International Journal of Commerce and Management Research
ISSN: 2455-1627
Impact Factor: RJIF 5.22
www.managejournal.com
Volume 4; Issue 4; July 2018; Page No. 01-03

Financial evaluation of working system of Rajasthan State Road Transport Corporation (RSRTC) through ratio analysis

Dr. Sachin Agrawal[1], Dr. VK Gupta[2]
[1] Assistant Professor, Department of Management, BSA College, Mathura, Uttar Pradesh, India
[3] Reader, Department of Commerce, K. R. (PG) College, Mathura, Uttar Pradesh, India

Abstract
This paper attempt to examine the financial performance of RSRTC through financial statement analysis. RSRTC is a public sector transport company owned by the Rajasthan government. Financial statement analysis can be done through Comparative analysis, trend analysis and ratio analysis. In this study ratio analysis technique is used to check the financial condition of the firm. To check the long term earning capacity of the firm and long term and short term ability to pay his liabilities. Profitability and solvency ratio are calculated from the financial data of 2010-11 to 2014-15.

Keywords: financial statement analysis, profitability ratio, liquidity ratio, solvency ratio, operational efficiency

Introduction

RSRTC is a public transport company which facilitates bus service in the various states of India. The corporation was established by Govt. of Rajasthan on 1st October, 1964 under the Road Transport Act, 1950.

RSRTC is uniquely positioned to serve the people of Rajasthan by offering low fare with spacious and convenient bus stand with all amenities like waiting rooms and facilities for in transit passengers. The company offers facility of transportation on regular basis for most of the cities of the state and neighboring states. Company also provides reservation facilities to the passengers in various AC and Deluxe buses, sometime it provides facility of additional seats or buses during the peak time. RSRTC also focuses on social responsibility and offers concessions in fares for PH, Sick, Freedom Fighters, widows and the families of soldiers who died in war. For analyzing the financial strength and weakness of RSRTC ratio analysis is used. Ratio analysis includes Profitability ratios, solvency ratios, and Activity ratios and liquidity ratios. 1. Profitability ratios: Profitability ratios are the ratios which establishes the relationship between sales and profit. It contains OPR, NPR and GPR. In OPR the relationship of operating profit and net profit while in NPR, relationship of net profit and net sales and in GPR, the relationship of gross profit and net sales has been determined. higher the profitability ratios show sound earning capacity of the firm. 2. Solvency ratio: it shows the firm's ability to pay his obligation towards its stakeholders. It includes DE ratio, TADR ratio. 3. Liquidity Ratio: these are the ratios which shows the firm's ability to meet his short term obligation. This includes CR, QR. 4. Activity ratios: activity ratio shows the firm's ability to convert his assets into cash. Activity ratio involves, DTR, ITR, CTR.

Literature Review

Doron Nissim & Stephen H Penman (1999) in his research article on financial performance analysis used financial statement analysis as a tool for equity valuation. In his paper he incorporated standard profitability ratio and is complemented with an analysis of growth. Financial statement analysis is also used as a tool for forecasting the future performance of the firm.

Kennedy and Muller (1999) discussed and interpret the financial performance of the firm through analysis of financial statement by using ratio analysis technique and expressed the importance of the financial statement's data in forecasting the future earnings, ability to pay the principal and interest to the debenture holder on the maturity of long and short term loan, liquidity and dividend policy.

Elizabeth Duncan and Elliott (2004) in his research article on efficiency, Customer service and financing performance among Australian financial institutions concluded that All financial performance measures as interest margin, return on assets, and capital adequacy are Positively correlated with customer service quality scores.

Jonas Elmerraji (2005) concluded that ratio analysis is an important tool for making investment in any firm. He suggested that the ratios are very important tool for knowing the financial performance of the firm which is very significant to the stakeholder of the firm. Ratios are also used by those individual or institution in making investment who does not have any degree or knowledge of finance or business.

John J. Wild, K.R. Subramanyam & Robert F. Halsey (2006) he suggested that financial statement analysis is the application for analyzing the financial performance of the company. He concluded that financial statement analysis is analytical tool which reduces the probability of loss, possibility of fluke and guess and other kind of intuitions. It also decreases the uncertainty in investment decisions.

I.M. Pandey (2007) suggested through his research paper that the financial statement analysis is a tool to derived the financial information about consequences and sources of fund to the company, investment, dividend decisions, and anyone can decide whether the financial condition of the firm is sound or unsound or the firm is growing or deteriorating. Any individual can relate all the variable of the financial statement with the other variable to know the financial condition of the firm.

Susan Ward (2008) in his research article on financial performance concluded that financial statement analysis by using ratio analysis of key variables help the investors can cope from the risk in investment. He suggested that calculation of ratio help to make decision in investment and can make comparison of ratio of the selected firm with another firm of the industry or with the average of the industry. For example, profitability ratio which indicates the earning capacity of the firm, higher the ratio shows good earning capacity.

Rachchh Minaxi A (2011), concluded in his research paper on financial performance that analysis of statement is very useful to extract information about the company and helpful to make decision regarding investment. He suggested that ratio analysis is a tool to establish relationship among the different components of the income statement and balance sheet to understand the position of entity.

Priyaaks (2012), concluded that statement analysis is the process of examining the relationship and making comparison of various components of income statement and balance sheet and useful to draw meaningful information to make investment decisions. From the above discussion of various research paper, it may be concluded that financial statement analysis depicts the efficiency of the firm. Various writers also suggested that ratio analysis is very useful tool to make decisions regarding investment and provide the information regarding company's financial performance which is very useful to BOD and shareholders of the company.

Objectives

- To check the financial performance of RSRTC through financial statement analysis.
- To check the profitability, liquidity and solvency of the company through ratio analysis.

Significance of the Study

This paper attempt to examine the financial performance of the state transport company of Rajasthan by using the ratio analysis technique of financial statement analysis. It is very important to know the earning competence of the company to meet his obligation. Financial information is also useful to its stakeholders. Further this research can help the governing body of RSRTC to take important decision regarding investment for innovation, diversification and modification in the technology and infrastructure.

Research Methodology

The research is analytical in nature and evaluate the financial data of the company on several parameter and provides useful information to the stakeholder regarding profitability, liquidity and solvency. The time period of the study is from 2010 to 2015.

Method/Source of data collection

Secondary data for the purpose of study has been collected from the websites, newspaper and magazines.

Time period of the study

financial performance during last five years has been examined. Duration of the study is 2010-11 to 2014-15.

Tools and Techniques

It is not easy to examine the financial performance of the company on the basis of available data. for evaluating available data ratio analysis technique is used to measure the components of balance sheet and income statement. Profitability ratios, liquidity ratios and solvency ratio are calculated for the purpose of analysis.

Data analysis and interpretation

Table 1: Income Statement of RSRTC

Year	Income	Expenses	Profit / Loss	Adjustment of last year P/L	Net P/L of Current year
2010-11	775.48	812.96	-37.48	32.85	-4.63
2011-12	876.75	904.24	-27.51	-2.57	-30.08
2012-13	978.5	996.81	-18.31	-0.83	-19.14
2013-14	1002.27	1025.89	-23.62	0.05	-23.57
2014-15	1081.89	1263.18	-181.29	-8.04	-189.33

Table 1. shows that the income and expenses of the company is increased in 2014-15 from 2010-11 by 39.51% and 55.38%. loss of the company increased by 383.69% in 2014-15.

Table 2: Profitability ratios

	2010-11	2011-12	2012-13	2013-14	2014-15
1. Operating Profit Ratio	6.69%	3.11%	4.80%	2.72%	-12.43%
2. Net Profit Ratio	-0.60%	-3.43%	-1.96%	-2.35%	-17.50%
3. Return of Capital Employed	3.84%	-6.04%	-1.15%	-2.50%	-112.86%

Table 2. show the calculation of profitability ratio of the company. In the above table the OPR is 6.69%. NPR -.60% and ROCE is 3.84% in 2010-11 but in 2014-15 all the ratios were -12.43%, -17.50% and -112.86% respectively.

Table 3: CR, DE and TADR

	2010-11	2011-12	2012-13	2013-14	2014-15
1. Current Ratio	0.30 : 1	0.30 : 1	0.22 : 1	0.21 : 1	0.08 : 1
2. Debt Equity Ratio	0.91 : 1	1.04 : 1	0.98 : 1	0.91 : 1	1.22 : 1
3. Total Assets to Debt Ratio	4.87 : 1	4.64 : 1	4.99 : 1	5.41 : 1	5.17 : 1

In the above table 3. The current ratio was 0.3 in 2010-11 decreased to 0.08 in 2014-15, DE is equal to 1 in all five years while TADR was five.

Conclusion

It has been found that RSRTC is bearing loss on regular basis from 2010 to 2015. Long term financial position of the company is sound but in short term company is not able to meet its obligation due to unavailability of fund and the amount of short term liability is more than assets. Company is a state owned transport company and provides services to the public with no profit. Expenditure of the company is more than its profit. The company must focus on the earnings and must reduce the expenditure.

References

1. Gupta RL. Radhaswamy M. – Advance Accountancy, Sultan Chand & Sons, New Delhi, Ed-1998.
2. Kothari CR. Research Methodology: Methods and Techniques, New Age International Publisher, New Delhi. Ed-2006.
3. Prasanna Chandra. Financial Management, Tata McGraw Hill, New Delhi, 1999.
4. Bhunia A. A Study of Liquidity Trends on Private Sector Steel Companies in India. Asian Journal of Management Research, 2010.
5. Ramaratnam MS, Jayaraman R. A Study on Measuring the Financial Soundness of Selected Firms with Special Reference to Indian Steel Industry- An Empirical View Wit Z-Score. Asian Journal of Management Research, 2010.
6. Reddy YV, Pathar SB. Working Capital and Liquidity Management in factory A Comparative study of SBI and CanBank factors. The Management Accountant, 2004; 39:373-380.
7. Bhabatosh Banerjee. Corporate Liquidity and Profitability in India. Research Bulletin, Institute of Cost and Works Accountants of India, 1982, Pp. 224-234.