AN INVESTIGATION OF FINANCIAL PERFORMANCE OF MESFIN INDUSTRIAL ENGINEERING PRIVATE LIMITED COMPANY IN TIGRAY REGION.

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ABSTRACT

In Ethiopia the contribution of manufacturing companies to economic growth is so minimal as compared to agriculture and services sectors. They are experiencing low return which is an indicator of poor financial performance. However, to remain competitive in the globalized economy, having good financial performance is highly imperative. Financial performance analysis is the process of determining the operation and financial characteristics of a firm from accounting and financial statements. Therefore, this research was aimed to address the financial performance of Mesfin industrial Engineering PLC company via financial ratios from audited financial statements. The research paper primarily based on secondary source of data adapted from audited financial statements published by the company. A time period of seven years from 2011 to 2017 was used to evaluate the financial stability of Mesfin Industrial Engineering PLC company. The findings from the analysis reveal that the liquidity ratio having a good measure of the financial position of an organization over a period of time and the solvency ratio implies that enough scope for the company to raise the long-term finance from the outsiders. The overall profitability of the company is good with evidence from return on investment recorded as high the efficient ratio performance gradually increases over a period of time. Hence, the application of various categories of ratios becomes more dependable indicators of the efficiency of a company. It concluded that, ratios analysis was the best way to evaluate the financial results of the company in order to measure its overall performance. Finally, the company had shown all results was very prominent and prospects of growth during the study period.

KEYWORDS: - Financial ratio, Mesfin Industrial Engineering Company, Liquidity, Profitability, Efficiency.

I. INTRODUCTION

Financial performance evaluation is important to the management, owners, customers, suppliers, competitors, regulatory agencies, tax payers and lenders each having their views in applying financial statement analysis in their evaluations and making judgments about the financial health of the organization (Habimana, et.al, 2017). The financial stability of a firm is associated with its ability to generate profit, increase the value of investing capital and at the same time repay its short- and long-term liabilities.
Assessment of financial performance is primarily based on various methods of financial analysis. The choice of methods is mainly influenced by the purpose of use, time criteria, character of information resources or the degree of algorithm development. The aim is to achieve the desired level of complexity in evaluating firm and its activities. In the practice of financial analysis, financial ratios are mainly used for their simplicity and additional information value (Renata & Myskova, 2017). Mesfin industrial engineering company an electromechanical and manufacturing sectors in throughout Ethiopia, which is active in manufacturing of low bed trailers, agricultural trailers, antenna towers, electromechanical erection works, renting and maintenance of heavy duty and light vehicles.

This study found that financial ratios analysis was the best tool that to evaluate its financial peformance and support to the decision making therefore, the company needs to analysis of profitability ratios, efficiency ratio, liquidity ratio and solvency ratio facilitate the Mesfin industrial engineering PLC company in good decision making.

II. OBJECTIVES OF THE STUDY

The main objective of the study was the evaluation of companies’ performance and through financial information. The following objectives are:

- To examine the short term and long term solvency of the company, whether ability to repay its debt or not.
- To assess the overall profitability and efficiency of the company using financial ratios.

III. REVIEW OF LITERATURE

The study focus on the overall financial position of the particular Mesfin Industrial engennerin PLC company during the specific period based on the selected variables, which may interest not only for the respective companies in the industry but also brings a process of development operational aspects of the entire industry. The study is much important to the management from the point of decision-making purpose, to identify the strength, weak as of the company and finally helps to maximize the intrinsic value of the company (Ramya & Kavitha, 2017).

This study was aimed at evaluating the financial performance of Mesfin Industrial engennerin PLC company in Tigray region, Ethiopia the period 2011 to 2017. To meet the objective of the study, secondary sources of data have been utilized. Accordingly, the results of the study reveal that the financial performance of the company had kept on improving, if not fluctuating over time. Besides, the bank has performed well in profit earning and efficiently managing its assets for generating revenue, whereas there is a need for improvement in its much dependence on outside financing and the high proportion of non-performing loans (Muhabie, Mekonnen & Mengistu, 2015).

The study made use of secondary data to obtain relevant financial information. The data were extracted from annual reports, audited financial statements, journals and publications of the company. The data collected were analyzed using different categories of ratios. The findings from the computations reveal that the net working capital is a good measure of the financial position of an organization over a period of time, but this is not enough to get a true and clear picture of the liquidity of the firm. Hence, the application of
various categories of ratios becomes more dependable indicators of the liquidity of a company than the net working capital (Ebenezer, et al., 2016).

IV. RESEARCH METHODOLOGY

The study has been undertaken for the period of seven years from July 2011 to June 2017. In order to analyze financial performance in terms of liquidity, solvency, profitability and financial efficiency in accounting ratios have been used. The various statistical measures have been used like arithmetic mean, trend growth rate, and multiple regression analysis for a test of hypotheses. In this study an attempt has been made for the financial performance of Mesfin industrial engineering private limited company to understand how to manage finance and to maintain the firm growth (Amalendu, 2016).

V. DATA ANALYSIS AND INTERPRETATION

The secondary data were collected subjected to various statistical ratio analyses. These results were computed and analyzed using different categories of ratios and the presented the following tables

1. Liquidity Ratio

It refers to the ability of a concern to meet its current obligation as and when these become due. The short term obligations are met by releasing amounts of current, floating or circulating assets. The current assets should either be liquid or near liquidity. These should be converted into cash for paying obligations of short term nature (Shashi et al., 2015).

\[ \text{a) Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \]

An indication of a company's ability to meet short term debt obligations; The higher the ratio, the more liquid the company is. Current ratio is equal to current assets divided by current liabilities. If the current assets of a company are more than industry averages, then that company is generally considered to have good short term financial strength. If current liabilities exceed current assets, then the company may have problems meeting its short term obligations (Amalendu, 2016).

\[ \text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current Liabilities}} \]

Where,
Quick asset = Current assets – Inventory

\[ \text{c) Cash Position Ratio} \]

A cash position represents the amount of cash that a company, investment fund or bank has on its books at a specific point in time. The cash position is a sign of financial strength and liquidity. In addition to the cash itself, this position often takes into consideration highly liquid assets, such as certificates of deposit, short-term government debt and other cash equivalents.

\[ \text{Cash position ratio} = \frac{\text{cash and Marketable securities}}{\text{Liquid Liabilities}} \]
Where,

Liquid liabilities = current liabilities – (bank overdraft + cash credit)

### Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Ratio</th>
<th>Liquid Ratio</th>
<th>Cash Position Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>2.839</td>
<td>1.132</td>
<td>0.202</td>
</tr>
<tr>
<td>2012</td>
<td>2.069</td>
<td>1.507</td>
<td>0.963</td>
</tr>
<tr>
<td>2013</td>
<td>2.702</td>
<td>0.472</td>
<td>0.215</td>
</tr>
<tr>
<td>2014</td>
<td>3.338</td>
<td>0.411</td>
<td>0.022</td>
</tr>
<tr>
<td>2015</td>
<td>3.117</td>
<td>0.785</td>
<td>0.310</td>
</tr>
<tr>
<td>2016</td>
<td>5.457</td>
<td>0.890</td>
<td>0.109</td>
</tr>
<tr>
<td>2017</td>
<td>4.759</td>
<td>0.832</td>
<td>0.016</td>
</tr>
<tr>
<td>Mean</td>
<td>2.190</td>
<td>0.861</td>
<td>0.262</td>
</tr>
<tr>
<td>SD</td>
<td>0.420</td>
<td>0.377</td>
<td>0.327</td>
</tr>
<tr>
<td>CV</td>
<td>0.192</td>
<td>0.438</td>
<td>1.246</td>
</tr>
</tbody>
</table>

(Source: Computed from Secondary data)

From the above table observed that, the company has more liquidity in the year 2016 on account of 5.457, but in the year 2012 current ratio was less than the average value of 2.190. It indicates that the company experienced an increase in current assets, but this was not sufficient enough to give an increase in net working capital due to increase in current liabilities. The ratio of 2:1 is considered and accepted as industry average. In case of Mesfin engennering company average is also the ideal point, in the seven years. A quick ratio of 1:1 is usually acceptable. It could be stated that a result of the computation of the seven year average was 0.861, and it is less than that of the acceptable industry average limit of 1:1. It concludes that a less profitable position. As per the cash position ratio represents the amount of cash that a company, investment fund or bank has on its books at a specific point in time. The cash position is a sign of financial strength and liquidity and the average value of 0.262 is more than the recommended value is between 0.2 and 0.5. Finally, the above three ratios measures the firm ability to repay the short term loans and having liquidity position is sufficient.

2. **Solvency Ratio**

The solvency ratio indicates whether a company's cash flow is sufficient to meet its long-term liabilities. The lower a company's solvency ratio indicates the greater the probability that it will default on its debt obligations. The example of long term solvency ratio was debt to equity ratio and total debt ratio.

a) **Debt to equity ratio**

It measures the relative claims of outsiders and the owners against the firm’s assets. This ratio indicates the relationship between the external equity and the internal equity funds. (Shashi k. Gupta et.al)

Debt-equity ratio = outsiders Funds / Shareholders’ Funds

b) **Debt to total capitalization**

The ratio establishes a link between the long term funds raised from outsiders and total long term funds available in the business.

Debt to Total capitalization = Long term debt / Total Capitalization *100

Total capitalization = owner’s equity + long term debt.
Table 2
Solvency Ratio for the Period from 2013 to 2017 of Mesfin Industrial Engineering company

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt to Equity Ratio</th>
<th>Debt to Total capitalization(Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1.452</td>
<td>0.779</td>
</tr>
<tr>
<td>2012</td>
<td>2.834</td>
<td>0.728</td>
</tr>
<tr>
<td>2013</td>
<td>5.444</td>
<td>0.466</td>
</tr>
<tr>
<td>2014</td>
<td>1.285</td>
<td>0.359</td>
</tr>
<tr>
<td>2015</td>
<td>1.056</td>
<td>0.259</td>
</tr>
<tr>
<td>2016</td>
<td>0.829</td>
<td>1.517</td>
</tr>
<tr>
<td>2017</td>
<td>0.661</td>
<td>1.230</td>
</tr>
<tr>
<td>Mean</td>
<td>1.937</td>
<td>0.762</td>
</tr>
<tr>
<td>SD</td>
<td>1.703</td>
<td>0.464</td>
</tr>
<tr>
<td>CV</td>
<td>0.879</td>
<td>0.609</td>
</tr>
</tbody>
</table>

Source: Computed from Secondary data

From the above table could be observed that, the debt equity relationship of the company during the study period. It was 5.444 in the year 2013 suddenly increases from the year 2012 value of 2.834. The average value of debt equity ratio was 1.937, but deviations from each year on account of 1.703, which indicates that the highly variable between the debt and equity capital in an origination during the study period. The ratio 1:1 may be usually considered to be a satisfactory level. It may conclude that the above information, in the year 2011, 2014, 2015, 2016 and 2016 secured the value of 1.452, 1.285, 1.056, 0.829 and 0.661 respectively, which implies that the a low ratio is considered as a favorable from the long term creditors’ point of view because a high proportion of owner’s funds provide a larger margin of safety for them. Hence, the company is not maintaining its debt position is time to time variability during this study period.

According to the debt to total capitalization ratio reveals that the highest value of 1.517 percentages in the year 2016 and the lowest value of in the year 2015 on account of 0.259 percentages. From the year 2012 to 2015 the ratio is lower than the average value of 0.762, which indicated that, most of the year using the lower debt finance that a result of the firm’s value might be an increase in the market. Beside that the company has not relied much on outside sources for raising the long term funds. There is enough scope for the company to raise the long term finance from the outsides.

3. Profitability Ratio

Profitability ratio is also known as profit margin ratios. They are used to evaluate the overall performance of a company and how well the company is performing in terms of profit. The ratios are indicators of the company’s efficiency in using the capital committed by shareholders and lenders (Venugopala & Ibrahim, 2017). The ROA, ROE, NPM, GPM and ROI ratios are selected for the present study.

a) Return on Assets (ROA)

It is a measure of financial performance of a company which takes the use of assets into account. Return on assets (ROA), often described as the primary ratio, relates the income earned by the bank to the assets it used in the business operation.

\[
\text{ROA} = \frac{\text{Net Income (or pre-tax profit)}}{\text{Total Assets}} \times 100
\]
It provides information about management’s performance in using the assets of the business to generate income. Profit before tax is generally ideal because calculations using net income after tax figures may show trends due simply to changes in the rates of taxation. (Gilbert Sebe and Yeboah, Charles Mensah)

b) Return on Equity (ROE)

It (ROE) is a measure of profitability that calculates the value of profit a company generates with each value of shareholders’ equity. In general, equity shareholders are more interested in the profitability of a company and the performance of a company should be judged on the basis of return on equity capital of the company. Return on equity capital, which is the relationship between profits of a company and its equity capital (Shashi et.al)

\[
\text{ROE} = \frac{\text{Net Income available to equity shareholder}}{\text{Shareholders'} Equity} \times 100
\]

c) Net Profit Margin (NPM)

It establishes a relationship between net profit (after taxes) and sales. It is determined by dividing the net income after tax to the net sales for the period and measures the profit of sales.

\[
\text{Net Profit Margin Ratio} = \frac{\text{Net Profit}}{\text{Net sales}} \times 100
\]

d) Gross Profit Margin (GPM)

This ratio expresses the relationship between Gross profit and sales. It indicated the efficiency of production or trading operation. A high gross profit ratio is a good management as it implies that the cost of production is relatively low (Idhayajothi, et.al, 2016).

\[
\text{Gross Profit Margin ratio} = \frac{\text{Gross Profit}}{\text{Net sales}} \times 100
\]

e) Return on Capital Employed (ROCE)

It establishes the relationship between profits and the capital employed. It is the primary ratio and is most widely used to measure the overall profitability and efficiency of a business. The term capital employed refers to the total investments made in a business. (Shashi k et.al,2017)

\[
\text{Return on Capital Employed} = \frac{\text{Operating Profit (EBIT)}}{\text{Capital Employed}} \times 100
\]

f) Return on Investment (ROI)

Return on investment ratio is used by financial analysts to ascertain the best investment plans. It is also an important tool used by investors and shareholders, while making investment decisions. A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. Return on Investment ratio for a company shows how much profit a company is making against the investments made by the shareholders and the investors. An investment with a higher ROI ratio is a more lucrative option as compared to an investment with a lower ROI ratio. (Amalendu Bhunia)

\[
\text{ROI} = \frac{\text{Net Profit}}{\text{Shareholder’s Funds}} \times 100
\]

Table 3

<table>
<thead>
<tr>
<th>Year</th>
<th>Return on Asset</th>
<th>Return on Equity</th>
<th>Gross Profit</th>
<th>Net Profit</th>
<th>Return on capital Employed</th>
<th>Return on Investment</th>
</tr>
</thead>
</table>
From the above table 3 shows that the various profitability ratios in which return on assets (ROA), in the year 2016 ratio of 38.102 percentages as high, whereas, in the year 2013 ratio of 8.449 percentages as low level. But, from 2011 to 2014 year recorded the less than average ratio of 19.978, which indicates that, for the company assets’ sole purpose is to generate revenues and produce profits gradually increases in the over a period of time. This ratio helps both management and investors see how well the company can convert its investments in assets into profits.

In case of return on equity reveals that, from beginning of the year have the highest value of return against the equity after that it’s gradually decreases. But the firm’s earned average return on equity value for the seven years on account of 41.592 percentages and deviation from the all year ratio was 16.366, which implies that the firm’s average return was good. Moreover, this ratio is more meaningful to the equity shareholders who are interested to know profits earned by the company and those profits which can be made available to pay dividend to them.

According to the gross profit ratio says that, the extent to which selling prices of goods per unit may decline without resulting in losses on operations of a firm. It reflects the efficiency with which a firm produces its products. As a result of the high gross profit ratio is better to the firm’s. From the above table indicates that, in the year 2016 recorded the highest gross profit and most of the year earned more profit as compared to average gross profit return of the company, initially four years earned as a less return. It concluded that, the firm’s gross profit gradually increases it meant by firm’s growth was good manner.

In case of net profit margin in the above table, in the year 2016 shows good return in the study period. From the year 2012 to 2014 recorded the less than the average return as well as deviation of net profit margin was on account of 2.347. It implies that, the firm’s capacity to face adverse economic conditions such as price fluctuation, competition and their low demand. It concludes that the company’s net profit margin slightly increases over a period of time.

From the above table reveals another important ratio of return on capital employed, in the year 2016 had secured a return on capital employed value of 59.806 percentages, which was the high return during the study period. For the first four years return value was less than the average value of 33.579 percentages, which indicated, the company earned less return against the total capital invested in the organization. In general, a higher percentage of return on capital employed will satisfy the owners that their money is profitably utilized, for this study in the year 2015 to 2107 performances was good more than the average. Therefore, the business has been expanding in the future.

At last of the above table shows that return on investment, which is most important to use for measuring the overall efficiency of a firm. As a result of a company is to maximize its earnings, the extent...
to which this primary objective of business is being achieved. In the year 2015 recorded highest return on investment whereas, 2013 had secured was less than the return as the study period. Moreover, in the year 2011 to 2013 shows that less than average and the deviation value of 5.604, which indicated that, the company had reached the optimizing the firm value as year by year since, 2014. Finally, the company overall efficiency was worthy.

4. Efficiency Ratio

Funds are invested in various assets in business to make sales and earn profits. The efficiency with which assets are managed directly affect the volume of sales. The better the management of assets, the larger is the amount of sales and the profits. These ratios are called turnover ratio because they indicate the speed with which assets are converted or turned over into sales.

a) Working Capital Turnover Ratio

The working capital turnover indicates the velocity of the utilization of networking capital. This indicates the number of times the working capital is turned over in the course of a year. It measures the efficiency with which the working capital is being used by a firm. A high ratio indicates the efficient utilization of working capital and a low ratio indicates otherwise.

Working capital turnover ratio = cost of goods sold / average working capital

b) Fixed Assets Turnover Ratio

The ratio indicates the extent to which the investments in fixed assets contribute towards sales. If compared with a previous year. It indicates whether the investment in fixed assets has been judicious or not.

Fixed assets turnover ratio = Net sales / Fixed Assets

c) Current Assets Turnover Ratio

An activity ratio measuring firm’s ability of generating sales through its current assets (cash, inventory, accounts receivable, etc.). However, higher current asset turnover comparing to competitors would indicate a high intensity of the current asset usage. The increasing trend of this ratio is a good sign because this means that the company is working on the consistent improvement of its policies in inventory, accounts receivable, cash and other current asset management.

Current Assets Turnover Ratio = Net sales / Current Assets

d) Inventory Turnover Ratio

Every firm has to maintain a certain level of of inventory of finished goods so s to be able to meet the requirements of the business. But the level of inventory should neither be too high nor too low. It would indicate whether inventory has been efficiently used or not. The purpose is to see whether only the required minimum funds have been looked up in inventory.

Inventory Turnover Ratio = Cost of goods sold / Average inventory

<table>
<thead>
<tr>
<th>Year</th>
<th>Working Capital Turnover</th>
<th>Fixed Assets Turnover</th>
<th>Current Assets Turnover</th>
<th>Inventory Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1.957</td>
<td>7.392</td>
<td>1.268</td>
<td>1.695</td>
</tr>
<tr>
<td>2012</td>
<td>1.815</td>
<td>5.943</td>
<td>0.938</td>
<td>2.419</td>
</tr>
</tbody>
</table>

Table 4

Efficiency Ratio for the Period from 2013 to 2017 of Mesfin Industrial Engineering PLC
<table>
<thead>
<tr>
<th>Year</th>
<th>Working Capital Turnover</th>
<th>Fixed Assets Turnover</th>
<th>Current Assets Ratio</th>
<th>Inventory Turnover Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1.893</td>
<td>5.682</td>
<td>0.725</td>
<td>1.296</td>
</tr>
<tr>
<td>2014</td>
<td>2.797</td>
<td>10.365</td>
<td>1.251</td>
<td>1.461</td>
</tr>
<tr>
<td>2015</td>
<td>2.490</td>
<td>10.873</td>
<td>1.296</td>
<td>1.565</td>
</tr>
<tr>
<td>2016</td>
<td>1.966</td>
<td>7.487</td>
<td>0.841</td>
<td>1.013</td>
</tr>
<tr>
<td>2017</td>
<td>1.398</td>
<td>5.102</td>
<td>1.066</td>
<td>1.557</td>
</tr>
<tr>
<td>Mean</td>
<td>2.045</td>
<td>7.549</td>
<td>0.230</td>
<td>0.437</td>
</tr>
<tr>
<td>SD</td>
<td>0.460</td>
<td>2.275</td>
<td>0.216</td>
<td>0.281</td>
</tr>
<tr>
<td>CV</td>
<td>0.225</td>
<td>0.301</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Computed from Secondary data

It could be observed from the above table, the working capital turnover ratio implies that, all years’ data would be less than the average of 2.045 except in the year 2014 and 2015. This implies that, utilization of capacity of working capital is less. The deviation of 0.406 was little fluctuation, which meant by the company’s ability to use gradually either increase or decrease in the study period. As per the fixed assets turnover ratio indication, the firm’s measures the efficiency with which a company uses its fixed assets to generate its sales revenue. For instance, in the above table shows that, from 2014 to 2016 higher than the average of 7.549 times. Which represent, these years efficiently generate the sales revenue when they utilize fixed assets.

According to the current assets ratio dealt with generating the sales revenue when their firms used the current asset. On the evidence from the above table except in the year 2012, 2013 and 2017 recorded the reasonable revenue that is, remaining period not enough revenue in an organization. It could be observed from 3.4, in the last element of inventory turnover ratio reveals, the neither higher nor lower value of inventory is best of the firm’s that is when the company earn a medium level of ratio is better. As per this record, from 2013 to 2017 period inventory turnover reasonable pattern, whereas remaining period as a normal. Finally, the firm should retain as certain levels of ratio depend on the nature and if have, the more inventory value it converts to sell as much as possible.

**VI. FINDINGS OF THE STUDY**

The following are the findings with regard to the analysis and interpretation of financial performance of the Mesfin Industrial Engineering PLC.

- The current ratio during the study period was good. Because of all years current ratio was more than the ideal value of 1:1 which indicated that the firm’s sufficient short term credit worthiness.

- The liquidity ratio during the study period is lower than the normal (i.e.) 1:1 except first two years. Hence, the firm is not controlling its stock position because there are linear relationship between current ratio and liquidity ratio. The cash position ratio also indicates, lower than ideal value, therefore a firm’s should keep that cash position as reasonable level.

- The debt equity relationship of the company had a low ratio except in the year 2103 and is considered as a favorable from the long term creditors’ point of view because a high proportion of owner’s funds provide a larger margin of safety for them. In case of the total debt capitalization ratio, most of the year using lower debt finance that a result of the firm’s value might be an increase in the market. There is enough scope for the company to raise the long term finance from the outsides.
The overall profitability of the company is good with evidence from return on investment recorded as high. However, for the first three years had less than return as compared the average value.

The efficient ratio performance gradually increases over a period of time. The firm’s efficient to use the current assets and the fixed assets for more productive as well as to retain minimum level of inventory as the closing period for every year.

VII. CONCLUSION

This research was an attempt to determine the financial performance of Mesfin Industrial Engineering Company in Ethiopia. By using the financial performance parameters like ratio analysis were tested for efficiency and liquidity position of the company. It can be concluded that, the company has initial period was secured the lowest efficiency, but over a period of time an increasing the efficiency of the firm. Further research, need to focus on the different financial statement analysis and the different period of the study.

REFERENCES


