

Analysing Financial Health and Performance: A Comprehensive Ratio Analysis of Jay Ambe Tea Company, Jalgaon

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ABSTRACT:

This research aims to conduct a thorough ratio analysis of Jay Ambe Tea Company based in Jalgaon, investigating key financial ratios to assess the company's financial health and performance. The study will delve into liquidity, profitability, leverage, and efficiency ratios to provide valuable insights into the company's operational efficiency, financial stability, and overall economic viability. The findings from this research will contribute to a better understanding of Jay Ambe Tea Company's financial standing and inform stakeholders, investors, and management for strategic decision-making.

Keywords: *Ratio Analysis, Financial Health, Performance Assessment, Jay Ambe Tea Company, Jalgaon.*

INTRODUCTION:

With a rich history spanning 172 years, the Indian tea business holds a unique and prominent position in the country's economy. The diverse range of tea products, including green tea, orthodox tea, and crush, tear, and curl (CTC) tea, caters to the preferences of a vast majority of households in India, making tea the most widely consumed beverage in the nation. Tea plantations are concentrated in the Northern, Eastern, and Southern rural highlands of India, contributing significantly to the underdeveloped regions. India, being the second-largest tea producer globally, boasts unique varieties such as Darjeeling tea, which enjoys high demand worldwide.

Tea trading in India is facilitated through private sales and auctions, with key auction cities including Calcutta, Guwahati, Siliguri, Cochin, Coonoor, and Coimbatore. The Indian tea industry stands as one of the largest globally, employing over two million people across more than 13,000 gardens. Apart from its economic significance, the Indian tea sector significantly contributes to the country's foreign exchange earnings and tax revenues.

In terms of production and exports, India plays a vital role in the global tea market. Approximately 80% of the tea produced in India is consumed domestically, reflecting the country's status as one of the top tea-consuming nations. The Northern region, with major contributions from Assam and West Bengal, dominates tea production, accounting for about 83% of the annual production. The Southern region, led by Tamil Nadu, Kerala, and Karnataka, contributes the remaining 17%. In the fiscal year 2021–22, India produced 1,344.4 million kg of tea and exported tea worth US\$ 750.63 million, making it one of the top five tea-exporting nations globally.

Global Tea Market Size

As of 2021, the global tea market was estimated to be worth \$49 billion, with projections indicating a growth to \$93.2 billion by 2031, representing a compound annual growth rate (CAGR) of 6.7% from 2022 to 2031. The market dynamics, influenced by the COVID-19 pandemic, witnessed disruptions in the supply chain, leading to regional variations in tea availability. While traditional tea outlets experienced reduced sales, the demand for loose-leaf and specialty teas surged, driven by changes in consumer habits and an increased emphasis on health and wellness.

The rising trend of health and wellness has played a pivotal role in driving the growth of the tea industry. Consumers are increasingly opting for teas with specific health benefits, such as stress reduction, improved digestion, enhanced immunity, and weight management. This shift in consumer preferences has opened new

avenues for innovation, diversification of product offerings, and strategic market expansions within the tea industry.

Accounting Ratios: An Essential Tool for Financial Analysis

Accounting ratios serve as crucial tools for analyzing financial statements, providing valuable insights into a company's financial performance and position. These ratios, expressed mathematically as percentages, fractions, or proportions, enable stakeholders, investors, and management to assess various aspects of a business. Accounting ratios are classified into different types, including liquidity ratios, solvency ratios, activity (turnover) ratios, profitability ratios, and valuation ratios.

Understanding accounting ratios is imperative for making informed business decisions, as these ratios reflect the relationships between different financial variables. However, it's essential to note that the accuracy and effectiveness of ratio analysis depend on the accuracy of the underlying financial statements. Any errors or discrepancies in financial statements can lead to misinterpretations and misguidance in decision-making.

LITERATURE REVIEW:

Financial ratios serve diverse purposes, playing a crucial role in evaluating a firm's financial health and performance. They are utilized for assessing a company's ability to meet its financial obligations, appraising business and managerial effectiveness, and adhering to statutory regulations governing a firm's performance. These ratios often become benchmarks, influencing and shaping performance outcomes. According to Whittington (1980), financial ratios have two primary applications: the traditional, normative use involves measuring a firm's ratio against a standard, while the positive use entails estimating empirical relationships for predictive purposes. The historical roots of normative use trace back to the late nineteenth century, particularly during the Civil War, when the ratio of current assets to current liabilities gained prominence for evaluating creditworthiness. On the other hand, the positive use involves forecasting future financial variables, such as predicting future profits based on sales and profit margin ratios. This positive use has extended into statistical models for predictive purposes, encompassing areas like corporate failure, credit rating, risk assessment, and testing economic hypotheses, with inputs derived from financial ratios. The preference for ratios over absolute values is rooted in facilitating comparisons by adjusting for size. However, the efficacy of ratios relies on their possessing appropriate statistical properties and conforms to the nature of the input data distribution, factors explored in subsequent sections.

RESEARCH OBJECTIVES:

The main objective of the present study is to analyse the financial health and performance of Jay Ambe Tea Company. Further the objectives are written briefly as below-

- Evaluate the financial performance of Jay Ambe Tea Company through a comprehensive ratio analysis.
- Conduct an in-depth analysis of the company's profitability to gain insights into its financial health.
- Assess the liquidity position of Jay Ambe Tea Company to understand its short-term solvency and operational capabilities.

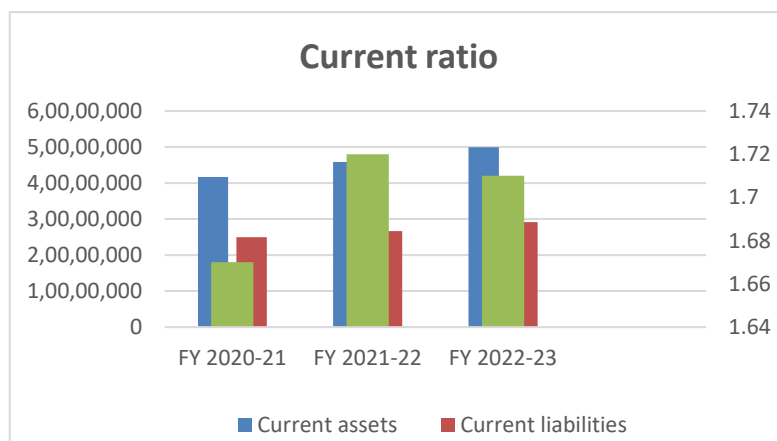
Research Methodology:

The present study uses an exploratory study in nature and used both primary and secondary data for analysis and exploring the unidentified factors.

Data Analysis & Interpretation:

1. **Current ratio = Current assets / Current liabilities**

	Current assets	Current liabilities	Current ratio
FY 2020-21	4,16,56,150	2,49,92,730	1.67
FY 2021-22	4,58,21,765	2,66,59,936	1.72
FY 2022-23	4,99,87,380	2,91,58,185	1.71

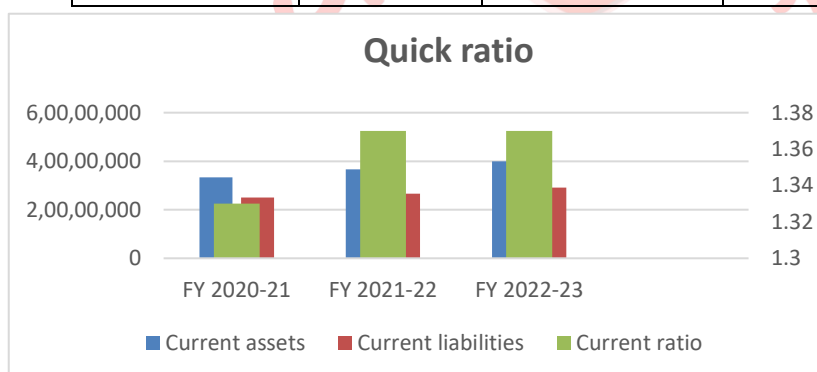


Interpretation: The standard norm for current ratios is 2:1. During the year 2020-2021 the current ratio is 1.67 and it has increased to 1.72 in the year 2021-22. And in 2022-23 it is 1.71. So, we can say that the company current ratio is in standard form.

2. Quick ratio = Current

Asset-Inventory / Current Liabilities

	Current assets	(-) Inventory	Current liabilities	Current ratio
FY 2020-21	4,16,56,150	83,30,910	2,49,92,730	1.33
FY 2021-22	4,58,21,765	91,64,001	2,66,59,936	1.37
FY 2022-23	4,99,87,380	99,97,092	2,91,58,185	1.37



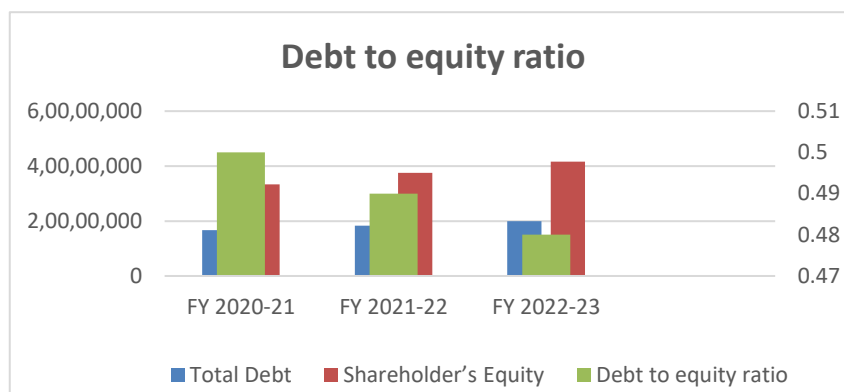
Interpretation: The quick ratio of 1.33 suggests a healthy liquidity position of the year 2020-21, and in the year 2021-22 the quick ratio increased to 1.37, indicating improved liquidity.

The stable quick ratio of 1.37 suggests consistent liquidity in

the next year 2022, with the company maintaining its ability to cover short-term obligations.

3. Debt to equity ratio = Total Debt / Shareholders' Equity

	Total Debt	Shareholder's Equity	Debt to equity ratio
FY 2020-21	1,66,61,820	3,33,23,640	0.50
FY 2021-22	1,83,28,002	3,74,89,095	0.49
FY 2022-23	1,99,94,184	4,16,54,550	0.48

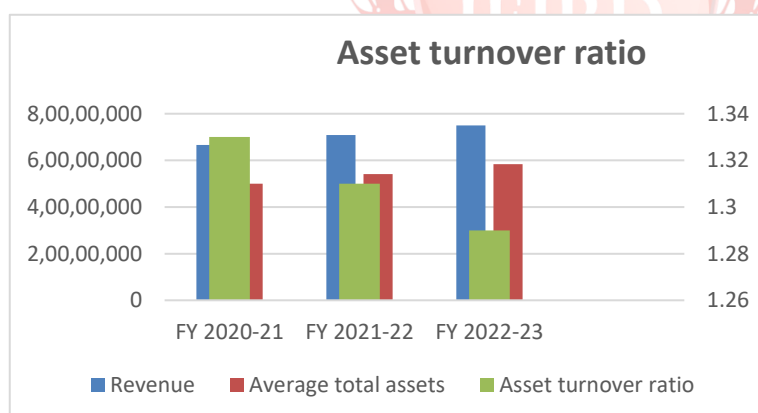


Interpretation: In the year 2020-21 the company had a debt to equity ratio of 0.50, indicating that for every percent of equity, there was 50 cents in debt and in following year

2021-22 the debt to equity ratio decreased slightly to 0.49, reflecting a continued balanced capital structure, the debt to equity ratio further decreased to 0.48 in year 2022 signalling a continued trend of prudent debt management and a relatively conservative financial structure.

4. Asset turnover ratio = Revenue / Average total assets

	Revenue	Average total assets	Asset turnover ratio
FY 2020-21	6,66,47,280	4,99,85,460	1.33
FY 2021-22	7,08,12,735	5,41,50,915	1.31
FY 2022-23	7,49,78,190	5,83,16,370	1.29



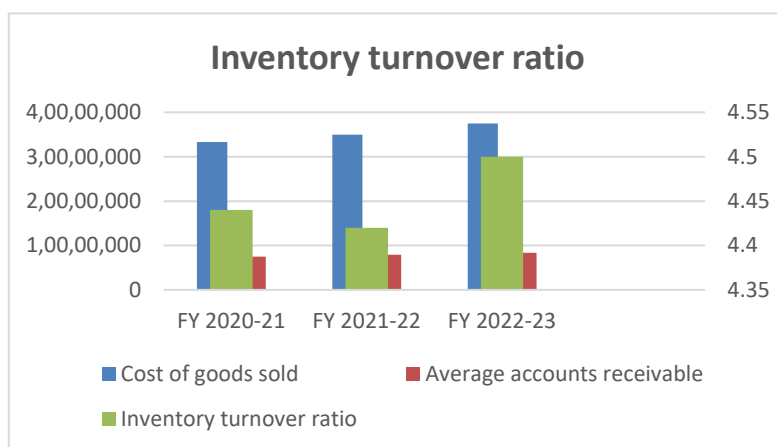
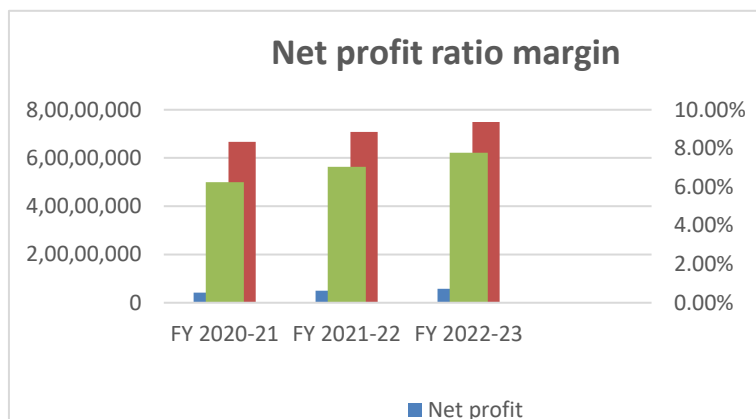
Interpretation: The company generated 1.33 in revenue in year 2020-21 of average total assets. And in year 2021-22 the asset turnover ratio decreased slightly to 1.31. And in the following year 2022-23 the trend continues with a further decrease to 1.29, indicating a relative decline in asset efficiency in generating revenue.

5. Net profit ratio margin = net profit / Revenue*100

	Net profit	Revenue	*100	Net profit ratio margin
FY 2020-21	41,65,455	6,66,47,280	100	6.25%
FY 2021-22	49,98,546	7,08,12,735	100	7.05%
FY 2022-23	58,31,637	7,49,78,190	100	7.77%

Interpretation: The company earned a net profit equivalent to 6.25% of its total revenue in FY 2020-21. The net profit margin increased to 7.05% in FY 2021-22, indicating improved profitability relative to revenue, the net profit margin further increased to 7.77% in FY 2022-23, showcasing improved profitability.

6. Inventory turnover ratio = Cost of goods sold/ Average accounts receivable



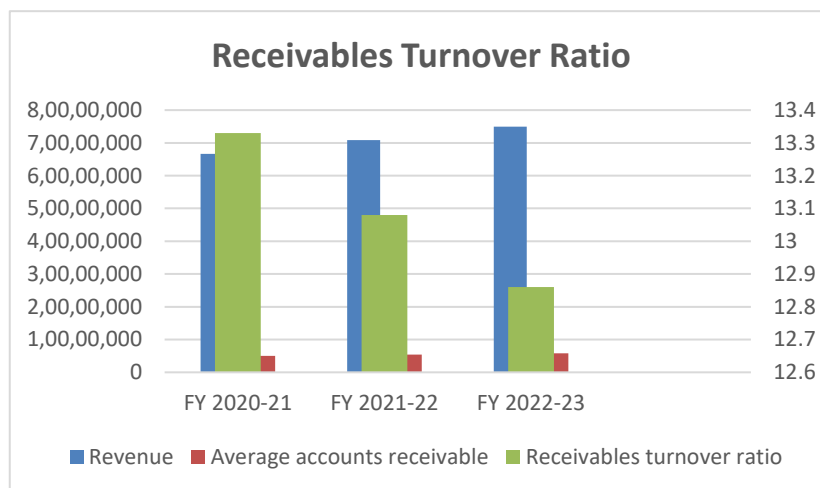
	Cost of goods sold	Average accounts receivable	Inventory turnover ratio
FY 2020-21	3,33,23,640	74,97,819.00	4.44
FY 2021-22	3,49,89,822	79,14,364.50	4.42
FY 2022-23	3,74,89,095	83,30,910.00	4.50

Interpretation: The company turned over its inventory approximately 4.44 times during FY 2020-21, the inventory turnover ratio remained relatively consistent at 4.42 in FY 2021-22. The inventory turnover ratio increased to 4.50 in FY 2022-23, suggesting a slight improvement in the efficiency of inventory turnover.

7. Receivables Turnover Ratio: Revenue /Average Accounts Receivable

	Revenue	Average accounts receivable	Receivables Turnover Ratio
FY 2020-21	6,66,47,280	4998546.00	13.33
FY 2021-22	7,08,12,735	5415091.50	13.08
FY 2022-23	7,49,78,190	5831637.00	12.86

Interpretation: The company collected its accounts receivable approximately 13.33 times during FY 2020-



21, The turnover ratio remained strong at 13.08 in FY 2021-22, reflecting continued efficiency in collecting accounts receivable, the ratio slightly decreased to 12.86 in FY 2022-23, suggesting a small reduction in the efficiency of collecting receivables.

CONCLUSION:

The examination of financial ratios provides valuable insights into the financial health and performance of the company. The current ratio, though slightly below the standard norm, displays an improving trend, emphasizing the need for a detailed investigation into the components influencing current assets and liabilities. The stable quick ratio indicates consistent liquidity, yet industry benchmarks and business nature should be considered for a more nuanced evaluation. The declining debt to equity ratio reflects a prudent approach to debt management, contributing to a relatively conservative financial structure. However, a comparison with industry averages is recommended to gauge competitiveness. The decreasing trend in the asset turnover ratio suggests a relative decline in asset efficiency, necessitating further exploration of underlying factors. On a positive note, the increasing net profit margin signifies improved profitability, necessitating a closer examination of contributing factors such as cost management or pricing strategies. The slight improvement in the inventory turnover ratio implies effective inventory management, contributing to lower holding costs and improved cash flow. Conversely, the slight reduction in receivables turnover ratio signals a minor decline in the efficiency of receivables collection, prompting a thorough assessment of credit policies and economic influences. In summary, the company exhibits stable liquidity, conservative financial management, and improving profitability, while attention may be warranted regarding asset efficiency and receivables turnover.

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