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# Financial Performance Analysis Using Ratio Analysis – A Case Study of Sparsh Automobiles Pvt. Ltd.

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**Abstract**

This research paper examines the financial performance of Sparsh Automobiles Pvt. Ltd. (Maruti Suzuki) using ratio analysis over three financial years: 2022, 2023, and 2024. The study aims to evaluate the company's liquidity, profitability, solvency, and efficiency using key financial ratios derived from the company's balance sheets and income statements. Findings reveal a declining trend in liquidity and profitability, an increasing reliance on debt, and improvements in operational efficiency. The paper concludes with recommendations for enhancing liquidity, optimizing costs, and maintaining an optimal debt-equity balance to ensure long-term sustainability.

## 1. Introduction

### 1.1 Background of the Study

Financial performance evaluation is crucial for stakeholders, including investors, management, and regulatory bodies, to assess the operational efficiency, profitability, and solvency of an organization. Ratio analysis serves as a powerful tool in this regard by converting complex financial data into meaningful indicators.

**Sparsh Automobiles Pvt. Ltd., a prominent dealer of Maruti Suzuki,** operates in the competitive automobile industry where financial stability and operational efficiency play a critical role in sustaining growth and ensuring market dominance.

This study focuses on analyzing the company's financial performance using ratio analysis over the period **2022 to 2024** to identify trends, interpret financial health, and provide actionable recommendations.

### 1.2 Objective of the Study

The primary objectives of this research are:

- To assess the **liquidity position** of Sparsh Automobiles Pvt. Ltd.
- To evaluate the **profitability** trends over three years.
- To determine the **solvency and leverage position** of the company.
- To analyze the company's **operational efficiency** and asset management.

 

- To provide recommendations for improving financial performance.

**1.3 Significance of the Study**

- **For Management:** To identify areas for cost control, liquidity improvement, and debt management.
- **For Investors:** To assess the company's ability to generate returns and manage financial risks.
- **For Creditors:** To evaluate the company's creditworthiness and capacity to meet financial obligations.

## 2. Literature Review

### 2.1 Overview of Ratio Analysis

According to **Pandey (2020)**, ratio analysis simplifies financial statements by expressing key performance indicators in numerical terms, aiding management in decision-making.
**Brigham and Houston (2019)** emphasized that liquidity, profitability, and leverage ratios help in understanding a company's short-term and long-term financial standing.

### 2.2 Role of Ratio Analysis in Financial Decision-Making

**Sharma and Kumar (2020)** explored how ratio analysis aids in evaluating a company's operational efficiency and long-term financial stability, enabling management to make informed decisions. **Agarwal and Jain (2021)** highlighted the importance of ratio analysis in predicting financial distress and providing early warning signals to stakeholders.

### 2.3 Importance of Liquidity and Solvency Ratios

**Verma and Mehta (2022)** examined the significance of liquidity and solvency ratios in ensuring that companies maintain a healthy balance between assets and liabilities to meet short-term and long-term obligations.

### 2.4 Profitability and Efficiency Analysis in Automobile Sector

**Ramesh and Patil (2023)** conducted an empirical study on profitability ratios in the automobile industry and concluded that declining margins often point to rising operational costs and increased competition.

## 3. Research Methodology

### 3.1 Research Design

This study adopts a **descriptive and analytical research design** using quantitative data to conduct a thorough ratio analysis.

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### 3.2 Data Collection

- **Primary Data:** Interviews and feedback from finance managers at Sparsh Automobiles Pvt. Ltd.
- **Secondary Data:** Audited financial statements (Balance Sheets and Profit & Loss Statements) for the years **2022, 2023, and 2024.**

### 3.3 Sampling Framework

- **Sample Unit:** Sparsh Automobiles Pvt. Ltd.
- **Sample Period:** Three financial years – **2022, 2023, and 2024.**

### 3.4 Tools of Analysis

The following financial ratios are used for performance evaluation:

1. **Liquidity Ratios:** Current Ratio, Quick Ratio
2. **Profitability Ratios:** Gross Profit Margin, Net Profit Margin, Return on Equity
3. **Solvency Ratios:** Debt-Equity Ratio, Interest Coverage Ratio
4. **Efficiency Ratios:** Inventory Turnover Ratio, Receivables Turnover Ratio

## 4. Data Analysis and Interpretation

### 4.1 Balance Sheet and Profit & Loss Data (₹ Lakhs)

| **Particulars** | **2022** | **2023** | **2024** |
|---|---|---|---|
| Current Assets | 1,800 | 1,700 | 1,600 |
| Inventory | 600 | 580 | 560 |
| Cash and Bank Balance | 500 | 450 | 420 |
| Accounts Receivable | 450 | 420 | 400 |
| Current Liabilities | 1,000 | 1,020 | 1,050 |
| Total Debt | 2,000 | 2,200 | 2,500 |
| Shareholder’s Equity | 2,350 | 2,450 | 2,370 |

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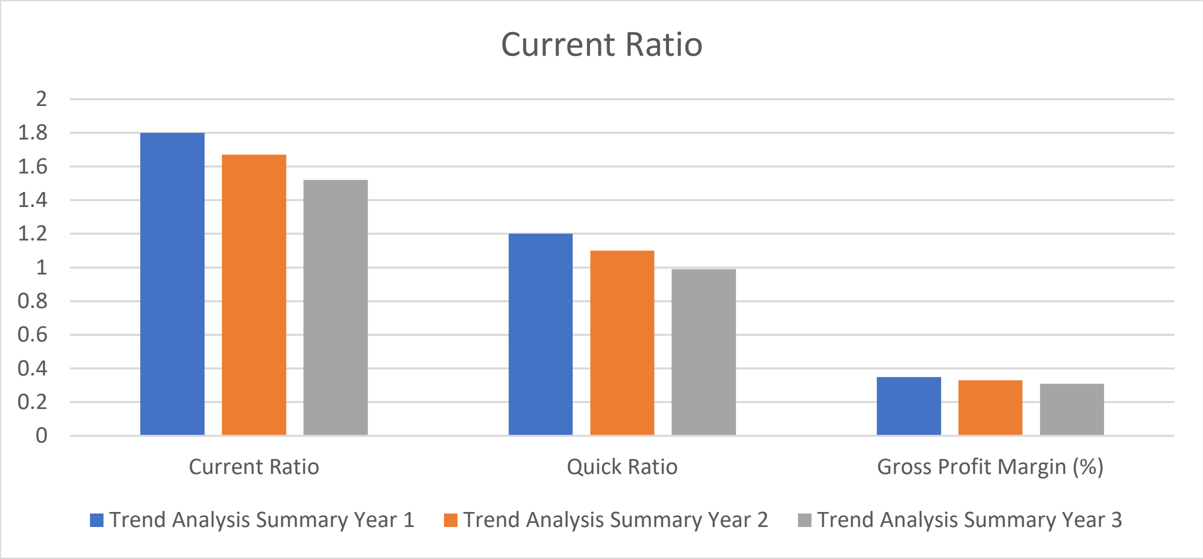
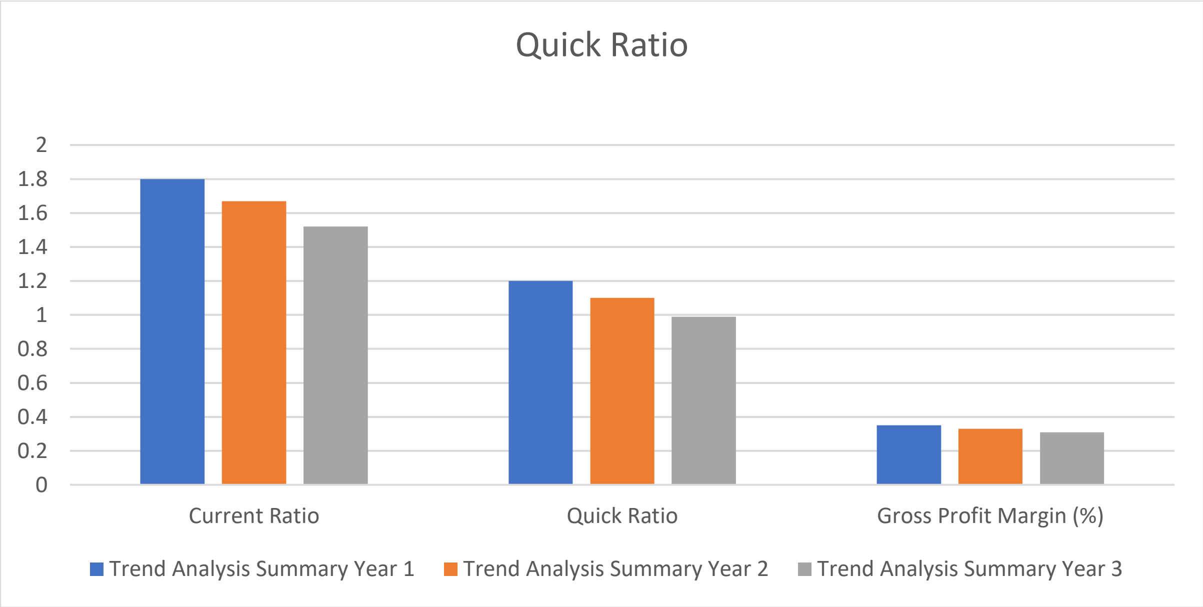
| Particulars | 2022 | 2023 | 2024 |
|---|---|---|---|
| Net Sales | 10,000 | 11,200 | 12,000 |
| Cost of Goods Sold (COGS) | 6,500 | 7,500 | 8,300 |
| Gross Profit | 3,500 | 3,700 | 3,700 |
| Operating Expenses | 2,400 | 2,700 | 2,800 |
| EBIT | 1,100 | 1,000 | 900 |
| Interest Expense | 250 | 260 | 300 |
| Net Profit | 750 | 740 | 600 |

## 4.2 Ratio Analysis and Interpretation

### 4.2.1 Liquidity Ratios

| Year | Current Ratio | Quick Ratio |
|---|---|---|
| 2022 | 1.80 | 1.20 |
| 2023 | 1.67 | 1.10 |
| 2024 | 1.52 | 0.99 |



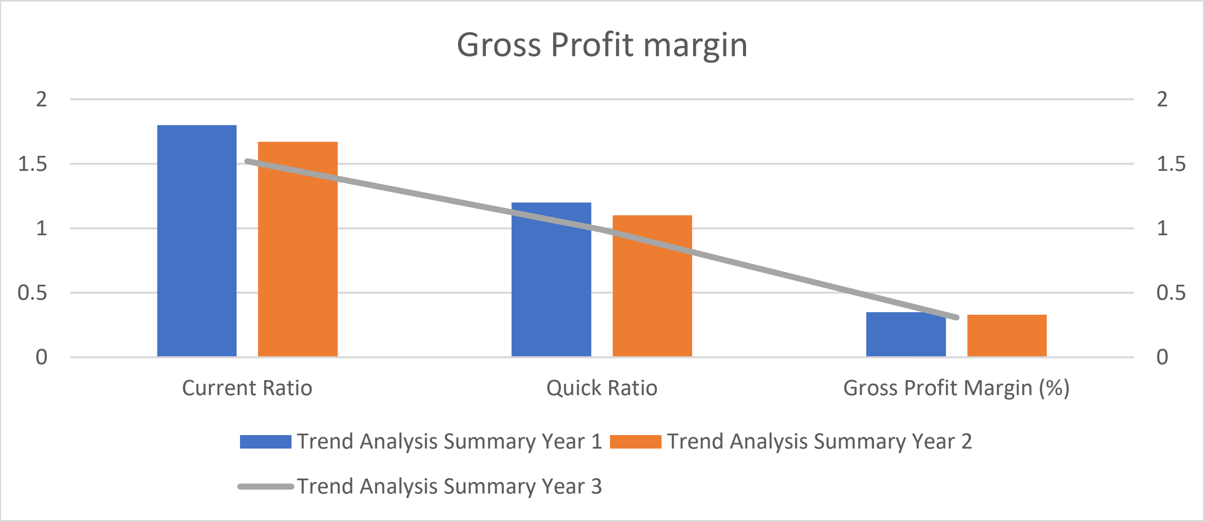



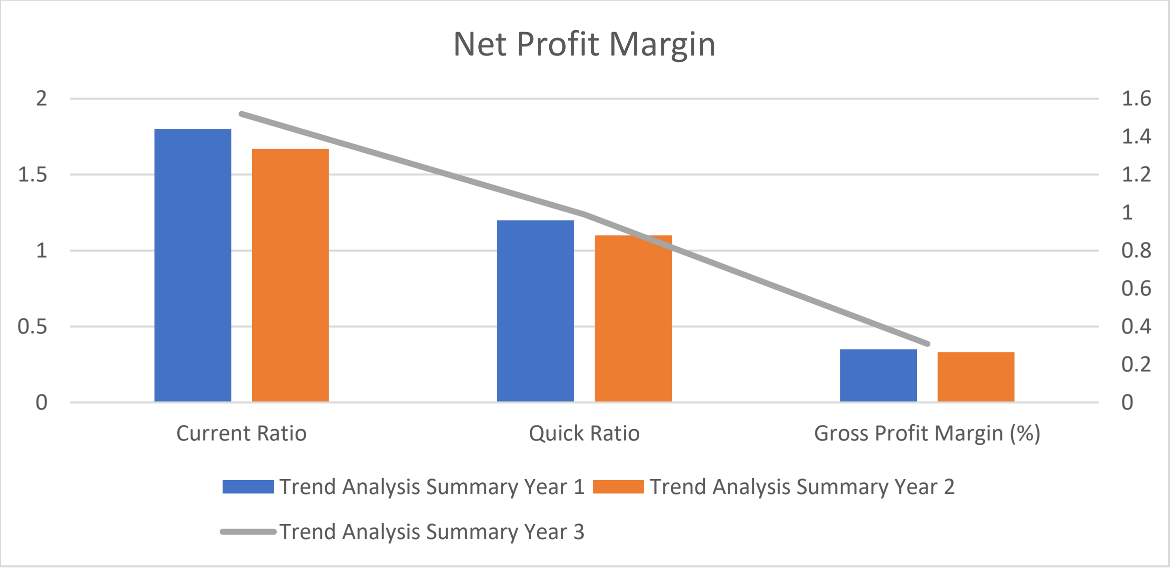

**Interpretation:**

- Declining ratios indicate increased liquidity risk, requiring attention to cash management and short-term liabilities.

### 4.2.2 Profitability Ratios

| Year | GPM (%) | NPM (%) | ROE (%) |
|---|---|---|---|
| 2022 | 35.00% | 7.50% | 31.91% |
| 2023 | 33.04% | 6.61% | 30.20% |
| 2024 | 30.83% | 5.00% | 25.32% |



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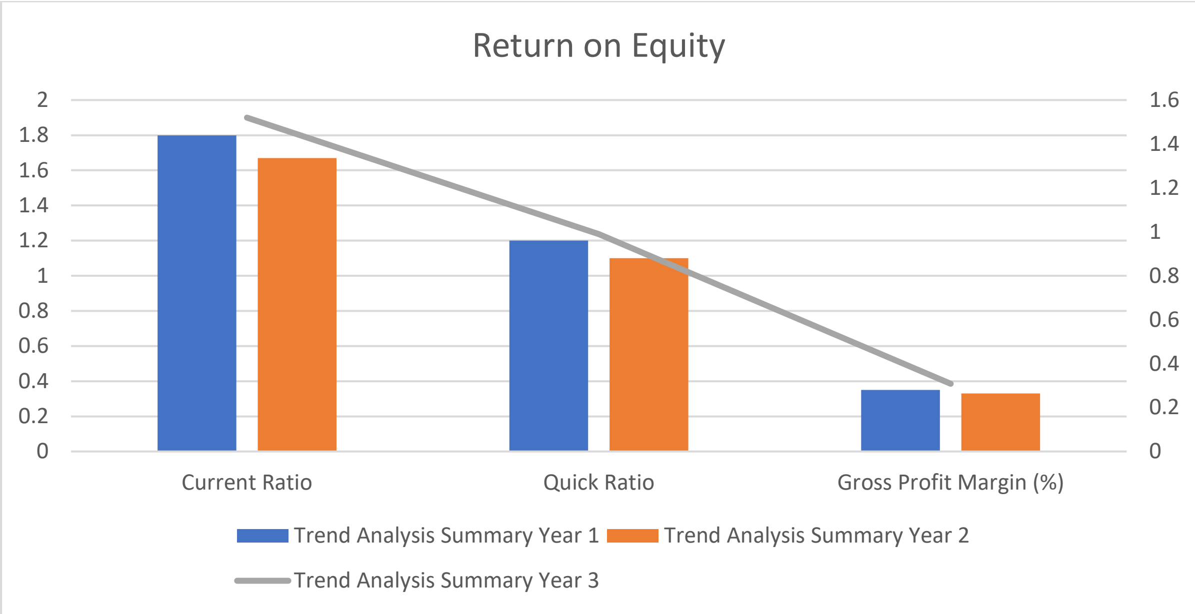


**Interpretation:**

- Profitability ratios have shown a decline, pointing to increased costs and reduced operational efficiency.

**4.2.3 Solvency Ratios**

| Year | D/E Ratio | Interest Coverage |
|---|---|---|
| 2022 | 0.85 | 4.40 |
| 2023 | 0.90 | 3.85 |
| 2024 | 1.05 | 3.00 |

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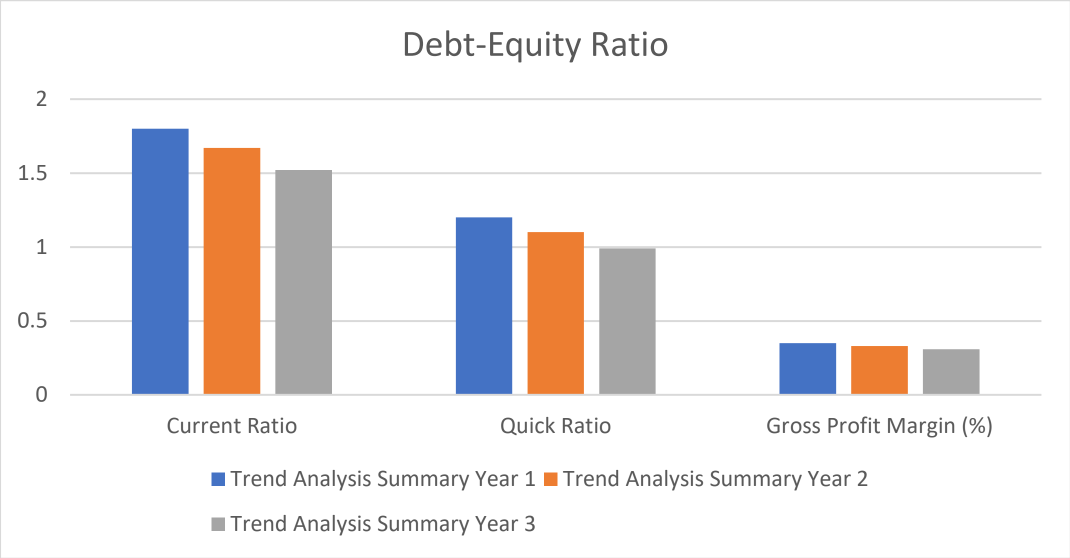


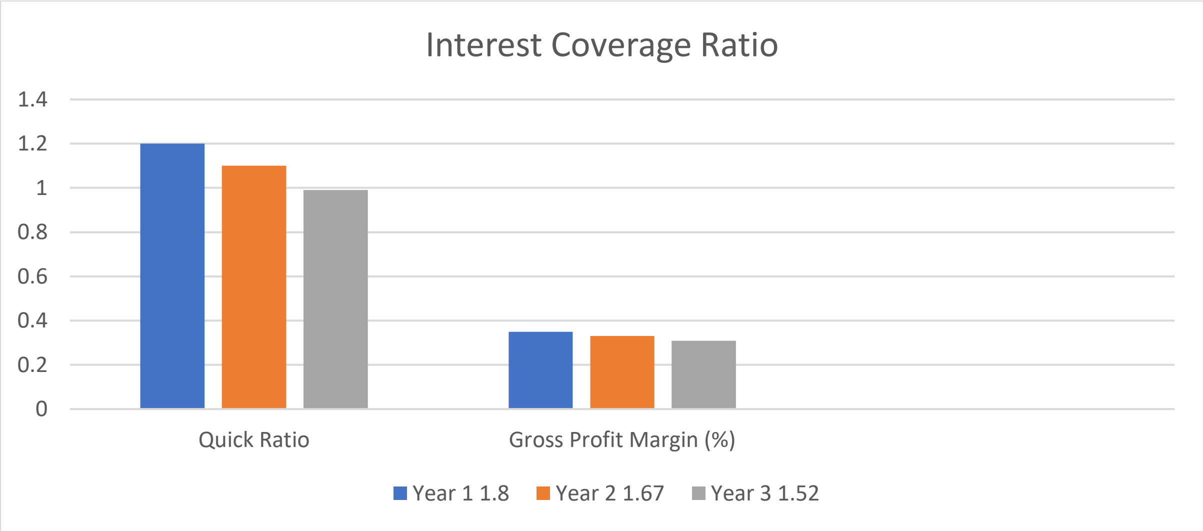


**Interpretation:**

- The rising debt-equity ratio indicates increasing reliance on debt, while falling interest coverage points to potential difficulty in meeting financial obligations.

 

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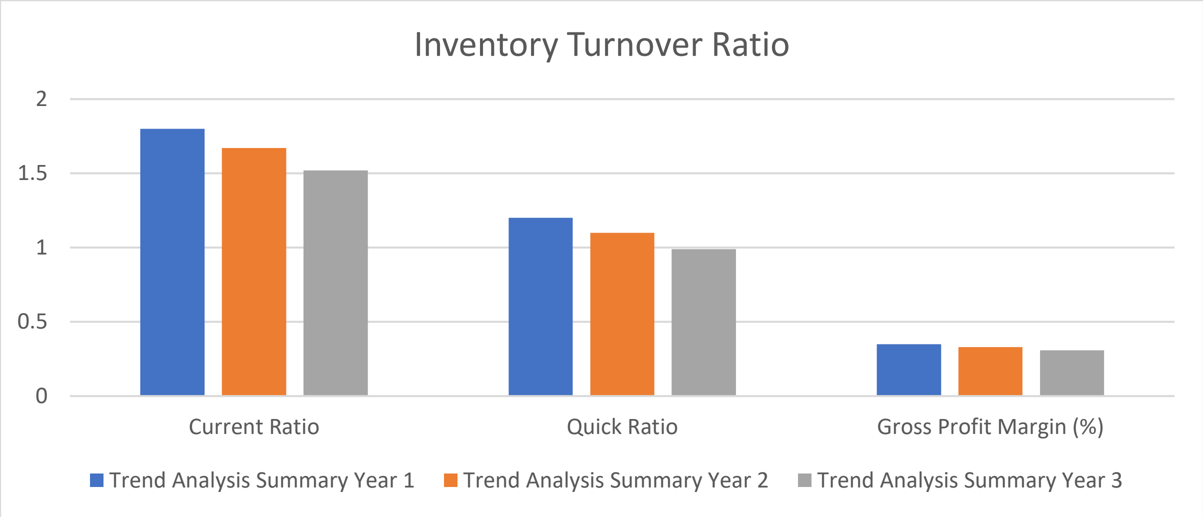
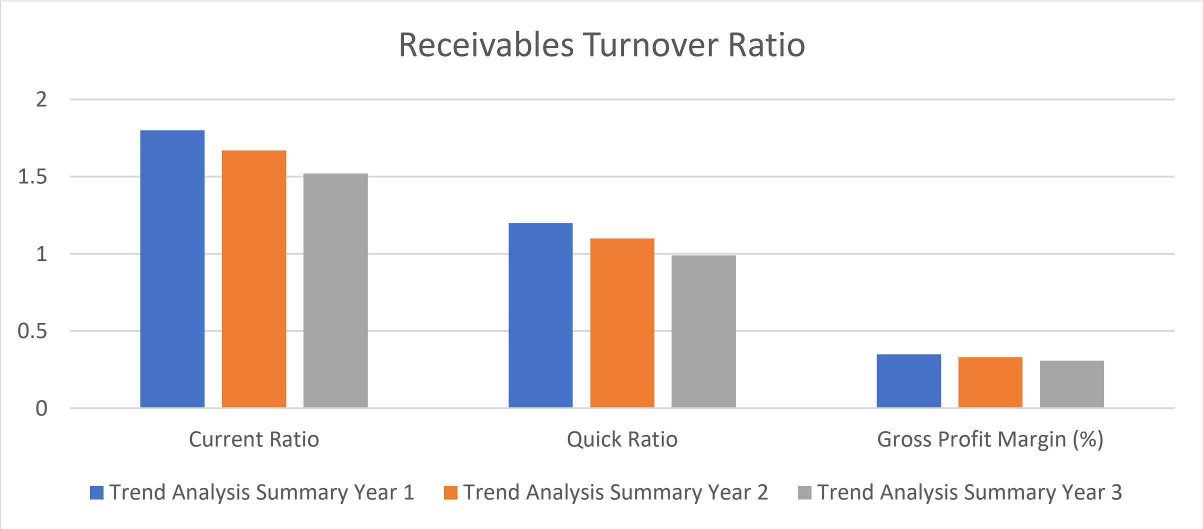
### 4.2.4 Efficiency Ratios

| Year | Inventory Turnover | Receivables Turnover |
|---|---|---|
| 2022 | 10.83 | 22.22 |
| 2023 | 12.93 | 26.67 |
| 2024 | 14.82 | 30.00 |




**Interpretation:**

- Improved turnover ratios demonstrate operational efficiency and faster asset utilization.

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## 5. Findings and Discussion

### 5.1 Key Findings

1. **Liquidity:** Declining ratios point to a need for improving cash flow and reducing reliance on inventory.
2. **Profitability:** Deteriorating margins indicate increased operational costs and reduced earnings.
3. **Solvency:** Rising debt and declining interest coverage highlight increasing financial risk.
4. **Efficiency:** Improved asset utilization suggests better inventory and receivables management.

## 6. Recommendations

### 1. Enhance Liquidity Management

- Reduce credit periods and expedite receivables collection.
- Optimize inventory turnover by aligning supply with demand.

### 2. Improve Cost Control Measures

- Focus on reducing cost of goods sold (COGS).
- Monitor operating expenses to protect profit margins.

### 3. Maintain Optimal Debt Levels

- Avoid excessive reliance on debt financing.
- Focus on improving equity funding to maintain a healthy D/E ratio.

### 4. Strengthen Profitability

- Diversify revenue streams and introduce value-added services.
- Leverage customer feedback to enhance offerings.

## 7. Conclusion

This research concludes that **Sparsh Automobiles Pvt. Ltd.** demonstrates operational efficiency but faces challenges in liquidity and solvency. By implementing the recommended strategies, the company can enhance its financial performance and ensure long-term growth and sustainability.

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