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An In-Depth Comparison of the Financial Metrics Based on Ratio Analysis- Rockwell and ABB

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ABSTRACT

Energy is necessary for any nation's economic expansion. When the energy supply ceases, the power of energy becomes apparent. The entire way of life ceases! It is impossible to estimate the significance of our energy dependence. Numerous forms of energy exist. The most important type of energy is electrical energy. As we all know, energy can never be created or destroyed; It takes various forms. In a similar vein, it may make use of electrical energy in any manner across various industries. One of the greatest gifts that science has bestowed upon humanity is electricity.

Strangely, the amount of electrical energy consumed per person also contributes to a nation's development. To ascertain their financial situation, the researcher selected the two leading electrical multinationals in the current study. A comparison of ABB and Rockwell's financial performance using ratio analysis forms the basis of this study.

INTRODUCTION

The process of carrying out an industry's financial activities is called its "financial performance." Financial performance is the degree to which financial goals have been met. It is the process of calculating the monetary value of the outcomes of a company's policies and operations. It measures the overall financial health of a company over a specific period. Can use it to compare businesses that are similar across the same sector, industry, or industry group in an aggregation.

The company and bright interested parties seek the following significant inquiries: directors, shareholders, creditors, duty authorities, and others.

1. How much money does the company have at any given time?

2. How has the company performed financially over a specific period?

May respond to these inquiries with the assistance of a company's financial analysis. Financial statements are used in financial analysis. A logical and consistent collection of organized data is the basis for a financial statement.

Electric Industry The electric industry was chosen as the subject of the current study, and the researcher has chosen the two largest electrical multinationals. • Multinational corporations (MNCs) are large businesses with significant economic power. The main characteristics of MNCs are as follows:

• Location: Multinational corporations (MNCs) have headquarters in their home nations, but their operational divisions are spread across other nations to cut costs.

• Capital Assets: Citizens of the parent company's home nation own a significant portion of the parent company's capital assets.

• Board of Directors: Most of the Directors members are native-born.

Plant Automation Technology's list of the top 10 companies in industrial automation is as follows:

The other companies are Siemens, ABB, Emerson, Schneider Electric, Rockwell Automation, Honeywell Process Solutions, Mitsubishi Electric, Yokogawa Electric, Omron Automation, and Danaher Industrial Ltd.

ELECTRICAL MULTINATIONALS CHOSEN FOR THE RESEARCH

The study will focus on the two electrical multinationals listed below:

The future of industrial digitalization is being shaped by ABB Limited, a technology innovator. For more than four decades, the company has been at the forefront of the development of industrial equipment and systems that are digitally enabled and connected. It strives to improve productivity, safety, and efficiency across the globe in utilities, industry, transportation, and infrastructure.

Over time. This company grew into the company it is today, ABB Electrical Industries Co. Ltd. State-of-the-art technology is utilized throughout manufacturing to guarantee that both products and systems meet the highest standards at home and abroad. The manufacturing process extensively uses computer-aided design (CAD) and computer-aided manufacturing (CAM). Our factory has the first industrial robot and laser cutting machines for locally installed industrial applications.

Rockwell Automation is the world's largest company devoted to industrial automation and information technology.

The company assists its clients in increasing their productivity and the world's sustainability. Its most famous product lines, Rockwell Software® and Allen-Bradley®, are acclaimed for their quality and innovation worldwide. (Company Profile, n.d.)

RESEARCH OBJECTIVES

The current investigation, titled "A Comparative Study of Financial Performance Using Ratio Analysis between ABB and

Rockwell," examines how ABB and Rockwell's ratios compare.

Along with the current ratio, solvency ratio, asset turnover ratio, and return on capital employed of the selected businesses, the study aims to determine their liquidity.

In today's world, electricity is a basic necessity. It plays a crucial role in the growth of domestic life and industry. The owners, shareholders, creditors, governments, etc., find the financial performance of multinational electric companies to be significant and pertinent, but also the expansion of civilization worldwide. Consequently, it is essential to comprehend the electric companies' operational and financial performance.

METHODOLOGY OF RESEARCH

Sample Size: This study's participants are all electrical multinationals. The researcher has chosen two electrical multinationals for this purpose.

Method of Sampling: The judgmental sampling method was utilized to select businesses and gather data relevant to the researcher's field of study.

Collection of Data: The sampled units' annual reports, which are posted on their websites, serve as the primary source of the secondary data used in the current study.

Time for Study: This study covers the two selected electrical multinationals over three years, from 2013 to 2016.

The researcher conducted the study over three financial years—2013-2014, 2014-2015, and 2015-2016.

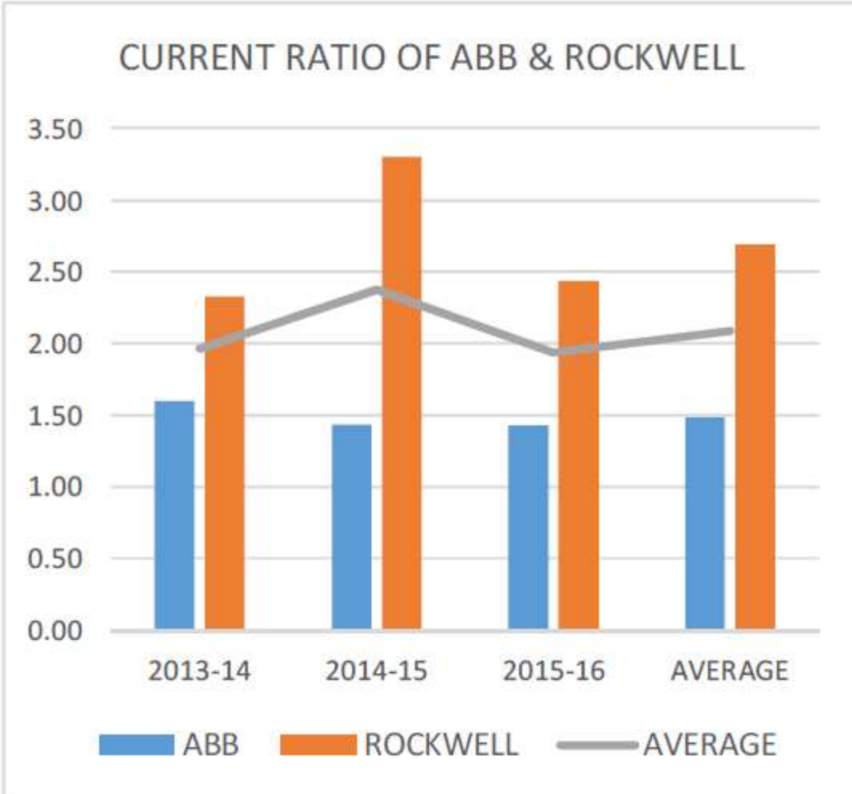
LIMITATIONS

The following are the study's limitations:

1. kept most performance-enhancing strategies secret, and authorities were reluctant to discuss them.
2. Since annual reports were the primary source of data collection, certain businesses used various methods and should have mentioned the funds in those reports.

DATA INTERPRETATION AND ANALYSIS

The analysis divides a subject into more manageable chunks for better comprehension. Financial ratio analysis is the most important tool for analysing financial statements. It is a systematic assessment and evaluation of information by breaking it into parts to find their connections.



The ratios between various items or groups of items in financial statements are the subject of financial ratio analysis.

"A common tool for financial analysis is ratio analysis.

It is "the systematic use of ratios to interpret financial statements to determine a company's strengths and weaknesses, as well as its historical and current performance and financial condition." Khan & Jain) The current ratio, solvency ratio, asset turnover ratio, and return on capital employed are just a few of the ratios that the researcher calculated here to investigate the financial performance.

The current ratio is the current ratio of total current assets to total current liabilities. The assets that will become cash within a year and the liabilities that must be paid within a year are compared using the current ratio. Even if current assets lose value, a company with a good current ratio would still be able to meet its obligations. Due to the inability of a company with a low current ratio to reduce its current asset investments to supply cash to meet maturing obligations, it requires additional liquidity. Instead, it must rely on operating income and financing from outside sources.

When we compare the current ratios of ABB and Rockwell, we can see that Rockwell's current ratio is always higher than the ideal ratio of 2:1. In contrast, ABB's is always lower than the ideal ratio. Throughout the investigation, Rockwell's average current ratio was 2.69, while ABB's average current ratio was 1.49.

A company's level of financial health is referred to as its solvency ratio. The ability of a company to meet its long-term financial commitments is referred to as the solvency ratio. It sheds light on an organization's capacity to meet its financial obligations. It shows how much the association relies upon its lenders, and banks can utilize this when the association applies for a credit office. Based on information in a company's income statement and balance sheet, this ratio compares cash flows to liabilities. A business with a higher percentage indicates a greater capacity to support its liabilities over the long term.

By examining their ratios, we can determine that both Rockwell and ABB have solvency ratios below 1.0. For the duration of the investigation, Rockwell and ABB had average solvency ratios of 0.65.

Asset Turnover Ratio The assets turnover ratio is a useful metric for determining whether or not an investment is producing sales revenue. The number of sales per dollar of assets is called asset turnover. A low asset turnover ratio indicates a capital-intensive business, while a high turnover ratio indicates the opposite. A company's asset turnover is significantly influenced by its competitive strategy and the nature of its products. Control of assets is frequently the difference between success and failure when competitors share similar technology. In addition, asset control requires creativity and diligence on the part of management.

The "size of asset commitment required for a given level of sales or, conversely, the sales dollars generated for each dollar of investment in assets" can be deduced from the asset turnover ratio. Helfert) The total asset turnover ratio of the selected electrical multinationals for the selected study years is analysed here using the ratio above and additional data:

ABB We find that the asset turnover ratios of both ABB and Rockwell are lower than one when we examine their ratios. Additionally, Rockwell's asset turnover ratio is decreasing annually, which may be more satisfactory. Rockwell's asset turnover ratio is 0.96, while ABB's is 0.87 throughout the investigation.

Return on Capital Employed (ROCE) is a profitability ratio that compares a company's net operating profit to its capital employed to determine how effectively it can generate profits from that capital. To put it another way, the return on capital employed informs investors of the profit generated by each dollar invested.

Two crucial calculations form the foundation of this ratio:

Capital employed and operating profit. Earnings before interest and taxes, or EBIT, is another name for net operating profit. EBIT measures a company's operating profits and is frequently included in income statements. Can subtract interest and taxes from net income to calculate EBIT.

We can use the term "capital employed" to mean a variety of financial ratios. Capital employed typically refers to a company's total assets minus all current liabilities. It's also possible to consider this as stockholders' equity less long-term obligations. The sum of the two is the same."

CONCLUSION

Through the research, the researcher attempted to investigate and comprehend the financial performance of Rockwell and ABB, two major electrical multinationals. The researcher also tried to learn about finance using outside funds, how well funds were used, and the liquidity situation.

The study has shown that Rockwell has a higher Current ratio than ABB, that both companies have a lower solvency ratio than one, that ABB has a lower asset turnover ratio than Rockwell, and that Rockwell's ROCE is higher than ABB's.

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