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Aravind Krishnan R
Assistant Professor, Department of Management Studies, Nehru College of Management, Tamil Nadu, India

Dr. Koushik R
Assistant Professor Department of Management Studies, Nehru College of Management, Tamil Nadu, India

Dr. L Karthikeyan
Director, Department of Management Studies Nehru College of Management, Tamil Nadu, India

Sanjith Mohan
MBA Final Year Student, Department of Management Studies, Nehru College of Management, Tamil Nadu, India

Correspondence Author:
Aravind Krishnan R
Assistant Professor, Department of Management Studies, Nehru College of Management, Tamil Nadu, India

A study on the financial performance of Sharon extrusion Pvt. Ltd.

Aravind Krishnan R, Koushik R, L Karthikeyan and Sanjith Mohan

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Abstract
This study titled “A Study on the Financial Performance of Sharon Extrusions Pvt. Ltd.” Aims to evaluate the company’s financial health, profitability, liquidity, and overall growth efficiency over a selected period. The purpose of the study is to analyze key financial indicators, understand trends in revenue and cost structures, and assess how effectively the company utilizes its resources to generate returns. The objectives include examining financial statements to measure profitability, identifying factors affecting financial performance, comparing performance with industry standards, and suggesting strategies for improvement. The study also highlights the vital role of management in planning, controlling, and decision-making through effective financial management practices such as budgeting, cost control, working capital management, and investment decision.

Keyword: Financial performance, Profitability analysis, Liquidity analysis, Financial health, Resource utilization, Financial ratios, Cost control, Working capital management, Investment decisions, Sharon Extrusions Pvt. Ltd.

Introduction

Sharon Extrusions is a leading manufacturer of high-quality PVC pipes, committed to delivering exceptional products and services to its customers. With a strong focus on innovation and excellence, the company has established itself as a trusted name in the industry. Sharon Extrusions utilizes state-of-the-art technology and advanced manufacturing processes to produce a wide range of PVC pipes that meet international standards.

The company’s product portfolio includes a diverse array of PVC pipes, catering to various applications such as water supply, sewerage, irrigation, and industrial processes. Sharon Extrusions’ PVC pipes are renowned for their durability, corrosion resistance, and longevity, making them a preferred choice among customers. The company’s dedication to quality, customer satisfaction, and continuous improvement has enabled it to build a strong reputation in the market.

At Sharon Extrusions, the team of experienced professionals is dedicated to providing personalized solutions to meet the unique needs of each customer. With a strong emphasis on research and development, the company stays at the forefront of industry advancements, ensuring that its products remain competitive and innovative. By combining cutting-edge technology with a customer-centric approach, Sharon Extrusions has established itself as a leader in the PVC pipe manufacturing industry.

Objectives

- To evaluate the financial performance of Sharon pvc pipes
- To analyze the solvency of the company
- To financial leverage analysis
- To analyze the asset turnover ratio of the company
- To provide recommendation to enhance financial efficiency and long-term sustainability.

Review of Literature

- Rao (1993) has made a study about inter-company financial analysis of tea Industryretrospect and prospect. He wished to analyses the important variables of tea industry and projected future trends regarding sales and profit for the next 10-year periods, with a view to help the policy makers to take appropriate decisions. He has been calculated various financial ratios for analyzing the financial health of the industry. After the comparison of ratios, he has concluded that the forecast of sales and profits of tea manufacturing companies showed that the Indian tea industry has bright prospects. He has also revealed that the recent changes in the Indian economic policies may boost up the foreign exchange earnings, which may benefit those companies, which are exporting to hard currency areas.
- Pai, Vadivel & Kamala (1995) have studied about the diversified companies and financial performance. Main purpose of research was found out the relationship between diversified firms and their financial performance. For the purpose of research, they have selected seven large firms and analyzed those firm which having different products-both related and otherwise-in their portfolio and operating in diverse industries. In this study, a set of performance ratios was employed to determine the level of financial performance and variation in performance from one firm to another has been observed and statistically established. They revealed that the diversified firms studied have been healthy financial performance.
- Vijayakumar A. (1996) has studied about 'Assessment of Corporate Liquidity – a discriminate analysis approach' in this research he has revealed that the growth rate of sales, leverage, current ratio, operating expenses to sales and vertical integration was the important variables which determine the profitability of companies in the sugar industry. Also, he has studied the short-Term liquidity position in twenty-eight selected sugar factories in co-operative and private sectors. In research a discriminate analysis has been used by the researcher, to undertaken to distinguish the good risk companies from poor risk. Companies based on current and liquidity ratios. In this study discriminating 'Z' scores have been calculated with the help of discriminate function and according to the 'Z' scores the companies are ranked in the order of liquidity.
- Lounds (1998) studied on his research paper regarding "performance of Australian Government Trading Enterprises: An overview". He has provided an overview of GTE performance over the 5 years to 1996 using the IBIS Enterprise Database, following the method of analyzing firm performance as outlined by the steering committee (1998). He has made comparative analysis and its results indicate that there are large differences in performance across firms, and more particularly, across the industries. Assessing the performance of Government Trading Enterprises (GTEs) has become increasingly important in the context of the push towards privatization.
- Dhankar (1998) has studied about the criteria of performance measurement for business enterprises in India study of public sector undertakings. The author gives a new model for measuring the performance of a business enterprise in India, wherein, the basis is to compare its actual rate of return with its expected risk adjusted rate of return. Realizing the importance and controversy of public sector in India, an attempt was made to measure the performance of all public sector undertakings, which were started up to 1964 and were in operation until 1983. It is shocking to know that half of them on an average want to talk of making excess returns, have not been able to earn equal to their cost of capital.

Tools Used for Data Analysis

Various tools can be used analysing data. Here financial tools used for analysing the data are

1. Ratios Analysis

- Liquidity Analysis
- Leverage Analysis
- Activity Ratio
- Profitability Ratio

2. Trend Analysis

- Net Sales
- Fixed asset trend

3. Comparative Analysis

Ratio Analysis

Ratio analysis is a quantitative tool used in finance to evaluate a company's financial performance by examining relationships between various items in its financial statements (primarily the income statement and balance sheet). It helps stakeholders like investors, creditors, and management make informed decisions

Functional Classification of Ratios

In view of the requirement of the various users of' ratios, we may classify them into following four important categories:

1. Liquidity Ratio.
2. Leverage Ratio
3. Activity Ratios
4. Profitability Ratios

1. Liquidity Ratios

The term liquidity refers to the firm's ability to pay its current liabilities out of its current assets, Liquidity ratios are used to measure the liquidity position or short-term financial position of a turn. These ratios are used to assess the short-term debt paying ability. These ratios are highly useful to creditors and commercial banks that provide short term credit. Important liquidity ratios are:

a) Current Ratio

It is one of the oldest of all financial ratios, it was first used in 1891, Even today, it is the most common ratio for analysing liquidity or short-term financial position, Current ratio is defined as the ratio of current assets to current liabilities, it shows the relationship between total current assets and total current liabilities. It is also called the working capital ratio or banker's ratio. It is calculated as follows:

Current Ratio = Current Assets /Current Liabilities

This means that current assets shall be at least twice the current liabilities. This further means that after paying off the current liabilities, there should be sufficient margin of working capital.

b) Quick Ratio

It Is the ratio of liquid assets (or quick assets) to current liabilities. It is the measure of the instant debt paying ability of the business enterprise. It is also called acid test ratio. It is called so becausee the ratio is calculated to eliminate all possible liquid elements from current assets. It is also called near money ratio. It Is computed as follows:

Liquid Ratio = Liquid Assets / Current Liability

2. Leverage Ratios

The term solvency refers to the ability of a firm to pay its outside liabilities (i.e., both long term and short term). Solvency may be short term solvency or long-term solvency. Short term solvency refers to the ability of a firm to meet short term or current obligations in time. This is known as liquidity.

a) Debt-Equity Ratio

This ratio shows the relative proportion of shareholders' equity and debt used to finance the company's assets. A lower ratio is generally favorable as it implies less risk, while a higher ratio indicates higher leverage and financial risk.

Debt-Equity Ratio = Long-Term Debt / Shareholders' Funds

b) Fixed Assets to Net Worth Ratio

This ratio reveals how much of the owners' equity is locked up in fixed assets. A lower ratio means the company has more flexibility and less risk if it needs to liquidate assets.

Fixed Asset to Net Worth = Fixed Assets / Shareholders' Funds

c) Solvency Ratio

This ratio indicates the ability of a company to meet its long-term debts and obligations.
A higher solvency ratio indicates greater financial health.

Solvency Ratio = Shareholders' Funds / Total Assets

3) Turnover Ratios

a) Fixed Asset Turnover Ratio

This ratio measures how efficiently a company uses its fixed assets to generate sales. A higher ratio indicates efficient utilization of fixed assets.

Fixed Asset Turnover Ratio = Revenue from Operations / Fixed Assets

a) Current Asset Turnover Ratio

It shows how effectively the business is using its current assets to generate revenue. A higher ratio is generally a sign of good operational efficiency.

Current Asset Turnover = Revenue from Operations /Current Assets

b) Capital Turnover Ratio

This measures how effectively the capital employed (long-term funds) is used to generate sales. A higher ratio indicates more efficient use of capital.

4) Profitability Ratios

a) Net Profit Ratio

It shows the percentage of net profit earned from total sales. A higher ratio indicates better profitability and cost control.

Net Profit Ratio = Net Profit / Revenue from Operations

b) Return on Total Assets (ROTA)

This ratio measures how efficiently assets are used to generate profits. A higher ROTA shows better asset efficiency.

Return on Total Assets = Net Profit / Total Assets

c) Earnings Per Share (EPS)

EPS indicates the profit attributable to each equity share. It's a critical metric for investors to assess company performance and shareholder returns

d) Working Capital Turnover Ratio

This ratio assesses how efficiently the company uses its working capital (current assets – current liabilities) to generate sales. A higher ratio indicates better utilization of short-term funds

Working capital turnover ratio= Net sales/working capital

5) Trend Analysis

Trend analysis is a powerful tool for understanding patterns and predicting future outcomes in various fields, including business, finance, and marketing. By examining historical data, trend analysis helps identify patterns, such as upward or downward trends, seasonality, or cycles, which can inform decision-making and drive growth. This method enables businesses to anticipate and prepare for future challenges and opportunities, making it an essential component of strategic planning. Through trend analysis, companies can gain valuable insights into customer behaviour, market conditions, and financial performance, ultimately driving informed decision-making and improved planning

a) Trend Analysis on Sales

This analysis shows the growth or decline in sales over time, using the base year as a reference. It helps identify growth patterns, market performance, and business expansion.

Current year sales / base year *100

b) Fixed Asset Trend

This helps track how investment in fixed assets has changed over time. It's useful for understanding capital expenditure patterns and capacity expansion. A financial analysis that examines changes in a company's fixed assets (e.g., property, plant, and equipment) over time to understand investment patterns, growth strategies, and operational efficiency.

Current Fixed Asset / Base Year * 100

Methods of Trend Analysis
Trend analysis may be done in any of the following three ways:
- Trend Percentages
- Trend Ratio
- Graphic Method

Data Analysis and Interpretation

Liquidity Ratio
a) Current Ratio

Current Ratio = Current Assets / Current Liabilities

Table 1: Current Ratios

Year	Current asset	Current liabilities	Ratio
2020	9767.19	3923.22	0.84
2021	11054.47	4385.43	0.88
2022	11569.10.	4704.14	0.91
2023	12772.68	4861.08	1.11
2024	15322.53	4935.08	1.28

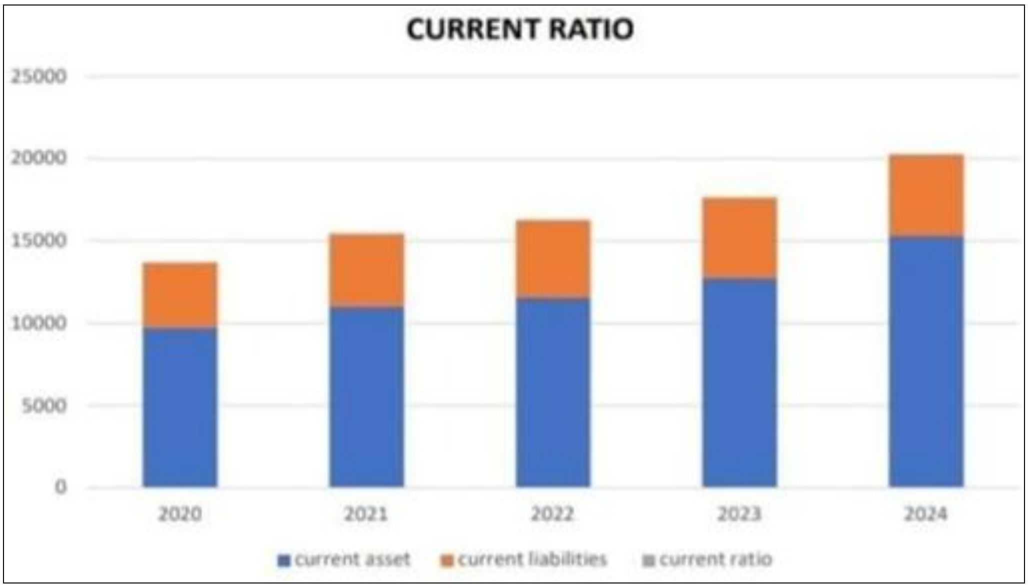

Fig 1: Current Ratio

Interpretation
The company's ability to meet short-term liabilities is strengthening year by year. A current ratio above 2 is generally considered good here, it shows very strong liquidity. However, too high a ratio like 3.5 could mean excess idle current assets (not using cash efficiently).

a) Quick Ratio

Quick Ratio = (Current Assets – Inventories) / Current Liabilities

Findings
The company's ability to meet short-term liabilities is strengthening year by year. A current ratio above 2 is generally considered good here, it shows very strong liquidity. However, too high a ratio like 3.5 could mean excess idle current assets (not using cash efficiently).
- The company's instant liquidity (without depending on inventory) has improved. A quick ratio above 1 is ideal. Sharon Pipes crossed that benchmark in 2023.Indicates strong short-term financial health without relying on selling inventory.
- The company has reduced its dependence on external long-term debt. A low debt-equity ratio indicates lower financial risk and stronger control by shareholders. Company moved from high risk (2020) to very safe by 2024.
- Fixed assets form a much smaller part of shareholders' funds now. Shows high financial strength and asset-light model trend. Company may be focusing more on working capital or trading, less on heavy investments in fixed assets.
- Shareholders' equity now funds a higher share of total assets. The company's long-term financial stability is strong and growing. Dependence on outsiders (borrowings) is reducing every year
- Each rupee of fixed asset is generating more sales now. Reflects efficient use of fixed assets. Higher ratio indicates better asset utilization and higher productivity
- Sales are increasing, but shareholders' funds are increasing even faster. Means the company is retaining more profits rather than distributing or leveraging them aggressively. Lower ratio indicates more internal funding but lower aggressive expansion.
- The Net Profit Margin has steadily increased from 0.27% in 2020 to 1.30% in 2024.This indicates better cost management, increased operational efficiency, and improved pricing power. Though the margin is still relatively low compared to high-margin industries, the consistent improvement shows the company is moving towards higher profitability. Five-fold increase in margin over 5 years shows strong financial turnaround.

Suggestions

- Invest in upgrading fixed assets to support future sales growth.
- Improve inventory turnover to reduce working capital blockage.
- Explore new domestic and international markets to boost revenues.
- Strengthen digital marketing and customer engagement platforms.
- Increase spending on product innovation and quality enhancement.
- Continue efforts to reduce debt and aim for a near debt-free balance sheet.
- Tighten credit control and collection policies to enhance cash flows.
- Adopt sustainability initiatives to improve environmental responsibility and brand value.
- Maintain strong liquidity reserves to manage market uncertainties and business risks.

Conclusions

The financial analysis of Sharon PVC Pipes based on its balance sheet over the past five years reveals a company that has consistently demonstrated growth and resilience. The share capital has remained stable, indicating a strong foundation of equity financing. However, the reserves and surplus have seen significant growth, which reflects the company's ability to generate profits and reinvest them into its operations. This consistent increase in retained earnings showcases the company's improving financial health and its ability to build a buffer for future growth and potential challenges.

The long-term borrowings have shown fluctuations, with a decrease in some years and a slight increase in others. This suggests that the company has managed its debt cautiously, paying down liabilities during periods of profitability and taking on more debt when necessary to fund growth initiatives. The overall leverage seems well-managed, maintaining a balance between internal funding and external financing.

From a liquidity perspective, the increase in current assets, particularly inventories and receivables, indicates that the company has been expanding its operations and sales. This, however, also raises concerns about working capital management, as higher inventories and receivables can lead to increased strain on cash flows. Nonetheless, the steady increase in current liabilities, especially trade payables, suggests that the company has been effectively managing its short-term obligations by negotiating favourable payment terms with suppliers.

The company's fixed assets have experienceed a declining trend in some years, primarily due to depreciation, but have remained an essential part of its investment strategy, enabling it to maintain operational efficiency. Deferred tax assets have steadily increased, reflecting prudent tax management and the use of tax benefits from past losses or deductions.

Overall, Sharon PVC Pipes appears to be a financially stable company with a solid track record of growth, efficient asset management, and a clear strategy for balancing debt and equity. However, there is an opportunity for improvement in working capital management and a focus on optimizing inventory and receivable turnover to enhance liquidity. Going forward, the company could benefit from continued strategic investments in fixed assets to support its growth objectives while maintaining its solid financial position.

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