2.1 APPLICATION OF FINANCIAL PERFORMANCE

Financial Performance in simple words we can say that how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. It measures the results of a firm's operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, its efficiency, profitability, etc. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Any of many different mathematical measures to evaluate how well a company is using its resources to make a profit. Common examples of financial performance include operating income, earnings before interest and taxes, and net asset value.
It is important to note that no one measure of financial performance should be taken on its own. Rather, a thorough assessment of a company’s performance should take into account many different measures. As so for the comparative aspect Horizontal, Vertical and Trend Analysis can be useful tool to analyze its Income and Expenditure Statement.

2.1.1 Horizontal Analysis:

Horizontal Analysis is one of the comparative tools where the financial data for the two year is compared from current to previous years, and the difference is found in terms of amount and percentage. This tool is useful to measure the difference within particular duration of time, and it’s simple to judge. This tool is used in the research study to find out the growth performance from year 2002-03 to 2008-09, during the application of tool only amount of change is available which is necessary.

2.1.2 Vertical Analysis:

It is also identify by Common-Size Analysis. This tool is used with different way, where the total Sales or Operating Income assumed as 100 percentage and compare to sales or operating income all the other income and expenditure is identified. This tool is useful to measure other income and expenditure against the Sales or Operating Income. This tool is used in the research study to find out the growth performance from year 2002-03 to 2008-09.
2.1.3 Trend Analysis:

This is one of the well known tool to compare performance either from the different years of the same company or with another company, where the data is identified in terms of Index. Data for the first year is assumed as 1 and for the rest of the data converted and compared with 1 and the difference count. This tool is used in the research study to find out the growth performance and index from year 2002-03 to 2008-09.

2.1.4 Application of Ratio Analysis

Ratios are highly important profit tools in financial analysis that help financial analysts implement plans that improve profitability, liquidity, financial structure, reordering, leverage, and interest coverage. Although ratios report mostly on past performances, they can be predictive too, and provide lead indications of potential problem areas. Ratio analysis is primarily used to compare a company's financial figures over a period of time, a method sometimes called trend analysis. Through trend analysis, you can identify trends, good and bad, and adjust your business practices accordingly. You can also see how your ratios stack up against other businesses, both in and out of your industry. There are several considerations you must be aware of when comparing ratios from one financial period to another or when comparing the financial ratios of two or more companies.
In simple word, a ratio is the mathematical relationship between two quantities in the form of a fraction or percentage. Ratio analysis is essentially concerned with the calculation of relationships which after proper identification and interpretation may provide information about the operations and state of affairs of a business enterprise. The analysis is used to provide indicators of past performance in terms of critical success factors of a business. This assistance in decision-making reduces reliance on guesswork and intuition and establishes a basis for sound judgment.

The purpose of this tool particularly for the research study is valuable. It elaborates the performance in terms of liquidity, profitability and efficiency from year to year separately and comparatively.

2.2 APPLICATION OF LIQUIDITY ANALYSIS

The main concern of liquidity ratio is to measure the ability of the firms to meet their short-term maturing obligations. Liquidity analysis represents the management of working capital of the port. In respect of managing the liquidity sometimes company has to borrow money to handle its current affairs in case of shortage of liquidity. The higher the ratio also represents the mismanagement of company or port because it defines as non utilization of further cash which could be used to generate a bit of profit. As all the following liquidity ratios are using
as tools, it’s necessary to understand how it works. The research study contains mainly Current Ratio, Quick Ratio, Interval Measure Ratio and Working Capital Ratios, where current ratio stands for maintaining and operating current assets against the current liabilities.

Normally current ratio should be 2 that means assets expected to be double than its liabilities, and it is more safe to pay debt immediately. Another liquidity ratio is Quick Ratio which measures assets that are quickly converted into cash and they are compared with quick liabilities. This ratio realizes that some of current assets are not easily convertible to cash like inventory. This ratio simply indicates that how company is able to pay its quick liability on the spot. The quick ratio, also referred to as acid test ratio, examines the ability of the business to cover its short-term obligations from its “quick” assets only. Clearly this ratio will be lower than the current ratio, but the difference between the two (the gap) will indicate the extent to which current assets consist of stock. The third liquidity ratio is Interval Measure Ratio is related with port’s daily operating expenses. In short it connected with its Current Assets (Less Stock) or Quick Assets versus daily operating expenses, and the daily operating expenses equal to cost of goods sold plus selling, administrative or fixed expenses and general expenses Less depreciation and other non-cash expenses per day. Interval Measure Ratio indicates that whether the firm has sufficient liquidity to finance its operations or not.
At the end the last liquidity ratio is Net Working Capital Ratio which is the difference between current assets and current liability. Net working capital ratio sometimes used to find out the overall liquidity of its firm to measure its liquidity to meet its operations is larger or smaller. It has the greater ability to meet its current obligations. This ratio will clearly indicate that how the port is able to meet its working capital needs.

Liquidity analysis is one of the important tools to find out comparative liquidity performance using liquidity ratios. It also represents the ability and skill to operate, maintain, and management of working capital needs of the port to satisfy the daily operating and non operating expenses.

2.3 APPLICATION OF PROFITABILITY ANALYSIS

All the companies work with one motto that Maximization of Profit and Wealth. For their better future perspective they simply focus on higher the figure of profit with compare to pervious year. Profit is difference between revenue and expenditure over the particular period of time. We also can identify it as output of company. It is depend on many factors which work for generate money from the money. Therefore it is very much essential to check all the possible ratios to measure the performance of port by using one of these important tools. Profitability is the ability of a business to earn profit over a period of
time. Although the profit figure is the starting point for any calculation of cash flow, as already pointed out, profitable companies can still fail for just lack of cash. Without profit, there is no cash and therefore profitability must be seen as a critical success factor.

A company should earn profits to survive and grow over a long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profits in respect of social consequences. Profitability is a result of a larger number of policies and decisions. The profitability ratios show the combined effects of liquidity, asset management (activity) and debt management (gearing) on operating results. The overall measure of success of a business is the profitability which results from the effective result from its resources. Profitability ratios represent comparative performance between MPSEZ and KPT to finding out Gross Margin and Net Margin performance. Their policy towards operating and non operating expenses, return on capital, earning per share and all which disclose the profitability of the port.

The profitability performance is useful to judge their efforts and efficiency to generate and operate port with utilization of their resources in terms of growth of the port.
2.4 APPLICATION OF EFFICIENCY ANALYSIS

Financial Efficiency indicates the degree to which the activities of a firm are supported by creditors’ funds as opposed to owners. The relationship of owner’s equity to borrowed funds is an important indicator of financial strength. The debt requires fixed interest payments and repayment of the loan and legal action can be taken if any amounts due are not paid at the appointed time. A relatively high proportion of funds contributed by the owners indicate a cushion (surplus) which shields creditors against possible losses from default in payment. This ratio will prove financial efficiency for both the respective ports, Kandla & Mundra. The greater the proportion of equity funds, the greater the degree of financial strength. Financial leverage will be the advantage of the ordinary shareholders as long as the rate of earnings on capital employed is greater than the rate payable on borrowed funds.

The efficiency ratios are useful to find out comparative performance in terms of financial efficiency of the port. It also represents the utilization and management of funds to getting profit either with owner’s fund or debt fund or mixed utilization of fund. Financial Efficiency also shows the capacity of the proposed growth of the port.
References:


