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A STUDY ON FINANCIAL LEVERAGE RATIO WITH REFERENCE TO DAS LIMITED

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INTRODUCTION

Financial Management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. Though it was a branch of economics till 1890 as a separate or discipline it is of recent origin. Financial Management is concerned with the duties of the finance manager in a businessfirm. He performs such varied tasks as budgeting, financial forecasting, cash management,credit administration, investment analysis and funds procurement. The recent trend towardsglobalization of business activity has created new demands and opportunities in managerial finance. Financial Management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. Though it was a branch of economics till 1890 as a separate or discipline it is of recent origin. Financial Management is concerned with the duties of the finance manager in a businessfirm. He performs such varied tasks as budgeting, financial forecasting, cash management,credit administration, investment analysis and funds procurement. The recent trend towardsglobalization of business activity has created new demands and opportunities in managerial finance. Finance is one of the most primary requisites of a business and the modern management obviously depends largely on the efficient management of the finance. Financial statements are prepared primarily for decision making. They play dominant role in setting the frame work of managerial decisions. The finance manager has to adhere to the five R's with regard to money. This right quantity of money for liquidity consideration of right quality. Whether owned or borrowed funds. at the right time to preserve solvency from the right sources and at the right cost of capital. Deepali Kapoor Suri (2013) The study is an attempt being made to identify the financial performance and how the

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performance is going on for the last five years, of Indian Farmers Fertiliser Co-operative Limited, popularly known as IFFCO, on the basis of establishing relationship between the items of balance sheet and profit &loss account. For establishing the relationship various types of ratios such as solvency, liquidity, activity and profitability are used. The period of study is taken from the year 2-08 to 2011-12. Deepali Kapoor Suri (2013) The study is an attempt being made to identify the financial performance and how the performance is going on for the last five years, of Indian Farmers Fertiliser Co-operative Limited, popularly known as IFFCO, on the basis of establishing relationship between the items of balance sheet and profit &loss account. For establishing the relationship various types of ratios such as solvency, liquidity, activity and profitability are used. The period of study is taken from the year 2-08 to 2011-12. Mabwe Kumbirai and Robert Webb (5)3This paper investigates the performance of South Africa's commercial banking sector for the period 2005- 4. Financial ratios are employed to measure the profitability, liquidity and credit quality performance of five large South African based commercial banks. The study found that overall bank performance increased considerably in the first two years of the analysis. A significant change in trend is noticed at the onset of the global financial crisis in 2, reaching its peak during 3-4. This resulted in falling profitability, low liquidity and deteriorating credit quality in the South African Banking sector

OBJECTIVES OF STUDY

- To study the debt-equity ratio of the company.
- To analyze the proprietary ratio of the company.
- To study the interest coverage ratio.

NEED OF THE STUDY

o The study covers all the components of debt, equity interest and proprietary ratios which plays an important role in the company's profitability.

o Thus the study reveals how effectively the financial performance analysis used in the organization.

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. it may be understood as a science of studying how research is done scientifically. So, the research methodology not only talks about the research methods but also considers the logic behind the method used in the context of the research study. The project evaluates the financial performance one of the company with help of the most appropriate tool of financial analysis like ratio analysis and comparative balance sheet. Hence, it is essentially fact finding study. The study is based on secondary data. Data pertaining to ratio were collected from the balance sheet and profit & loss account of Das Limited. The necessary data were obtained from published annual report. The data required for the study has been collected from secondary sources and the relevant information were taken from annual reports, journals and internet etc.,

Tools applied: To have a meaningful analysis and interpretation of various data collected, financial leverage ratios were used for this study.

LIMITATIONS

- As the study is based on secondary data, the inherent limitation of the secondary data would have affected the study.
- The figures in a financial statements are likely to be a least several months out of date, and so might not give a proper indication of the company's current financial position.
- This study need to be interpreted carefully. They can provide clues to the company's performance or financial situation. But on their own, they cannot show whether performance is good or bad. It requires some quantitative information for an informed analysis to be made.

DATA ANALYSIS AND INTERPRETATION

Financial Leverage (Gearing) Ratios

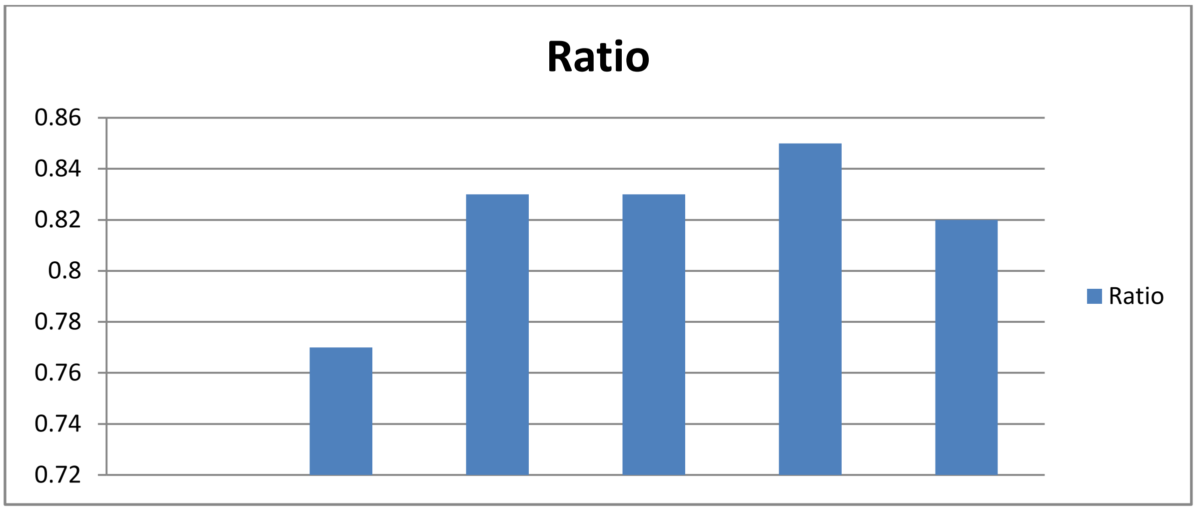
A. Proprietary Ratio:

$$\text{Proprietary Ratio} = \frac{\text{Proprietors' funds}}{\text{Total tangible assets}}$$

TABLE -1Proprietary Ratio

S.NO	YEAR	Proprietors fund	Total tangible asset	Ratio
1	1	27653.24	35932.12	0.77
2	2	27629.57	33237.8	0.83
3	3	27906.09	33710.84	0.83
4	4	31683.74	37139.68	0.85
5	5	33521.63	40904.75	0.82

CHART -1 Proprietary Ratio



Interpretation:

This ratio is particularly important to the creditors and it focuses on the general financial strength of the business. A ratio of j50% will be alarming for the creditors. As such the proprietary ratio of the five years is above 50%.Therefore it indicates relatively little danger to the creditors, etc. And a better performance of the company.

B. Debt to Equity Ratio

Total debt

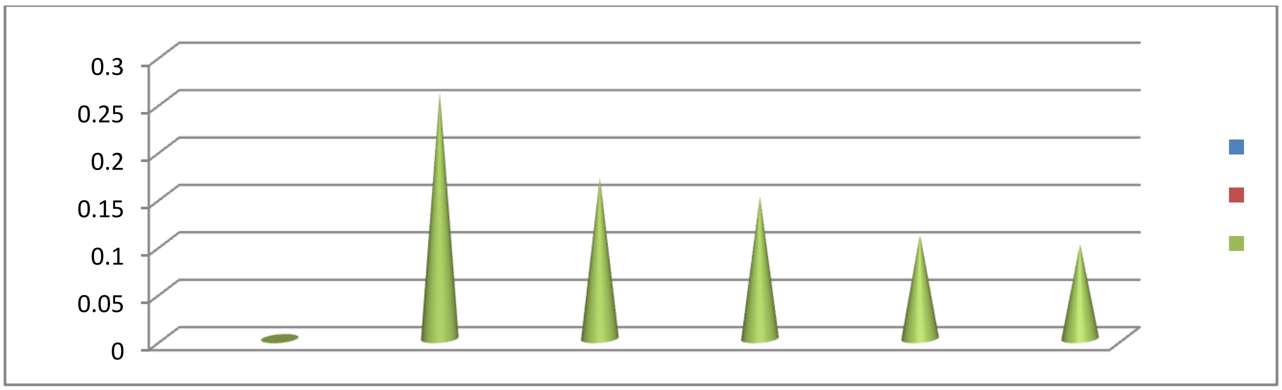
Debt to Equity Ratio = _____________

Total equity

TABLE- 2 Debt to Equity Ratio

S.NO	YEAR	Total Debt Rs. in lakhs	Total Equity Rs. in lakhs	Ratio
1	1	7241.39	27653.24	0.26
2	2	4628.27	27629.57	0.17
3	3	4221.63	27906.09	0.15
4	4	3474.18	31683.74	0.11
5	5	3216.67	33521.63	0.10

CHART-2 Debt to Equity Ratio



Interpretation:

The debt to equity ratio is decreasing year after year. A low debt equity ratio is considered favorable from management. It means greater claim of shareholders over the assets of the company than those of creditors. For the company also, the servicing of debt is less burdensome and consequently its credit standing is not adversely affected. Therefore debt to equity ratio is satisfactory to the company.

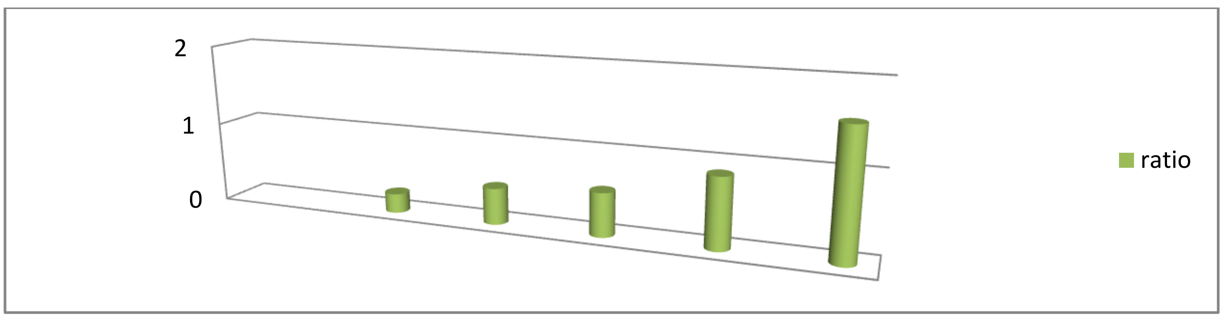
C. Interest Coverage Ratio

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest charges}}$$

TABLE -3 Interest Coverage Ratio

S.NO	YEAR	EBIT Rs. in lakhs	INTEREST CHARGES Rs. in lakhs	Ratio
1	1	1767.75	7241.39	0.24
2	2	2087.49	4628.27	0.45
3	3	2260.62	4221.63	0.54
4	4	3037.66	3474.18	0.87
5	5	5030.58	3216.67	1.56

CHART-3 Interest Coverage Ratio



Interpretation:

The Interest coverage ratio is increasing year after year. A high ratio is a sign of low burden of dept servicing and lower utilization of borrowing capacity. Therefore this ratio is satisfactory to the company.

MAJOR FINDINGS

- The proprietary ratio in all the five years is above the satisfactory level, that is, 50%. It indicates the creditors are in a safer side and there is no pressure from them.
- The debt to equity ratio is decreasing year after year, which indicates , the servicing of debt is less burdensome and consequently its credit standing is not adversely affected.

CONCLUSION

The study is based on financial leverage ratio in DAS Limited. The result shows the debt equity ratio, proprietary ratio of the company's position is good.

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