

P-2021

ANALYSIS OF WORKING CAPITAL MANAGEMENT OF SALZER ELECTRONICS LIMITED, COIMBATORE.

P-2021

SUMMER PROJECT REPORT
Submitted to the
Faculty Of Management Sciences, Anna University
In partial fulfillment of the requirement
For the award of the degree of
MASTER OF BUSINESS ADMINISTRATION

By

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October 2006
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BONAFIDE CERTIFICATE

Certified that this project titled '**Analysis of Working Capital Management of Salzer Electronics Limited, Coimbatore**' is a bonafide work done by **Mr. K.KARTHIK (71205631022)** who carried out this research under my supervision. Certified further that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

[Signature]
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Faculty Guide 15/11

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Prof. S. GANESAN
Director

Evaluated and viva-voce conducted on.....15.....11.....2006.....

[Signature]
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Examiner I 15/11

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Examiner II

DECLARATION

I, hereby declare that this project report entitled as “Analysis of Working Capital Management of Salzer Electronics Limited,Coimbatore” has been undertaken for academic purpose submitted to Anna University in partial fulfillment of the requirements for the award of the degree of Master of Business Administration. The project report is the record of the original work done by me under the guidance of Dr S. Prem kumar during the academic year 2006 – 2007.

I, also declare hereby, that the information given in this report is correct to the best of my knowledge and belief.

Place : Coimbatore


(K.KARTHIK)

Date : 15.11.2006.

SALZER ELECTRONICS LTD.

Chettipalayam, Coimbatore - 641 047, India.

salzer

October 10, 2006

CERTIFICATE

This is to Certify that **K.KARTHIK (ROLL NO.05MBA22)**
M.B.A., II- YEAR Student of **KUMARAGURU COLLEGE OF**
TECHNOLOGY, COIMBATORE has successfully completed his
Project work entitled "**ANALYSIS OF WORKING CAPITAL**
MANAGEMENT OF SALZER ELECTRONICS LTD" as a part
of his course in our Company for the period
From **JULY, 2006** to **AUGUST, 2006**.

He has evinced keen interest in absorbing the nature,
concept and functions of our Organisation and his
Conduct and Character were **GOOD** during the period.

For **SALZER ELECTRONICS LIMITED,**


DIRECTOR (CORPORATE AFFAIRS) &
COMPANY SECRETARY

ACKNOWLEDGEMENT

First and foremost objective is to pay rich dividends to The Almighty for having stayed before and besides me showering all sorts of blessing for me to complete this work, which is the part and participle of our curriculum.

I wish to express my deep gratitude to the principal **Prof. Joseph V. Thanikal** for his guidance and encouragement to complete my project work.

I wish to express my sincere thanks to **Prof. S. Ganesan**-Director, KCT Business School, for his continuous encouragement throughout my project.

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I owe my sincere thanks to **Mr. Govindarajan**, Senior .Accountant Manager, Salzer Electronics Ltd Coimbatore for granting permission to do my project in the esteemed organization and also for the support, guidance and encouragement provided by him for the successful completion of my project.

Last but not the least, my sincere thanks to my friends and parents for their continuous support and encouragement without which the project could not have been a success.

ABSTRACT

The study entitled “Analysis of Working Capital Management of Salzer Electronics Limited, Coimbatore” has been undertaken by the researcher in Salzer Electronics Limited for a duration of 40 days.

Managing working capital is a matter of balance. A department must have sufficient cash on hand to meet its immediate needs while ensuring that idle cash is invested to the organisation’s best possible advantage. To avoid tipping the scale, it is necessary to have clear and accurate reports on each of the components of working capital and an awareness of the potential impact of outside influences.

This report provides some guidelines to good management of working capital. Later chapters offer an overview of working capital management, explore ratio analysis and describe specific strategies for managing the various components of working capital. The report focuses on practical management techniques, providing an indication what may be required for good management in each area.

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EXECUTIVE SUMMARY

Good management of working capital is part of good financial management. Effective use of working capital will contribute to the operational efficiency of a department; optimum use will help to generate maximum returns.

The term working capital refers to the amount of capital which is readily available to an organisation. That is, working capital is the difference between resources in cash or readily convertible into cash (Current Assets) and organizational commitments for which cash will soon be required (Current Liabilities).

Ratio analysis can be used to identify working capital areas which require closer management. Various techniques and strategies are available for managing specific working capital items. Financial ratio analysis calculates and compares various ratios of amounts and balances taken from the financial statements

Debtors, creditors, cash and in some cases inventories are the areas most likely to be relevant to departments.

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF STUDY

Working capital constitutes part of the Crown's investment in a department. Associated with this is an opportunity cost to the Crown. (Money invested in one area may "cost" opportunities for investment in other areas.) If a department is operating with more working capital than is necessary, this over-investment represents an unnecessary cost to the Crown. From a department's point of view, excess working capital means operating inefficiencies. In addition, unnecessary working capital increases the amount of the capital charge which departments are required. In financial accounting only such economic events find place which can be described in money. In case of financial accounting there is more emphasis on precision. Financial accounting is more or less important for every business.

1.2 PROBLEM OF THE STUDY

Working capital management takes place on two levels:

- Ratio analysis can be used to monitor overall trends in working capital and to identify areas requiring closer management (see Chapter Three).
- The individual components of working capital can be effectively managed by using various techniques and strategies (see Chapter Four).

When considering these techniques and strategies, departments need to recognize that each department has a unique mix of working capital components. The emphasis that needs to be placed on each component varies according to department. For example, some departments have significant inventory levels; others have little if any inventory.

Furthermore, working capital management is not an end in itself. It is an integral part of the department's overall management. The needs of efficient working capital management must be considered in relation to other aspects of the department's financial and non-financial performance.

1.3 OBJECTIVES OF THE STUDY

The primary objective of working capital management is to maintain the optimum balance of each of the working capital components. This includes making sure that funds are held as cash in bank deposits for as long as and in the largest amounts possible, thereby maximising the interest earned. However, such cash may more appropriately be "invested" in other assets or in reducing other liabilities.

The secondary objectives of the study are:

- 1) To study the causes and consequences of the various components of the financial statement in relation to the productivity and profitability of the company.
- 2) To analyse the financial stability and overall performance of SALZER in general.
- 3) To analyse and interpret the trends as revealed by various ratios of the company in particular.

1.4 SCOPE OF STUDY

The scope of study is to determine the Working Capital Management of SALZER. The study will be useful for improvement in the performance of the firm. The study covers a period of 5 years from 2000-2005.

1.5 RESEARCH METHODOLOGY ADOPTED

Primary data and secondary data are used for the study. Primary data was collected by direct contact with officers and managers. Sources of secondary data were Annual Reports of **SALZER ELECTRONICS LIMITED** for the year ended 2000 March to 2005 March. Ratio analysis was done and statement showing changes in working capital was prepared to analyze the working capital.

1.6 LIMITATIONS OF THE STUDY

The present study is subject to the following limitations:-

- 1) The study is based only on the secondary data contained in the published annual reports of SALZER for the study period.
- 2) Current ratio considers only the quantity of current assets and ignored the quality of current asset. The Current asset may consist of obsolete stock or defaulting debtors.
- 3) The period of study is limited to 5 years from 2000 to 2005.
- 4) Project duration was also a constraint.

1.7 CHAPTER SCHEME

The study has been designed and presented as stated below.

Chapter I – Introduction

Chapter II – Organisation profile

Chapter III – Macro-Micro economic analysis

Chapter IV – Data analysis and interpretation

Chapter V – Findings, suggestions and conclusions.

CHAPTER II
ORGANISATION PROFILE

2.1 HISTORY OF THE ORGANISATION

Salzer Electronics Limited is a company incorporated under the Companies Act, 1956, on 8th January 1985, in technical collaboration with M/s. Saelzer Schaltgerate Fabrik GmPh, Germany, for the manufacture of CAM operated rotary switches ranging from 6 Amps to 400 Amps for industrial as well as domestic applications. The company started its commercial production during August 1986.

Promoters

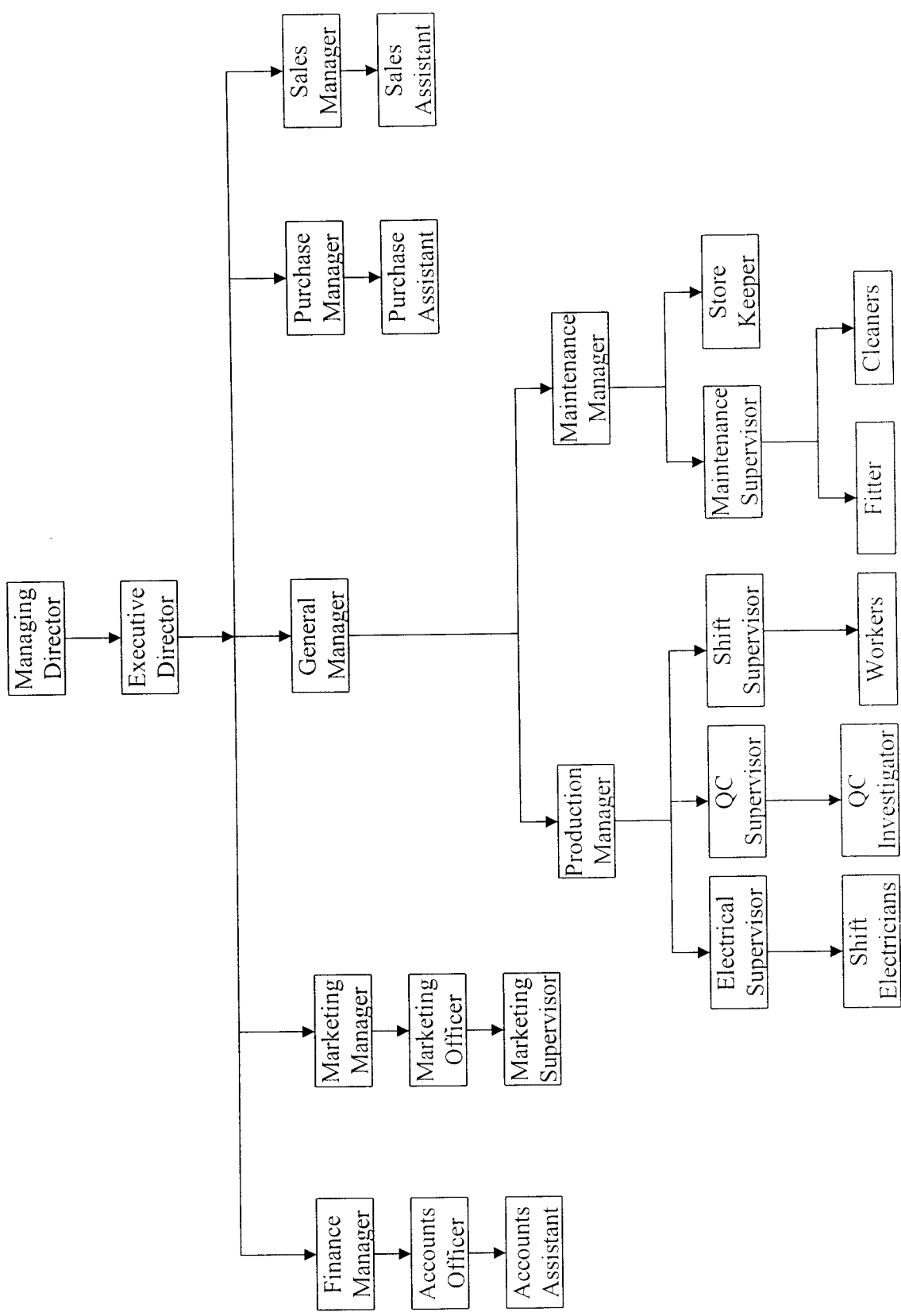
The core promoter of Salzer Electronics Limited is Mr. R. Doraiswamy, is a qualified Electrical Engineer and technocrat with wide experience. With his experience gained through his association in companies like Lakshmi Machine Works Limited, the market leader in Textile Machinery manufacturing industry, he promoted the pilot project. M/s. Salzer Electronics Limited.

2.2 MANAGEMENT

Mr. R.Doraiswamy, Managing Director, heads Salzer Electronics Limited established in the year 1985. The Salzer group includes the following companies:

- Salzer Exports Limited
- Salzer Controls Limited
- Pneumatic Controls
- Salzer spinners Limited

ORGANISATION CHART



ORGANIZATION STRUCTURE CHART

2.4 PRODUCT RANGE

CAM OPERATED ROTARY SWITCHES are defined as set of contacts arranged to make and break in a sequential fashion by which the connected outputs will close and open the main areas of operation are in making and breaking and isolation of power circuits and switching of auxiliary circuits. The **CAM** which does the function of closing and opening of the switch, have multiple positions (Rotary Movement) which allows multiple circuit functions controlled through single operations. These switches are suitable for AC as well as DC applications. By virtue of CAM design functions like make before type of contacts can be easily achieved. The number of positions and the switching angles are flexible and will offer the user a choice to decide based on the requirement. CAM Operated Rotary Switches with latest technology at international standard used both for domestic as well as industrial purpose and can have the versatility of taking multiple outputs as well as sequences with various programme in all capacities from 6 Amps to 400 Amps.

Modular Switch concept came into the Indian market sometime during 1992. The total market size of this product is estimated to be Rs.400 to 600 crores. There are only very few established National Level players. Salzer brand modular switches are of excellent design, and the product is comparable with any one of the International brands. The main idea is to place a high quality product a very competitive price in the market.

Raw Materials

The company is not importing any of its raw materials and sourcing its entire raw materials and components indigenously. The major raw materials being used are Brass, Copper Strips MS bits and Strips, Nylon and Moulding powder and silver inlaid and other components such as screws etc.,

Marketing: Domestic and Export

The company is having a marketing tie-up with M/s. Larsen & Toubro Limited; an industrial giant in switch-gear industry, which helps to appreciate its market share and availability throughout India. Having a marketing agreement with M/s. Crompton Greaves Limited, an accredited export house to service international market and the export

Performance:

The company's products are well received in the international and local markets and all other OEM's including public sector undertakings. The company is progressing well and is now planning to improve quality further to superior standards to expand the export markets.

As a corporate citizen with a good track record of profit earning and dividend paying company since 1991-1992, the company's performance is registering an impressive growth in its turnover consistently.

The company has been accredited by ISO 9002 : 1994 certification based on the recommendation of KPMG, USA and subsequently upgraded to ISO 9001 standards for Design, Development, Manufacture and Supply of CAM operated rotary switches and allied products.

Manufacturing and R & D

The company is well equipped with the plant and machineries and a pucca tool room to take care of the production requirements, maintenance to achieve the targeted production. The company is having full-fledged R & D with a testing laboratory to ensure continuous improvement in product specifications and utilities, besides new product development.

Quality

The company had attained the quality accreditation certification under ISO 9001 for its quality system for the manufacture, design and supply of cam operated rotary switches and other allied switch gear products. Besides, the company's products have also been accredited with quality standards certifications like CSA, CE, UL, VDE, etc., which is a pre-requisite for marketing the switch gear products in the international markets.

Welfare Activities

The welfare activities of Salzer Electronics Limited for the benefits of its workers and the society at large are:

1. K. Rangaswamy Naidu Higher Secondary School for girls at Periyanaickenpalayam, Coimbatore.
2. K.R. Hospital, Coimbatore which serves the employees and local

3. Planting road side trees and maintaining the same.
4. Cultivating a 150 acres estate.
5. Erection of Windmills of 225 KVA and 250 KVA at Kethanur, palladam Taluk, Coimbatore. The windmill can produce around 10 lac units of power per annum.

2.5COMPETITIVE STRENGTH OF THE COMPANY

SWOT ANALYSIS

STRENGTHS

- ✓ Financially Sound
- ✓ Consumable and commercial goods.
- ✓ Skilled manpower

WEAKNESS

- ✓ No marketing of their own.
- ✓ Location disadvantage.

OPPORTUNITIES

- ✓ Capacity to fund major projects.

THREATS

- ✓ Competition from private players and Substitute products .



2.6Future Plans

Uniquely equipped and positioned to take advantage of a new global order, the infrastructure, capabilities and resources as its command today are the corner stones on which Salzer will build its future.

CHAPTER III

MACRO-MICRO ECONOMIC ANALYSIS

India is the fifth largest economy in the world and has the second largest GDP among emerging economies. Owing to its large population, the potential consumer demand is almost unlimited and consequently under appropriate conditions, strong growth performance can be expected.

In fact, the liberalization of the economy in 1991 has led to rapid growth. The electronics industry, in particular, is emerging as one of the most important industry in the Indian market.

The electronics industry in India dates back to the early 1960s. Electronics was initially restricted to the development and maintenance of fundamental communication systems including radio-broadcasting, telephonic and telegraphic communication, and augmentation of defense capabilities. Until 1984, the electronics sector was primarily government owned. The late 1980s witnessed a rapid growth of the electronics industry due to sweeping economic changes, resulting in the liberalization and globalization of the economy. The economic transformation was motivated by two compelling factors - the determination to boost economic growth, and to accelerate the development of export-oriented industries, like the electronics industry.

The electronics industry has recorded very high growth in subsequent years. By 1991, private investments - both foreign and domestic - were encouraged. The easing of foreign investment norms, allowance of 100 percent foreign equity, reduction in custom tariffs, and delicensing of several consumer electronic products attracted remarkable amount of foreign collaboration and investment. The domestic industry also responded favorably to the politic policies of the government. The opening of the electronics field to private sector enabled entrepreneurs to establish industries to meet hitherto suppressed demand.

Improvements in the electronics industry have not been limited to a particular segment, but encompass all its sectors. Strides have been made in the areas of commercial electronics, software, telecommunications, instrumentation, positioning and networking systems, and defense. The result has been a significant trade growth that began in the late 1990s.

Despite commendable achievements in the sphere of electronics, considerable infrastructural improvements remain a priority. Water, power,

telecommunications, and transportation sectors must still be augmented so that high economic growth can be sustained.

The Indian Electronics Industry is a text for investors who are considering India as a potential investment opportunity. The book is designed to cover various segments of India's electronics industry, which include telecommunications, consumer electronics, computer hardware and software, and medical electronic systems. The authors have examined the roles of government, major companies in electronics including the multinationals, research organizations, and educational institutions in establishing the infrastructure.

This book features detailed coverage of the important aspects of the Indian electronics industry and:

- discusses the historical background of the electronic development in India
- outlines tax structure, market strategies, economic policies (domestic and foreign), and traditional areas of economic development
- tracks the growth of various segments of the electronics industry including telecommunications, consumer electronics, computer hardware and software, and medical electronic systems
- addresses the problems faced by the industries pertaining to power, transportation, communication networks, and other environmental considerations
- presents directions and strategies for radical industrial growth in the future, and hints at promising development in the coming years

Electronics businesses operating in the EU market are having to find cost-effective ways to comply with new environmental legislation. The Directive on waste electrical and electronic equipment (WEEE) seeks to tackle one of the EU's growing waste streams. The sister Directive on restriction of hazardous substances (RoHS) addresses the risks posed by chemicals such as lead, cadmium and brominated flame retardants. Many firms in the sector are finding that to comply with the new legislation they will need the co-operation of their manufacturing suppliers in South and South East Asia

and China. If existing suppliers cannot come up with the goods, then alternative ones will have to be located.

The process is proving tricky for many companies. For example, one industry expert says that retailers dealing in low-budget consumer electrical goods, such as alarm clocks and hair dryers, are finding that few of their suppliers in China are aware of the RoHS requirement to substitute lead-based solder by 2006.

Developing country perspective

Looked at from the perspective of developing countries, the WEEE and RoHS Directives seem rather different but no less significant.

Innumerable small and medium-sized electronics manufacturers in countries such as Thailand, Malaysia, Taiwan and China have been slow to appreciate the Directives' requirements. With crucial customers at risk, they now face the challenge of adapting production processes in line with EU requirements. They will either need to find the necessary resources themselves - or persuade their customers to bear the costs on their behalf.

It could be argued that customer demand for greener manufacturing processes is no different to demand for quality improvements or any other change in specifications. If one supplier finds that he cannot meet the new specification then he is abandoned for another who can - that's commercial life.

But the WEEE and RoHS Directives are not the only environmental requirements which electronics suppliers in developing countries need to be aware of. In order to be able to plan even for the short term, they need to have an eye on emerging EU initiatives on eco-design, integrated product policy and chemicals risk assessment.

The same firms are also likely to supply companies in Japan, which has recently enacted its own stringent recycling legislation. In addition, they will need to be aware of the often conflicting demands of national eco-labelling schemes, standards and company policies or sectoral codes of conduct.

Many businesses in developing countries accept that they will have to get better at steering a course through these standards if they want to maintain their share of an increasingly liberalised and globalised market.

Indeed, some countries have little choice given the importance of electronics exports to their economies. Thailand, for example, has created a high-level governmental committee specifically to monitor the WEEE and RoHS Directives and develop a plan of action.

But some companies are complaining that they cannot afford, or do not have sufficient time, to comply with the EU legislation and related initiatives. They argue that they did not have the same opportunity as EU producers to respond to the proposals on the basis of the economic and other conditions in their countries.

Even nominally voluntary standards can become a problem. For example, SMEs manufacturing semiconductors in the Philippines have complained that certification to the environmental management standard ISO14001 has in practice become a prerequisite for supplying companies in industrialised countries, significantly increasing their costs.

Doha agenda

The OECD and the UN Conference on Trade and Development have each published hefty reports over the past year on the implications for developing countries of environmental requirements which restrict market access. The timing is no coincidence.

In their declaration at the last WTO ministerial meeting in Doha in 2001, trade ministers agreed to instruct the WTO's committee on trade and environment (CTE) to examine a number of issues with the prima facie potential to conflict with trade rules and report on whether a clarification of WTO rules needs to be negotiated.

One of these was the effect of environmental measures on market access, especially in relation to developing countries. According to an accompanying "explanation", the purpose of examining such measures "is not to get rid of the environmental

requirements but to strike an appropriate balance between trade and environmental objectives."

However, in CTE discussions, the Indian government warned that "emerging environmental policies and environmental requirements can, and increasingly will, adversely affect developing countries' market access significantly." Affected governments and industry, it notes, will need to "safeguard their existing market access against unjustified environmental requirements."

India also contended that "environmental requirements are highest in the sectors of export interest to developing countries and where they have comparative advantage."

This point is echoed in UNCTAD's report, which investigated the electronics sector among others.¹ It highlights the view of some experts that the increase in environmental and health requirements affecting key developing country exports appears to have "coincided" with moves by developed countries to reduce traditional tariffs on agricultural and industrial goods.

In other words, environmental measures are regarded as a hidden form of protectionism practiced by developed countries to cut their losses.

CHAPTER IV

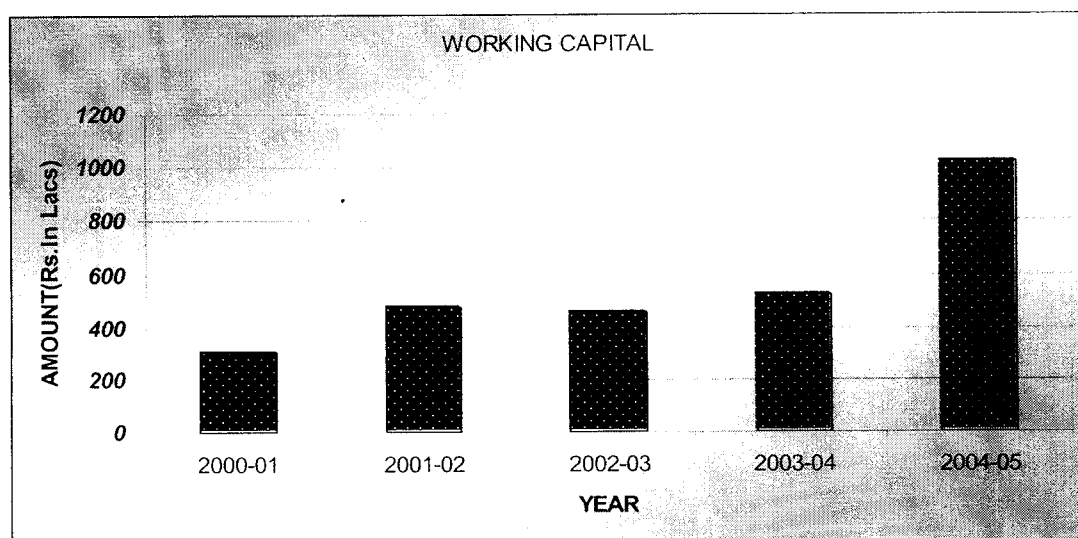
DATA ANALYSIS & INTERPRETATION

Goods supplied	53.74	37.24	99.31	50.27	112.95	44.99	113.97	39.3	122.13	37.0
Advance from customers	0.76	0.53	0.83	0.42	1.19	0.47	0.51	0.1	0.79	0.2
Deffered credits	-	-	9.68	4.89	13.85	5.52	12.05	4.17	22.40	6.8
Unclaimed Dividend	4.07	2.82	5.31	2.69	7.18	2.86	6.28	2.1	8.24	2.5
For expenses	63.46	43.98	54.99	27.83	66.23	26.38	103.34	35.7	116.27	35.3
Provision for taxation	-	-	2.03	1.03	7.00	2.79	10.50	3.63	12.00	3.6
Proposed Dividend	15.88	11.01	22.67	11.47	37.78	15.05	37.78	13.0	41.56	12.3
Provision for corporate Tax on dividend	-	-	-	-	4.84	1.93	4.84	1.6	5.82	1.7
Accrued But not due (secure & unsecured)	6.38	4.42	2.74	1.39	-	-	-	-	0.27	0.0
TOTAL B	144.29	100	197.56	100	251.02	100	289.27	100	329.48	100
NET WORKING CAPITAL (A-B)	304.12		480.61		460.42		526.33		1019.32	

Table 4.2 TREND OF WORKING CAPITAL

YEAR	CA	CL	WC	TREND %	YEAR WISE TREND
2000-01	448.41	144.29	304.12	100.00	0
2001-02	678.17	197.56	480.61	158.03	58.03
2002-03	711.44	251.02	460.42	151.39	-6.64
2003-04	815.60	289.27	526.33	173.06	21.67
2004-05	1348.8	329.48	1019.32	335.17	162.11

Chart 4.1 Trend of working capital



4.2 RATIO ANALYSIS

Financial ratio analysis calculates and compares various ratios of amounts and balances taken from the financial statements.

The main purposes of working capital ratio analysis are:

- to indicate working capital management performance; and
- to assist in identifying areas requiring closer management.

Three key points need to be taken into account when analyzing financial ratios:

- The results are based on highly summarised information. Consequently, situations which require control might not be apparent, or situations which do not warrant significant effort might be unnecessarily highlighted;
- Different departments face very different situations. Comparisons between them, or with global "ideal" ratio values, can be misleading;
- Ratio analysis is somewhat one-sided; favourable results mean little, whereas unfavourable results are usually significant.

However, financial ratio analysis is valuable because it raises questions and indicates directions for more detailed investigation.

1. WORKING CAPITAL TURNOVER RATIO

Working Capital Turnover ratio is calculated in order to analyze how working capital has been effectively utilized in making sales. This ratio indicates how many times during a given period, the average working capital has been utilized by the company to increase its sales. Sales include recovery from Government of India, sale of product, excise duty adjustment and products consumed internally. The higher the ratio the lower the investment in working capital and greater the profit. On the other hand lower the ratio greater the investment in working capital and lesser the profit.

$$\text{Working Capital Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Net Working Capital}}$$

Table 4.3 Working capital turnover ratio

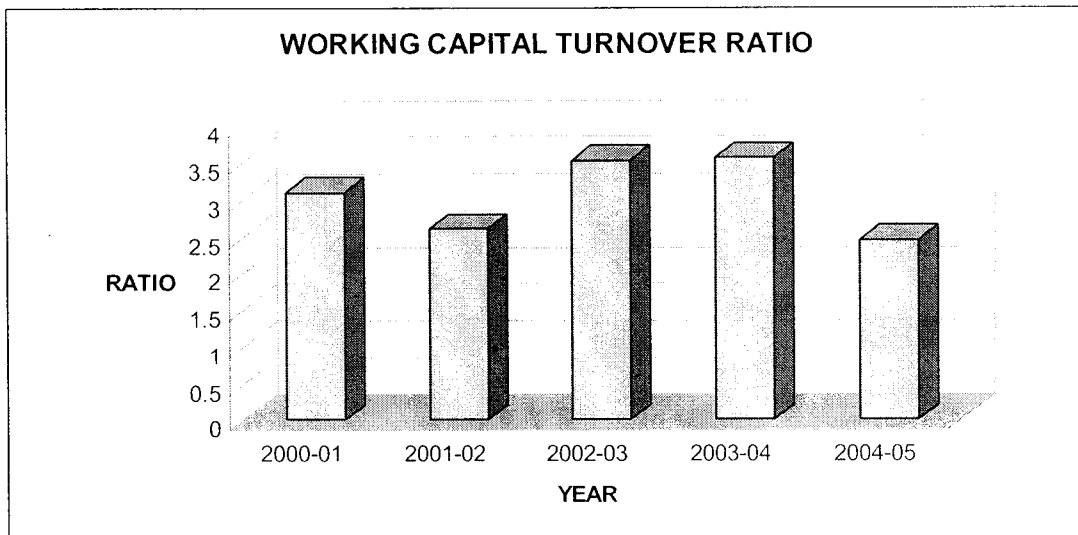
(Rs. in Lakhs)

Year	Net Sales(Rs)	Average Net Working Capital(Rs)	Ratio
2000-01	945.76	304.12	3.1
2001-02	1257.74	480.61	2.6
2002-03	1628.89	460.42	3.53
2003-04	1873.79	526.33	3.56
2004-05	2504.98	1019.32	2.45

INTERPRETATION

The Working Capital Turnover ratio of **SALZER ELECTRONICS LTD** during 2000-01 was 3.1 that of 2001-02 were 2.6 and 2002-03 was 3.53. Lowest was recorded in the year 2004-05, the year in which the net working capital was highest. The ratio shows a decreasing trend from 2000-01 to 2002-03. In 2004-05, the turnover has increased to 3.56 and again a sharp decline to 2.45 . Here sales have increased but at the same time working capital is also increased.

Chart 4.2 Working capital turnover ratio



2. CURRENT RATIO

Current ratio may be defined as the relationship between current asset and current liabilities. This ratio is known as working capital ratio and is a measure of general liquidity. Desirable current ratio is 2:1. Current ratio of a firm represents the assets which can be converted into cash within a short period of time, not exceeding one year. Current Liabilities include liabilities and provisions which are short term maturing obligations to be met within a year. The higher the current ratio, the more the firm's ability to meet current obligations and greater the safety of funds of short term creditors. The lower the ratio, the lesser the firm's ability to meet current obligations and lower the safety of funds of short term creditors.

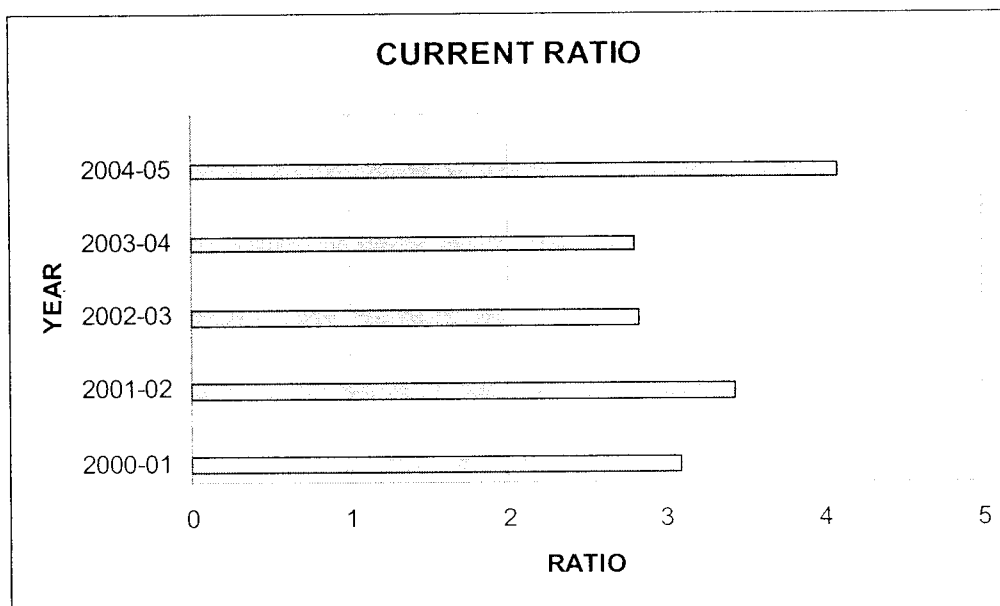
Table 4.4 Current ratio

Year	Current Assets	Current Liabilities	Ratio
2000-01	448.41	144.29	3.10
2001-02	678.17	197.56	3.43
2002-03	711.44	251.02	2.83
2003-04	815.60	289.27	2.81
2004-05	1348.8	329.48	4.09

INTERPRETATION

During the year 2000-01, the current ratio was 3.10 which is increased to 3.43 during 2001-02 . During 2002-03 it has decreased to 2.83 and during 2003-04 it has decreased to 2.81. There shows a slight decrease in ratio during 2002-03 because of increased current liabilities due to increase in the income tax payment, higher credit, sales tax and excise liability. The current ratio was found to be highest in the year 2004-05 as 4.09.

Chart 4.3 Current ratio



3. QUICK RATIO

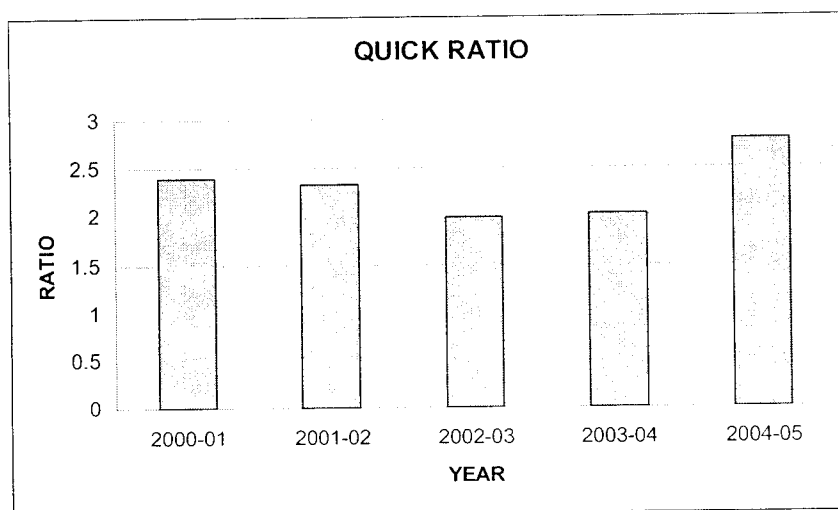
Quick ratio can be defined as the relationship between quick assets and current liabilities. Quick assets are cash like assets representing all current assets other than inventory. It is also called Acid test ratio. A quick ratio of 1:1 is considered as a fair indication of the good financial condition of a business concern.

Table4.5 Quick ratio

Year	Quick Assets	Current Liabilities	Ratio
2000-01	346.87	144.29	2.40
2001-02	463.06	197.56	2.34
2002-03	500.07	251.02	1.99
2003-04	584.41	289.27	2.02
2004-05	924.28	329.48	2.80

INTERPRETATION

Quick ratio of SALZER during 2000-01 was 2.40 and it has decreased to 2.34 and 1.99 in 2001-02 and 2002-03 respectively. In 2003-04 the ratio has increased to 2.02 because of increase in current liability. In 2004-05 again it was increased to 2.80. This increasing trend was due to increased quick assets because of increase in price of products, cash credit balance, higher income tax payment, increased credit, sales tax and excise liability.

Chart4.4 Quick ratio

4. CURRENT ASSET TURNOVER RATIO

It is defined as the relation between sales and current assets of the company. It indicates the number of times current asset turned over in the business to generate sales volume and also for analyzing the efficiency with which the current asset of the company are used in the business. High ratio indicates efficient use of inventories and receivables to increase sales volume. A low ratio indicates inefficiency and slow collection of debts.

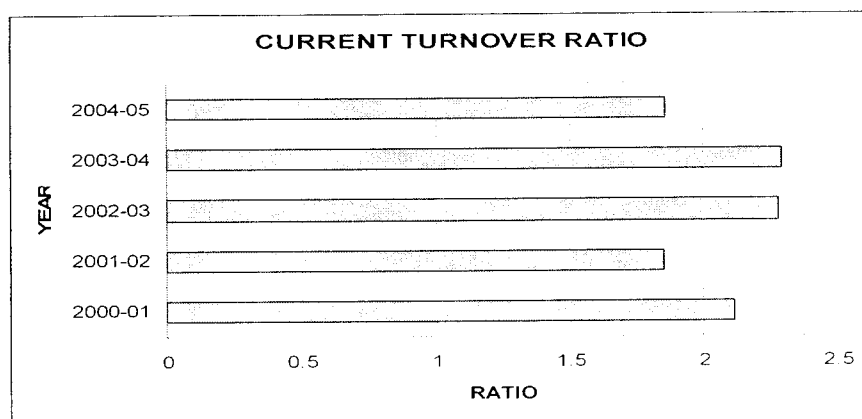
Table4.6 Current Asset turnover ratio

Year	Net Sales	Current Assets	Ratio
2000-01	945.76	448.41	2.11
2001-02	1257.74	678.17	1.85
2002-03	1628.89	711.44	2.28
2003-04	1873.79	815.60	2.29
2004-05	2504.98	1348.8	1.86

INTERPRETATION

During 2000-01 the ratio is 2.11 and after that 1.85,2.28,2.29,1.86 for the years 2001-02, 2002-03, 2003-04 and 2004-05 respectively. The highest ratio was found in 2003-04, due to the efficient use of current assets.. After that decrease in ratio is because of increase in current assets.

Chart4.5 Current Asset turnover ratio



5.CURRENT ASSET TO TOTAL ASSET RATIO

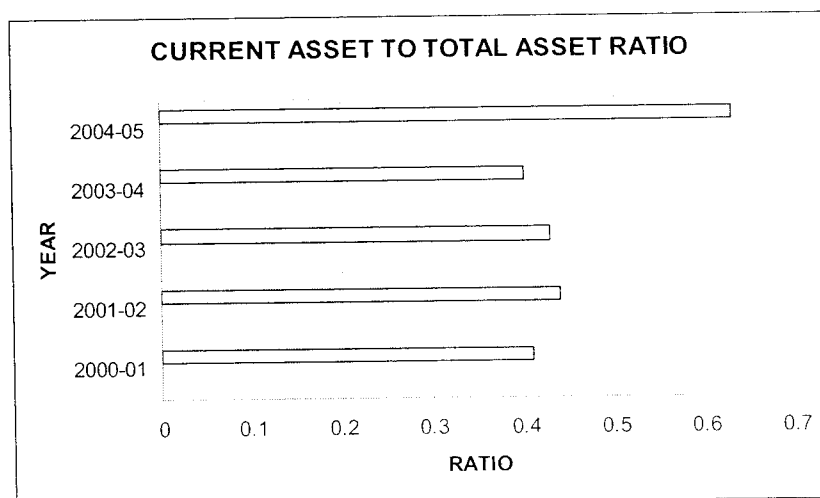
Current asset to total asset ratio is defined as the relationship between current assets and total assets indicating the number of times the current assets utilized from total assets. The effect of the level of current assets on profitability-risk tradeoff can be shown using this ratio. An increase in the ratio indicates decline in profitability because current assets are assumed to be less profitable than fixed assets and risk of technical insolvency would be reduced. A decrease in the ratio shows an increase in profitability as well as risk. Increase in profitability is due to the corresponding increase in the total assets which are likely to generate more returns.

Table 4.7 Current asset to Total asset ratio

Year	Current Assets	Total Assets	Ratio
2000-01	448.41	1093.68	0.41
2001-02	678.17	1550.32	0.44
2002-03	711.44	1650.96	0.43
2003-04	815.60	2018.54	0.40
2004-05	1348.8	2114.40	0.63

INTERPRETATION

Current asset to total asset ratio for the year 2000-01 was 0.41 and was increased to 0.44. Higher ratio was found in 2004-05 due to increase in profitability. When compared to other years of present study there was an decrease in other years. It shows that company's profitability position shows slight decreasing trend. But overall profitability is satisfactory.

Chart 4.6 Current asset to Total asset ratio

5. NET WORKING CAPITAL TO CAPITAL EMPLOYED RATIO

Net working capital to capital employed ratio is the relationship between net working capital and capital employed. Net working capital is the difference between current assets and current liabilities. Capital employed includes share capital reserves and surplus and share application money. This ratio shows movement of working capital in relation to capital employed.

Table 4.8 Net Working capital to Capital Employed ratio

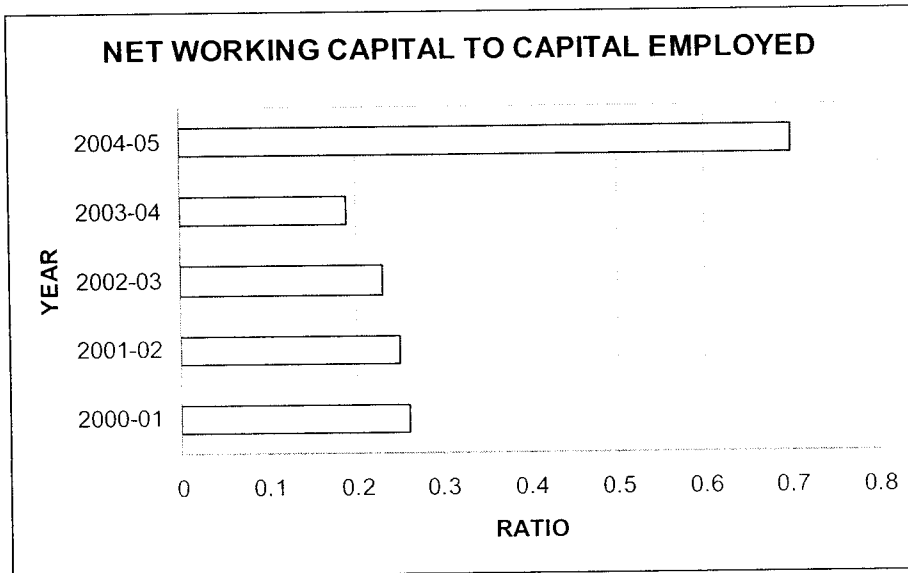
Year	Net Working Capital	Capital Employed	Ratio
2000-01	304.12	1169.69	0.26
2001-02	480.61	1888.65	0.25
2002-03	460.42	1921.13	0.23
2003-04	526.33	2685.62	0.19
2004-05	1019.32	1435.94	0.70

INTERPRETATION

Net working capital to capital employed ratio during 2000-01 was 0.26 and it shows an decreasing trend in the following years. During 2001-02 the ratio was

during 2004-05. This reveals that ratio moves exactly in a parallel way to net working capital.

Chart 4.7 Net Working capital to Capital Employed ratio



6. CASH TURNOVER RATIO

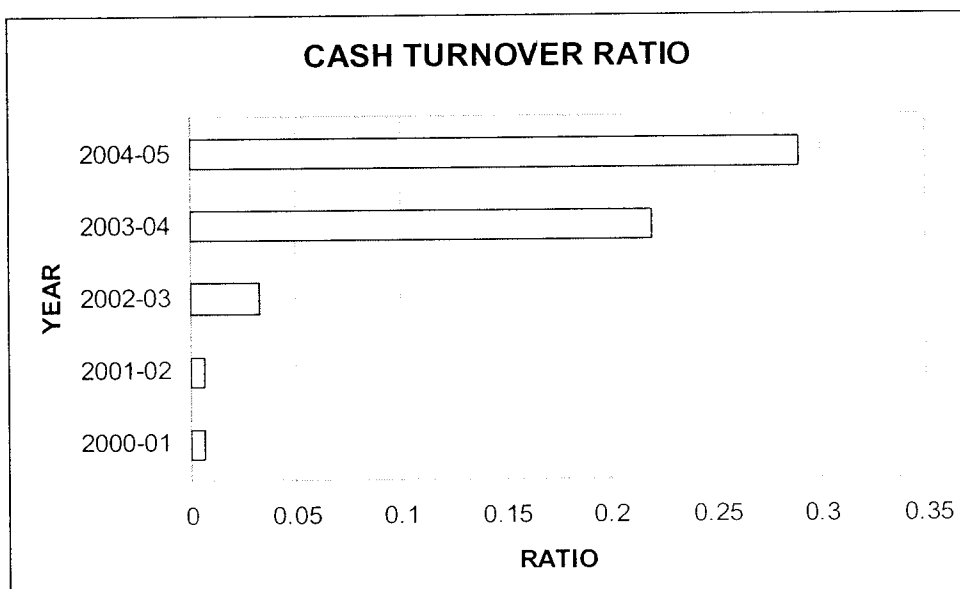
Cash turnover ratio is the comparison of the balances of cash plus other liquid assets to operating costs and expenses that are currently drained on working capital. It is the relation between annual operating costs and expenses and raw materials consumed and manufactured and other expenses. This ratio roughly indicates the adequacy of liquid assets to current operating needs. A very high turnover of cash means the firm doesn't possess sufficient cash to provide for emergencies, while a very low turnover of cash suggests that ideal cash is running through the business.

Table 4.9 Cash Turnover ratio

Year	Annual Operating cost Expenses	Average Cash	Ratio
2000-01	772.85	5.41	0.007
2001-02	1302.43	8.69	0.007
2002-03	1652.58	55.88	0.033
2003-04	315.30	70.33	0.22
2004-05	169.86	49.56	0.29

INTERPRETATION

During the year 2000-01 the cash turnover ratio was 0.007. It means that the firm doesn't have sufficient cash to provide for emergencies. Then the ratio shows an increasing trend to 0.033, 0.22, 0.29 in the year 2002-03, 2003-04 and 2004-05 respectively. The increasing trend is due to rising up of average cash because of increase in cash t balance account. Since the ratio shows a decreasing trend, the study reveals that the ideal cash is running through the business indicating satisfactory position.

Chart 4.8 Cash Turnover ratio

8.CASH RATIO

The cash ratio is the relation between cash in hand and at bank and short term marketable securities and current liabilities. This ratio is also called absolute liquidity ratio. The ratio 1:2 is considered as satisfactory. If the ratio increases the liquidity level also increases and vice versa.

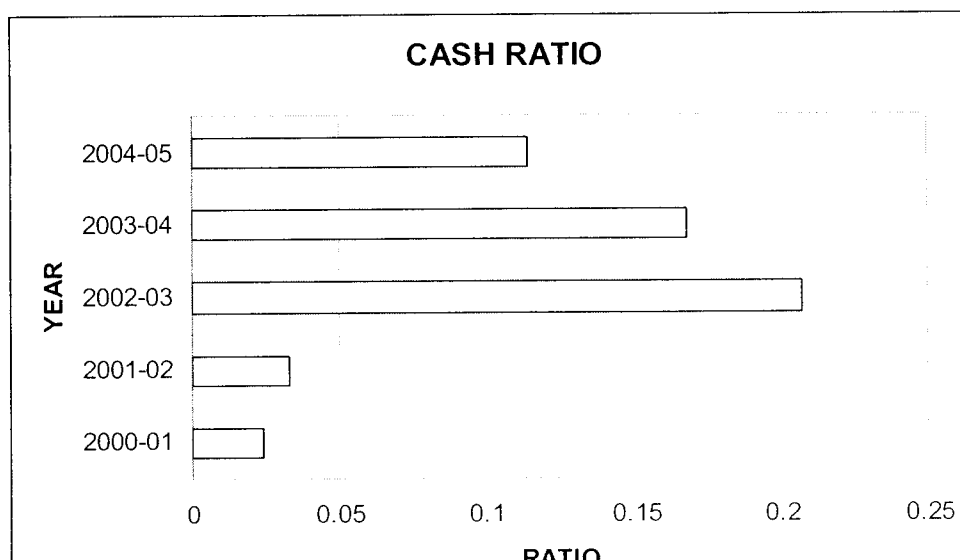
Table4.10 Cash ratio

Year	Cash in hand & at bank	Current Liabilities	Ratio
2000-01	3.58	144.29	0.024
2001-02	6.53	197.56	0.033
2002-03	52.14	251.02	0.207
2003-04	48.69	289.27	0.168
2004-05	37.68	329.48	0.114

INTERPRETATION

In the year 2000-01 the cash ratio was 0.024 then it has increased to 0.33 and 0.207 during 2001-02 and 2002-03 respectively. The higher liquidity was found during 2002-03. The ratio shows an increasing trend due to increase in cash credit account balance, increased credit, excise liability and sales tax. Since ratio is showing increasing trend, liquidity level rises up possessing satisfactory results.

Chart 4.9 Cash ratio



9. DEBTORS TURNOVER RATIO

Debtor's turnover ratio is the relationship between net credit sales and average debtors. This ratio shows how quickly receivables or debtors are converted to cash. It is also called accounts receivable. Sound credit and collection period results in efficient receivables management. Net credit sales include sale of products, recoveries, excise duty adjustment and products consumed internally. The higher the ratio, the better debts are being collected more promptly and vice versa.

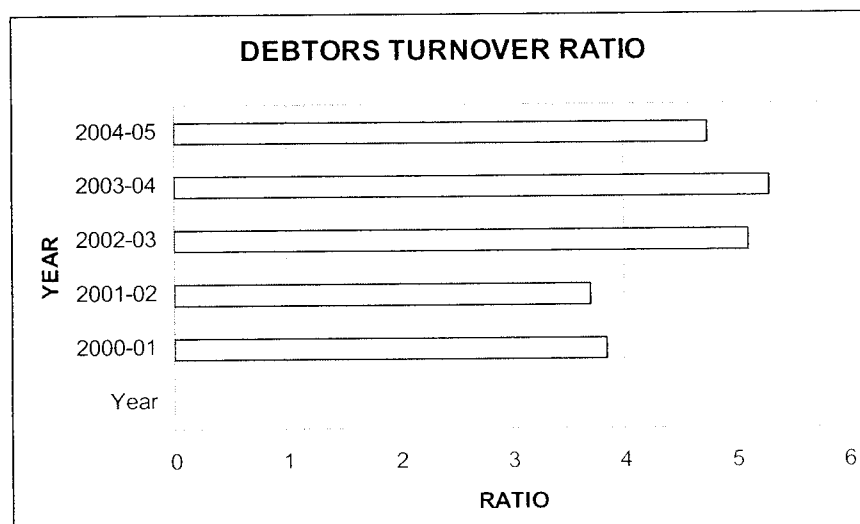
Table 4.11 Debtors turnover ratio

Year	Net credit sales	Average debtors	Ratio
2000-01	945.76	246.19	3.84
2001-02	1257.74	340.34	3.69
2002-03	1628.89	318.14	5.12
2003-04	1873.79	353.09	5.30
2004-05	2504.98	525.86	4.76

INTERPRETATION

In the present study, debtors turnover of SALZER during 2000-01 was 3.84 and reduced to 3.69 in 2001-02. The ratio shows a increasing trend. This was due to delay in collection of debts. This shows inefficient credit management of the company. This was due to increased sundry debtors because of high price of product fixed as per recent government policies.

Chart 4.10 Debtors turnover ratio



10 AVERAGE COLLECTION PERIOD

Average collection period measures the liquidity of the firm and it is the time taken for collection of debts. It is calculated by dividing days in a year by debtor's turnover ratio. Shorter collection of debts and quick payments by debtors increase the liquidity of the firm. The longer collection period shows delayed payment by debtors and hence declining liquidity position.

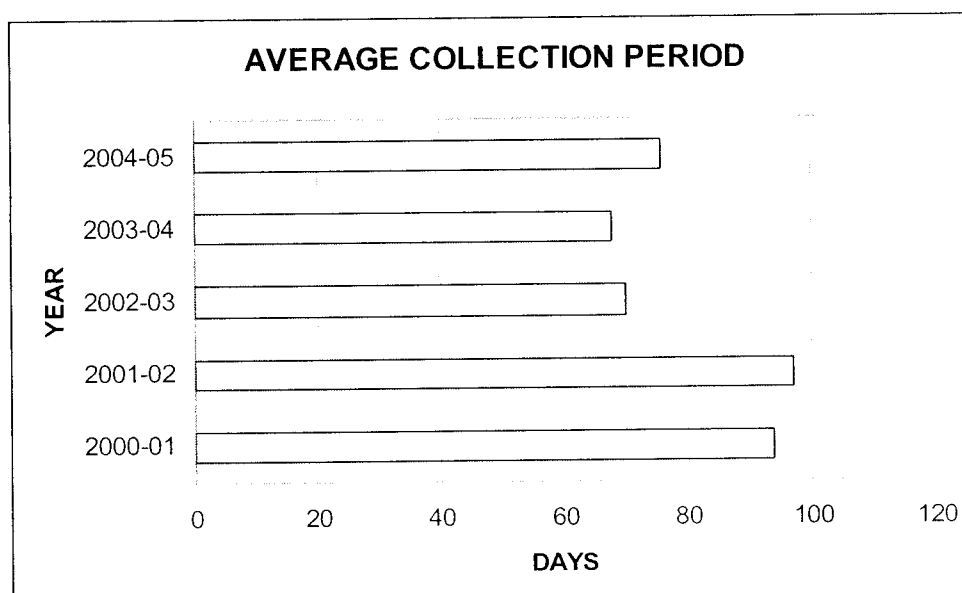
Table 4.12 Average collection period

Year	Days in a year	Debtors turnover ratio	Period
2000-01	360	3.84	94
2001-02	360	3.69	97
2002-03	360	5.12	70
2003-04	360	5.30	68
2004-05	360	4.76	76

INTERPRETATION

Average collection period of SALZER during 2000-01 was 94 days; it has increased to 97 days in 2001-02, 70, 68 and 76 in 2002-03, 2003-04 and finally increased to 76 days. This increase was due to the inefficiency in managing debtors by company due to recent government policies.

Chart 4.11 Average collection period



11. CREDITORS TURNOVER RATIO

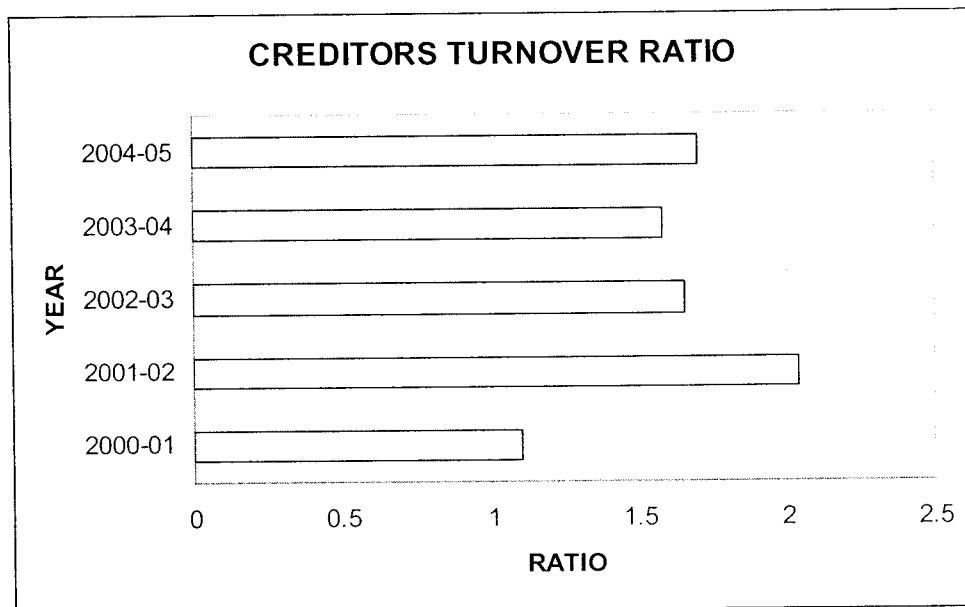
Creditor's turnover ratio can be calculated by dividing total purchases by average creditors. Average creditors are the sum of opening creditors and closing creditors divided by two. The creditor's turnover ratio is an important tool of analysis as a firm can reduce its requirement of current assets by relying on supplier's credit. A low turnover ratio reflects liberal credit terms granted by suppliers, while high ratio shown that accounts is to be settled rapidly.

Table 4.13 Creditor's turnover ratio

Year	Total purchases	Average creditors	Ratio
2000-01	680.05	617.07	1.10
2001-02	1200.88	587.82	2.04
2002-03	1202.98	729.21	1.65
2003-04	1300.27	822.17	1.58
2004-05	1671.21	983.25	1.70

INTERPRETATION

Creditor's turnover ratio shows an increasing trend up to 2002-03 then the ratio found a decline in 2003-04 which in turn increased to 1.70 in 2004-05. The highest ratio was due to increased total purchases because of higher production compared to the previous year. This means accounts are to be settled rapidly. Since ratio is showing an increasing trend, the creditors turnover ratio of SALZER reveal unsatisfactory position of the company.

Chart 4.12 Creditor's turnover ratio

12.. DEBT EQUITY RATIO

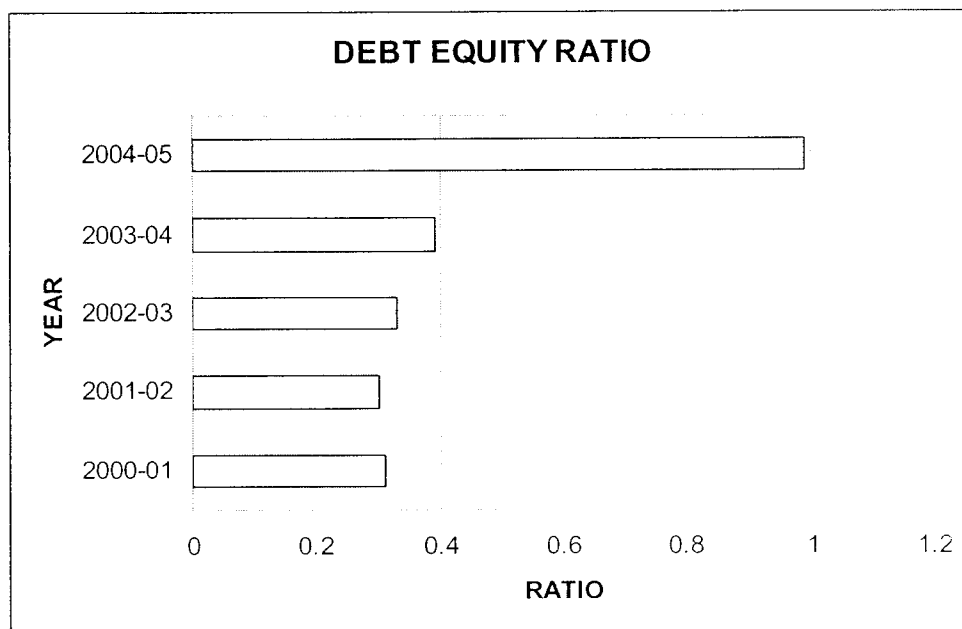
It is the relationship between long term debts to net worth. Long term debt is an outside liability inclusive of loan fund. Loan fund involves secured loans from GOI and unsecured loan from Oil Industry Development Board. Net worth is share holders equity inclusive of share capital, share application money, reserves and surplus and deferred expenditure. This ratio indicates the relative proportion of debt and equity in the financial assets of the firm. A debt- equity ratio of 2:1 is considered as ideal. A higher ratio increases risk to the creditors, inflexibility in operations of the firm and encounter serious difficulties in raising funds in future, lesser margin of safety and larger claim against assets of the firm. Lower ratio reduces risk to creditors and higher margin of safety and protection against shrinkage in assets.

Table4.14 Debt Equity ratio

YEAR	long term debt	share holders equity	Ratio
2000-01	414.39	1336.74	0.31
2001-02	444.82	1441.82	0.30
2002-03	484.39	1431.96	0.33
2003-04	567.36	1464.51	0.39
2004-05	1417.01	1417.97	0.99

INTREPRETATION

During 2000-01 the ratio is 0.31 and it has decreased to 0.30 in 01-02 and there was a increasing trend to 0.33, 0.39 and 0.99 during the years 02-03, 03-04 and 04-05 respectively. The lower ratio was found in the year 2001-02 which shows the satisfactory risk to creditors and high margin of safety and protection against shrinkage of assets. This was due to reduced long term debt and increased net worth. So the debt equity ratio reveals good signal to the company.

Chart 4.13 Debt Equity ratio

13.ACCOUNTS RECEIVABLE TO CURRENT ASSET RATIO

Accounts receivable to current asset ratio is defined as the relationship between Sundry Debtors and Current Assets. This ratio reveals that the percentage of Accounts Receivables that occupies the total of Current Assets. Higher ratio means higher debts are collected and included in Current Assets in order to increase liquidity of the firm. Lower ratio reveals difficulty in collecting debts and less receivables are included in the Current Assets which decreases the liquidity of the firm

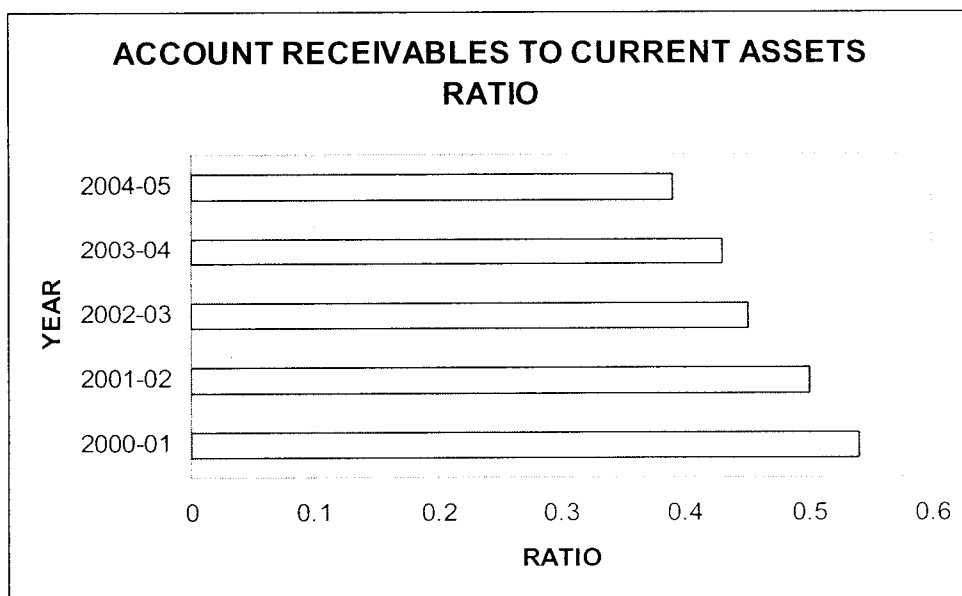
Table 4.15 Accounts Receivable to Current asset ratio

YEAR	Accounts Receivable	Current Assets	Ratio
2000-01	246.19	448.41	0.54
2001-02	340.34	678.17	0.50
2002-03	318.74	711.44	0.45
2003-04	353.09	815.60	0.43
2004-05	525.86	1348.8	0.39

INTREPRETATION

During 2000-01 the ratio is 0.54 and it has decreased to 0.50 in 01-02 and there was a decreasing trend to 0.45, 0.43 and 0.39 during the years 02-03, 03-04 and 04-05 respectively.

Chart 4.14 Accounts Receivable to Current asset ratio



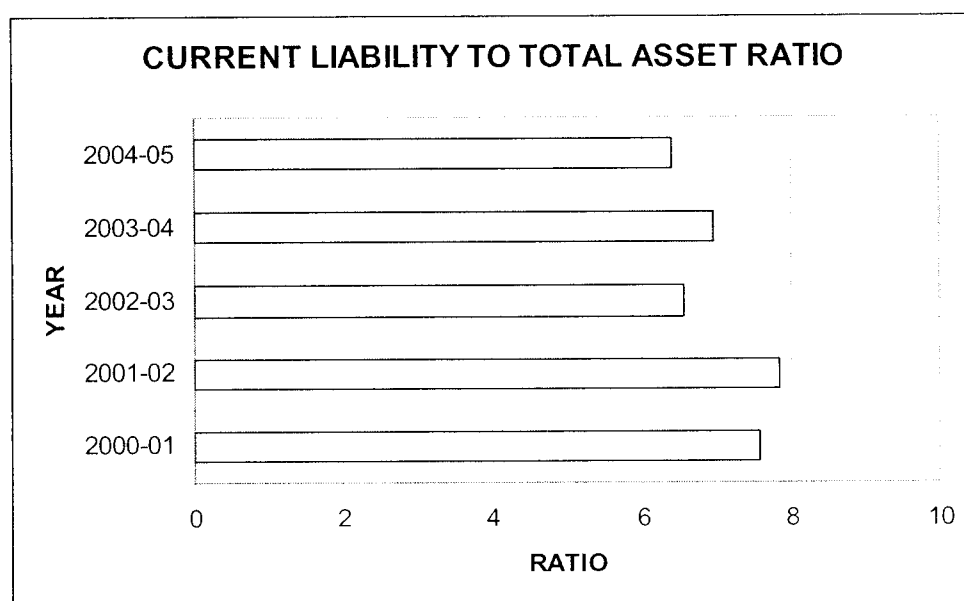
14 .CURRENT LIABILITY TO TOTAL ASSETS RATIO

Current Liability to Total Assets ratio is defined as the relationship between Current Liabilities and Total Assets. An increase in this ratio would be increase in profitability and risk and decline in cost because of use of more short term sources of finance which are less expensive, similarly decrease in ratio reveals in difference in profitability and risk but increase in cost because of use of more long term funds which are more expensive.

Table 4.16 Current liability to Total assets ratio

YEAR	Total Assets	Current Liabilities	Ratio
2000-01	1093.68	144.29	7.58
2001-02	1550.32	197.56	7.84
2002-03	1650.96	251.02	6.57
2003-04	2018.54	289.27	6.98
2004-05	2114.40	329.48	6.42

Chart4.15 Current liability to Total assets ratio



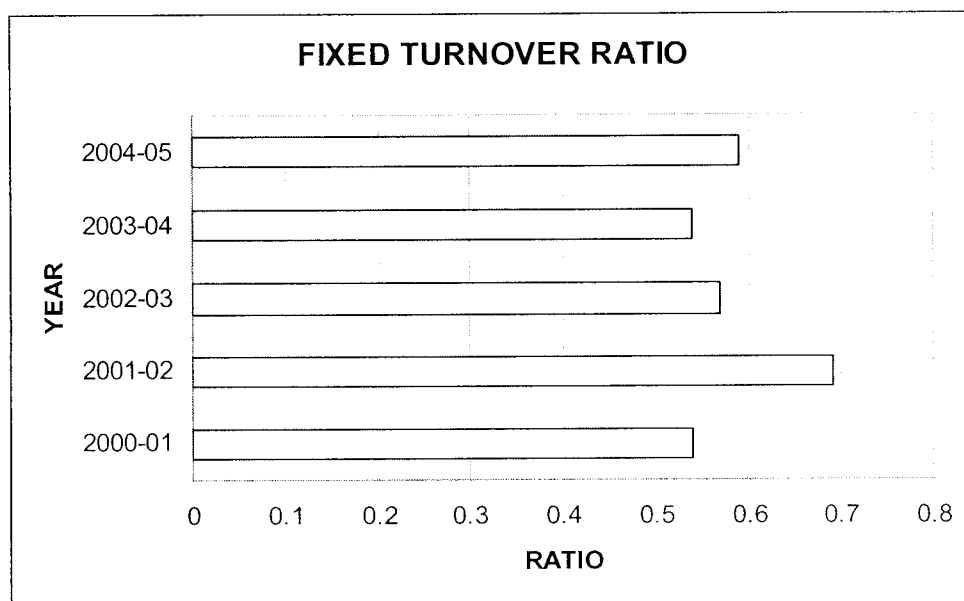
15. FIXED ASSET TURNOVER RATIO

Fixed asset turnover ratio is the relationship between fixed assets and sales. The increase in fixed asset may cause increase in the financial position of the company. An increase in this ratio will lead to increase in sales and the management of fixed assets will be easier. The fixed assets may include all tangible assets. A decrease in ratio shows a decrease in the sales.

Table 4.17 Fixed asset Turnover ratio

YEAR	Fixed Asset	Sales	Ratio
2000-01	510.71	945.76	0.54
2001-02	872.15	1257.74	0.69
2002-03	939.52	1628.89	0.57
2003-04	1020.64	1873.79	0.54
2004-05	1493.92	2504.98	0.59

Chart 4.16 Fixed asset Turnover ratio



CHAPTER V
FINDINGS RECOMMENDATIONS
AND CONCLUSIONS

5.1 FINDINGS

The following findings are observed during the study for Salzer Electronics Limited:

- Net worth of the company increased substantially and contribution to the exports and marketing is one of the largest and the gross margin improved more than the average in the previous year. The company's commitment to improve its performance with highly disciplined operations is reflected here. The increasing trend for working capital during 2004-05 is suggestive of enhanced production of CAM products when compared to previous years. But higher rate of working capital utilization and the fall of profit led to declining trend in the turnover from 2002-03 to 2003-04.
- The study reveals that there were long term liabilities to working capital ratio which could not be repaid out of working capital. It is an indication of unsatisfactory position of SALZER is evident from cash turnover ratio which indicates that ideal cash is running through the business.
- Higher liquidity position of the company during 2004-05 is obviously revealed by cash ratio, when compared to the period 2002-03. Increased cash credit account balance, increased crude credit, excise liability and sales tax all resulted in showing increasing trend in cash ratio.
- Efficiency of the company for better service outside liabilities was displayed by cash flow coverage ratio which was a good signal for the company. Efficient management of the company in handling fixed charge liabilities as well as more assured payments of interest to creditors was indicated by interest coverage ratio.
- When net working capital to capital employed is taken into account, it can be seen that the ratio goes exactly in a parallel way to net working capital. A declining trend is noticed for the current liabilities to total assets till 2001-02. But an increasing trend in ratio was manifested during 2002-03 consequent to the utilization of less expensive short term funds that helped for enhancing the profitability.
- Increased utilization of current assets resulted in a diminished profitability. Hence current assets to total assets ratio during 2002-03 showed light increase

in comparison with previous year, leading the company to a reduced profitability position.

5.2 RECOMMENDATIONS

Based on the findings, the following recommendations are given to the company in order to improve its working capital efficiency .

- The working capital turnover ratio situation of SALZER is not so good as it showed a decreasing trend from 2001-02 to 2002-03. it is therefore suggested that the concern should check the reducing trend and should try to improve the working capital turnover ratio.
- Current asset turnover ratio found slight increasing trend during 2003-04 when compared to the previous year of the present study because of higher current assets indicating collection of debts which will do good to the company. So it is suggested that debts are to be promptly collected.
- Current assets to total asset position reveals that during 2004-05 there found an increasing trend in ratio due to greater utilization of current assets which reduced profitability of the company. This can be improved by reducing current assets utilization in order to earn profit of the company.
- Long term liabilities to working capital ratio during 2004-05 indicates bad position of the company, since long term liabilities cannot be paid fully out of working capital. It is therefore suggested that working capital is to be arranged in such a way that company could be able to pay long term liabilities fully out of working capital.
- Cash cycle reveals that maximum period had taken by the company for all the processes dealing with cash. So it is suggested that a company can do better by reducing the period for all the cash processes by some means.
- The debtor's turnover ratio reveals that the debts are not being collected rapidly and declining trend in ratio amounts to congestion of funds in accounts receivables which increases the chances of bad debt losses. The decreasing trend in the ratio shows undesirable credit and collection policies. Therefore it is recommended that collection efforts should be tightened by the company and immediate steps are to be taken to check the

collection period reduces liquidity position of the company. Therefore, it is suggested that efficiency of staff employed for the collection of debts should be checked.

5.3 CONCLUSION

The working capital position of SALZER ELECTRONICS Ltd is commendable. From the analysis it was found that the company is maintaining a good liquidity position and hence met all the current obligations. The analysis also projects that adequate cash is running through business indicating a good position in SALZER at present. The study reveals that the company has the ability to meet all outside liabilities and is having capacity to handle fixed charges liabilities. Average payment period exhibits stronger liquidity position of SALZER. It is found that the company is having high margin of safety and protection against shrinkage in assets and also exposes creditors to lesser risk.

Cash position displays good sign for the company. The inventory management of the company indicates satisfactory results by holding minimum amount of inventory and by utilizing minimum period for converting raw materials into products and finally reaching the hands of ultimate customer. But in the area of receivables management, debtor's turnover and average collection period were not found so appreciable due to inefficient debt collection.

The proper working capital management requires both the medium term planning and also the immediate adaptation to change arising due to fluctuation in operating levels of the firm.

SALZER ELECTRONICS LIMITED

BALANCE SHEET AS AT 31st MARCH, 2005

PARTICULARS	Schedule No.	AS AT 31/03/2005 Rs.	AS AT 31/03/2004 Rs.
I. SOURCES OF FUNDS			
1. Shares Holders' Funds	01	37783330	37783330
a. Share Capital	02	104014769	108666818
b. Reserves and Surplus			
2. Loan Funds	03	110142653	37569840
a. Secured Loans	04	31559944	19167562
b. Unsecured Loans			
3. Deferred Tax Liability		2196039	1164003
TOTAL		285696735	204351553
II. APPLICATION OF FUNDS			
1. Fixed Assets	05	272104474	208239323
a. Gross Block		122711478	106175203
b. Less : Depreciation		149392996	102064120
c. Net Block		35056201	55218500
2. Investments	06		
3. Current Assets, Loans & Advances	07	42452971	23119746
a. Inventories	08	52586076	35309337
b. Sundry Debtors	09	3768093	4869613
c. Cash & Bank Balance	10	1188227	2164281
d. Other Current Assets	11	34885553	16099884
e. Loans & Advances			
Less: Current Liabilities & Provisions	12	134880920	81562861
		36397118	37595120
		98483802	43967741
4. Miscellaneous Expenditure (To the extent not written off or adjusted)	13	2763736	3101192
TOTAL		285696735	204351553

In terms of our report Attached,

(Sd/-) P.S. Santhanakrishnan
Chairman

(Sd.) P. Doraiswamy
Managing Director

For M/s. JDS Associates
Chartered Accountants

(Sd/-) S. Baskarasubramanian
Director (Corporate Affairs) & Company Secretary

(Sd/-) B. Jayaram
Partner

Coimbatore - 47
25.06.2005

SAIZER ELECTRONICS LIMITED

2002-2003

2001-2002
SAIZER

BALANCE SHEET AS AT 31st MARCH 2003

PARTICULARS	Schedule No.	AS AT	AS AT
		31/03/2003 Rs.	31/03/2002 Rs.
SOURCES OF FUNDS			
Shares Holders' Funds			
a. Share Capital	01	37783330	37783330
b. Reserves and Surplus	02	105413570	106399428
			1241182
Loan Funds			
a. Secured Loans	03	36008402	33048702
b. Unsecured Loans	04	12431945	11634381
			44182
Deferred Tax Liability		476263	
TOTAL		<u>192113510</u>	<u>188865841</u>
APPLICATION OF FUNDS			
Fixed Assets			
a. Gross Block	05	186423570	168308262
b. Less : Depreciation		92470689	81092820
c. Net Block		<u>93952881</u>	<u>87215442</u>
Investments	06	53818500	53818500
Current Assets, Loans & Advances			
a. Inventories	07	21137447	21511163
b. Sundry Debtors	08	31814885	34034855
c. Cash & Bank Balance	09	5214532	1405235
d. Other Current Assets	10	374824	243462
e. Loans & Advances	11	12605853	10624506
Current Liabilities & Provisions	12	71147541	67819221
		<u>30244060</u>	<u>23763425</u>
		40903481	44055796
Miscellaneous Expenditure (To the extent not written off or adjusted)	13	3438648	3776103
TOTAL		<u>192113510</u>	<u>188865841</u>

In terms of our report Attached,

(Sd/-) P.S. Santhanakrishnan
Chairman

(Sd.) R. Doraiswamy
Managing Director

For M/s. JDS Associates
Chartered Accountants

(Sd/-) S. Baskarasubramanian
Director (Corporate Affairs) & Company Secretary

(Sd/-) B. Jayaram
Partner

Coimbatore - 47
5.07.2003

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PUBLICATIONS

ANNUAL REPORTS OF SALZER ELECTRONICS LIMITED FROM
2000-2005.

WEBSITE USED

www.salzer.com