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A Study on Financial Performance Analysis of VMS Agency, Tindivanam

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ABSTRACT
The study assesses the financial performance of VMS Agency, Tindivanam, over a five-year span (2019–2024). The study identifies the areas of strength, and areas for financial health improvement using important financial tools analysis like ratio analysis, trend analysis, and Vertical analysis. The result shows a resurgence in profitability, liquidity, operational effectiveness and solvency. In order to enhance overall financial performance, this paper makes strategic recommendations.
The research focuses on analysing secondary data, including annual reports, financial statements.

Keywords: Financial Analysis, Liquidity, Profitability, efficiency, VMS Agency

1. INTRODUCTION
Financial performance analysis is a critical tool for understanding a company's financial health and guiding stakeholders in decision-making. This study focuses on VMS Agency, a retail fuel dealer, using various financial metrics to evaluate its profitability, liquidity, and solvency. Financial statements provide a snapshot of the company's financial performance and position. These statements include the income statement, balance sheet, and cash flow statement. They offer valuable insights into revenue, expenses, assets, liabilities, and cash flows.

1.1 OBJECTIVES
- Evaluate the financial health of VMS Agency through financial statements.
- Assess efficiency and solvency via significant financial ratios.

2. REVIEW OF LITERATURE
Financial performance analysis of construction company before and during COVID-19 pandemic in Indonesia (2021) This study aims to analyse the impact of COVID-19 pandemic on construction companies in Indonesia by analysing significant differences on financial performance of a mall, hotel, and residential construction company in Indonesia named PT PP Properties before and during pandemic through return on asset, return on invested capital, return on equity, liquidity ratio, solvency ratio, profitability ratio, and activity ratio and also to increase literature on the subject of COVID-19 pandemic.
Financial performance of farmer producer companies of India: A study from 2013–2014 to 2018–2019 (2022) The prime objective of the study is to analyse and evaluate the financial performance of the FPCs in India.

The impact of integrated reporting on financial performance in India: a panel data analysis (2023) The study aims to determine the trend of Integrated Reporting (IR) practices and investigates its impact on operational performance (return on assets (ROA)) and firm value (Tobin's Q) of National Stock Exchange (NSE) listed companies in India.

Analysis of financial performance of public sector banks in India: CAMEL (2023) The purpose of this study is to determine the factors affecting the performance of public sector banks in India and the interrelationship between bank-specific determinants and performance of public sector banks.

Financial performance of the textile industry in India: the case of Haryana (2023) This study aims to evaluate the financial performance of the textile industry in Haryana located in the northern part of India. The study can assist in decision-making to all key stakeholders (Shareholders, management, government, tax authorities, debtors and creditors, among others) by identifying efficient and inefficient companies. Appropriate policies can be framed based on that knowledge.

3. RESEARCH METHODOLOGY

This study employs descriptive and exploratory research designs. Data was collected from secondary sources, including financial statements of VMS Agency. Financial tools used include:

- Liquidity Ratios
- Profitability Ratios
- Solvency Ratios

3.1 Collection of Data

For this research secondary data was collected from the company's books of accounts including financial reports like income statement, balance sheet and cash flow statement for the period of five years from 2020-24.

4. DATA ANALYSIS AND INTERPRETATION

4.1 CURRENT RATIO

The liquidity trend showed improvement, with the ratio rising from 0.56 in 2021 to 1.42 in 2024, indicating enhanced financial health.

Current Ratio = Current Asset/Current Liabilities

Year	Current assets	Current liabilities	Current ratio
2020	2,02,61,260	2,09,11,021	0.96
2021	1,57,28,147	2,79,09,110	0.56
2022	1,56,46,007	2,66,31,708	0.58
2023	2,00,01,070	2,97,56,872	0.67
2024	2,95,16,241	2,06,76,516	1.42

INFERENCE

- The current ratio declined from 0.96 in 2020 to a critical low of 0.56 in 2021, indicating increasing liquidity risk. Gradual improvements were seen in 2022 (0.58) and 2023 (0.67), but the ratio remained below 1, signalling continued challenges. In 2024, the ratio surged to 1.42, reflecting a strong liquidity position and improved financial health.
- The current ratio declined significantly from 2020 to 2021, showing increasing liquidity risk. However,

gradual improvement began in 2022 and 2023, culminating in a robust recovery in 2024.
- Overall, the declining trend from 1.32 to 0.75 signals increasing financial stress and a shrinking ability to meet interest obligations.

4.2 PROFITABILITY RATIOS

Gross Profit Ratio: Fluctuated between 3.45% (2021–22) and 1.71% (2022–23), showing the need for better cost control.

YEAR	GROSS PROFIT RATIO
2019-20	3.1%
2020-21	2.49%
2021-22	3.45%
2022-23	1.71%
2023-24	2.23%

INFERENCE

- 2019-20 (3.1%): A strong year with decent cost management and healthy profitability.
- 2020-21 (2.49%): Decline due to rising costs or pricing pressures.
- 2021-22 (3.45%): Improvement, likely from better cost control or favourable market conditions.
- 2022-23 (1.71%): Sharp drop, indicating operational challenges or higher expenses.
- 2023-24 (2.23%): Partial recovery, showing efforts to stabilize margins but still below earlier levels.
- The ratio reflects fluctuating efficiency, with a need for better cost control and pricing strategies to sustain profitability.

Net Profit Ratio: Declined steadily, reaching 0.23% in 2023–24, highlighting operational inefficiencies.

YEAR	NET PROFIT RATIO
2019-20	0.72%
2020-21	0.49%
2021-22	0.55%
2022-23	0.31%
2023-24	0.23%

INFERENCE

- 2019-20: The ratio was 0.72%, reflecting a relatively higher profitability.
- 2020-21: It decreased to 0.49%, indicating a drop in profitability.
- 2021-22: The ratio slightly improved to 0.55%, showing a small recovery.
- 2022-23: The ratio further decreased to 0.31%, suggesting reduced profitability.
- 2023-24: The ratio dropped again to 0.23%, marking the lowest profitability during the period.
- Overall, the net profit margin has steadily declined, which could indicate rising costs or other challenges impacting the business's ability to convert sales into profit.

3. SOLVENCY RATIOS

Interest Coverage Ratio: Dropped from 1.32 (2019–20) to 0.75 (2023–24), indicating financial strain.

YEAR	INTEREST COVERAGE RATIO
2019-20	1.32
2020-21	1.09
2021-22	1.13
2022-23	0.97
2023-24	0.75

INFERENCE

- 2019-20 (1.32): The company had enough earnings to cover its interest expenses comfortably, as the ratio was above 1.
- 2020-21 (1.09): The company still managed to cover its interest expenses, but the margin was smaller. It's a sign of slightly reduced financial strength.
- 2021-22 (1.13): The company's ability to cover interest was stable and marginally better than the previous year.
- 2022-23 (0.97): The ratio dropped below 1, indicating that the company earned less than its interest expenses, which may lead to difficulties in meeting its obligations.
- 2023-24 (0.75): The company's ability to cover interest expenses further declined, suggesting significant financial strain. With an ICR below 1, the company is at risk of defaulting on interest payments without additional sources of income or financing.
- Overall, the declining trend from 1.32 to 0.75 signals increasing financial stress and a shrinking ability to meet interest obligations.

Debt Ratio: Increased from 0.65 (2021–22) to 0.88 (2023–24), suggesting higher reliance on debt.

YEAR	DEBT RATIO
2019-20	1.06
2020-21	1
2021-22	0.65
2022-23	0.81
2023-24	0.88

INFERENCE

- The increasing Debt Ratio suggests the company is using debt more actively to fund operations or investments, which might signal growth efforts but also adds financial risk. While the ratio is still less than 1, indicating assets exceed liabilities, the increasing trend signals that the business is gradually taking on more debt or its asset base is shrinking relative to liabilities.

FINDINGS

- The study reveals an inconsistent financial performance, with significant improvements in liquidity but persistent challenges in profitability and solvency.
- These results underscore the need for strategic cost management and debt optimization.

- The declining trend from 1.32 to 0.75 signals increasing financial stress and a shrinking ability to meet interest obligations.
- The business showcased resilience and growth post-pandemic but faces challenges in maintaining peak efficiency, requiring focused cost control and revenue optimization

CONCLUSION

The financial performance of VMS Agency over the five-year period reflects both resilience and challenges. The improvement in liquidity ratios is a testament to effective financial planning and short-term solvency management. However, declining profitability and solvency ratios point to deeper issues in operational efficiency and strategic financial management. A declining ICR suggests that the company may face challenges in securing additional loans or financing. It also increases the risk of default, which could lead to legal or reputational issues if left unaddressed. A strategic approach to balancing operational efficiency with scalability will be crucial for reversing the decline and achieving long-term financial stability.

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