The Financial Performance Analysis of Sri Sai Industries: A Case Study

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Abstract

Sri Sai Industries is a mid-sized manufacturing company in Vzianagaram, Andhra Pradesh that is involved in the financial performance assessment that gives important information regarding the profitability of the company, its solvency, liquidity status, and operational efficiency. The paper examines the financial reports of 2022 23 and 23 24 and evaluates the key accounting ratios to define trends and challenges influencing the financial wellbeing. The findings indicate depreciating profitability and liquidity, increasing debt structure and average operating effectiveness, which shows the need to improve cost management, working capital management and debt restructuring. The case highlights the importance of ongoing financial evaluation of sustainable development and competitiveness of small and medium-scale manufacturing firms in India.

Keywords: *Ratio Analysis, Financial Performance, Profitability, Sri Sai Industries.*

Introduction

The evaluation of financial performance has turned out to be one of the most important corporate management components and decision making in the contemporary business world. The capacity of any industrial business to make sufficient profit, keep liquid, and to use resources optimally is a key factor in determining the success and sustainability of the business. Analysis of financial performance does not only give details on the operational well being of a firm, but also makes stakeholders including investors, creditors and management to make informed decisions about the future development of the company.

Financial performance is one of the determinants of competitiveness and survival in the industrial sector particularly the small and medium enterprises (SMEs) in the Indian industrial sector. Sri Sai industries are a mid-sized manufacturing company that is a very crucial part of the industrial system in the region because it provides some employment, innovation and value addition to the local area. The company is performing in terms of efficiency of the internal management and external market forces, such as demand changes, cost and price increases, and economic limitations. An assessment of its financial framework and profitability can, thus, provide important information as to how medium-scale industries can survive a competitive market mix in terms of financial crises.

Financial performance analysis usually encompasses the work on the different accounting ratios and indicators that indicate liquidity (current, quick ratios), solvency (debt-equity ratio, interest coverage ratio), profitability (gross profit and net profit margins), as well as efficiency (inventory turnover, asset utilization). All these ratios show the effectiveness of an enterprise in using assets and liabilities to make a profit and remain in business. In the case of a manufacturing facility such as Sri Sai Industries, it is very important to balance between operational efficiency and financial discipline so as to record stable growth and reduce business risks. Besides the internal performance measures, external forces like access to credit, government policies on taxation, government regulations and competition in the market also have an impact on financial performance. Over the past years, the small and medium manufacturing units have been under pressure because of the fluctuating input prices, disruption in technology and slimming of the profit margins. Therefore, systematic analysis of the financial health status of Sri Sai Industries can be useful in determining areas of success and weakness that may in turn aid in the management decision making and strategic enhancement.

The given case study is intended to give an in-depth insight into the financial performance of Sri Sai industries by analyzing and interpreting the relevant ratios. It highlights how financial efficiency can be used to maintain industrial competitiveness, and adds to more general debates on the financial strength of small and medium enterprises in India.

Statement of the Problem

Similar to most of the mid-sized manufacturing companies, Sri Sai Industries encounters repetitive issues that pertain to increased costs, working capital as well as varying levels of profitability. The liquidity and solvency of the company has been affected by steadiness in the production, slow increases in raw material prices, late payments, and a shortage in financial planning. Therefore, a detailed overview of its financial performance is necessary to reveal the essential problems influencing profitability and efficiency of operations and to propose the steps to be undertaken towards the overall financial well-being enhancement.

Significance of the Study

This work is important since it offers the valuable information about the financial operation of a typical unit industrial in the medium scale. This research allows assessing how well the company can utilize its resources and funds to operate in the conditions of the evolving business environment because of the analysis of financial ratios of Sri Sai Industries. The analysis also presents practical implications to the business owners, investors and the policymakers by bringing out the major determinants of financial stability in the manufacturing industry. In addition, the investigation can be used as a reference point that other industrial businesses wishing to improve their financial performance and strategic approach can use.

Research Objective

- To assess and analyze the financial performance of the Sri Sai Industries in terms of ratio analysis, and interpret the findings to improve the performance of a manager.

Industry Financial Issues Discussion

The manufacturing business in India especially small and medium-sized enterprises (SME) such as Sri Sai Industries, is very competitive and resource-intensive. The financial problems associated with such firms are normally due to poor working capital, poor cost management, poor access to credit and unstable demand in the market.

1. **Liquidity Constraints:**

Liquidity is the capacity of a firm to take care of its short term commitments. Most manufacturing units experience problems in the cash flow as a result of receivables slowness and over reliance on short term borrowing. In the scenario of Sri Sai Industries, it is hard to keep a high liquidity level since a large part of the money is occupied by the inventory and credit sales. This has implications to the firm in terms of it being able to fund day-to-day operations without difficulties. An increase in the current ratio shows that one is safe, but when it is too high it can be a sign of unutilized resources and wastage of finances.

2. **Profitability and Cost Pressures:**

In the manufacturing industries, profit margins rely on the price strategy, efficiency in terms of resource use, and the cost of production. The varying profit levels in Sri Sai Industries have been caused by the increase in input costs, and competition in the local and foreign markets. Gross profit margin (GPM) and net profit margin (NPM) ratios indicate that, although operational profitability is positive, net profitability is squeezed by management costs and interest charges. To ensure profitability, there will be continuous monitoring of the costs and improvement in productivity.

3. **Solvency and Capital Structure:**

Solvency of an enterprise is the capability of an enterprise to satisfy long term debts and to sustain itself financially. The capital structure of Sri Sai Industries is moderately leveraged where the company has depended on term loans in order to expand and modernize. The debt-equity ratio indicates that the company has a moderate strategy, although, with the growing debt servicing expenses, there may be long-term financial strain. There is a need to find an optimal capital mix, i.e. debt and equity to continue the growth without undermining solvency.

4. **Resource utilization:**

The efficiency ratios such as inventory turnover and asset turnover showing the effectiveness of the firm in utilizing its resources. Sri Sai industries have a good turnover ratio which indicates that its assets are used reasonably, but there is room to improve in inventory management. Excessive production or stocking might result in capital and holding costs whereas under production might result in losing market opportunities.

5. **External Financial Problems:**

Market economic pressures such as taxation, energy prices and policy shifts are also challenges to industrial enterprises such as Sri Sai Industries regarding access to credit. The regime of Goods and Services tax (GST) though has made it easier to comply with taxes, has made it harder to report. Also, low-cost producers are competing and balancing financial margins and technology upgrades are required.

All in all, the analysis shows that Sri Sai Industries has a moderate financial condition but needs to work on the cost control, debt management, and liquidity planning. Financial audits periodically, technological investments as well as improved supply chain coordination would improve the long-term financial robustness of the firm.

Sri Sai Industries is a medium-sized manufacturing company based in Vizianagaram and in Andhra Pradesh. The company produces industrial parts to industrial machinery and sells some of its production to its neighbouring markets in south Asia. Although the sales have remained constant over the last few years, the management has observed that there has been a reduction in the profitability and an increment in borrowing. The financial manager is requested to review the performance of the company in the past year of 2022 23 and 2023 24 and suggest the corrective action.

Table 1: Income Statement (₹ in Lakhs)

Particulars	2022–23	2023–24
Net Sales	1,200	1,400
Cost of Goods Sold (COGS)	840	1,050
Gross Profit	360	350
Operating Expenses	180	210
Interest Expense	40	50
Net Profit before Tax (NPBT)	140	90
Tax (30%)	42	27
Net Profit after Tax (NPAT)	**98**	**63**

Table 2: Balance Sheet (₹ in Lakhs)

Particulars	2022–23	2023–24
Assets		
Current Assets	480	520
Fixed Assets (Net)	620	680
Total Assets	**1,100**	**1,200**
Liabilities		
Current Liabilities	240	300
Long-Term Debt	360	420
Equity Capital	500	480
Total Liabilities & Equity	**1,100**	**1,200**

Financial Analysis

Table: 03 Liquidity Analysis

Ratio	Formula	2022–23	2023–24	Interpretation
Current Ratio	Current Assets / Current Liabilities	480 / 240 = **2.0**	520 / 300 = **1.73**	Decline in liquidity; may cause short-term cash strain
Quick	(Current Assets -	(480 - 150) /	(520 - 180) /	Decline shows slower inventory

Ratio	Inventory) / Current Liabilities	240 = **1.38**	300 = **1.13**	turnover

Table: 04 Profitability Analysis

Ratio	Formula	2022–23	2023–24	Interpretation
Gross Profit Margin	Gross Profit / Net Sales × 100	(360 / 1,200)×100 = **30%**	(350 / 1,400)×100 = **25%**	Profit margin declined due to increased cost of materials
Net Profit Margin	Net Profit / Net Sales × 100	(98 / 1,200)×100 = **8.17%**	(63 / 1,400)×100 = **4.5%**	Sharp decline — operational inefficiency and rising costs
Return on Capital Employed (ROCE)	EBIT / Capital Employed × 100	(140+40)/(500+360)×100 = **18.18%**	(90+50)/(480+420)×100 = **14%**	Decline indicates reduced efficiency of capital utilization

Table: 05 Solvency Analysis

Ratio	Formula	2022–23	2023–24	Interpretation
Debt-Equity Ratio	Long-Term Debt / Equity	360 / 500 = **0.72**	420 / 480 = **0.88**	Leverage increased — higher risk exposure
Interest Coverage Ratio	EBIT / Interest	140 / 40 = **3.5 times**	90 / 50 = **1.8 times**	Sharp fall — risk of financial distress if trend continues

Table: 06 Efficiency Ratios

Ratio	Formula	2022–23	2023–24	Interpretation
Inventory Turnover Ratio	COGS / Avg. Inventory	840 / 150 = **5.6**	1,050 / 180 = **5.8**	Marginal improvement; healthy stock movement
Total Asset Turnover	Sales / Total Assets	1,200 / 1,100 = **1.09**	1,400 / 1,200 = **1.16**	Slightly improved — indicates better asset utilization

Findings from Analysis

- Liquidity Position: It has fallen a notch because of an increase in the short-term liabilities and poor management of the credit.
- Profitability Sharp fall in both the gross and net margins because of increased COGS and operating costs.
- Leverage: The debt level is on the rise, and interest coverage ratio is lower than the safe level (≥2.5).
- Ooperational Efficiency: Stable, but not high enough to counter cost pressures.
- Comprehensive Financial Health: moderate; the company needs to work on cost management, debt management, and efficiency.

Conclusion and Discussion Results

A financial analysis of Sri Sai industries indicates an ambivalent performance of the company on major financial dimensions. The liquidity ratios show that the company is able to cover short-term debts; on the other hand, the profitability ratios reveal the firm faces deteriorating margins as the cost of production and competition in the market increases. The solvency ratios indicate a moderate capital structure but the increased interest rates may decrease the profitability in the future. The efficiency ratios show sufficient exploitation of assets but reveal the need to improve the inventory and receivables management.

The general finalization of the research is that Sri Sai Industries has a stable financial base but requires much work on its strategic financial planning. The management must aim at managing the operational cost, debt level, and working capital management. Modern financial management practices including budgeting, cost analysis and digital accounting systems can improve performance and transparency.

Finally, the case study highlights the need to constantly monitor finances and implement dynamic decision-making as a mechanism to remain profitable in the competitive industrial environment. This research can inform other companies like the Sri Sai Industries to implement proactive financial strategies towards its long-term growth and stability.

The financial ratio analysis of Sri Sai Industries shows that despite the company having a good asset base and sales growth, the company is experiencing a decrease in profitability and a rise in financial risk. The financial stability needs to be recovered by implementing urgent strategic action in cost control, debt restructuring, and working capital management. With the effective financial planning and performance evaluation systems, Sri Sai industries will be able to enhance its financial status and continue the growth in the competitive manufacturing industry on a long-term level.

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