position, with trends showing improvement over recent years. The company consistently maintains liquidity levels above industry benchmarks, which suggests it has a reliable capacity to meet short-term obligations. This strong liquidity performance reflects efficient management of current assets and liabilities, positioning the company favourably compared to its industry peers.
- Rane Brake Lining Company shows a solid solvency position, with ratios indicating a stable balance between its debt and equity levels. The company's solvency ratios consistently exceed industry standards, suggesting strong long-term financial stability and a lower risk of default. This favourable solvency position reflects the company's prudent approach to debt management, enhancing its resilience and positioning it well for sustainable growth in the industry.

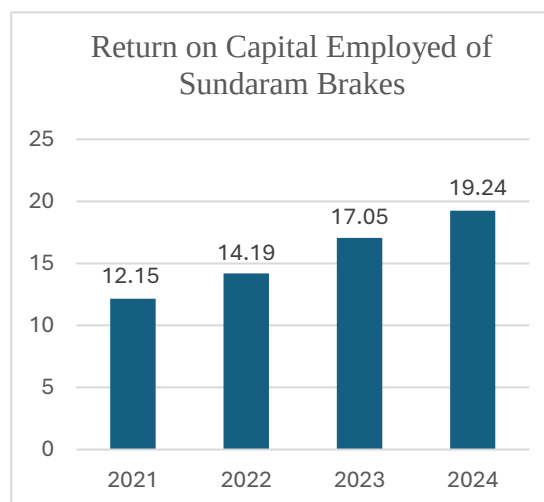
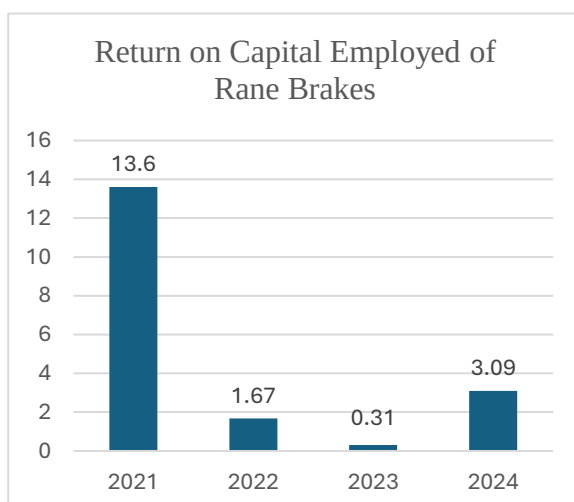
COMPETITIVE ANALYSIS WITH

SUNDARAM BRAKE LININGS

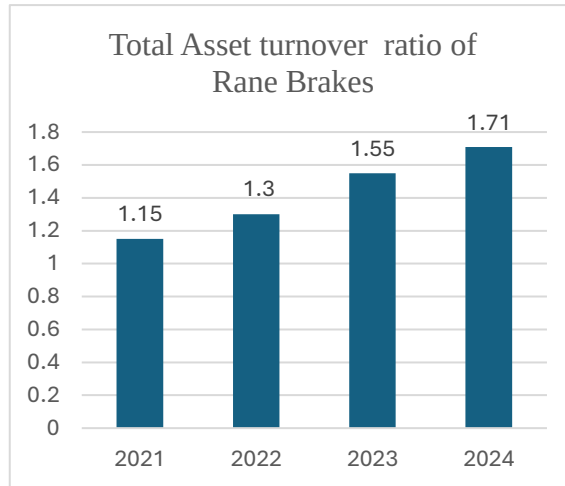
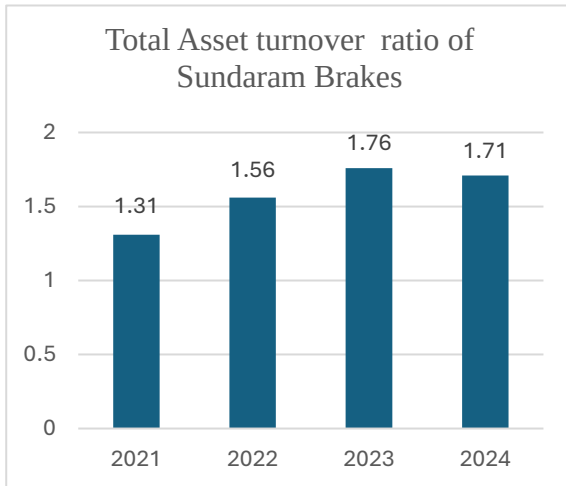
Net profit margin: The Net Profit of the Rane brake lining is higher compared with the Sundaram brake linings which the net profit of the company is 2.86 % (with revenue of 895.54) whereas the Rane has 6.07 % (with revenue of 662.97) in which the difference between them 3.21 % is taken lead by Rane brake Lining for the fiscal year 2023–2024.



Return on capital employed: Compared with the Returns on capital employed of both the companies the Sundaram brake lining has decreased capital percentage of 13.60% whereas the Rane's capital percentage is 19.24 which the Rane has taken lead with 5.64% more than the Sundaram Brake Lining Company for the fiscal year 2023–2024.

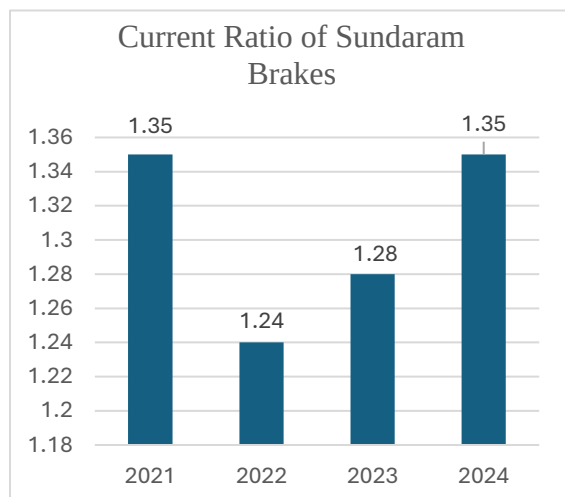
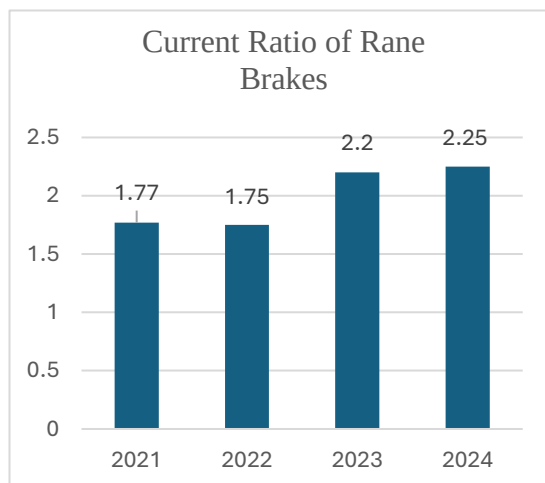


Total asset turnover ratio: The Total Asset Turnover ratio for the Rane Brake Lining is equal to compared with the Sundaram Brake Lining company which they have 1.71 of asset turnover percentage while Rane Brake Lining has 1.71 for the fiscal year 2023–2024.



Current ratio: The Current Ratio of both the Rane & Sundaram brake Lining has the ideal level but in fact the Rane Brake Lining Company has 2.25 % of current ratio Level whereas the Sundaram Brake Lining has 1.35 % in this also the Rane took the lead with the 0.9 % more than their competitive company for the fiscal year 2023–2024.

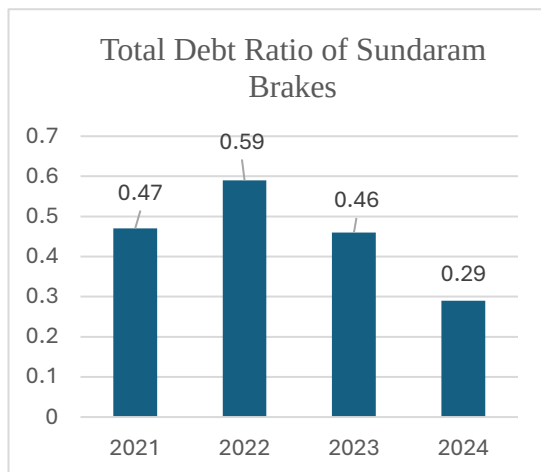
Total debt ratio: According to the Total debt ratio, the Sundaram Brake Lining has 0.47 of debts while compared with the Rane Brake Lining it is at higher debts because the Rane Brake Lining company is a Debt-free Company which



means the company has no debts obligations as well as no Outstanding Loans and runs the company with sufficient cash reserves.

RANE BRAKE LINING COMPANY: Since the company has cleared all their debts before four years back the graphs for the total debt ratio are not available.

SUNDARAM BRAKE LINING COMPANY:



FINDINGS

Profitability Ratio

The company's profitability ratios indicate a healthy and progressive financial performance over the years. The Net Profit Margin improved to 7.5% in 2024 from a lower value in 2022, and the Return on Equity rose to 29.6%, exceeding standard expectations, while the Return on Capital Employed showed consistent growth, reflecting efficient capital utilization. Earnings Per Share (EPS) and Return on Total Assets also demonstrated an upward trend, pointing toward improved profitability and effective asset management.

Liquidity Ratio

In terms of liquidity, the company maintained a strong position, with the Current Ratio increasing to 2.25 and the Liquid Ratio rising to 1.3 by 2024, both above standard benchmarks, which suggests good short-term solvency and asset conversion efficiency. Although the Cash Ratio declined slightly to 0.06, it still falls within acceptable limits and supports the overall positive liquidity stance.

Solvency Ratio

On the solvency front, the company is debt-free, making debt-equity and debt-asset ratios inapplicable, yet this reflects a conservative capital structure. However, the proprietary ratio declined to 0.01 in 2024, which may suggest higher dependency on external funds.

Turnover Ratio

The turnover ratios display a consistently upward trend, with the stock turnover ratio rising to 7.16, debtor turnover reaching 5.14, and creditor turnover increasing significantly to 6.38, all indicating improved operational efficiency. Additionally, both the Total Asset and Fixed Asset Turnover Ratios have shown continuous improvement over the years, confirming the company's strong ability to generate revenue from its assets and maintain effective working capital management.

SUGGESTIONS

CASH RATIO: The Company's cash ratio has need to be focused by cutting costs, increasing revenue or by exploring financing options, such as short-term loans or factoring receivables, which are common solutions for the industry.

PROPRIETARY RATIO: The proprietary ratio of the company has decreased, since the company is a debt-free they need to retain more earnings and have to focus on improving their equity through fresh investments.

NET PROFIT MARGIN: Since the company has high net profit margin more than the industry value, they can reinvest profits into growth opportunities and improve their operational efficiency, expand market shares while maintaining cost control to sustain profitability.

TOTAL ASSET TURNOVER RATIO: The Company has increasing trend of total asset turnover ratio so they can focus on maintaining efficient asset utilization, reinvesting in productive assets, and sustaining revenue growth to capitalize on its strong performance in generating sales from its assets.

CONCLUSION

The study conducted on ratio analysis at Rana Brake Lining Limited. A given view of assessing the ratio analysis of the society by analyzing the financial data with the help of ratio analysis. During the period of study there were a few up and downs in the operating profit and ratio analysis it will affect the operations of the society but it is observed that the overall financial position is very good. As per analysis the company has to take appropriate steps to control the cost increase the volume of sales profit in the future years the company has to improve the liquidity position of the Rana Brake Lining Limited.

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