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A Study on Financial Performance of Aichi Steel Corporation through Financial Ratio Analysis

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ABSTRACT

A company's financial operations are not fully disclosed by traditional financial statements, which only include the balance sheet, profit and loss account, and trading account. Insofar as the balance sheet reflects the financial situation on specific data regarding the structure of assets, liabilities, and owners' equity, among other things, and the profit and loss account displays the outcomes of operations over a given time period in terms of the revenues earned and the expenses incurred during the year, they offer some incredibly convenient information. A company's financial situation and operations are shown in the financial statements.

Keywords: Financial operations, **Traditional financial statements**, **Balance sheet**, **Profit and loss account**, **Trading account**, **Financial situation**, **Assets**, **Liabilities**

INTRODUCTION OF STUDY

The feasibility, stability, and profitability of a firm, sub-enterprise, or project are evaluated by ratio analysis, often known as accounting analysis. It is carried out by experts who employ ratios to create reports that utilize data from other reports and profitability statements. Top management typically receives these reports as a foundation for decision-making. These reports could be used by management toMake or buy certain materials for the production of its product Purchase or rent/lease certain machinery and equipment for the production of its goods Issue stocks or negotiate a bank loan to increase its working capital Make decisions about investing or lending capital

OBJECTIVES OF THE STUDY:

Analysing the company's profitability and determining its earning potential in absolute terms calculating overall profitability in relation to capital employee

- To understand the appropriate balance between liquidity and profitability
- To analyse the composition or structure of working capital
- To know the appropriate amount of investment in working capital

Need for the Study:

The industrial company places a high priority on efficient account administration. The first step in creating plans and requires the use of complex predictions and methods. Basic research is characterized by its focus on more fundamental issues rather than on potential commercial applications. Data analysis will be carried out through interpretation of various tables and figures. The research is conducted to know the changes in the various items of balance sheet and income statement and to analyze their impact on the profitability, liquidity and the overall financial position of the company.

Scope of the Study:

Aichi Steel Corporation is a prominent business among its rivals. The company wants to know how profitable it is so that it can improve in a number of areas, including profitability strategies for raising earnings ratios and other aspects in the years to come, and maintain its competitive edge. The topic was chosen to examine how the company's profitability has changed over the last five years, as evidenced by increases in capital, turnover, and earnings.

LIMITATIONS OF THE STUDY:

- The three-month project period is insufficient because the company's operations are many and intricate, making it impossible to thoroughly cover all of them.

- The data, which is merely secondary in nature, will be calculated using the company's financial statements from the previous five years.
- Alternative formulas can also be used to analyze ratios. o The study analysis's scope is limited to five years.

REVIEW OF LITERATURE

Anthony (2012) explains that financial statements function as annual interim reports, dividing an organization's operations into arbitrarily defined accounting periods. Barth, Beaver, and Landsman (2014) concluded in their research that value relevance studies offer meaningful insights for the standard-setting process. However, Holthousen and Watts (2014) argued that value relevance research contributes little to standard-setting practices. Most studies focus on evaluating the relative significance and utility of various accounting data presented in financial statements. For instance, Brief and Zarowin's research on the value significance of dividends, book value, and earnings found that dividends and book value have explanatory power comparable to reported earnings.

Barne (2015) highlights that financial ratios are widely employed by both evaluators and researchers to analyze companies' financial performance. Organizations involve diverse stakeholders, including owners, management, employees, customers, suppliers, competitors, regulatory bodies, and academics, each applying financial statement analysis based on their unique perspectives. Evaluators often use financial ratios to predict a company's future success, while researchers focus on developing models that leverage these ratios across various areas of study.

In his paper "Accounting Standards and Value Relevance of Financial Statements: An International Analysis," Mingyi Hung (2016) found that accrual accounting, compared to cash accounting, diminishes the value relevance of financial statements in countries with weak shareholder protection. However, this negative impact is absent in countries with robust shareholder protection systems.

RESEARCH METHODOLOGY

Methods of Data Collection

Analytical research is the methodology employed. In this kind of study, the researcher does a critical assessment of the content by analyzing the facts and information that are already available. For this study, I have opted for a qualitative research approach. This approach evolved from manual techniques of gathering and analyzing unstructured data.

Research Design

The design of the study is such that it focuses mostly on secondary data collection.

Sources & Collection of Data:

This study has mostly relied on secondary data for its purposes.

The Data's Source

Data that are original and first-time obtained are referred to as primary data.

Aichi Steel Corporation executives' personnel discussions serve as the primary basis for gathering the data.

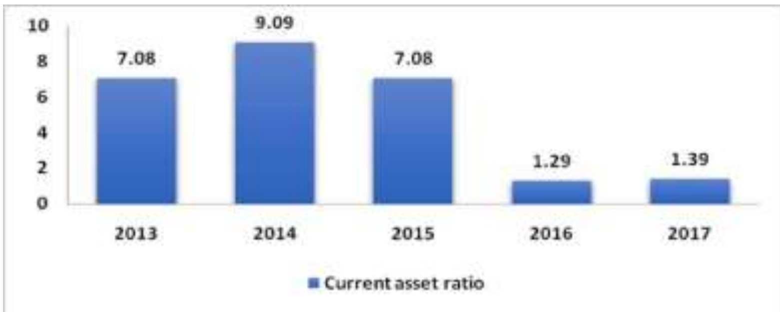
The data that has previously been gathered and examined by another person is known as secondary data. Secondary data is gathered from Aichi Steel Corporation's annual reports and public accounts. Aichi Steel Corporation's annual reports, online resources, books, and articles served as the study's primary data sources.

DATA ANALYSIS AND INTERPRETATION

Liquidity Ratio: Table Showing Current Assets Ratio

Y ear	Current assets	Current liabilities	Current asset ratio
2013	56132794.31	7929635.83	7.08
2014	78987183.77	8690005.75	9.09
2015	99628120.4	14066553.76	7.08
2016	119900229.5	93253414.74	1.29
2017	136700747.4	98234418.41	1.39

CHART SHOWING CURRENT ASSETS RATIO



Sources: Annual Reports of Aichi Steel Corporation

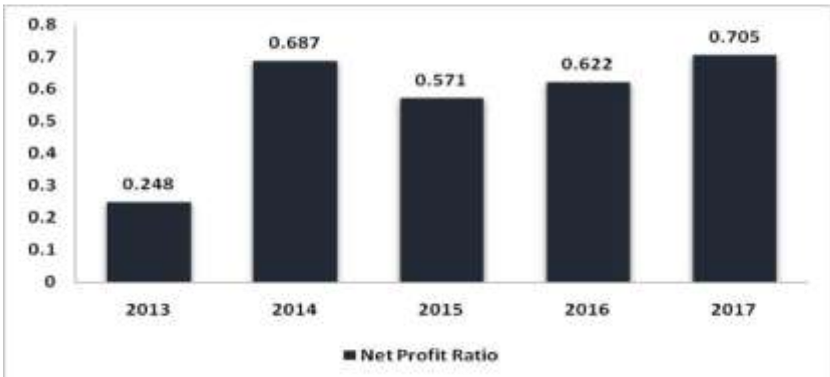
Interpretation: The current ratio of 2:1 or higher is generally regarded as an acceptable state of the company. The firm's ability is demonstrated by this ratio, which is connected to current assets and current liabilities. In general, a company's current ratio should be 2:1, meaning that its current assets should equal twice its current liabilities. The most commonly used ratio is this one. Additionally, the current asset ratio was 7.08 in 2013 and 9.09 in 2014. However, in the following years, it began to decline, reaching 1.29 in 2016 and 1.39 in 2017.

Profitability Ratios Net Profit Ratio

Table Showing Net Profit Ratio

Y ears	Net Profit	Net Sales	Net Profit Ratio
2013	30,854,152.38	124,612,231.32	0.248
2014	102,250,057.89	148,745,150.78	0.687
2015	81,117,232.38	142,008,057.06	0.571
2016	92,429,095.13	148,703,146.00	0.622
2017	104,283,901.36	147,856,830.33	0.705

CHART SHOWING NET PROFIT RATIO



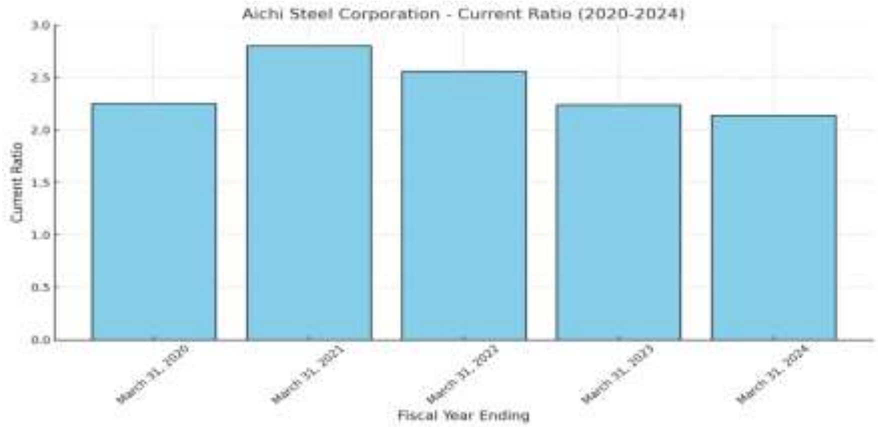
Sources: Annual Reports of KAGIndia Pvt Ltd.

Interpretation: The operating cycle is negative in 2014 (i.e., -6.95) and reaches its maximum in 2018 (i.e., 35.6). The Operating Cycle time has shown an upward trend, rising from -6.95 in 2013–2014 to 35.6 in 2017–2018.According to the statistics, it is expected that the operational cycle period (days) would reach its maximum in 2018 (i.e., 35.6).

Current Ratio

Fiscal Year Ending	Current Ratio
March 31, 2024	2.14
March 31, 2023	2.24
March 31, 2022	2.56
March 31, 2021	2.80
March 31, 2020	2.25

These figures indicate a gradual decrease in the current ratio over recent years, suggesting a trend toward reduced liquidity. However, with a current ratio above 2.0, Aichi Steel still maintains a solid liquidity position, as values above 1.0 generally indicate that a company has more current assets than current liabilities.



Here is the bar chart illustrating the current ratio of Aichi Steel Corporation from the fiscal years ending in March 2020 to March 2024. The chart shows a gradual decline in the ratio over this period, indicating changes in the company's short-term liquidity.

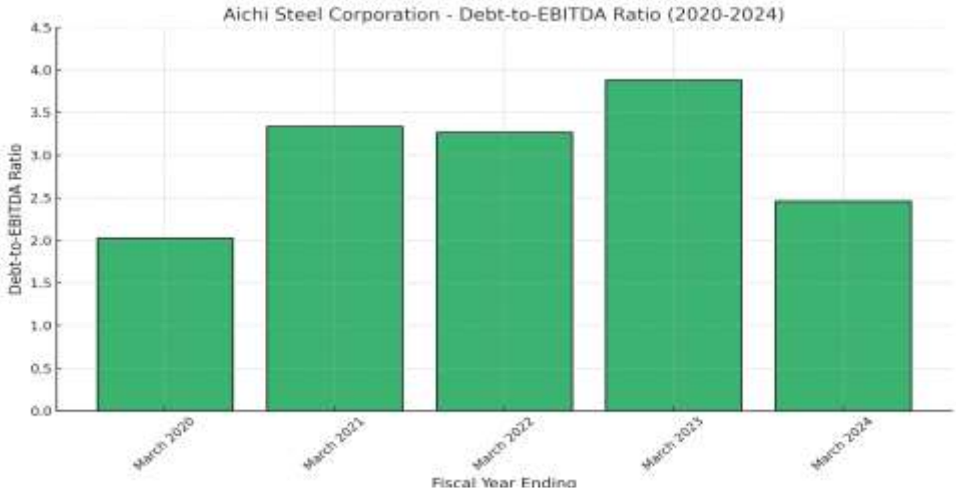
Debt-to-Equity Ratio:
This ratio compares the company's total debt to its shareholders' equity, indicating the proportion of financing coming from creditors versus shareholders.

Fiscal Year Ending	Debt-to-Equity Ratio
March 2020	0.34
March 2021	0.39
March 2022	0.33
March 2023	0.42
March 2024	0.29

Here is the bar chart illustrating Aichi Steel Corporation's **debt-to-equity ratio** from the fiscal years ending in March 2020 to March 2024. The chart shows fluctuations in the proportion of financing sourced from creditors relative to shareholders, with a notable decrease in 2024.

Debt-to-EBITDA Ratio: This ratio measures the company's ability to pay off its incurred debt, comparing total debt to earnings before interest, taxes, depreciation, and amortization (EBITDA).

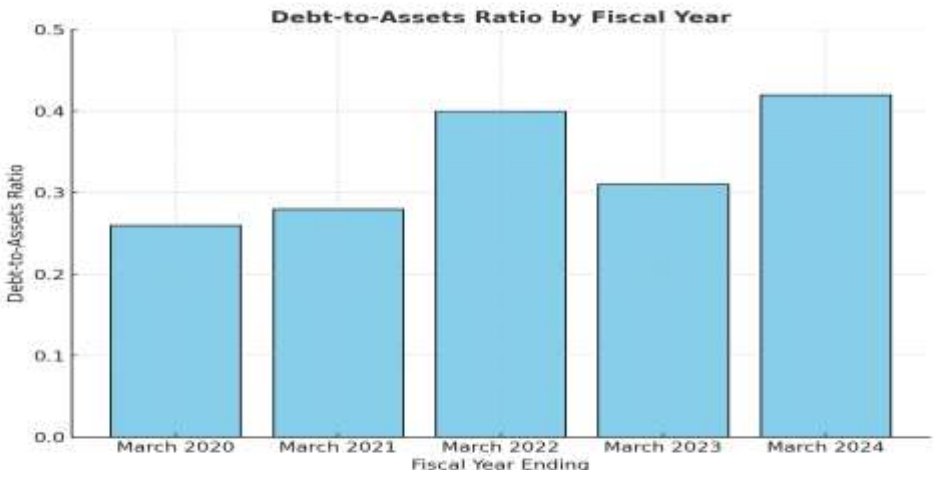
Fiscal Year Ending	Debt-to-EBITDA Ratio
March 2020	2.03
March 2021	3.34
March 2022	3.27
March 2023	3.88
March 2024	2.46



Here is the bar chart showing Aichi Steel Corporation's **Debt-to-EBITDA Ratio** from the fiscal years ending in March 2020 to March 2024. The chart highlights fluctuations in the company's ability to service its debt relative to its earnings, with the ratio peaking in 2023 before improving in 2024.

Debt-to-Assets Ratio: This ratio indicates the proportion of a company's assets that are financed by debt.

Fiscal Year Ending	Debt-to-Assets Ratio
March 2020	0.26
March 2021	0.28
March 2022	0.40
March 2023	0.31
March 2024	0.42



Here's the bar graph showing the Debt-to-Assets Ratio for each fiscal year from March 2020 to March 2024.

Interpretation:

- **Debt-to-Equity Ratio**: Aichi Steel's debt-to-equity ratio has remained relatively stable over the years, with a slight increase in March 2023, indicating a balanced approach to leveraging debt and equity financing.
- **Debt-to-EBITDA Ratio**: The ratio peaked in March 2023, suggesting higher leverage relative to earnings during that period. However, the decrease in March 2024 indicates improved earnings or reduced debt levels, enhancing the company's ability to service its debt.
- **Debt-to-Assets Ratio**: The fluctuations in this ratio reflect changes in the company's asset base and debt levels. The increase in March 2024 suggests a higher proportion of assets financed by debt, which may impact financial stability if not managed carefully.

FINDINGS AND SUGGESTIONS

Findings of the Study:

Suggestions:
The company's focus should be on keeping the cash balance liquid and attempting to get money from banks and other financial resources.

- The business is advised to raise money from a variety of sources, both internal and external.
- The organization should, whenever feasible, implement cost management measures.

The business might use its reserves and excess by capitalizing or investing the funds to reap the benefits.

It is important to efficiently sustain the financial leverage.

CONCLUSION

The management has been presented with the recommendations for their consideration. The management of Aichi Steels must make an effort to carry out the required actions by examining the financial performance of the previous year, even though the recommendations are based on the projections of the historical data available for the books of accounts. In actuality, a successful finance executive is more concerned with keeping an adjusted account of current assets to ensure the smooth operation of the company than they are with maintaining a solid current ratio. Therefore, in order to preserve current assets and current obligations, management places greater importance on working capital ideas. The company's net asset value is favorable, and its sales and income are trending upward. The company's cash flow and earnings before taxes and interest are both favorable. The value of earnings per share is rising annually. Both the price per earnings and price per sales ratios are steadily declining. The PSR value should be as low as possible.

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