



Study on Financial Ratio Analysis of A Food Industry Company

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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ABSTRACT

This paper discusses introduction, classification and detailed financial statement analysis and financial ratio analysis and their interpretation of food Industry company. Britannia Industries Limited is purposively selected for the study. The study is purely quantitative. Secondary data is used for the study. The liquidity, activity ratios showed a decreasing trend, whereas solvency, profitability ratios showed increasing trend for the selected period of 2017-18 to 2021-22. At last, the paper has concluded that the company's overall financial performance and position has been improved over the past five years.

Keywords: *Financial statement; financial performance; financial position; financial ratios; liquidity; leverage; activity; profitability.*

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1. INTRODUCTION

Ratio analysis refers to the analysis and interpretation of the figures appearing in the financial statements *i.e.*, Profit and Loss Account, Balance Sheet *etc.* A ratio is a mathematical number calculated as a reference to relationship of two or more numbers and can be expressed as a fraction, proportion, percentage and a number of times. When the number is calculated by referring to two accounting numbers derived from the financial statements, it is termed as accounting ratio [1-4]. The systematic use of ratios to interpret the financial statement so that the strengths and weaknesses of a firm as well as its historical performance and current financial conditions can be determined [5].

There are two ways of classifying financial ratios, (1) Traditional classification, and (2) Functional classification. The traditional classification has been on the basis of financial statements to which the determinants of ratios belong. On this basis, the ratios are classified as follows, (i) Statement of Profit and Loss Ratios: A ratio of two variables from the statement of profit and loss is known as statement of profit and loss ratio. For example, ratio of gross profit to revenue from operations is known as gross profit ratio [6,7]. It is calculated using figures from the statement of profit and loss. (ii) Balance Sheet Ratios: In case both variables are from the balance sheet, it is classified as balance sheet ratios [8,9]. For example, ratio of current assets to current liabilities known as current ratio. It is calculated using both figures from balance sheet. (iii) Composite Ratios: If a ratio is computed with one variable from the statement of profit and loss and another variable from the balance sheet, it is called composite ratio. For example, ratio of credit revenue from operations to trade receivables (known as trade receivables turnover ratio) is calculated using one figure from the statement of profit and loss (credit revenue from operations) and another figure (trade receivables) from the balance sheet.

Although accounting ratios are calculated by taking data from financial statements but classification of ratios on the basis of financial statements is rarely used in practice [10-14]. It must be recalled that basic purpose of accounting is to throw light on the financial performance (profitability) and financial position (its capacity to raise money and invest them wisely) as well as changes occurring in financial position (possible explanation of changes in the

activity level). As such, the alternative classification (functional classification) based on the purpose for which a ratio is computed, is the most commonly used classification which is as follows, (A) Liquidity ratios, (B) Solvency ratios, (C) Activity (or turnover or efficiency) ratios, and (D) Profitability ratios [15]. Good Financial performance of food companies not only boots the economy but also takes care of nutritional needs of a nation.

1.1 Objective of the Study

1. To study the trend analysis of financial position and performance using different financial ratios.

2. METHODOLOGY

2.1 Sample and Data Collection

The study considers Britannia Industries Limited which is a mature company with renowned popularity and fame. The financial statements of last five financial years *i.e.*, FY 2017-18 to 2021-22 from the audit annual reports of the company is considered for the analysis. Microsoft Excel software is used for computation and analysis.

2.2 Analytical Tools and Techniques Employed

- (A) Liquidity ratios indicate the liquid position of the business. They are used to ascertain whether the business is able to pay its short-term liabilities from its short-term resources or not.
- (B) Solvency or leverage ratios studies the composition of capital of business and the proposition of owners' funds and funds provided by outsiders are reflected by leverage or solvency ratios. For example, Debt-Equity ratio shows the proportion of long-term liabilities with owners' Fund.
- (C) Activity or Turnover or Efficiency ratios indicates the efficiency of the resources of business. They also indicate the efficiency of management. For example, Stock Turnover ratio shows the number of times the stock is turned over the year.
- (D) Profitability ratios, the term profitability may be defined as the ability of given investment to earn a return from its use. Every business unit is established to earn profit and develop on that basis. Hence, profitability ratios are the most important

ratios. Profitability provides an incentive to achieve efficiency. Profitability also shows that the firm can perform competitively. Hence, profitability is the key indicator of a performance and is a

must for its survival and growth. Such ratios also help in critically analyse and interpret the current and prospective earning capacity of business corporations [16].

List 1. Financial Ratios and their Interpretation

Sl. No.	Category	Name of the Ratio	Interpretation
A	Liquidity Ratios	(1) Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<ul style="list-style-type: none"> It measures the short-term liquidity of a firm. A firm with a higher ratio has better liquidity. Ideal ratio is 2:1.
		(2) Quick ratio = $\frac{\text{Quick Assets}}{\text{Current Liabilities}}$ where, Quick Assets = Current Assets – (Inventories + Current Investments + Advances Paid) (or) = Trade Receivables + Cash and Cash Equivalents + Bank Balance other than cash and cash equivalents + Loans receivables + Other liquid financial assets	<ul style="list-style-type: none"> To have a better idea about liquid position of the firm. Ideal ratio is 1:1.
		(3) Cash Ratio = $\frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}}$	<ul style="list-style-type: none"> To know whether the firm is able to pay liquid liabilities immediately.
B	Solvency or Leverage Ratios	(1) Debt-Equity Ratio = $\frac{\text{Long-term Debt or Liabilities}}{\text{Shareholders' Fund}} \times 100$	<ul style="list-style-type: none"> It shows the proportion of long-term Debt or Liabilities with Shareholders' Funds.
		(2) Debt to Capital Employed Ratio = $\frac{\text{Long-term Debt or Liabilities}}{\text{Capital Employed}} \times 100$ where, Capital Employed = Long-term Debt + Shareholders' Capital.	<ul style="list-style-type: none"> It shows the proportion of long-term debt or Liabilities with capital employed.
		(3) Proprietary Ratio = $\frac{\text{Shareholders' Fund}}{\text{Capital Employed}} \times 100$	<ul style="list-style-type: none"> It shows the proportion of Proprietary's fund with Capital Employed.
		(4) Total Assets to Debt Ratio = $\frac{\text{Total Assets}}{\text{Long-term debt}} \times 100$	<ul style="list-style-type: none"> It shows the proportion of Total Assets with Long-term debt.
		(5) Debt to Total Assets Ratio = $\frac{\text{Long-term Debt}}{\text{Total Assets}} \times 100$	<ul style="list-style-type: none"> It shows the proportion of Long-term Debt with Total Assets.
C	Activity or Turnover or Efficiency Ratios	(1) Inventory Turnover Ratio = $\frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$	<ul style="list-style-type: none"> It indicates how fast the inventory is sold.
		(2) Capital Employed Turnover Ratio = $\frac{\text{Capital Employed}}{\text{Sales Revenue from Operations}}$	<ul style="list-style-type: none"> To know the efficiency of Capital Employed in the business.
		(3) Fixed Assets Turnover Ratio = $\frac{\text{Fixed Assets}}{\text{Sales Revenue from Operations}}$	<ul style="list-style-type: none"> To know the efficiency of Fixed Assets utilised in the business.
		(4) Working Capital Turnover Ratio = $\frac{\text{Working Capital}}{\text{Sales Revenue from Operations}}$	<ul style="list-style-type: none"> To know the efficiency of Working Capital utilised in the business.

Sl. No.	Category	Name of the Ratio	Interpretation
D	Profitability Ratios (based on sales)	(1) Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Sales Revenue from Operations}}$	<ul style="list-style-type: none"> It measures the profits in relation to sales. To know whether the selling price is properly fixed.
		(2) Net Profit Ratio = $\frac{\text{Net Profit After Tax}}{\text{Sales Revenue from Operations}}$	<ul style="list-style-type: none"> It measures the Net Profitability in relation to sales.
		(3) Operating Ratio = $\frac{\text{Total Expenses}}{\text{Sales Revenue from Operations and Operating Profit Ratio}} = 100 - \text{Operating Ratio}$	<ul style="list-style-type: none"> It shows the operational efficiency of the business. Lower the operating ratio, higher the operating profit and vice versa. It measures the specific expense per sale.
E	Profitability Ratios (based on investment)	(1) Return on Capital Employed or Investment = $\frac{\text{Profit Before Interest and Tax (PBIT)}}{\text{Capital Employed}} \times 100$	<ul style="list-style-type: none"> It measures the profitability of the total funds per investment of a firm. It shows the profitability of the business.
		(2) Return on Equity Shareholders' Funds = $\frac{\text{Profit After Tax (PAT)}}{\text{Equity Shareholders' Funds}} \times 100$	<ul style="list-style-type: none"> To know the profitability from the view point of Equity shareholders.
		(3) Earnings Per Share (EPS) = $\frac{\text{Profit After Tax (PAT)}}{\text{Number of Basic Equity Shareholders}}$	<ul style="list-style-type: none"> To know the Earnings Per Share.
		(4) Total Assets to Debt Ratio = $\frac{\text{Total Assets}}{\text{Long-term debt}} \times 100$	<ul style="list-style-type: none"> To know the Book Value Per Share.
		(5) Price-Earnings Ratio = $\frac{\text{Market Price of a Share}}{\text{Earnings Per Share (EPS)}}$	<ul style="list-style-type: none"> To know the Market Price Per Earnings Per Share.

3. RESULTS AND DISCUSSION

A. Liquidity Ratios

The trend analysis of liquidity ratios *i.e.*, current ratio, quick ratio and cash ratio of this company is shown in Tables 1, 2 and 3.

As shown in Tables 1, 2 and 3, the trend shows a decreasing proportion of liquid assets to that of current obligation, which is not a good sign. Only for 2021-22, there is a very less proportion of liquid assets *i.e.*, 0.93 current assets, 0.37 quick assets and 0.003 cash and cash equivalents for every Rs.1/- of current obligation.

B. Solvency Ratio

The trend analysis of solvency ratios *i.e.*, Debt-Equity ratio, Debt to Capital Employed ratio, Proprietary ratio and Debt to Total Assets ratio of the company is shown in Tables 4, 5, 6 and 7.

From the Tables 4 and 5, the proportion of Debt to that of Capital Employed has increased from

0.80 per cent for 2017-18 to 23.81 for the Year 2021-22. Similarly, from Tables 4 and 7, the Debt amount to that of Equity and Total Assets has also increased from 0.80 per cent to 31.26 per cent and 0.56 per cent to 10.72 per cent respectively. This show that the company is slowly taking the advantage of tax benefit on debt amount via. Trading on Equity.

C. Activity or Turnover or Efficiency Ratio

Tables 8, 9, 10 and 11 shows the efficiency through which sales are turned into revenues. Table 8 shows that for all years, the number of times the inventory has turned into sales has been good with a range of 179.38 to 280.85 times with lowest and highest during recent years. Tables 9, 10 and 11 shows the number of times Capital Employed, Fixed Assets and Working Capital has turned into sales. From the Table 11, for the year 2021-22, a negative working capital of 256.41 has been reported which is not a good sign.

D. Profitability Ratios (based on sales)

Tables 12 and 13 shows the Gross Profit and Net Profit Ratio to that of sales revenue. For all the years, Gross Profit Ratio has shown 1.02 and 1.03 per cent and a Net Profit Ratio with a slight increasing trend with a range of 0.10 per cent to 0.14 per cent with 0.12 per cent the most recent figure.

Table 14 shows an Operating Ratio *i.e.*, total expense to that of sales with less variation with a range of 83.14 to 86.65 per cent with the highest for the most recent year. The sum of Operating Ratio and Operating Profit Ratio is 100.

E. Profitability Ratios (based on investment)

Tables 15 and 16 shows the Return On Investment (ROI) and Return On Equity (ROE)

for the last five years. The ROI and ROE figures for the most recent year, 2021-22 are 18.52 per cent and 66.73 per cent respectively.

Table 17 shows an overall increasing trend of Earnings Per Share (EPS) with a range of 39.48 to 73.12 with 66.56 the most recent year 2021-22.

Similarly, Table 18 shows the trend for Book Value Per Share with a range of 99.74 to 177.83 with lowest for the most recent year, 2021-22.

Similarly, Table 19 shows the trend for Price-Earnings Ratio with a range of 43.39 to 65.81 with the most recent been 48.17 for the year 2021-22.

Table 1. Current ratio**(Rs. in Crores)**

Sl. No.	Financial Year	Current Assets	Current Liabilities	Ratio (in proportion)
1	2017-18	2,767.52	1,366.03	2.03:1
2	2018-19	3,070.27	1,582.36	1.94:1
3	2019-20	3,205.15	2,215.06	1.45:1
4	2020-21	4,014.71	3,322.39	1.21:1
5	2021-22	3,593.06	3,849.47	0.93:1

Source: Authors Calculation From Audited Annual Report

Table 2. Quick ratio**(Rs. in Crores)**

Sl. No.	Financial Year	Quick Assets	Current Liabilities	Ratio (in proportion)
1	2017-18	1,246.49	1,366.03	0.91:1
2	2018-19	1,632.39	1,582.36	1.03:1
3	2019-20	1,585.00	2,215.06	0.72:1
4	2020-21	1,638.75	3,322.39	0.49:1
5	2021-22	1,430.51	3,849.47	0.37:1

Source: Authors Calculation From Audited Annual Report

Table 3. Cash ratio**(Rs. in Crores)**

Sl. No.	Financial Year	Cash and cash equivalents	Current Liabilities	Ratio (in proportion)
1	2017-18	88.91	1,366.03	0.07:1
2	2018-19	24.73	1,582.36	0.02:1
3	2019-20	21.76	2,215.06	0.01:1
4	2020-21	77.58	3,322.39	0.02:1
5	2021-22	9.97	3,849.47	0.003:1

Source: Authors Calculation From Audited Annual Report

Table 4. Debt-equity ratio

(Rs. in Crores)

Sl. No.	Financial Year	Long-term Debt	Shareholders' Fund	Ratio (in per cent)
1	2017-18	25.99	3,235.28	0.80
2	2018-19	31.16	4,039.45	0.77
3	2019-20	763.63	4,274.65	17.86
4	2020-21	774.09	3,319.53	23.32
5	2021-22	750.94	2,402.54	31.26

Source: Authors Calculation From Audited Annual Report

Table 5. Debt to capital employed ratio

(Rs. in Crores)

Sl. No.	Financial Year	Long-term Debt	Shareholders' Fund	Capital Employed	Ratio (in per cent)
1	2017-18	25.99	3,235.28	3,261.27	0.80
2	2018-19	31.16	4,039.45	4,070.61	0.77
3	2019-20	763.63	4,274.65	5,038.28	15.16
4	2020-21	774.09	3,319.53	4,093.62	18.91
5	2021-22	750.94	2,402.54	3,153.48	23.81

Source: Authors Calculation From Audited Annual Report

Table 6. Proprietary ratio

(Rs. in Crores)

Sl. No.	Financial Year	Shareholders' Fund	Capital Employed	Ratio (in per cent)
1	2017-18	3,235.28	3,261.27	99.20
2	2018-19	4,039.45	4,070.61	99.23
3	2019-20	4,274.65	5,038.28	84.84
4	2020-21	3,319.53	4,093.62	81.09
5	2021-22	2,402.54	3,153.48	76.19

Source: Authors Calculation From Audited Annual Report

Table 7. Debt to total assets ratio

(Rs. in Crores)

Sl. No.	Financial Year	Long-term Debt	Total Assets	Ratio (in per cent)
1	2017-18	25.99	4,627.30	0.56
2	2018-19	31.16	5,652.97	0.55
3	2019-20	763.63	7,253.34	10.53
4	2020-21	774.09	7,416.01	10.44
5	2021-22	750.94	7,002.95	10.72

Source: Authors Calculation From Audited Annual Report

Table 8. Inventory turnover ratio

(Rs. in Crores)

Sl. No.	Financial Year	Revenue from Operations	Gross Profit	Cost of Revenue from Operations i.e., Revenue from operations less gross profit	Opening Inventory	Closing Inventory	Average Inventory	Ratio (in times)
1	2017-18	1.45	1,445.20	1,443.75	602.61	594.58	598.60	241.19
2	2018-19	1.54	1,716.11	1,714.57	594.58	718.89	656.74	261.07
3	2019-20	65.17	1,908.26	1,843.09	718.89	633.53	676.21	272.56
4	2020-21	97.81	2,379.44	2,281.63	633.53	991.28	812.41	280.85
5	2021-22	133.46	2,145.12	2,011.66	991.28	1,251.64	1,121.46	179.38

Source: Authors Calculation From Audited Annual Report

Table 9. Capital employed turnover ratio

(Rs. in Crores)

Sl. No.	Financial Year	Shareholders' Fund	Long-term Debt	Capital Employed	Sales Revenue from Operations	Ratio (in times)
1	2017-18	3,235.28	25.99	3,261.27	9,380.17	34.77
2	2018-19	4,039.45	31.16	4,070.61	10,482.45	38.83
3	2019-20	4,274.65	763.63	5,038.28	10,986.68	45.86
4	2020-21	3,319.53	774.09	4,093.62	12,378.83	33.07
5	2021-22	2,402.54	750.94	3,153.48	13,371.62	23.58

Source: Authors Calculation From Audited Annual Report

Table 10. Fixed assets turnover ratio

(Rs. in Crores)

Sl. No.	Financial Year	Fixed Assets	Sales Revenue from Operations	Ratio (in times)
1	2017-18	1,008.31	9,380.17	0.11
2	2018-19	1,283.85	10,482.45	0.12
3	2019-20	1,416.02	10,986.68	0.13
4	2020-21	1,360.02	12,378.83	0.11
5	2021-22	1,327.41	13,371.62	0.10

Source: Authors Calculation From Audited Annual Report

Table 11. Working capital turnover ratio

(Rs. in Crores)

Sl. No.	Financial Year	Current Assets	Current Liabilities	Working Capital	Sales Revenue from Operations	Ratio (in times)
1	2017-18	2,767.52	1,366.03	1,401.49	9,380.17	0.15
2	2018-19	3,070.27	1,582.36	1,487.91	10,482.45	0.14
3	2019-20	3,205.15	2,215.06	990.09	10,986.68	0.09
4	2020-21	4,014.71	3,322.39	692.32	12,378.83	0.06
5	2021-22	3,593.06	3,849.47	-256.41	13,371.62	-0.02

Source: Authors Calculation From Audited Annual Report

Table 12. Gross profit ratio

(Rs. in Crores)

Sl. No.	Financial Year	Gross Profit	Sales Revenue from Operations	Ratio (in per cent)
1	2017-18	9,536.10	9,380.17	1.02
2	2018-19	10,672.97	10,482.45	1.02
3	2019-20	11,322.11	10,986.68	1.03
4	2020-21	12,671.53	12,378.83	1.02
5	2021-22	13,731.05	13,371.62	1.03

Source: Authors Calculation From Audited Annual Report

Table 13. Net profit ratio

(Rs. in Crores)

Sl. No.	Financial Year	Net Profit After Tax	Sales Revenue from Operations	Ratio (in per cent)
1	2017-18	947.89	9,380.17	0.10
2	2018-19	1,122.20	10,482.45	0.11
3	2019-20	1,484.30	10,986.68	0.14
4	2020-21	1,760.03	12,378.83	0.14
5	2021-22	1,603.19	13,371.62	0.12

Source: Authors Calculation From Audited Annual Report

Table 14. Operating ratio and operating profit ratio

(Rs. in Crores)

Sl. No.	Financial Year	Total Expense	Sales Revenue from Operations	Operating Ratio (in per cent)	Operating Profit Ratio (in per cent)
1	2017-18	8,090.90	9,380.17	86.25	13.74
2	2018-19	8,956.86	10,482.45	85.45	14.55
3	2019-20	9,432.85	10,986.68	85.86	14.14
4	2020-21	10,292.09	12,378.83	83.14	16.86
5	2021-22	11,585.93	13,371.62	86.65	13.35

Source: Authors Calculation From Audited Annual Report

Table 15. Return on capital employed or investment (ROI) ratio

(Rs. in Crores)

Sl. No.	Financial Year	Profit Before Interest and Tax (PBIT)	Capital Employed	Ratio (in per cent)
1	2017-18	1,445.20	8,090.90	17.86
2	2018-19	1,716.11	8,956.86	19.16
3	2019-20	1,908.26	9,432.85	20.23
4	2020-21	2,379.44	10,292.09	23.12
5	2021-22	2,145.12	11,585.93	18.52

Source: Authors Calculation From Audited Annual Report

Table 16. Return on equity shareholders' funds

(Rs. in Crores)

Sl. No.	Financial Year	Profit After Tax (PAT)	Equity Shareholders' Funds	Ratio (in per cent)
1	2017-18	947.89	3,235.28	29.30
2	2018-19	1,122.20	4,039.45	27.78
3	2019-20	1,484.30	4,274.65	34.72
4	2020-21	1,760.03	3,319.53	53.02
5	2021-22	1,603.19	2,402.54	66.73

Source: Authors Calculation From Audited Annual Report

Table 17. Earnings per share (EPS)

(in Rs.)

Sl. No.	Financial Year	Profit After Tax (PAT) (in Crores)	Number of Basic Equity Shareholders	EPS (Face Value = Rs.1/-)
1	2017-18	947.89	24,00,92,954	39.48
2	2018-19	1,122.20	24,02,46,514	46.71
3	2019-20	1,484.30	24,03,79,360	61.75
4	2020-21	1,760.03	24,07,16,747	73.12
5	2021-22	1,603.19	24,08,68,296	66.56

Source: Authors Calculation From Audited Annual Report

Table 18. Book value per share

(in Rs.)

Sl. No.	Financial Year	Equity Shareholders' Fund (in Crores)	Number of Basic Equity Shareholders	Book Value Per Share
1	2017-18	3,235.28	24,00,92,954	134.75
2	2018-19	4,039.45	24,02,46,514	168.14
3	2019-20	4,274.65	24,03,79,360	177.83
4	2020-21	3,319.53	24,07,16,747	137.90
5	2021-22	2,402.54	24,08,68,296	99.74

Source: Authors Calculation From Audited Annual Report

Table 19. Price-earnings ratio

(in Rs.)

Sl. No.	Financial Year	Market Price of a Share	Earnings Per Share (EPS)	Price-Earnings Ratio
1	Mar 31st, 2017-18	2,476.11	39.48	62.72
2	Mar 31st, 2018-19	3,074.09	46.71	65.81
3	Mar 31st, 2019-20	2,679.00	61.75	43.39
4	Mar 31st, 2020-21	3,611.64	73.12	49.40
5	Mar 31st, 2021-22	3,206.40	66.56	48.17

Source: Authors Calculation From Audited Annual Report

4. CONCLUSION

After analysis of the financial performance of the company for the period of five years from 2017-18 to 2021-22, the study reveals that the overall financial performance of the company is good. However, it needs to minimise the operating expenses to get higher net profit. In order to carry on the business successfully the company should improve its liquidity and solvency position in the long run.

FUTURE RESEARCH

Similar such studies can be carried out to other food companies on their financial performance which works on nutritional well-being of the society at large.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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