

PROFITABILITY ANALYSIS USING FINANCIAL RATIOS: A CASE STUDY OF GOLDIAM INTERNATIONAL LTD, INDIA

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ABSTRACT

This study examines the profitability and financial performance of Goldiam International Ltd., a key player in India's diamond and diamond jewellery industry, over the period 2017 to 2022. Using a range of financial ratios across liquidity, solvency, efficiency, profitability, and market value dimensions, the analysis provides a comprehensive view of the company's financial health. The findings reveal that while Goldiam exhibits strong solvency—evidenced by a consistently low debt ratio, favourable debt-to-equity ratio, and high interest coverage—it faces challenges in liquidity, with all key liquidity ratios remaining below the ideal threshold throughout the study period.

Profitability indicators such as Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS) show an upward trend, reflecting sound financial management and improved operational performance. However, the company's gross profit margin remains below industry standards, signalling possible pricing or cost issues. Efficiency ratios show mixed results, with positive trends in inventory turnover but weaknesses in asset and receivables management. Market value indicators suggest that the company's stock remains reasonably valued, with strong investor appeal. Overall, Goldiam demonstrates financial stability and growth potential, but improvements in liquidity and operational efficiency are necessary to support long-term sustainability.

Key words: Profitability, Financial Ratios, Diamond

1. INTRODUCTION

India has long been recognized as a global hub in the diamond industry, particularly in the cutting, polishing, and export of diamonds and diamond-studded jewellery. The Indian diamond sector accounts for over 90% of the world's diamond cutting and polishing by volume (GJEPC, 2023). The sector contributes significantly to India's economy, representing a major share of the country's \$40+ billion gem and jewellery exports (Ministry of Commerce & Industry, 2023).

The profitability of the Indian diamond industry, however, is influenced by a complex mix of factors. These include global fluctuations in rough diamond prices, variability in labour costs, technological advancements in synthetic diamonds, and evolving consumer demand trends in key markets like the United States, Europe, and the Middle East (De Beers Group, 2022). While India has a comparative advantage in labour-intensive manufacturing processes, rising operational costs, shifting trade policies, and regulatory uncertainties are putting pressure on profit margins.

Goldiam International Ltd. stands as a prominent example of a vertically integrated player within India's diamond and diamond jewellery industry. Established in 1986 and headquartered in Mumbai, the company specializes in the manufacturing and export of diamond-studded gold and platinum jewellery, catering primarily to markets in the United States and Europe. Goldiam has strategically positioned itself by embracing ethical sourcing,

digital transformation, and the growing demand for lab-grown diamonds (LGDs), which now form a substantial part of its product portfolio. The company's profitability is supported by its lean operating model, in-house design capabilities, and focus on B2B e-commerce distribution. Notably, its shift towards LGDs has allowed it to maintain higher margins amidst rising competition and fluctuating natural diamond prices. Goldiam's performance reflects broader trends in the Indian jewellery export sector, where innovation, sustainability, and value-chain integration are becoming critical to maintaining profitability in an evolving global market landscape (Goldiam International Ltd., 2023; BSE India, 2023).

This study aims to critically analyze the profitability dynamics within the manufacturing and distribution value chain of Goldiam International Ltd. By examining cost structures, revenue patterns, and margin trends across key financial ratios, the research will shed light on the financial sustainability of Goldiam International Ltd. The analysis will also explore policy implications and strategic responses required to maintain competitiveness in a rapidly evolving global jewellery market.

2. LITERATURE REVIEW

Financial analysis serves as a vital tool for evaluating a company's performance and identifying trends that support informed decision-making. It involves transforming raw financial data into interpretable and actionable insights, with financial ratios playing a central role in this analytical framework (Robinson et al., 2015). These ratios are constructed from logical relationships among items within the financial statements and offer a structured method for assessing key aspects of a company's financial health and operational effectiveness.

Financial ratios—such as those measuring liquidity, solvency, profitability, and efficiency—offer meaningful comparisons between assets and liabilities or revenues and expenses. These ratios provide a snapshot of a firm's financial condition through the balance sheet, and its performance through the income statement. Analysts use them to evaluate performance either at a specific point in time or across multiple reporting periods. While external stakeholders, including investors, use ratio analysis to assess the investment potential of a company, internal users, such as managers, rely on these tools for budget variance analysis, performance tracking, and strategic planning. Moreover, companies often employ peer comparison or benchmarking through ratio analysis to evaluate their standing within the industry (Ross et al., 2015).

A substantial body of research has utilized financial ratios to assess corporate performance across various industries and geographies. For instance, Mohammadi and Malek (2012) applied ratio analysis to evaluate a Malaysian manufacturing firm's performance, while Karim and Alam (2013) examined private sector banks in Bangladesh using similar tools. Innocent (2013) investigated the link between ratio analysis and profitability in the Nigerian pharmaceutical sector from 2001 to 2011. Sultan (2014) analyzed the performance of Baghdad's soft drink industry using five key financial ratios: Profit Margin, Return on Assets (ROA), Return on Equity (ROE), Capital Turnover Ratio, and Expense Ratio.

Further studies include Adam (2014), who explored the financial health of Erbil Bank in Iraq's Kurdistan Region during 2009–2013, and Erdogan et al. (2015), who evaluated the influence of various financial ratios on firms listed on the Borsa Istanbul-30 index from 2002–2013. Anand (2017) conducted a comparative ratio analysis to examine the financial standing of Maruti Suzuki India Ltd., while Otekunrin et al. (2018) studied the relationship between financial ratios and market share prices in selected Nigerian agricultural firms following the adoption of International Financial Reporting Standards (IFRS). Anthony et al.

(2019) incorporated Data Envelopment Analysis (DEA) alongside ratio analysis to evaluate the financial performance of Indian chemical companies from 2010 to 2018. More recently, Rachman et al. (2023) investigated how financial ratios impact the performance of property and real estate companies listed on the Indonesia Stock Exchange during the 2016–2020 period.

3. METHODOLOGY

3.1. Financial ratio analysis

To conduct the financial ratios analysis, the financial ratios considered and the formulas used are displayed in Table 1.

Table 1. Description of Financial Ratios

| Category | Ratio Name | Formula | Purpose |
|--------------------------|-----------------------------|--|---|
| Liquidity Ratios | Current Ratio | $Current\ Assets / Current\ Liabilities$ | Measures short-term solvency. |
| | Quick Ratio | $(Current\ Assets - Inventory - Prepaid\ Expenses) / Current\ Liabilities$ | Assesses immediate liquidity. |
| | Cash Ratio | $Cash\ \&\ Equivalents / Current\ Liabilities$ | Evaluates cash-based liquidity. |
| | Operating Cash Flow Ratio | $Operating\ Cash\ Flow / Current\ Liabilities$ | Shows ability to pay liabilities using cash flow. |
| Solvency Ratios | Debt Ratio | $Total\ Debt / Total\ Assets$ | Shows debt proportion in assets. |
| | Debt-to-Equity Ratio | $Total\ Debt / Equity$ | Indicates financial leverage. |
| | Interest Coverage Ratio | $(EBIT + Interest\ Expense) / Interest\ Expense$ | Assesses interest payment capacity. |
| | Debt Service Coverage Ratio | $Net\ Operating\ Income / Total\ Debt\ Service$ | Evaluates total debt servicing ability. |
| Efficiency Ratios | Asset Turnover Ratio | $Net\ Sales / Avg.\ Total\ Assets$ | Measures asset utilization. |
| | Inventory Turnover Ratio | $COGS / Average\ Inventory$ | Shows inventory efficiency. |
| | Receivables Turnover Ratio | $Net\ Credit\ Sales / Avg.\ Accounts\ Receivable$ | Assesses receivable collections. |
| | Days Sales in Inventory | $(Avg.\ Inventory \times 365) / COGS$ | Average inventory holding period. |

| Category | Ratio Name | Formula | Purpose |
|-----------------------------|--------------------------|--|--|
| Profitability Ratios | Gross Profit Margin | <i>Gross Profit / Net Sales</i> | Reflects cost control in production. |
| | Operating Profit Margin | <i>EBIT / Net Sales</i> | Shows operational efficiency. |
| | Return on Assets (ROA) | <i>Net Income / Avg. Total Assets</i> | Indicates asset productivity. |
| | Return on Equity (ROE) | <i>Net Income / Shareholders' Equity</i> | Measures return on investors' funds. |
| Market Value Ratios | Book Value per Share | <i>Total Equity / No. of Shares Outstanding</i> | Indicates per-share equity worth. |
| | Dividend Yield | <i>Dividend per Share / Market Price per Share</i> | Shows investment return via dividends. |
| | Earnings Per Share (EPS) | <i>Net Income / Avg. No. of Common Shares</i> | Indicates earnings per share. |
| | Price-to-Earnings Ratio | <i>Market Price per Share / Earnings per Share</i> | Reflects market expectation of earnings. |

3. DATA ANALYSIS AND INTERPRETATION

Data for the present study is the secondary data derived from Annual Reports of the Company from 2015-16 to 2021-22.

3.1 Liquidity Ratios

Table 1. shows the various liquidity ratios from 2017-2022.

Table 1. Liquidity Ratios

| Year | Current Ratio | Acid-Test Ratio | Cash Ratio | Operating Cash Flow Ratio |
|---------|---------------|-----------------|------------|---------------------------|
| 2017 | 3.62 | 0.550 | 0.13 | 0.031 |
| 2018 | 3.73 | 0.609 | 0.25 | -0.030 |
| 2019 | 4.74 | 0.625 | 0.74 | 0.181 |
| 2020 | 4.81 | 0.668 | 0.61 | 0.134 |
| 2021 | 4.06 | 0.687 | 0.70 | 0.079 |
| 2022 | 5.59 | 0.613 | 0.85 | -0.015 |
| Average | 4.43 | 0.625 | 0.10 | 0.063 |
| Max | 5.59 | 0.687 | 0.13 | 0.181 |
| Min | 3.62 | 0.550 | 0.03 | -0.030 |

The following are the key observations from the table:

- Goldiam has a comparatively low current ratio from 2017 to 2022 . This indicates that the company has a poor ability to pay its short-term obligations, which is a negative sign.
- Goldiam’s acid test ratio value was always less than 1 from 2017 to 2022 which shows that it does not have sufficient liquid assets to cover its liabilities.
- Company's cash ratio remains consistently less than 1 during the study period implying that the company does not have sufficient cash on hand to cover its short-term debt obligations.
- The value of cash flow ratio is always less than 1 from 2017 to 2022 (sometimes being negative) which indicates that the company is having difficulty generating enough cash from its operations to cover its current liabilities.

3.2 Financial Leverage Ratios

Table 2 depicts the financial leverage ratios of the company from 2017-22.

Table 2. Financial Leverage Ratios

| Year | Debt Ratio | Debt to Equity Ratio | Interest Coverage Ratio | Debt Service Coverage Ratio |
|---------|------------|----------------------|-------------------------|-----------------------------|
| 2017 | 0.069 | 0.09 | 13.16 | 24.68 |
| 2018 | 0.077 | 0.10 | 16.90 | 43.59 |
| 2019 | 0.054 | 0.07 | 24.78 | 23.87 |
| 2020 | 0.015 | 0.02 | 32.51 | 141.83 |
| 2021 | 0.037 | 0.04 | 35.50 | 200.14 |
| 2022 | 0.006 | 0.01 | 38.33 | 177.52 |
| | | | | |
| Average | 0.042 | 0.05 | 26.86 | 101.93 |
| Max | 0.077 | 0.10 | 38.33 | 200.14 |
| Min | 0.006 | 0.01 | 13.16 | 23.87 |

The main findings of this analysis are as follows:

- For Goldiam Ltd, the value fluctuates from 0.07 in 2017 to 0.01 in 2022, with a peak of 0.076 and an average of 0.042. This is very good as it indicates that the company is virtually debt free. This can attract investors as the amount of debt relative to its assets is low.
- The debt to equity ratio value falls significantly during the 6 year period with a peak of 0.1 and an average of 0.05. This is very good as the amount of liabilities is less relative to the shareholders’ equity.
- The interest coverage ratio has average of 26.86 showing that the company is generating significant amount of earnings relative to its interest expenses which provides a cushion in case of any unexpected downturns in business.
- Debt Service Coverage Ratio has an average of 101.93 reflecting that the company's capacity to service its total debt, considering both principal and interest payments is strong.

3.3 Efficiency Ratios

Table 3 shows the efficiency ratios of the company from 2017-22.

Table 3. Efficiency Ratios

| Year | Asset Turnover Ratio | Inventory Turnover Ratio | Receivable Turnover Ratio | Day Sales in Inventory Ratio |
|---------|----------------------|--------------------------|---------------------------|------------------------------|
| 2017 | 0.520 | 2.66 | 2.96 | 141.00 |
| 2018 | 0.281 | 2.33 | 3.11 | 174.00 |
| 2019 | 0.421 | 3.65 | 4.59 | 123.00 |
| 2020 | 0.377 | 3.65 | 3.95 | 90.98 |
| 2021 | 0.408 | 4.04 | 3.54 | 52.05 |
| 2022 | 0.690 | 4.84 | 4.46 | 47.18 |
| Average | 0.450 | 3.53 | 3.77 | 104.70 |
| Max | 0.690 | 4.84 | 4.59 | 174.00 |
| Min | 0.281 | 2.33 | 2.96 | 47.18 |

Following are the observations drawn after a careful study of Table 3:

- The asset turnover ratio of the company ranges between 0.281 and 0.690. This suggests that the company may need to explore ways to enhance the efficient utilization of both fixed and current assets to generate higher sales.
- The ideal inventory turnover ratio is between 5 to 10, meaning the company willsell and restock inventory roughly every one to two months. Goldiam is on a steady rise in this aspect in the past few years which is indicative of good times ahead.
- A good value for Receivables Turnover ratio is 7.8 and any higher value is favorable for the business. For Goldiam Ltd, the value fluctuates with a minimum of 2.96 and a maximum of 4.65, averaging out at 2.96, which is poor compared to industry's standards.
- For Goldiam Ltd, the day sales in inventory ratio fluctuates between a minimum of 47 and a maximum of 174, averaging out at 104.7 over 6 years, which is not that good but can be improved.

3.4 Profitability Ratios

The profitability ratios of the company from 2017-22 are shown in Table 4.

Table 4. Profitability Ratios

| Year | Gross Margin Ratio | Operating Margin Ratio | Return on Assets Ratio | Return on Equity Ratio |
|------|--------------------|------------------------|------------------------|------------------------|
| 2017 | 0.3440 | 11.53 | 4.56 | 6.17 |
| 2018 | 0.332 | 11.72 | 4.25 | 5.75 |
| 2019 | 0.363 | 16.51 | 10.44 | 12.91 |
| 2020 | 0.328 | 18.23 | 11.03 | 13.52 |
| 2021 | 0.456 | 21.07 | 11.97 | 15.80 |

| | | | | |
|---------|-------|-------|-------|-------|
| 2022 | 0.361 | 22.51 | 19.19 | 23.33 |
| | | | | |
| Average | 0.364 | 16.92 | 10.24 | 12.91 |
| Max | 0.456 | 22.51 | 19.19 | 23.33 |
| Min | 0.328 | 11.53 | 4.25 | 5.75 |

The key observations about profitability ratios are:

- A gross margin ratio of 0.5 to 0.7 would be considered healthy. Any value below that indicates that a company is under-pricing, and for a higher value, the company can make reasonable profit on sales as long as it keeps overhead costs in control. For Goldiam Ltd, the maximum value is 0.456 over 6 years, hence the company is under-pricing.
- In the case of Goldiam Ltd, the operating margin ratio value fluctuates between 11.53 in 2017 and 22.51 in 2022 with an average of 16.92, which is ideal.
- ROA is steadily increasing from 2017 to 2022 which is a very good sign. A negative ROA is a sign that a business is not obtaining the expected benefits, or that is generating losses.
- The ROE value is increasing at a very fast rate and a max of 23.33 with an average of 12.91 is very good compared to industry standards.

3.5 Market Value Ratios

Table 5 depicts the market value ratios of the company from 2017-22.

Table 5. Market Value Ratios

| Year | Book Value per Share Ratio | Dividend Yield Ratio | Earnings per Share Ratio | Price Earnings Ratio |
|---------|----------------------------|----------------------|--------------------------|----------------------|
| 2018 | 147.45 | 2.52 | 1.64 | 7.24 |
| 2019 | 170.92 | 4.09 | 4.32 | 3.40 |
| 2020 | 187.33 | 7.35 | 4.23 | 4.18 |
| 2021 | 217.04 | 2.35 | 6.62 | 10.29 |
| 2022 | 48.27 | 0.79 | 11.13 | 13.59 |
| | | | | |
| Average | 154.202 | 3.42 | 5.588 | 7.74 |
| Max | 217.04 | 7.35 | 11.13 | 13.59 |
| Min | 48.27 | 0.79 | 1.64 | 3.40 |

Significant observations about Market Value Ratios are:

- Book Value Per Share (BVPS) is increasing every year implying that the stock is valuable. Till 2021, the stock of the company is undervalued as its BVPS is more than its Market Value Per Share (MVPS).
- A high dividend yield ratio indicates that the company is distributing a better share of its profit to its shareholders. A good dividend yield ratio value is between 2 and 6 and higher is better. Any value less than that means that the company is reinvesting more money back into the business for expansion. For Goldiam Ltd, the company is allocating fair share of its revenue to the shareholders.
- Goldiam Ltd had a steady increase in EPS from 2017 to 2018 which is a very good sign.
- Goldiam does a great job in keeping the PE ratio at an average of 7.74 which is well below the threshold value. A higher P/E ratio suggests the market is willing to pay more for each unit of earnings, possibly indicating higher market expectations.

4. CONCLUSION

The financial analysis of Goldiam International Ltd. (2017–2022) reveals a strong long-term financial position but notable short-term liquidity concerns. The company consistently showed low liquidity ratios, indicating limited ability to meet short-term obligations, which may pose operational risks.

On the positive side, Goldiam is virtually debt-free, with low debt and debt-to-equity ratios. Its high interest and debt service coverage ratios reflect strong solvency and earnings capacity, enhancing investor confidence.

Profitability metrics are robust, with rising ROA, ROE, EPS, and a healthy operating margin, though the gross profit margin remains below ideal, suggesting potential under-pricing or high direct costs.

Efficiency ratios offer mixed insights—inventory turnover has improved, but receivables turnover and asset utilization remain weak, indicating room for operational refinement.

The company's market value indicators—increasing BVPS, fair dividend yield, and a modest P/E ratio—suggest it remains attractively valued with steady shareholder returns.

Overall, Goldiam shows strong profitability and financial stability, but improving liquidity and asset efficiency will be key to sustaining growth and competitiveness.

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