"Evaluation of Financial Ratio Analysis Performance between Selective Construction Companies"

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Abstract— This paper is about financial management of construction companies by using financial ratios. Financial statements are the effective tool for comparative study between construction companies, from this analysis we can decide the financial position of the company.

Financial management is the vital factor in the development of any construction company in any sector. The companies related to construction sector have many factors both external and internal that influence the growth of the company. In order to have control on all the components of the company management needs a tool is ratio analysis. Ratio analysis involves analyzing various ratios like liquidity ratios, profitability ratios, leverage ratio, operating ratios, market based ratios, asset management ratios etc. by analyzing these ratios for the still present the management will get an exact scenario of the position of the company. The ratios may help to know whether company's decision is going on the right way or not and the other hand it will help the management to study these ratios and then plan and decide a target for the feature growth of the company's. If all the ratios are maintained at their particular standard level like liquidity, debt turnover ratios etc. the company can overcome any sort of situations that may arise in the feature. The annual reports of the company form of balance sheet, profit –loss account, cash flow statements etc. ratios reflect the health of the company. Thus, ratio analysis is a gadget that can boost the performance of a company if used in a smarter way.

Keywords- *Financial ratios*

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I. INTRODUCTION

Finance may be defined as the art and science of managing money. The major areas of finance are (1) financial services (2) managerial finance / corporate finance / financial management. While financial services is concerned with the design and delivery of advice and financial products to individuals , businesses and governments within the areas of banking and related institutions, personal financial planning, investments, real estate, insurance, and so on, financial management is concerned with the duties of the financial managers activity manage the financial affairs of any type of business, namely, financial and non-financial, privet and public, large and small, profit seeking and not for profit. They perform such varied tasks as budgeting, financial forecasting, cash management, credit administration, investment analysis, funds management and so on. In recent years, the changing regulatory and economic environments coupled with the globalization of business activities have increased the complexity as well as the importance of the financial manager's duties. As a result, the financial management function has become more demanding and complex.

Financial management emerged as a distinct field of study at the turn of 20th century. Its evaluation may be divided into three broad phases (though the demarcating lines between these phases lines between these phases are somewhat arbitrary) the traditional phase, the transitional phase and the modern phase.

The focus of financial management was mainly on certain episodic events like formation, issuance of capital, major expansion, merger, reorganization, and liquidation in the life cycle of the firm.

The approach was mainly descriptive and institutional. The instruments of financing, the institutions and procedures used in capital markets, and the legal aspects of financial events formed the core of financial management.

The outsider points of view were dominant. Financial management was viewed mainly from the point of the instrument bankers, lenders, and the outside interest.

A typical work of the traditional phase is the financial policy of corporations by author S. Dewing.

The transitional phase began around the early forties and continued through the early fifties. Though the nature of financial management during this phase was similar to that of the traditional phase, greater emphasis was placed on the day to day problems faced by finance manager in the areas of funds analysis, planning and control. These problems however were discussed within limited analytical frameworks. A representative work of this phase is essays on business finance by Wilford J. Eiteman et al.

The modern phase began in the mid-fifties and has witnessed an accelerated pace of development with the infusion of ideas from economic theory and application of quantitative methods of analysis. The distinctive features of the modern phase are:

The scope of financial management has broadened. The central concern of financial management is considered to be a rational matching of funds to their uses in the light of appropriate decision criteria.

The approach of financial management has become more analytical and quantitative.

The point of view of the managerial decision maker has become dominant.

Since the beginning of the modern phase many significant and seminal developments have occurred in the fields of capital budgeting. Capital structure theory, efficient market theory, option pricing theory, agency theory, arbitrage pricing theory, valuation models, dividend policy, working capital management, financial modeling, and behavioral finance. Much more exciting development is in the offing making finance a fascinating and challenging field.

II. Literature Review

1) Dr. N. M. Vechalekar

The primary uses of financial statements are evaluating past performance and predicting, futures performance and both of these are facilitated by comparisons. Therefore the focus of the financial analysis is always on the crucial information contained in the financial statements. This depends on the objectives and purpose of such analysis.

The purpose of evaluating such financial statements is different from person to person depending upon its relationship. In other worlds, even though the business unit itself and shareholders, debenture holder, investors, etc. all undertake financial analysis, the purpose, means and the extend of such analysis differs.

2) Dr. M.Y. Khan & Dr. P.K. Jain

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3) Dr. Prasanna Chandra

Financial management provides a conceptual and analytical framework for financial decision making. The finance function covers both acquisitions of funds as well as their allocations. Thus apart from the issues in acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses. Defined in broad sense, it is viewed as an integral part of overall management.

III. SCOPE OF THE WORK

Financial management provides a conceptual and analytical framework for financial decision making. The finance function covers both acquisitions of funds as well as their allocations. Thus apart from the issues in acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses. Defined in broad sense, it is viewed as an integral part of overall management.

The financial management framework is an analytical way of viewing the financial problems of a firm. The main contents of this approach are: What is the total volume of funds an enterprise should commit? What specific assets should an enterprise acquire? How should the funds required be financed? Alternatively, the principal contents of the modern approach to financial management can be said to be

1) *How large should an enterprise be, and how fast should it grow?*
2) *In what form should it hold assets?*
3) *What should be the composition of its liabilities?*

The three questions posed above cover between them the major financial problems of firms. In other words, the financial management, according to the new approach, is concerned with the solution of three major problems relating to the financial operations of the firms, corresponding to the three questions of investment, financing and dividend decisions. Thus financial management, in the modern sense of term, can be broken down into three major decisions as functions of finance. (i) The

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investment decisions (ii) The financing decision and (iii) The dividend policy decision.

OBJECTIVE :

1) To compare & analyze the balance sheet of the selective companies of three years to determine and calculate the various financial ratios using ratio analysis.

2) To know the financial position of the selective companies throughout the reference period with the help of liquidity ratio.

3) To assess the earning capacity of the company with help of profitability ratio.

4) To evaluate the working capital and fixed assets of the concern with the help of turn over ratios.

5) To provide suggestions for improving the overall finance performance of the selective companies.

IV. RESEARCH METHODOLOGY

Following methodology is used to achieve defined objective at the beginning of this report.

1) Define the objective

Clearly understanding the objective of paper its exact requirement.

2) Collection of Data

Collecting the balance sheets, income statements, profit loss statements and other secondary data of the selective companies of last 3 year.

3) Background Study

Studying the annual reports, balance sheets, income statements and profit loss statements etc. Of the selective companies from last 3 year.

4) Calculation ratios

Calculating the various ratios from the data collected using ratio analysis.

5) Interpretation of result

From the analysis interpreting the results and performance of the companies.

6) Comparison of the results

Comparing and a analyzing from the results the performance of the selective companies and the last 3 years and from that predicting their performance for the defined future perspective from the collected data.

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