



Research Article

FINANCIAL PERFORMANCE ANALYSIS OF GODREJ INDUSTRIES

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ABSTRACT

Financial performance analysis is vital for a company especially while analyzing the financial position. The objectives of the study is to predict the future trends and to analyse the liquidity, turnover and solvency position of the company. The tools used in this study are trend analysis and ratio analysis. Trend analysis helps to forecast the future out comes and ratio analysis compares the current financial state with the past years and gives us the information regarding the future improvement. The data used in the study are acquired from the secondary sources like company websites, annual reports and other well founded sites. The name Godrej is associated with trust, quality and reliability. Godrej Industries is a subsidiary of Godrej group and it aims at creating value through innovation& transformation. The financial performance analysis of the company shows several financial aspects for five years which helps in the improvisation of the company.

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INTRODUCTION

Godrej Industries is India's prime manufacturer of oleo chemicals. It makes more than a hundred chemicals. The company was called Godrej soaps earlier, then it got merged with Godrej consumer products& residual and became a part of Godrej industries. This company has a high level of flexibility to meet their customer's requirements. The industry is well equipped to produce the products of superior quality and at competitive price.

Financial performance analysis is crucial to an organization. This analysis helps the managers and investors in making decisions regarding the company because it shows the overall performance of the company. Several tools like trend analysis and ratio analysis are used for interpreting the financial performance.

Trend analysis is used to analyze the trend of the company by comparing the financial statements and the trend of market or analysis of future based on the past performance. This is also helpful in making the best decisions for the company.

Ratio analysis is used for obtaining a look into company's liquidity, operational efficiency, and profitability by studying its financial statements which includes balance sheet and income statements. It helps to evaluate the overall financial condition of an organization.

Objectives of the Study

- To analyze the financial performance of the Godrej Industries for past five years from 2016-2017 to 2019-2020.
- To analyze the liquidity, turn over and solvency position of the company.

Scope of the Study

The study provides the necessary information of the financial performance analysis of Godrej Industries. The research is used to understand the liquidity, turnover and solvency position of the company and to predict the trend value of the company.

RESEARCH METHODOLOGY

The study is based on the secondary data which has been collected from several sources like the annual reports of Godrej Industries and different websites related to Godrej Industries.

Limitations of the Study

- The study is based on secondary data of the company.
- The period of study is restricted to five financial years of the company.
- This study is only applicable to Godrej Industries and does not include any other business concern or industry.

REVIEW OF LITERATURE

Dr. K. Sivabagam (2016)¹, in their study entitled "Financial

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Performance Analysis of Selected Ceramic Companies in India” tried to analyse the financial performance of seven selected ceramic companies, namely Asian Granito, Kajaria Ceramics, Murueshwar Ceramics, Nitco, Orient Ceramics, Regency Ceramics and So many Ceramics using Ratio Analysis and Analysis of Variance (ANOVA). This Study covers a span of ten years from 2001-2002 to2010-2011. Through analysis, he inferred that Asian Grani to, Murueshwar Ceramics performed better than other selected companies. He commented that Orient Ceramics, Asian Grani to and Kajaria Ceramics performed prominently in case of optimum utilization of assets. He also suggested Orient Ceramics, Nitco and Regency Ceramics to reduce its selling and administration expenses to enhance its future earnings.

Shohel Rana (2018)², had conducted “A Report on Financial Performance Analysis on Sonali Bank Limited” with an objective to analyze the financial ratios of the bank for the period of the study and to help in understanding the constraints and hindrances in the performance of the bank. The period of study involves a period of past five years from 2011-2012to2015-2016.The study suffered the following limitations such as the recovery position and loan disbursement details weren’t disclosed due to confidentiality, there were no separate divisions for loan recovery and lack of structured information. This study is based on both primary data obtained directly from oral conversations with employees and officers of the bank and secondary data from reliable sources. He suggested that the bank should lower its debt financing and rather provide more emphasis on equity financing. He concluded that the bank’s operational efficiency and liquidity position is good and earnings per share is increasing two-fold per year and their earnings are better than other nationalized banks.

Trend Analysis

Table no 1 Sales (In Crores)

| Year | Net Sales | |
|------|----------------|-------------------|
| | Amount(Crores) | Trend(Percentage) |
| 2016 | 7,543 | 100 % |
| 2017 | 8,365 | 110.89 % |
| 2018 | 9,075 | 120.31 % |
| 2019 | 10,848 | 143.81 % |
| 2020 | 11,290 | 149.67 % |

Source: Annual Report of Godrej Industries

Interpretation

Table 1 shows the trend analysis for sales of the company during the period 2016 to 2020. The sales made by the company have increased by 10.89% in the year 2017. The sales made by the company have increased by 9.42% in the year 2018 and by 23.05% in the year 2019. In the year 2020 the sales have increased by 5.86%. The above table depicts that, taking 2016 as a base year, the net sales had a gradual increase and thus the sales of the company shows an increasing trend.

Table no- 2 Profit (In Crores)

| Year | Net | Profit |
|------|----------------|--------------------|
| | Amount(Crores) | Trend (Percentage) |
| 2016 | 77 | 100 % |
| 2017 | 115 | 149.35 % |
| 2018 | 141 | 183.11 % |
| 2019 | 146 | 189.61 % |
| 2020 | 147 | 190.90 % |

Source: Annual Report of Godrej Industries

Interpretation

Table 2 shows the trend analysis for net profit of the company during the period 2016 to 2020. The profit made by the company have increased by 49.35% in the year 2017. During the year 2018 the profit has increased by 33.76% when compared to previous year. The last year shows an increase to 190% when compared with the base year. The above table depicts that, taking 2016 as a base year, the net profits had a high rise and thus the profit of the company shows an increasing trend.

Table no 3 Current Assets (In Crores)

| Year | Current Assets | |
|------|-----------------|--------------------|
| | Amount (Crores) | Trend (Percentage) |
| 2016 | 8,069 | 100 % |
| 2017 | 8,393 | 104.01 % |
| 2018 | 8,719 | 108.05 % |
| 2019 | 8,726 | 108.14 % |
| 2020 | 10,573 | 131.03 % |

Source: Annual Report of Godrej Industries

Interpretation

Table 3 shows the trend analysis for current assets of the company during the period 2016 to 2020. The current assets made by the company have increased by 4.01% in the year 2017. The current assets made by the company have increased by 4.04% in the year 2018. The current assets made by the company have increased by 0.09% in the year 2019. The current assets made by the company have increased by 22.89% in the year 2020. It shows that the current assets have a gradual increase and thus the current assets of the company shows an increasing trend.

Table No 4 Current Liabilities (In Crores)

| Year | Current Liabilities | |
|------|---------------------|--------------------|
| | Amount (Crores) | Trend (Percentage) |
| 2016 | 8,206 | 100 % |
| 2017 | 8,744 | 106.55% |
| 2018 | 11,067 | 134.86 % |
| 2019 | 10,188 | 124.15 % |
| 2020 | 10,176 | 124 % |

Source: Annual Report of Godrej Industries

Interpretation

Table 4 shows the trend analysis for current liabilities of the company during the period 2016 to2020.The current liabilities made by the company have increased by 6.55% in the year 2017. The current liabilities made by the company have increased by 28.31% in the year 2018.The current liabilities made by the company have decreased by 10.71% in the year 2019. The current liabilities made by the company have decreased by 0.15% in the year 2020. Thus the current liabilities of the company shows a fluctuating trend.

Ratio analysis

Table No 5 current ration

| Year | Current assets (in crores) | Current liabilities (in crores) | Current ratio (intimes) |
|------|----------------------------|---------------------------------|-------------------------|
| 2016 | 8,069.79 | 8,206.39 | 0.98 |
| 2017 | 8,393.87 | 8,744.92 | 0.96 |
| 2018 | 8,719.41 | 11,067.81 | 0.79 |
| 2019 | 8,726.13 | 10,188.82 | 0.86 |
| 2020 | 10,573.29 | 10,176.53 | 1.04 |

Source: Annual Report of Godrej Industries

Interpretation

The above table represents the Current Ratio of Godrej Industries Limited for the period 2016-2020. It is observed that, that the current ratio of the company is not satisfactory as it is less than the ideal current ratio 2:1. So the company should work on its assets.

Table No 6 Liquid ratio

| Year | Liquid Assets (In Crores) | Current liabilities (in crores) | Liquid Ratio (Intimes) |
|------|---------------------------|---------------------------------|------------------------|
| 2016 | 3,170.5 | 8,206.39 | 0.39 |
| 2017 | 3,356.23 | 8,744.92 | 0.38 |
| 2018 | 3,879.44 | 11,067.81 | 0.35 |
| 2019 | 5,257.81 | 10,188.46 | 0.52 |
| 2020 | 7,364.22 | 10,176.53 | 0.72 |

Source: Annual Report of Godrej Industries

Interpretation

The above table represents the Liquid Ratio of Godrej Industries Limited for the period 2016-2020. The ratios are fluctuating and ideal liquid ratio is anything greater than 1. The company's liquid ratios are not satisfactory because it is less than the ideal liquid ratio. The liquid capacity of the company should be improved.

Table No 7 Absolute liquid ratio

| Year | Cash & cash equivalents (in crores) | Current liabilities (in crores) | Absolute liquid ratio (intimes) |
|------|-------------------------------------|---------------------------------|---------------------------------|
| 2016 | 200.92 | 8,206.39 | 0.02 |
| 2017 | 234.93 | 8,744.92 | 0.03 |
| 2018 | 504.26 | 11,067.81 | 0.05 |
| 2019 | 944.73 | 10,188.82 | 0.09 |
| 2020 | 978.46 | 10,176.53 | 0.10 |

Source: Annual Report of Godrej Industries

Interpretation

The above table represents the Absolute Liquid Ratio of Godrej Industries Limited for the period 2016-2020. Absolute Liquid Ratio establishes a relationship between the absolute liquid assets and current liabilities. It ensures the most liquidity of the business concern, which provides an easy cash to pay its current liabilities. It is observed that, the absolute liquid ratio has remained low throughout the period of study and is lesser than one, which indicates that the company. The most optimum value of this ratio should be 1:2. This indicates that the adequacy of 50% worth liquid assets to pay the 100% worth current liabilities in time. Here it was observed that, the absolute liquid ratio has remained low throughout the period of study and is lesser than the ideal ratio.

Table No 8 Debt to equity ratio

| Year | Total Debt (In Crores) | Total Equity (In Crores) | Debt To equity ratio (Intimes) |
|------|------------------------|--------------------------|--------------------------------|
| 2016 | 6,763.32 | 3,001.71 | 2.25 |
| 2017 | 7,100.57 | 3,195.62 | 2.22 |
| 2018 | 6,264.07 | 3,334.42 | 1.88 |
| 2019 | 6,822.67 | 4,346.44 | 1.57 |
| 2020 | 6,650.05 | 5,786.70 | 1.15 |

Source: Annual Report of Godrej Industries

Interpretation

The above table represents the Debt to Equity Ratio of Godrej Industries Limited for the period 2016-2020. It is observed that, there has been a gradual decrease in debt to equity ratio which is a good sign as it symbolizes that the company is depending more on shareholder's funds than external equities.

Table no 9 Debt to asset ratio

| Year | Total Debt (In Crores) | Total Assets (In Crores) | Debt To Asset ratio (Intimes) |
|------|------------------------|--------------------------|-------------------------------|
| 2016 | 6,763.32 | 20,465.12 | 0.33 |
| 2017 | 7,100.57 | 18,271.25 | 0.39 |
| 2018 | 6,264.07 | 16,995.00 | 0.37 |
| 2019 | 6,822.67 | 15,220.32 | 0.45 |
| 2020 | 6,650.05 | 14,285.65 | 0.47 |

Source: Annual Report of Godrej Industries

Interpretation

The above table represents the Debt to Asset Ratio of Godrej Industries Limited for the period 2016-2020. Debt to Asset Ratio is a leverage ratio which indicates the percentage of assets that are being financed with debt. It is observed that, the debt to equity ratio has remained low throughout the period of study and is lesser than one, which indicates that the company owns more assets than its liabilities and they have to ability to meet their financial obligations on a daily basis.

Table No 10 Proprietary Ratio

| Year | Shareholder's funds (In Crores) | Total Assets (In Crores) | Proprietary ratio (in times) |
|------|---------------------------------|--------------------------|------------------------------|
| 2016 | 3,001.71 | 14,285.65 | 0.21 |
| 2017 | 3,195.62 | 15,220.32 | 0.21 |
| 2018 | 3,334.42 | 16,995.00 | 0.20 |
| 2019 | 4,346.44 | 18,271.25 | 0.24 |
| 2020 | 5,786.70 | 20,465.12 | 0.28 |

Source: Annual Report of Godrej Industries

Interpretation

The above table represents the Proprietary Ratio of Godrej Industries Limited for the period 2016-2020. Proprietary ratio establishes relationship between proprietor's funds to total resources of the unit. Where proprietor's funds refer to equity share capital, reserves and surplus and total resources refer to total assets. It is observed that, there has been a mere decrease in proprietary ratio 2017-2018 to 2018-2019 but the ratio has been low throughout the period of study. It indicates that the company is depending on debts for its operations and adds a risk of bankruptcy.

Table No 11 Inventory turn Over Ratio

| Year | Net sales (incrores) | Inventory (incrores) | Inventory turnover ratio (in times) |
|------|----------------------|----------------------|-------------------------------------|
| 2016 | 7,453.50 | 4,879.48 | 1.53 |
| 2017 | 8,365.13 | 5,020.34 | 1.67 |
| 2018 | 9,075.67 | 4,819.00 | 1.88 |
| 2019 | 10,848.19 | 3,463.16 | 3.13 |
| 2020 | 11,290.75 | 3,244.63 | 3.48 |

Source: Annual Report of Godrej Industries

Interpretation

The above table represents the Inventory Turnover Ratio of Godrej Industries Limited for the period 2016-2020. It is observed that, there has been a steady increase in inventory turnover ratio of the company throughout the period of study from 2016-2020 which indicates efficient inventory management.

Table No 12 Assetturn Over Ratio

| Year | Net sales (incrores) | Assets (incrores) | Assetturnover ratio (intimes) |
|------|----------------------|-------------------|-------------------------------|
| 2016 | 7,453.50 | 14285.65 | 52.17 |
| 2017 | 8,365.13 | 15220.32 | 54.96 |

| | | | |
|------|-----------|----------|-------|
| 2018 | 9,075.67 | 16995.00 | 53.40 |
| 2019 | 10,848.19 | 18271.25 | 59.37 |
| 2020 | 11,290.75 | 20465.12 | 55.17 |

Source: Annual Report of Godrej Industries

Interpretation

The above table represents the asset turn over ratio of Godrej Industries Limited for the period 2016-2020. It is observed that, the asset turnover ratio of the company is high throughout the period and at the highest in the year 2019 by 59.37%. It indicates that the company is effectively using its assets to generate its revenue.

Findings

Trend analysis for the period of study from 2016 to 2020 revealed the following:

- Trend analysis for sales and profit of the company depicted an increasing trend, where they had a rise throughout the period of study.
- Trend analysis for current assets of the company depicted an increasing trend, where the current assets had a gradual increase within the period of study marking 2019-2020 with highest increase by 22.89%.
- Liquidity position of the company were not up to the mark. The company should work on increasing its assets in order to meet its financial risks. The overall turn over position of the company was favorable in case of Godrej Industries.

Suggestions

- The Debt to Asset Ratio of Godrej Industries has been low through out the period of study, the company should mitigate its financial risks to achieve a better financial position in the long run.
- Godrej Industries should lower its debt financing and rather provide more emphasis on equity financing.

- Godrej Industries should revalue the riskiness of its investments as there are high possibilities of going into financial distress in near future
- Trend Analysis for sales, profit and current assets of the company portrayed an increasing trend which indicates that there might be an increase in these variables in future.

CONCLUSION

Godrej Industries Limited has vast selling and distribution channel all over India. It has a strong brand name and many innovative aspects. This study is an effort to analyse the financial performance of the company using trend analysis and ratio analysis for the period 2016-2017 to 2019-2020. The data used in the study is collected from the secondary sources. This helps the managers of the company to make decisions regarding the improvement of the company. The trend analysis shows an increasing trend but the company should concentrate on reducing its liabilities.

The company is in a proper position but it has to improve in certain areas because it doesn't satisfy the ideal liquidity ratios due to increased borrowings. If the company increases its current assets and payoff its liabilities there will a significant growth in the company.

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