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A STUDY ON CREDIT APPRAISAL IN LEASING AT  
SUNDARAM FINANCE LIMITED, CHENNAI.

By

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A PROJECT REPORT  
Submitted to the

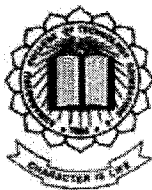
FACULTY OF MANAGEMENT SCIENCES

In partial fulfillment of the requirements  
For the award of the degree

Of

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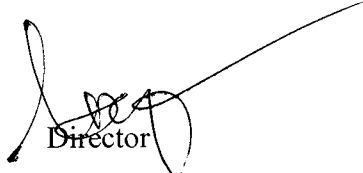


**DEPARTMENT OF MANAGEMENT STUDIES**  
**KUMARAGURU COLLEGE OF TECHNOLOGY**  
**COIMBATORE**

**BONAFIDE CERTIFICATE**


Certified that this project report titled “A Study on Credit Appraisal in Leasing at Sundaram Finance Limited, Chennai” is the Bonafide work of Mr. G. Balachandran (71206631007) who carried out the 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.

  
 Faculty Guide

  
 Director

Evaluated and vice-voce conducted on ..... 29/10/07 .....

  
 Examiner I

  
 Examiner II



**SUNDARAM FINANCE**

*Enduring values. New age thinking.*

**August 30, 2007**

**TO WHOMSOEVER IT MAY CONCERN**

We hereby certify that Mr. Balachandran.G studying M.B.A in KCT Business School, Kumaraguru College of Technology, Coimbatore has completed his project in our Organization from 19.06.2007 to 01.08.2007

Details of study :: " A Study on Credit Appraisal in Leasing at Sundaram Finance Limited "

Performance during training :: Satisfactory

For SUNDARAM FINANCE LIMITED

HEAD - PER & ADMN

**Sundaram Finance Limited**

## DECLARATION

I, **G. Balachandran (Reg. No.71206631007)**, final year MBA student of Department of Management Studies, Kumaraguru College of Technology, Coimbatore, hereby declare that the project entitled “**A Study on Credit Appraisal in Leasing at Sundaram Finance Limited, Chennai**” has done by me under the guidance of Prof. V. S. Elamurugan, submitted in partial fulfillment for the award of the degree of Master of Business Administration of Anna University, during the academic year 2006-2008.

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

Place:

Coimbatore

Date:

29/10/07

Signature of the Candidate

G. Balachandran

(G. Balachandran)

## ACKNOWLEDGEMENT

Few people are as fortunate as I have been. Throughout my life I have always benefited from many wonderful people around me, and the last two months of my summer project have been no exception. I have many people to be thankful to.

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## **EXECUTIVE SUMMARY**

Service sector is becoming a major contributor for our nation's GDP and financial service has a good part in it. Leasing, a financial service is enjoyed by many people especially in the industries sector. A leasing company needs to make some analysis before granting any lease. This project deals on that aspect of credit appraisal in which the credit worthiness of the companies is found and the lease is granted.

A lease is a contract between a lessor and a lessee giving the lessee the possession and use of a specific asset on payment of rentals over a period. The lessor retains the ownership of the asset so that it never becomes the property of the lessee.

Credit appraisal is essential to determine the credit worthiness of the prospective lessee. It is the most important area in leasing which determines the entry of new customers as a lessee as well as the extension of further lease to the existing lessees.

The process in which the credit appraisal is been carried out in Sundaram Finance Limited is studied and a case analysis on few client companies is done to know their credit worthiness. The past two years financial statements of the companies are taken and the ratio analysis is been used to analyze the financial position of the firms.

The credit appraisal system followed by the company gives a complete knowledge on the company and its financial position. Sundaram Finance Limited could also make a company analysis with the help of a scoring sheet and assess depending on the score. The ratio analysis was able to give the financial status of some client companies by which the suggestions for granting leasing were given.

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## CHAPTER 1

### INTRODUCTION

#### 1.1 Background

Sundaram Finance Limited is one of the largest finance company in the country. They are the leaders in Hire Purchase, Leasing and Deposits. The main strength of the company is fund based, particularly through deposits from the public.

Firmly positioned as India's No.1 NBFC, Sundaram Finance Limited has a depositor base over 7,50,000; as the leasing composite finance company, its wide span of services includes HP, Leasing, bills-Discounting, inter-corporate funding and related activities. Its total resources exceed Rs.1500 crores.

Sundaram Finance Limited has a network of more than 120 branches that span the length and breadth of the country. Sundaram Finance Limited enjoys memberships in premier financial associations such as International Finance and Leasing Association and Asian Leasing Association. Sundaram Finance limited has the highest credit rating 'FAAA' in terms of safety of investments rated by the CRISIL a premier credit rating agency in India.

Now a day, the traditional route of financing through equity becomes in expensive method of finance because of its demands on corporate earnings through dividend servicing and low price earning ratio.

The project deals with the legal and regulatory framework governing the rights and duties of the lessor and the lessee, the credit appraisal procedure of leasing customers.

The most important aspect covered here is the credit appraisal of leasing customers, which is a significant function in leasing. It is important because major credit decisions are taken at the appraisal stage.

## **1.2 Literature Review**

The theory of financial leasing (e.g., Bower (1973), Brealey and Young (1980), Brick, Fung, and Subrahmanyam (1987), Lewellen, Long, and McConnell (1976), Miller and Upton (1976), and Myers, Dill, and Bautista (1976)) traditionally has focused on the differential tax position of the lessee and the lessor as the primary rationale for leasing.(1) Brick, Fung, and Subrahmanyam (1987) extended the tax-based analysis to consider economies of scale in structuring lease contracts and the cost of managing cash flows in the presence of default risk and interest rate uncertainty. De la Torre and Benjamin (1991), Krahan and Meran (1987), and Lease, McConnell, and Schallheim (1990) consider the role of information asymmetries between the lessee and the lessor regarding the residual value of the leased asset as a further explanation for lease financing.

Empirical studies of leasing, including Crawford, Harper, and McConnell (CHM) (1981), Gudikunst and Roberts (1978), Roenfeldt and Henry (1979), Schallheim, Johnson, Lease, and McConnell (1987), and Sorensen and Johnson (1977) have reported high ex ante returns for lessors, and by implication, high lease rates paid by lessees. For example, Crawford, Harper, and McConnell found that lessors' ex ante rates of return were significantly higher than the yield on BBB-rated bonds during the same time period. Lease, McConnell, and Schallheim (1990) documented high realized returns on financial leasing contracts, although the realized returns were less than the expected returns. Further, they found that realized salvage values tended to exceed greatly the actual salvage values on which the lease contract was based.

In addition, Ang and Peterson (1984) and Bowman (1980) found that debt and lease financing were significantly, positively correlated; implying that debt and lease financing are complements not substitutes. Ang and Peterson found that tax rate differences between leasing and non-leasing firms cannot explain the complementary

relationship between debt and lease financing. Marston and Harris (1988) provide one possible explanation for this apparent anomaly. They studied changes in the debt ratio and lease ratio for individual firms over time and found them to be inversely related--confirming that debt and lease financing are substitutes. That is, for each firm, debt and lease financing are substitutes, but firms employing lease financing typically use higher levels of debt compared to firms that do not use lease financing.

Finucane (1988) also found evidence of a positive relationship between debt and lease financing. Finucane shows that firms in certain industries, including air transport and retailing, rely more heavily on lease financing than others. A cross-sectional analysis revealed that the lease ratio (capitalized leases to total assets) is related to several variables, including the level of mortgage debt and the bond rating for the firm. Firms with lower bond ratings were found to lease more frequently--a result that is consistent with our expected bankruptcy cost hypothesis. Tax-related factors were not found to be important in explaining the level of leasing by a firm.(2) Vora and Ezzell (1991) found significant tax rate differences between lessees and lessors, although they found that the lessee's tax rate is not necessarily lower than the respective lessor's.

Smith and Wakeman (1985) offer a comprehensive analysis of the rationale for leasing that helps to explain many of these seemingly anomalous empirical findings. For example, the high rates of return expected and actually earned by lessors may be attributed to either a comparative advantage of the lessor in disposing of assets at the termination of a lease or the ability of the lessor to exercise market power and to price discriminate among various asset user groups. Smith and Wakeman argue further that the Ang and Peterson finding that leasing and borrowing are complementary can be explained across firms by examining the characteristics of firms' investment opportunity sets.

Lewis and Schallheim (1992) model the debt/lease financing decision as a substitution between debt and non-debt tax shields. In their model, non-debt tax shields are sold, via leasing, thereby reducing the potential redundancy with interest deductions and making the marginal value of debt positive. The lessee responds by issuing additional

debt, which accounts for the positive relationship between debt and lease financing. The benefit from leasing in this model is realized even if the marginal tax rate is the same for the lessee and lessor.

Source: Bankruptcy costs and the financial leasing decision, Financial Management (Financial Management Association), Summer, 1994 by V. Sivarama Krishnan, R. Charles Moyer.

### **1.3 Objectives of the Study**

#### **1.3.1 Primary Objective**

- To study the credit appraisal systems in leasing with special reference to Sundaram Finance ltd.

#### **1.3.2 Secondary Objectives**

- To analyze and the study the need for evaluation of a lease proposal
- To analyze the different aspects that needs to be considered during credit appraisal
- To suggest through case by case analysis whether to sanction the lease.

### **1.4 Statement of the Problem**

The study is undertaken to analyze the existing credit appraisal techniques. It helps the company to implement suitable strategies to improve over the existing system. It is difficult to take into consideration every single aspect of a company, whose lease proposal is being evaluated by and large, there is a lot of subjectivity involved in the study and the appraisal could very based on the researchers judgment and discretion. The result of this study could be useful for taking decisions to the future credit proposals of these companies.

## **1.5 Scope of the Study**

The study conducted now is been done only on a few clients of the company. The other left out companies could also be taken and credit appraisal could be done. The credit appraisal techniques used in the hire purchase can also be studied.

## **1.6 Methodology**

### **1.6.1 Type of study**

As the study involves the analysis of financial statements of various companies and the credit appraisal system of the organization, the study is an analytical study.

### **1.6.2 Data used for the research**

The secondary data is been used for the analysis and study. The secondary data are those which have been already collected by someone else and which have already been passed through the statistical process. Regarding the secondary data, various annual reports, internal records and pamphlets have been collected. Apart from this the company website has also been used.

### **1.6.3 Techniques for analysis**

The analysis on credit appraisal made through ratio analysis. For this, two full years figures and the latest quarterly results are obtained to understand the trend in the operating efficiency of the client. Then a detailed credit analysis is made, splitting the various financial figures and regrouping them according to the acceptable and defined classification and a note up. The appraisal essentially focuses on the aspects of short term and long term liquidity, profitability and activity. So the main ratios used for analysis are:

1. Profitability Ratios
  - a. OPBT / operating income
  - b. PAT / Net Worth
  - c. PBIT / Capital Employed

- d. Dividend / PAT
2. Solvency Ratios
  - a. Total Long Term Debt / Net Worth
  - b. Total outside Debt / Net Worth
3. Coverage Ratio
  - a. PBDIT / Interest & Finance Charges
4. Liquidity Ratio
  - a. Current Ratio
  - b. Quick Ratio
5. Activity Ratio
  - a. Inventory turnover ratio (in days)
  - b. Debtors turnover ratio (in days)
  - c. Creditors turnover ratio (in days)

## 1.7 Limitations

- The Company's activities extend to various areas but study is concentrated only in leasing.
- The study is based on the historical data.
- The projections are based on the past performance. There is no assurance that the past will reflect the future.
- The lessees intention to pay the lease rentals could not be measured 100%

## 1.8 Chapter Scheme

The report of the study is divided into six chapters.

The first chapter deals about the introduction to the study. It contains the background of the study, literature review on the study. It also has the objectives of the study with the scope, also the methodologies used in the study.

The second chapter gives the details of the company. It contains the history of the organization, the products and the competitive strength of the company.

The third chapter is about the prevailing scenario of the industry and company. The analysis gives both the macro and micro level aspect of the industry, about Non banking financial companies and the credit appraisal techniques.

The fourth chapter deals with the analysis of the financial statements of various companies with the help of ratios. The interpretations on ratios are also given.

The fifth and the final chapter gives the summary of the findings and gives recommendations.

## **CHAPTER 2**

### **ORGANIZATION PROFILE**

#### **2.1 History of the Organization**

Sundaram Finance was incorporated in the year 1954, with the objective of financing the purchase of commercial vehicles and passenger cars. The company was started with a paid up capital of Rs.2 lakhs and later went public in 1972. The company is based on principles of faith, depositor confidence, institutional trust, investor-stead fasteners and employee loyalty.

Sundaram Finance's shares were listed in the Madras Stock Exchange in 1972 and in the National Stock Exchange in Jan 1998; SF has a nation wide network supported by a dedicated team of service oriental personnel, for personalized customer service. The company has been rated MAAA by ICRA signifying highest safety.

Sundaram Finance has strong credit appraisal skills and effective receivable management, well-defined documentation and procedures that have been become industry benchmarks. It set industry standards by computerizing and networking on its offers through a variety communication media including VSAT installation. These ensure efficient and smooth functioning of all its systems and procedures resulting in better customer service.

Sundaram Finance has spent its activities and today its range of financial services encompasses leasing and car finance. SF also offers home finance and asset management through its subsidiaries. Its subsidiaries include Sundaram Finance Service Limited, Sundaram Newton Asset Management Company limited and Sundaram Home Finance Limited.



Driven by the sincerity of Late Shri. Santhanam, concern for commitment to and passion and for the truck operators, at a time when the focus was only on financing large truck operators, Sundaram Finance emerged as a leading financier of the transport sector. Devoting its services to the growth of the road transport industry, Sundaram Finance is today synonymous with automotive financing in the country. Today, SF has a nationwide network supported by a dedicated team of service oriented personnel, who ensure personalized customer services remains true to its core values of prudence, fairness, transparency and service excellence which have enabled it to emerge as a leader in its chosen field.

### **2.1.1 Milestones in the history of SF**

A Certificate of Honor was given by the chartered financial analyst of the institute of chartered financial analyst, in recognition of the company's efforts to set a trial blazing record of investor rewarding companies in India for the period 1990-95.

- 1954 Birth of Sundaram Finance
- 1972 First finance company to be listed on the Madras Stock Exchange
- 1981 Started Leasing operations, Formation of Lakshmi General Finance
- 1984 Receivables crossed Rs.1000 crore(Rs.10 billion)
- 1995 Deposits crossed Rs.500 crore(Rs.5 billion)
- 1996 Formed Sundaram Newton Asset Management Company Ltd. in collaboration with Newton Mgmt. Ltd.
- 1996 Received Best Tax payer Award
- 1997 Received Best Tax payer Award
- 1998 Receivables crossed Rs.2000 crore(Rs.20 billion)
- 1999 Promoted Fiat Sundaram Auto Finance Limited, a joint venture with Fidis S.P.A, Italy
- 2000 Promoted Royal Sundaram alliance insurance company Ltd. joint venture with Royal and son alliance plc, for Non life insurance

### 2.1.2 Awards Received

- “*Certificate of commendation*” award by Government of India under the scheme of “*good tax payers*”
- “*Second best tax payer*” in the category of private sector company for assessment year 1994-95 in Tamil Nadu Region, from the income tax department, Tamilnadu.
- “*Rolling trophy*” by Rotary club of Madras Southwest for Best employer-employee relationship for the year 1995-96
- “*Best Tax Payer*” in the category of private sector company for assessment year 1995-96 in Tamil Nadu Region, from the Income Tax department, Tamilnadu.
- “*Automan Award*” to Shri T S Santhanam, Chairman, from Motor India in 1998.
- “*Pioneering Service Award*” to Shri T S Santhanam, chairman, from Chennai Good Transport Association.
- “*Sarige Ratna Award*” to Shri T S Santhanam, Chairman, from the Bangalore city Lorry Transporting Agents Association (Regd)
- “*Most valued Customer Award*” to Shri T S Santhanam, Chairman, from the State Bank of India.
- “*The Best Financier of the New Millennium 2000*” to Shri G K Raman, Managing Director, from the All India Motor Transport Congress.

### 2.2 Five Pillars of Sundaram Finance Ltd:

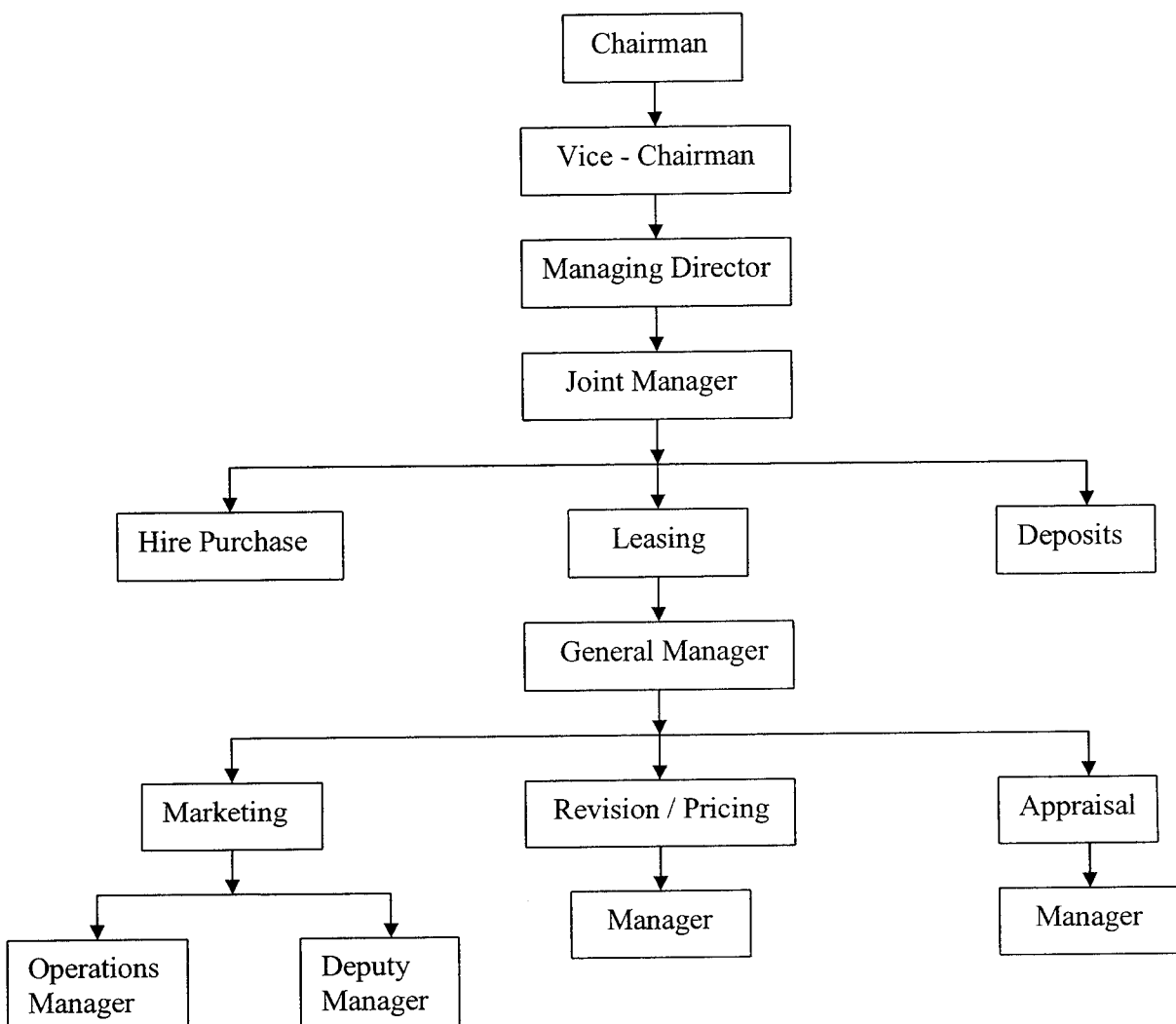
1. Faith
2. Depositors’ confidence
3. Institutional trust
4. Investor safety ness
5. Employee Loyalty.

### Corporate Philosophy:

- Truth and fairness guide the management of finance.

- Customer satisfaction through excellent service and reliability.
- Prudence and conservatism in finance operations
- Truth, honesty and efficiency in all dealings
- Professional management with highest standards of integrity
- Full compliance with law and regulations.

### 2.3 Organization Structure



## **2.4 Products Profile**

### ***Deposits:***

Sundaram Finance offers attractive schemes to all its depositors. In fact, many of the depositors have a relationship with the company, which spreads over three generations, and view it as a synonym with safety, security and service. The company has been rated MAAA by ICRA signifying highest safety.

### ***Leasing:***

Sundaram Finance diversified into leasing in 1981, when leasing was still in its conceptual stages in the country. Pioneering the growth of leasing with its flexible, cost-effective and tailor-made leases, it figures among some of the most reputed blue chip companies. Sundaram Finance Limited has a diversified portfolio ranging from computers to aircraft.

### ***Car Finance:***

Economic liberalization saw the entry of many foreign car manufacturers in the country. Realizing in the high growth potential of the car market, Sundaram Finance launched Sundaram Car Finance exclusively to finance cars and utility vehicles. Supported by a large countrywide network, strong dealer relationship and its customized service, the company, has attained a position of strength in its area, servicing a very large customer base.

### ***Commercial Vehicles:***

Sundaram Finance group is one of the oldest and largest providers of finance for the acquisition of commercial vehicles of all makes. This helps the small operators to acquire vehicles with minimum hassle and documentation. The strength of the group lies in quick completion of transactions, long association with transporters for generations and the intimate knowledge of the market and its nuances. A vast network of over 120 branches caters to the financing needs of its customers.

***Equipment Finance:***

The company provides finance for acquiring equipment either under hire purchase or lease finance routes. The mode of finance is the choice of the customer. Financial options are extended only to corporate for general-purpose machinery.

***Fleet card:***

Sundaram Finance (SF) has tied up with Bharat Petroleum Corporation Ltd. (BPC) & Indian Oil Corporation Ltd. (IOC) for extending credit facility to the fleet customers, through co-branded fleet cards. The FLEET CARD credit program was launched on 01.oct.2004. Under this arrangement, BPC & IOC would be the issuers of SmartFleet & XTRAPOWERS fleet cards. These fleet cards are based on smart card technology.

**2.5.1 Associates of Sundaram Finance Limited****Sundaram Infotech Solutions**

Sundaram Infotech Solutions (SIS) is the IT services division of Sundaram Finance Limited. At SIS, young and vibrant team of over 100 software professionals has the technical and domain expertise to provide innovative and specialized IT solutions in the field of financial services. SIS has successfully developed and is providing comprehensive IT services including networking operations of:

- Sundaram Finance Limited
- Sundaram Home Finance Limited
- Sundaram Asset Management Company Limited

**2.5.2 Subsidiaries of Sundaram Finance Limited****Sundaram BNP Paribas Asset Management Company Ltd**

The investment manager of the fund is Sundaram Asset Management Company, a fully owned subsidiary of Sundaram Finance Limited. The AMC was started in 1996 as a

joint venture between Sundaram Finance (61%) and Newton Investment Management (39%). Subsequent to the acquisition of Newton by US-based Mellon Financial Corporation, Sundaram Finance in 2002 acquired the 39% stake of Newton in the AMC.

### **Sundaram Home Finance Limited**

Sundaram Home Finance was incorporated on July 22; under the companies Act 1956. Sundaram Finance Limited has promoted Sundaram Home Finance Limited with Equity participation from the International Finance Corporation (IFC), Washington and FMO, Netherlands. SHFL combines its expertise in home finance with the service orientation of its promoter Sundaram Finance.

### **Sundaram Insurance Broking Limited**

Sundaram Insurance Booking Limited, earlier known as Sundaram Finance Securities Limited was started with the objective to carry on the business of insurance brokers of all kinds of insurable perils including Life, medical and other general insurance.

### **Sundaram Business Services**

Sundaram Finance promoted Sundaram Business Services premier financial conglomerate in the country, most respected for transparency and fair play exhibited in all customers – related dealings and its financial instruments have been consistently rated high by the credit rating agencies.

### **In freight Logistics Solutions Limited**

Infreight Logistics Solutions Limited. (InFreight) is a subsidiary Company of Sundaram Finance Limited. It was incorporated as a private company on April 25, 2000.

Infreight Logistics Solutions Limited is a Complete Logistics Services company providing Consulting & Technology Solutions in the Logistics & SCM space in India.

### **Sundaram Finance Distribution Limited (SFDL)**

Sundaram Finance Distribution Limited (SFDL) is a wholly owned subsidiary of Sundaram Finance Limited. The main object of this company is to engage in distribution and marketing of financial, savings, loan, investments and insurance products.

SFDL has initially taken up the corporate Agency of National Insurance Company Ltd. to distribute all General Insurance Products of that company. The products of National Insurance include:

- Motor Insurance
- Personal Lines of Insurances such as Home Insurance, Health Insurance, Personal Accident Insurance, Travel Insurance, etc.
- Commercial Lines of Insurances such as Fire Insurance, Marine Insurance, Engineering Insurance, etc.
- Liability Insurance Products

### **2.5.3 Joint Ventures of Sundaram Finance Limited**

#### **Royal Sundaram Alliance Insurance Co Ltd**

Royal Sundaram is a joint venture between Sundaram Finance Ltd. and Royal & Sun Alliance Plc. The Company was one of the first new companies to be granted a license by the IRDA (Insurance Regulatory and Development Authority) to transact business in the non-life insurance sector. The Company was incorporated in April 2000, received its certificate to commence business on October 25, 2000 and formally launched in March 2001.

## CHAPTER 3

### MACRO – MICRO ANALYSIS

#### 3.1 History of Leasing

During the 1900's railroad, equipment was commonly financed under an arrangement whereby a railroad contracted with a manufacturer for the purchase of railroad cars, with the purchase price to be paid under a contract closely resembling a conditional sale contract.

Another form of railroad car leasing evolved in which the lessor-retained title to the equipment at the end of the lease term.

Though not then known as such, the first true leases of equipment other than ships came from transactions where railroad lessors purchased or manufactured railroad cars for lease to shippers under arrangements whereby the lessor would maintain the railcars and own them at the end of the lease term.

In the 1920's, manufacturers sought to increase sales of their equipment, thus the evolution of vendor leasing. Manufacturers promoted sales of their products with installment sales contracts that were then discounted to banks and finance companies. Various "formal" forms of leases began to evolve, operating leases, which refer to a wide variety of short-term leases, were developed from the lease of equipment that came with an operator, such as a truck with a driver. Long-term leases of equipment first evolved in the late 1940's with railroad equipment.

In 1954, U.S. Leasing corp. became the first company formed to engage in general equipment leasing along the general lines on which such businesses are conducted today. In the 1960's, IBM and Xerox recognized that substantial sums could be made from the financing of their equipment. Their leasing of computers and office equipment was a significant contribution to the growth of leasing, since many companies were exposed to equipment leasing for the first time when they leased such equipment. Also, computer leasing by independent third-party leasing companies becomes popular during the 1960's.



Soon, other industries saw the opportunities in the equipment-leasing marketplace. When Congress amended the Bank Holding Company Act, permitting banks to form holding companies and engage in a number of activities other than lending, banks found themselves able to engage in equipment leasing. Suddenly, leasing becomes respectable, moving from “lending as a last resort” to a type of creative financing of which smart companies took advantage. Within a few years, most companies were exposed to leasing and many began using leasing on a regular basis to finance equipment needs. The industry has grown ever since.

Tax law changes, accounting changes, and changes in lease structures constantly challenge the industry to stretch, bend and reinvent itself, continuing its upward slope of profitability and volume. The percentage of capital acquisition by leasing versus other methods of financing equipment has grown every year. In 1996, equipment leasing constituted \$170 billion of the \$566 billion spent in the U.S. on capital acquisition, up from the estimated \$152 billion in 1995.

### **Evolution and status of Indian leasing industry**

Leasing activity was initiated in India in 1973. Mr. Farouk Irani set up the first leasing company in India, named First leasing company of India ltd. For some years, this company remained the only company in the country. By 1981, the trickle started and Motor and General Finance, and Sundaram Finance etc. joined the leasing game. They were, already involved with hire purchase of commercial vehicles, and were looking for new avenues and leasing seemed to be the ideal choice.

The industry entered the third stage in the growth phase in late 1982, when numerous financial institutions and commercial banks either started leasing or announced plans to do so. ICICI, prominent among financial institutions, entered the industry in 1983 giving a boost to the concept of leasing. Thereafter, the trickle soon developed into flood, and leasing becomes the new gold mine.

To add to the leasing boom, the Finance Ministry announced strict measures for enlistment of investment companies on stock exchanges, which made many investment companies to turn overnight into leasing companies. As per RBI's records by 31<sup>st</sup> March

1986, there were 339 equipment leasing companies in India whose assets leased totaled Rs.2395.5 million. One can notice the surge in number in number-from merely 2 in 1980 to 339 in 6 years.

Subsequent swings in the leasing cycle have always been associated with the capital market whenever the capital markets were more permissive, leasing companies have flocked the market. There has been appreciable entry of first generation entrepreneurs into leasing, and, in retrospect, specialized leasing firms have done better than diversified industrial groups opening a leasing division.

Banks themselves were allowed to offer leasing facilities much later in 1994. However, even to date, commercial banking machinery could not gear up to make any remarkable difference to the leasing scenario. The post-liberalization era has been witnessing slow but sure increases in foreign investment into Indian leasing. Starting with GE capital's entry, an increasing number of foreign-owned financial firms and banks are currently engaged or interested in leasing in India.

## **Meaning**

A lease is a contract between a lessor and a lessee giving the lessee the possession and use of a specific asset on payment of rentals over a period. The lessor retains the ownership of the asset so that it never becomes the property of the lessee. Equipment leasing is distinct from property leasing although some equipment lessor undertakes a certain amount of the later. It also distinct from short term hiring arrangements, such as plant hire in the construction industry. The hiring of goods to consumers, such as television and video equipment, is also outside the scope of the leasing industry as such. Above all, leasing must be distinguished from arrangements, such as industrial hire purchase, where the user of the goods acquires title (i.e., becomes the owner) at some point during the financing agreement.

Under a lease agreement the lessee selects the equipment from the manufacturer or supplier. It is the permanent separation of ownership and use, which is central to the concept of equipment leasing.

## 3.2 CREDIT APPRAISAL

### **Meaning**

Credit worthiness analysis is mainly done for the prediction of the likelihood of a firm facing financial distress. Not only the financier but also the borrower and even third parties like potential customers, potential employees, competitors, etc. are interested in the general issue of how likely that a firm will avoid financial distress. The financial status of a firm can be understood by financial analysis, which give answer to key questions about the level of profitability, risk associated with operating profit stream, how levered the firm is, the fund flow picture, the sufficiency of fund flow to service debt and other commitments, sufficiency of cash flow to repay the loan and the like. To answer these questions, ratio analysis is very much helpful.

The credit worthiness assessment using financial analysis should produce more than assessment of the key risk of non-payment, but should also identify the nature of the significant risks.

Credit appraisal is essential to determine the credit worthiness of the prospective lessee. The following are the determinants of credit worthiness:

### **Character**

This refers to the lessee's demonstrated integrity, honesty and commitment to pay during even adverse times.

### **Capacity**

This refers to the lessee's capacity to honor his future financial commitments.

### **Condition**

If the industry in which the lessee operates sensitive to changes in the business cycle, then the impact of the emerging economic conditions on the business of the lessee must be considered.

### **Competition**

The competitive conditions in the lessee's industry need to be analyzed and the lessee's standing in the market place should be assessed.

### **Collateral**

The collateral refers to the margin maintained on the leased asset.

### **Cross border & currency**

The political and currency economic conditions prevailing in a foreign country becomes relevant in the analysis of the risk. The exchange rate fluctuation is also an important consideration.

While assessing the credit risk attached to a lease transaction, the factors that are taken into account may be broadly grouped under the heads:

#### **1. Qualitative Aspect**

Qualitative aspect or the willingness of the lessee to honor rental obligations the various qualitative factors are relationship with management, experience, and comfort with management, repayment culture and credit ratings on the company. These factors provide an insight into the lessee's management and also help in giving information about the experience and the comfort the lessor has with the lessee.

#### **2. Quantitative Aspect**

These factors are the financial ratios, which have to be analyzed with the data available in the Balance Sheet

Thus, the credit appraisal is vital input in the leasing portfolio.

### **3.3 NON-BANKING FINANCIAL INSTITUTIONS (NBFC'S)**

#### **Introduction**

Reflecting the imperatives of the evolution of vibrant, competitive and articulate financial service, a Non Banking Financial sector in India is recorded a marked growth in the recent years in terms of number of NBFC's, their deposits and so on. The banking laws (miscellaneous provisions) Act 1963, was introduced to regulate them. From time to time, several committees had been appointed to conduct in depth studies of these institutions. The committees, which deserve a special mention here, are Bhabatoshah group, Chakravarthy committee, Vagul committee, Narasimhan committee and Shah Committee.

The RBI Act regulates different types of NBFC's. Under the provision of chapter III-B. It was amended in 1997 in order to address certain disquieting developments in the NBFC sector, and to provide for a comprehensive regulatory framework for the NBFC

sector. According to provisions of the amendment, no NBFC can carry on any business of a financial institution, including acceptance of public deposits, without obtaining a Certificate of Registration (COR) from the Reserve Bank.

The Reserve Bank had received applications for COR from 36,505 NBFC's of which only 37.8% were granted COR. Out of the 13,815 NBFC's granted COR only 5.6% have been permitted to accept public deposits. Market intelligence and auditors exception reports constitute the two important tools of the Reserve Bank for supervising NBFC's. Companies accepting public deposits are required to comply with all the directions on public deposits, prudential norms and Quick Assets. They also required submitting periodic returns to the Reserve Bank. The total outstanding public deposits in respect of the 1,005 reporting companies stood at Rs.19, 342 crore at the end March 2000, which was equivalent to 2.2% of the aggregate deposits of SCBs.

Taking into account the down ward movement in interest rates, the maximum interest rates payable by NBFC's on the public deposits is being continuously reduced.

It has been reduced from 12.5% to 11% with effect from March 4, 2003.

### **Meaning**

Non-banking financial company (NBFC) means:

- A financial institution, which is a company.
- A non banking institution which is a company and which has its principle business that receiving of deposits under any scheme or lending in any manner and
- Such that non-banking institutions/class of notifications as the RBI with the prior approval of the government and by notification in the official notification may specify.

### **Explanation**

NBFC'S, which are heterogeneous in nature in terms of activity and size, are important to financial intermediaries and are integral part of Indian Financial System. They have been able to carve out a niche for themselves in meeting the credit needs of both wholesale and retail customers.

### **Reasons for rapid growth of NBFC's**

NBFC sector can be attributed to factors like:

- Quick decision making ability
- Customers orientation
- Prompt provision for services
- Higher rate of return on deposits
- No entry barriers
- No holding of inventories

On account of these factors NBFC's have in recent years grown sizably both in terms of their numbers as well as the volume of business transaction.

### **Present scenario of NBFC's**

NBFC's segments of the Indian financial system have remained unique. In the early 90's growth of these institutions were spurting seeds all over the country. As on August 95, there were 41361 institutions on record of the RBI. This mushroom growth of NBFC's brought in various regulatory measures whereby RBI insisted upon submission of Annual Statutory Returns to it. Of the reporting companies, the number of companies to a Net Owned funds of Rs.50lakhs and above was 1147, most of which were equipment leasing and hire purchase companies.

## **3.4 LEASING AT SUNDARAM FINANCE LIMITED**

### **Lease Marketing**

Marketing defines formulating of the product and selling it to the customers, it includes:-

1. Creating awareness in the customers mind and
2. Converting that awareness in to sales.

## **Sources of Customer Information**

- Chamber of Commerce directories for the city which gives a list of companies in that region, their CEOs their line of activity and phone numbers.
- Magazines and dailies: Financial Times, Economic Times, etc., which give information about firms, MNCs, business organizations, etc.
- References from the existing satisfied customers.
- Dealership Network where such activity is mutually beneficial.

## **Relationship Building**

Both direct marketing and marketing through dealers are done after getting the information about the customers.

- A courtesy call is made to prospective customers following which an appointment will be scheduled.
- Relationship is built with those customers who are willing to pay a high premium for quality service. The direct initial contact helps in studying the customer's mind, his pulse, etc., which will be useful for making changes in pricing.
- There are also occasions for region-wise meetings between customers and CEOs.
- Often, "melas" are organized through dealers to acquire new customers. The dealer-customer meeting also helps to bridge the gap between the company and customer's needs.

## **Personal Touch**

The marketing department adds the personal touch by offering quick effective help in case of stolen, damaged assets or transfer of assets by contacting the police, filing FIR, contacting the insurance companies, aiding in the claim settlement with the lessee concurrence. The marketing team adds in the price structuring to suit the customer.

However, all this done after the credit appraisal. Now Sundaram Finance Limited concentrates on companies in the AAA bracket.

### **Lease Pricing**

The Income Tax depreciation rates are not necessarily fixed on the basis of the usual life of the asset but on the basis of any incentive that the government is extending to promote the usage of that asset (like population control), any industry (IT sector), etc. Example: Energy saving devices is eligible for 100% depreciation for the first year under Income Tax Act whereas furniture and fixtures are eligible for only 10%

### **Methodology used in Leasing**

Being an investment / capital budgeting decision for the lessor, discounted cash flow technique is being adopted. As the nomenclature would suggest, it is important to determine the cash flow components in a lease.

### **Cash flows in Leasing**

1. Lease rent
2. Cost of funds to the lessor
3. Income Tax (payout / shield)
4. Residual value
5. Lease Deposit, if any.

Once the cash flows are estimated, the discounting principle is applied and cash flows discounted. As could be seen above, cost of funds to the lessor is given as a separate component. In such cases, the discount rate would be the return to the lessor. The other method of pricing would be where the cost of funds would not be reckoned as a cash flow component. Under this method, the discount rate is perhaps the most critical input in pricing as it encompasses both the timing of the cash flows as well as the returns.



The widely accepted methods of pricing are the NPV and IRR methods since they are DCF techniques.

### **Tax treatment for leasing**

Leasing has predominantly been a tax – planning tool both in the hands of the lessor and the lessee. From the lessor’s stand point, depreciation results in tax shield, which is built into the rate in lease pricing. The entire lease rentals are treated as revenue income and hence are fully taxable. Irrespective of the recent changes in the accounting standard, the tax treatment for lease continues without any change.

From the Lessee’s angle, the entire rental payment is treated as revenue expenditure and allowed to be written off as expenditure. This would give the Lessee a tax advantage.

### **Tax deferral in leasing**

Leasing also facilitates tax deferral and consequent acceleration of additions to reserves. However, it can be double-edged sword, which can swell up the tax liability in future periods. To mitigate the impact, it would be necessary to increase business volumes without compromising on credit rated parties, which may be difficult during recessionary times.

### **Concept of Residual Value**

Recovery of principal for the lessor takes place through two elements of cash flows viz. (1) Lease rentals and (2) residual value realized through the sale of the end of the lease period.

The residual period value or transfer price is fixed at the time of entering into the agreement itself. The residual value is fixed with mutual consent between the lessor and lessee keeping in mind the useful economic life and likely realizable value of the asset after the primary period. Obviously, this would vary with differing periods and nature of the asset.

The residual value concept is more flexible in the Indian context, as in many cases; it is fixed looking at the credit profile of the customer rather than the asset. Additional comfort like an initial deposit could help the lessor agreeing for a higher residual value to lower the rentals.

### **Legal Aspects**

The legal aspect for leasing is governed by general law of contracts. Apart from this, Sale of goods Act, the tax laws (both direct and indirect taxes) and regulations governing financial reporting also have an impact on the leasing business. Under the Indian Contract Act, clear legal rights and obligation of both the financier and the customer are covered. The legal remedies enabling the financier for repossessing the asset in the event of default are also specified since the lessor is the legal owner of the leased asset.

### **Lease Operation**

Once the request for lease is passed, it is the onus of the persons in charge of operations to take care of the documentation work by filling the relevant document of record. This lease operation includes two stages namely Pre Capitalization Stage and Post Capitalization Stage.

## **Pre capitalization stage**

It includes the following procedures.

- “Agreement to enter in to lease”, which is a document confirming the grant of lease to a lessee. It includes the lease limit for value of assets that can be leased.
- The other details find mention in this document are lease tenure, lease rent value, agreed residual value, pattern of payment, rate of depreciation, cost of funds to the lessor, corporate tax rate, variation clauses and sales tax on lease rentals if applicable.
- Once the agreement to enter in to lease is over, the process of Lease Agreement starts at the request of lessee for the purchase of assets. The lessee approaches the dealer (manufacturer of the assets) to get quotation on assets. Then the lessee gives the purchase order to the lessor that in turn raises the purchase order to the dealer for the confirmation of the same.
- Then the lessor prepares the necessary payment documents that include payment Docket Sheet and Payment Authorization. If the asset is Plant and Machinery then the lessee is checked for where he claims CENVAT or not.
- The lease contract file or lease agreement file is prepared with agreed rental structure along with the payment process. It is a document that denotes the agreement of both the parties on issues such as details of rentals, residual value, time of payments, variation clauses, details about foreclosing leases and other legal terms that are necessary. A separate lease agreement is made for each asset granted to the lessee.

## **Post Capitalization Stage**

It contains the following procedures

- The dealer raises the original Invoice to the lessor.
- The invoice is followed up with dealer and lessee.

- If the invoice amount is less than the payment disbursement then the refund is asked from the lessee.
- If the invoice value is more than the capitalized value the dealer is called for the credit note.
- The lessee is followed up to collect the installation certificate.

### **Lease Rental Collection**

Lease staffs in charge of collection are responsible to ensure that the periodic rentals are received on time. The monthly rentals are equally equated rentals. The requisite letters are dispatched to collect the lease rentals according to the due date mentioned in the Lease Agreement. They are also in charge of mailing reminders to the customers about the dues that they are supposed to pay.

On an average 95% of the lessee pay the dues correctly on the due date. The remaining 5% of lessees vary between 15 days to one-month delay. In case of delays, an additional financial charge (AFC) is charged at a rate of 18% to 24%. Lessee is followed up with reminder letters; personal meets and phone calls, if the default continues for more than one month to two months. If the default continues for more than six months, then the legal action is initiated.

### **Lease Taxation**

Since there is transfer of the right to use the goods or assets from the lessor to the lessee, the transaction has become a deemed sale and it attracts the sales tax, also called "Lease Tax". Lease tax is collected from the lessee along with each rental for use of the leased assets becomes due and payable to the lessor. It depends on type of contracts (Local or Inter-State or Import) and also varies from state to state. If "C" form is issued by the dealer to the lessee in case of Inter-State (CST) then, only 4% is taken as lease tax on each lease rentals.

### **Lease Determination and Foreclosure**

#### **Determination**

Lease determination is defined as the closing of the lease agreement legally. For this, certain formalities have to be followed. The owner should be a third party and be identified by the lessee. For example, in case of vehicles before cancellation of lease, the lessor ensures the full settlement of dues of lessee and gets sign from lessee on the forms 29 and 30. Then the lessor will issue the form 35 to cancel the endorsement and the No Objection Certificate (NOC) to R.D.O office and sale invoice in favor of third party along with sales tax if applicable. The PAN number or Form 60 is necessary from the third party, the third party will pay the residual value, and sales tax on residual value is applicable.

### **Foreclosure**

Foreclosure is defined as the closing of Lease Agreement in-between the contract. For this, from the date of foreclosure all the future rentals along with residual value will be accumulated and discounted at a discount rate prevailing at that time. The discounted amount will be given as foreclosure sale price, which will be paid by the third party along with the sales tax on the foreclosure sale price.

### **CREDIT APPRAISAL AT SUNDARAM FINANCE LIMITED**

Credit Appraisal is the most important area in leasing which determines the entry of new customers as a lessee as well as the extension of further lease to the existing lessees.

After marketing, the staffs in charge of credit appraisal department will make a detailed credit analysis of the prospective customers using three full financial years figures obtained from them to determine their credit worthiness in terms of character, capacity, collateral and so on. It involves the following

## **Background Analysis**

The background analysis in the case of an existing company would examine the past growth to understand how a company has grown and its past financial performance. An exercise of this nature helps in assessing the strengths and weaknesses of the company's management and in appreciating the environmental factors that influence a company's operation. In the case of a new entrepreneur the appraisal will examine the entrepreneur's past experience and his technical capabilities to assess qualities such as integrity and managerial competence. In the Indian context, most lessor's has refrained from leasing to new projects because of the inherent delays and cost over runs normally associated with such projects and the uncertainties of forecasting project rates of returns.

## **Technical and market Analysis**

The extent of this analysis will essentially depend on the level of exposure of the lessor to the proposed funding plan of a lessee, where lease finances an entire plant, or contributes to the major part of an expansion program. Analysis of factors such as market potential of the company's products, the domestic and export demand, the level of competition, the relevance of the technology, the present n future output of the project vis-à-vis the projected demand, the availability of inputs such as power, fuel, water, transport facilities, etc will constitute important components of the analysis, where the lease is confined to one or two items of equipments, the analysis is confined to the financials of the lessee. Unsuitability of the chosen equipment or premature equipment failure leads to the loss of rental for a substantial period of time. There are several instances where against the lessor advice; lessees have chosen to place orders with certain equipment suppliers who failed to deliver the equipment.

## **Financial Analysis**

Some of the more common features of financial involved in forecasting of operational costs, revenue, and return. Two key ratios include, the level of future debt to

equity and, the resulting debt service coverage ratio. While several lessees and lessor tend to consider leasing as a source of “off – balance sheet” funding, formal financial analysis perspective, leasing must be seen as contracted debt as any loan or debt service coverage ratio calculations would lead to an underestimation of a company’s fixed obligation.

Risk and uncertainties in project flows arise on account of factors such as the non availability of raw material, change in technology, the market for a product, the price, the level of demand, the entry of new products, etc. To ensure that the company able to withstand changes in environmental conditions or a shortfall in projected revenue, sensitivity analysis imparts depth to the conventional analysis.

### **PROCEDURE FOR THE SANCTION OF LIMITS**

Requests for fresh exposure or enhancement in facilities under leasing or the bills discounting facility are received direct from the customers, prospects or during our marketing efforts. All cases for fresh exposures, enhancement of the existing limits, major foreclosures, withdrawal of limits, revisions and the annual review notes are put up by the credit pricing official and submitted through the Head of the Department for consideration. The underlying theme for the sanction of proposals is conservative approach and to secure the company’s interests.

Where the exposure contemplated is large, a detailed credit analysis is made, splitting the various financial figures and regrouping them according to the acceptable and defined classification and a note put up. The appraisal essentially focuses on the aspects of Short term and Long term Liquidity Profitability and Activity. Where the arrangement proposed is on a Co-Lessee / Corporate Guarantee pattern, a detailed appraisal is done on similar lines on the Co-Lessee / Corporate. In the case of Bills Discounting portfolio, importance to short term liquidity is given. Added to this, bills

facility is generally extended only to the existing customers having a good track record. We also retain the right to withdraw limit at any time.

The note generally encompasses the following aspects and the recommendation made depends on, the appraisal of financial figures qualifications, if any, in the Auditor's Report, accounting quality and the Director's Report, effect of likely crystallization of contingent liabilities and future Debt obligations, compliance with the state, central Govt. and other requirement set by other enforcing agencies, the profile of the Promoters / Directors / Management, their financial flexibility and pattern of shareholding, market Reports on the firm / company and the experience of Banks / FI's / NBFC's / other creditors, our existing business relationship, if any, with the Promoters, Group or the Management, the present exposure to the company / Group not to exceed the Reserve Bank of India's norms, nature of the industry in which the unit is operating and our exposure to the given industry at any point in time, nature of the asset, location of the asset and the geographical area where the prospective Lessee / Borrower is operating, credit ratings on the company, collateral security, if any, by way of security, Comfort letter, Personal guarantee, Corporate Guarantee, Co-Lease, etc.

Beyond this Sundaram Finance also do credit checks on the borrower to actually determine both the client's ability to pay and his willingness to pay, the later depending upon the general experience and judgment. Due to the volatility and the changing nature of the markets / products, industry and company specific decisions are taken based on periodical reviews.



## CHAPTER 4

### DATA ANALYSIS & INTERPRETATION

#### EMCURE PHARMACEUTICALS LTD

<b>FINANCIAL RATIOS</b>	<b>2006-07</b>	<b>2005-06</b>
	(in %)	(in %)
<b>PROFITABILITY RATIOS</b>		
OPBT / Operating Income	10.37	9.53
PAT / Net Worth	27.05	23.65
PBIT / Capital Employed	19.66	22.87
Dividend / PAT	21.95	24.80
<b>SOLVENCY RATIOS</b>		
Total long term debt / Net worth	0.96	0.46
Total outside liabilities / Net worth	2.36	1.92
<b>COVERAGE RATIO</b>		
PBDIT / Interest & Finance Charges	10.62	10.63
<b>LIQUIDITY RATIOS</b>		
Current Ratio	1.08	1.14
Quick Ratio	0.76	0.8
<b>ACTIVITY RATIO</b>		
Inventory turnover ratio (in days)	57.43	66.41
Debtors turnover ratio (in days)	50.64	68.23
Creditors turnover ratio (in days)	91.56	112.22

## Interpretation

From the analysis of the financial statements of the company for the last two years shows that

- The operating profit ratio has improved also leading to a rise in return on net worth.
- The debt equity ratio has shown an increase from 0.96 to 0.46.
- The solvency ratios have both shown an increase as the net worth has decreased.
- The interest coverage ratio has almost remained the same over the two years.
- The liquidity ratios, current and quick have come down but not much below the previous years'.
- The profitability ratios have considerably increased but the return on capital employed has shown a decrease.
- The activity ratios have decreased which shows that the company's policy of collecting receivables and making payments have improved.

## RAMKY INFRASTRUCTURE LTD

<b>FINANCIAL RATIOS</b>	<b>2006-07</b>	<b>2005-06</b>
	(in %)	(in %)
<b>PROFITABILITY RATIOS</b>		
OPBT / Operating Income	6	5
PAT / Net Worth	43	43
PBIT / Capital Employed	34	30
Dividend / PAT	0.00	0.00
<b>SOLVENCY RATIOS</b>		
Total long term debt / Net worth	0.50	0.26
Total outside liabilities / Net worth	4.17	4.38
<b>COVERAGE RATIO</b>		
PBDIT / Interest & Finance Charges	17.12	29.56
<b>LIQUIDITY RATIOS</b>		
Current Ratio	1.22	1.10
Quick Ratio	0.97	1.00
<b>ACTIVITY RATIO</b>		
Inventory turnover ratio (in days)	42.48	25.19
Debtors turnover ratio (in days)	72.00	101.07
Creditors turnover ratio (in days)	304.58	535.44

## Interpretation

From the analysis of the financial statements of the company for the last two years shows that

- The profitability of the company has increased from the last year.
- The return on capital employed have improved whereas the return on net worth has remained the same.
- The company has acquired debt from market and still has capacity to make more debt. These are revealed from the solvency ratios.
- The interest coverage ratio has decreased
- The liquidity ratios are stable which shows that the company is maintaining it.
- The inventory turnover ratio has increased while the debtors turnover ratio and the creditors turnover ratio have decreased.

## LISTER TECH (P) LTD

<b>FINANCIAL RATIOS</b>	<b>2006-07</b>	<b>2005-06</b>
	(in %)	(in %)
<b>PROFITABILITY RATIOS</b>		
OPBT / Operating Income	30.28	14.21
PAT / Net Worth	45.00	16.90
PBIT / Capital Employed	39.45	13.71
Dividend / PAT	2.11	0.00
<b>SOLVENCY RATIOS</b>		
Total long term debt / Net worth	0.12	0.21
Total outside liabilities / Net worth	0.20	0.31
<b>COVERAGE RATIO</b>		
PBDIT / Interest & Finance Charges	131.00	21.54
<b>LIQUIDITY RATIOS</b>		
Current Ratio	9.17	9.42
Quick Ratio	9.17	9.42
<b>ACTIVITY RATIO</b>		
Debtors turnover ratio (in days)	53.31	78.46
Creditors turnover ratio (in days)	9.79	24.53

## Interpretation

From the analysis of the financial statements of the company for the last two years shows that

- Although the company has incurring losses there has been improvement.
- All the profitability ratios have increased, this shows that the company is making a better progress.
- The solvency ratios have decreased.
- The interest coverage ratio have increased by a great extent.
- The liquidity ratios have made only a slight decrease.
- The company's payment capacity has also improved. The debt collection period has also improved.

## AXLES INDIA LTD

<b>FINANCIAL RATIOS</b>	<b>2006-07</b>	<b>2005-06</b>
	(in %)	(in %)
<b>PROFITABILITY RATIOS</b>		
OPBT / Operating Income	4.13	4.72
PAT / Net Worth	31.61	35.68
PBIT / Capital Employed	17.25	22.66
Dividend / PAT	29.85	28.13
<b>SOLVENCY RATIOS</b>		
Total long term debt / Net worth	2.36	2.04
Total outside liabilities / Net worth	5.87	5.30
<b>COVERAGE RATIO</b>		
PBDIT / Interest & Finance Charges	8.37	9.46
<b>LIQUIDITY RATIOS</b>		
Current Ratio	1.08	1.27
Quick Ratio	0.37	0.48
<b>ACTIVITY RATIO</b>		
Inventory turnover ratio (in days)	81.26	79.85
Debtors turnover ratio (in days)	20.80	20.96
Creditors turnover ratio (in days)	84.14	79.94

## **Interpretation**

From the analysis of the financial statements of the company for the last two years shows that

- The profitability ratios have fallen down. This shows that the company is making losses.
- The solvency ratios have increased which shows that the company has increased its debt.
- The interest coverage ratio has gone down but to a little extent.
- The liquidity ratios of the company have also decreased which shows that there is a fall in the liquidity of the company.
- The collection and the payment cycle of the company has increased as the activity ratios shows an increase.
- On the whole the company is making losses.



## GH INDUCTION INDIA P LTD

<b>FINANCIAL RATIOS</b>	<b>2006-07</b>	<b>2005-06</b>
	(in %)	(in %)
<b>PROFITABILITY RATIOS</b>		
OPBT / Operating Income	28.88	27.42
PAT / Net Worth	82.13	79.46
PBIT / Capital Employed	111.30	125.23
Dividend / PAT	58.77	68.58
<b>SOLVENCY RATIOS</b>		
Total long term debt / Net worth	0.09	0.00
Total outside liabilities / Net worth	1.96	2.39
<b>COVERAGE RATIO</b>		
PBDIT / Interest & Finance Charges	665.27	700.46
<b>LIQUIDITY RATIOS</b>		
Current Ratio	1.42	1.23
Quick Ratio	0.95	0.82
<b>ACTIVITY RATIO</b>		
Inventory turnover ratio (in days)	107.72	108.28
Debtors turnover ratio (in days)	85.51	71.08
Creditors turnover ratio (in days)	105.06	96.27

## Interpretation

From the analysis of the financial statements of the company for the last two years shows that

- The profitability ratios have increased. The return on the capital employed have decreased.
- The company has started to increase their debts and solvency ratios have decreased.
- The interest coverage ratio have shown an decrease.
- The current ratio and the quick ratio have increased, this shows that liquidity position of the company have improved.
- The inventory turnover ratio have decreased slightly.
- The debtors turnover ratio have increased that shows that the collection policy have gone down.
- The creditors turnover ratio have also increased which shows that the company is not making their payments at the right time.

## AMURTANJAN INDUSTRIES

<b>FINANCIAL RATIOS</b>	<b>2006-07</b>	<b>2005-06</b>
	(in %)	(in %)
<b>PROFITABILITY RATIOS</b>		
OPBT / Operating Income	18.28	13.30
PAT / Net Worth	9.98	7.92
PBIT / Capital Employed	47.48	20.59
Dividend / PAT	71.29	55.76
<b>SOLVENCY RATIOS</b>		
Total long term debt / Net worth	0.32	0.55
Total outside liabilities / Net worth	1.89	1.08
<b>COVERAGE RATIO</b>		
PBDIT / Interest & Finance Charges	20.67	10.99
<b>LIQUIDITY RATIOS</b>		
Current Ratio	1.31	2.51
Quick Ratio	1.11	2.09
<b>ACTIVITY RATIO</b>		
Inventory turnover ratio (in days)	45.12	46.06
Debtors turnover ratio (in days)	48.49	49.01
Creditors turnover ratio (in days)	73.38	83.84

## Interpretation

From the analysis of the financial statements of the company for the last two years shows that

- As it is reputed firm its financials are good.
- The profitability ratios of the company have shown an increase in the last year.
- The return on net worth and the return on capital employed have increased.
- The debts of the company have decreased and the solvency ratios of the company shows good.
- The coverage ratio has doubled.
- The current ratio has gone down as well as the quick ratio.
- The activity ratios of the company nearly same which shows that the company is having an good collection and payment policy.

## IMPAL INDUSTRIES

<b>FINANCIAL RATIOS</b>	<b>2006-07</b>	<b>2005-06</b>
	(in %)	(in %)
<b>PROFITABILITY RATIOS</b>		
OPBT / Operating Income	6.24	6.32
PAT / Net Worth	12.70	15.46
PBIT / Capital Employed	18.11	20.59
Dividend / PAT	36.61	32.72
<b>SOLVENCY RATIOS</b>		
Total long term debt / Net worth	0.01	0.01
Total outside liabilities / Net worth	0.35	0.36
<b>COVERAGE RATIO</b>		
PBDIT / Interest & Finance Charges	836.36	291.77
<b>LIQUIDITY RATIOS</b>		
Current Ratio	2.09	2.15
Quick Ratio	1.26	1.25
<b>ACTIVITY RATIO</b>		
Inventory turnover ratio (in days)	37.75	36.93
Debtors turnover ratio (in days)	34.43	32.30
Creditors turnover ratio (in days)	29.10	31.47

## Interpretation

From the analysis of the financial statements of the company for the last two years shows that

- The profitability ratios of the company have decreased over the last year. The return on capital employed and the return on net worth have shown a decrease.
- The solvency ratios have remained the same in the last two years.
- The coverage ratio has increased by a very large extent.
- The current and quick ratios are remaining the same to a greater extent.
- The activity ratios of the firm have gone up which shows that the company has to keep an eye on its receivables and payments.
- The company is not making a good business in the last two years.

## TITAN INDUSTRIES LTD

<b>FINANCIAL RATIOS</b>	<b>2006-07</b>	<b>2005-06</b>
	(in %)	(in %)
<b>PROFITABILITY RATIOS</b>		
OPBT / Operating Income	7.60	5.89
PAT / Net Worth	34.15	17.90
PBIT / Capital Employed	42.29	33.07
Dividend / PAT	3.65	10.29
<b>SOLVENCY RATIOS</b>		
Total long term debt / Net worth	0.45	0.89
Total outside liabilities / Net worth	2.99	4.01
<b>COVERAGE RATIO</b>		
PBDIT / Interest & Finance Charges	21.99	11.10
<b>LIQUIDITY RATIOS</b>		
Current Ratio	1.17	1.18
Quick Ratio	0.49	0.61
<b>ACTIVITY RATIO</b>		
Inventory turnover ratio (in days)	104.79	99.62
Debtors turnover ratio (in days)	22.20	24.80
Creditors turnover ratio (in days)	107.54	98.22

## Interpretation

From the analysis of the financial statements of the company for the last two years shows that

- The titan companies are reputed companies so the analysis shows the business is good.
- The profitability ratios are increased and both the return on net worth and return on capital employed have increased.
- The solvency ratios have decreased which means that the net worth of the firm is increased.
- The coverage ratio has increased in the last year.
- The liquidity ratios have decreased
- The inventory turnover ratio have increased
- The debtors turnover ratio have decreased which shows that the receivables policy of the firm is good.
- The payment policy must be improved has the creditors turnover ratio shows an increase.



## CHAPTER 5

### CONCLUSION

#### 5.1 Findings

The analysis made of the few companies as a case study revealed the financial position of the companies. Based on the analysis the following results are obtained.

1. The Emcure Pharmaceuticals Ltd has shown a good performance and the financial position is good. So Sundaram Finance Limited could grant lease to this firm
2. The Ramky Infrastructure Ltd which belongs to the infrastructure industry has shown a good performance in the last two years. There ratios reveal that they are making good business. So Sundaram Finance Limited could give lease to them.
3. Lister Tech (p) Ltd which belongs to the software sector which is new to the industry have shown an great improvement in the last year and the software sector is an booming sector so the lease could be granted to the firm.
4. Axles India Ltd does not show an good position as far as the financials are concerned. Although the co. belongs to the TVS group, SFL must further analyze the company's background before granting the lease.
5. GH Induction India P Ltd have been making good profit and the financial position of the company is sound so the lease could be granted to the firm.

6. Amrutanjan Industries is well known company in the Indian pharma sector. The company's financial position is good and Sundaram Finance can go for providing lease financing to the company.
7. Impal Industries does not show an good financial position. It is not advisable to grant lease to the firm.
8. Titan Industries Ltd is the leading watch makers in India. The company has a good financial and good reputation in the market, so the lease financing could be granted to the firm.

## 5.2 Suggestion

Composite weighted index of different ratios are to be considered for studying the credit analysis of the concern. The weights of the ratios need to be determined according to their importance to the concern. An analysis could be made regarding the background and profile of the concern. A scoring sheet could be used to analyze the company which would help in giving more data on the company for which the leasing has to be granted. Also, some analysis could be done to find the important attributes of the company before granting lease.

## 5.3 Conclusion

Concisely, the company has established utility and efficiency of the information available in the financial statements for arriving at critical corporate performance indices. Credit appraisal does not pertain only to financial analysis. Qualitative factors like industry prospects, management profile and environmental factors are considered along with financial performance.

## APPENDIX

## EMCURE PHARMACEUTICALS LTD

<b>BALANCE SHEET</b>	<b>2006 – 07</b>	<b>2005 – 06</b>
<b>ASSETS</b>		(Rs.In Lakhs)
Fixed assets (after depreciation – Revaluation Reserve)	16052.94	9350.80
Capital advances	264.14	52.35
Capital Work-in-progress	1774.83	237.62
<b>TOTAL FIXED ASSETS</b>	<b>18091.91</b>	<b>9640.77</b>
<b>Investments</b>		
-in subsidiaries & associates	757.64	378.18
-others (Non Trade Investments)	101.17	101.16
<b>TOTAL INVESTMENTS</b>	<b>858.81</b>	<b>479.34</b>
<b>CURRENT ASSETS LOANS &amp; ADVANCES</b>		
<i>Inventories</i>		
Raw materials / Semi finished goods	2642.9	2205.44
Finished goods	2007.96	1776.51
<i>Total Inventory</i>	4650.86	3981.95
Sundry debtors	5577.63	5195.54
Cash & Bank Balances	130.68	156.50
Loans & Advances	5298.36	3942.62
Other Assets	15.05	8.66
<b>TOTAL CURRENT ASSETS</b>	<b>15672.58</b>	<b>13285.27</b>
<b>TOTAL ASSETS</b>	<b>34623.30</b>	<b>23405.38</b>

<b>LIABILITIES</b>		(Rs. In Lacs)
Share Capital		
- Equity Capital	1192.5	1177.5
- Preference Capital		
Reserves & Surplus	9130.1	6851.77
(-) Reevaluation reserve	16.94	19.22
<b>NET WORTH</b>	10305.66	8010.05
<b>LONG TERM LOANS</b>		
Secured Loans	7767.76	2682.01
Unsecured Loans	600	
Deferred Tax Liability	1488.26	1029.8
<b>TOTAL LONG TERM LOANS</b>	9856.02	3711.81
<b>SHORT TERM LOANS</b>		
Secured Loans	6440.06	1560.36
Interest accrued and due	11.41	
Unsecured Loans	1154.34	1395.97
<b>TOTAL SHORT TERM LOANS</b>	7605.81	5956.33
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
<b>Current Liabilities</b>		
Sundry Creditors	4176.09	3738.27
Unclaimed Dividends		
Term loan installments falling due		
Security deposits		
Interest accrued but not due		
Other liabilities	1842.99	1250.44
<b>Provisions</b>		
Proposed dividend		
- Equity Shares	536.63	412.12
- Tax on Proposed Dividend	75.26	57.8
Leave Encashment on Gratuity	224.84	224.56
<b>TOTAL CURRENT LIABILITIES</b>	6855.81	5727.19
<b>TOTAL SHORT TERM LIABILITIES</b>	14461.62	11683.52
<b>TOTAL LIABILITIES</b>	34623.3	23405.38

<b>PROFIT &amp; LOSS ACCOUNT</b>	<b>2006-07</b>	<b>2005-06</b>
Gross Sales	40202.45	27785.50
Less : Excise duty & Sales tax payments	6300.17	2903.70
Net Sales	33902.28	24881.80
Add: Other related Income		
<b>Operating Income</b>	<b>33902.28</b>	<b>24881.80</b>
Materials consumed	15009.59	11219.32
Manufacturing Expenses	1409.55	914.17
Employee cost	5347.83	3719.98
Stock adjustments(+ / -)		
Power & Fuel	612.24	453.03
Selling & Administrative Expenses	6246.26	5011.66
Other Interest Expenses	526.12	266.42
<b>Cost of Sales</b>	<b>29151.59</b>	<b>21584.58</b>
<b>PBDIT</b>	<b>4750.69</b>	<b>3297.22</b>
Less : Depreciation	787.86	616.75
Less: Other non-cash write-offs		
<b>PBIT</b>	<b>3962.83</b>	<b>2680.47</b>
Less: Interest & Finance Charges	447.46	310.23
<b>OPBT</b>	<b>3515.37</b>	<b>2370.24</b>
Add. Non operating income	548.98	238.26
<b>PBT</b>	<b>4064.35</b>	<b>2608.50</b>
Less: Provision for Taxation	1276.85	713.98
<b>PAT</b>	<b>2787.50</b>	<b>1894.52</b>
Add: Excess provisions written back		
Add: Previous year B/d	833.63	609.03
<b>Profit available for appropriation</b>		
<b>Appropriations</b>		
Proposed dividend		
- Tax on Proposed Dividend	75.26	57.80
- Equity Shares	536.63	412.12
Transfer to General Reserve	2500.00	1200.00
Balance carried to Balance sheet	509.24	833.63
<b>Total</b>	<b>3621.13</b>	<b>2503.55</b>

## RAMKY INFRASTRUCTURE LTD

<b>BALANCE SHEET</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In lacs)	(Rs. In lacs)
<b>ASSETS</b>		
Fixed assets (after depreciation)	2489.27	1401.47
Capital advances		
Capital Work – in – progress	90.00	45.66
<b>TOTAL FIXED ASSETS</b>	2579.27	1447.13
<b>Investments</b>		
- In subsidiaries & associates	412.02	412.02
- Others	4.06	163.50
<b>TOTAL INVESTMENTS</b>	416.80	575.52
<b>CURRENT ASSETS LOANS &amp; ADVANCES</b>		
<i>Inventories</i>		
Materials	2236.97	510.34
Work in progress	1675.00	557.98
<i>Total Inventory</i>	3911.97	1068.32
Sundry Debtors	7149.63	4585.23
Cash & Bank balances	1328.78	1054.87
Loans & Advances	6546.28	4363.38
Other Assets		
<b>TOTAL CURRENT ASSETS</b>	18936.66	11071.80
<b>TOTAL ASSETS</b>	21932.01	13094.45

<b>BALANCE SHEET (Contd.)</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In Lakhs)	(Rs. In Lakhs)
<b>LIABILITIES</b>		
<i>Share Capital</i>		
- Equity Capital	697.95	205.95
- Share Application Money Pending Allot.		26.70
Reserves & Surplus	3575.16	2228.66
(-) Misc. & deferred revenue expenditure	31.83	29.21
<b>NET WORTH</b>	4241.28	2431.10
<b>LONG TERM LOANS</b>		
Secured Loans	1913.39	491.84
Deferred Tax Liability (net)	212.09	129.55
<b>TOTAL LONG TERM LOANS</b>	2125.48	621.39
<b>SHORT TERM LOANS</b>		
Bank Over Draft	33.30	24.46
Secured Loans	1662.72	907.86
<b>TOTAL SHORT TERM LOANS</b>	1696.02	932.32
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
<b>Current Liabilities</b>		
Sundry Creditors	8234.58	6499.21
Mobilization and other advances	4972.90	2315.77
Term loan installments falling due		
Chit A/c's		4.00
Other liabilities (O/S Liabilities)	287.42	119.66
<b>Provisions</b>		
Provision for taxation	374.33	170.00
<b>TOTAL CURRENT LIABILITIES</b>	13869.23	9108.64
<b>TOTAL SHORT TERM LIABILITIES</b>	15565.25	10040.96
<b>TOTAL LIABILITIES</b>	21932.01	13094.45

<b>PROFIT &amp; LOSS ACCOUNT</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In lakhs)	(Rs. In lakhs)
Gross Construction receipts	36245.36	16559.40
Less: Excise duty & Sales tax payments	725.22	281.83
Net Construction receipts	35520.14	16277.57
Add: Other related Income (consultancy charges)	15.50	23.84
<b>Operating Income</b>	35535.64	16301.41
Short Term Interest and Bank Charges	444.35	144.80
Materials consumed	8724.77	3906.21
Other Direct Expenses	1008.11	463.52
Employee cost	4192.18	1927.42
Chit Loss	53.14	7.27
Power & Fuel	295.89	136.04
Subcontract	18235.12	8228.36
Stock Adjustments	-1117.02	-320.15
Administrative Exp	1313.23	774.30
<b>Cost of Sales</b>	33149.77	152667.77
<b>PBDIT</b>	2375.87	1033.64
Less: Depreciation	204.26	131.77
Less: Other non-cash write-offs (bad Debts)		
<b>PBIT</b>	2181.61	901.87
Less: Interest & Finance charges	139.34	34.97
<b>OPBT</b>	2042.27	866.90
Add: non operating income – Loss on sale of asset	226.40	149.94
<b>PBT</b>	2268.67	1016.84
Less: Tax	456.87	-22.57
<b>PAT</b>	1811.80	1039.41
Add: Excess provisions written back		
Add: Previous year B/d		
<b>Profit available for appropriation</b>	1811.80	1039.41
<b>Appropriations</b>		
<i>Interim Dividend</i>		
- Equity Shares		
- Tax on Dividend		
Transfer to General Reserve		
Balance carried to Balance Sheet	1811.80	1039.41
<b>Total</b>	1811.80	1039.41



## LISTER TECH (P) LTD

<b>BALANCE SHEET</b>	<b>2006-07</b>	<b>2005-06</b>
	(In Rs.)	(In Rs.)
<b>ASSETS</b>		
Fixed assets (after depreciation – Revaluation Reserve)	11861362	8657510
Capital advances		
Capital Work – in – progress		219052
<b>TOTAL FIXED ASSETS</b>	11861362	8876562
<b>Investments</b>		
- In subsidiaries & associates		
- Others (Non Trade Investments)	8634729	
<b>TOTAL INVESTMENTS</b>	8634729	0
<b>CURRENT ASSETS LOANS &amp; ADVANCES</b>		
<i>Inventories</i>		
Raw materials / Semi finished goods		
Finished goods		
<i>Total Inventory</i>	0	0
Sundry Debtors	9701286	6384767
Cash & Bank balances	7854095	6787502
Loans & Advances	16658896	11333646
Other Assets		
<b>TOTAL CURRENT ASSETS</b>	34214277	24505915
<b>TOTAL ASSETS</b>	54710368	33382477

<b>BALANCE SHEET (Contd.)</b>	<b>2006-07</b>	<b>2005-06</b>
	(In Rs.)	(In Rs.)
<b>LIABILITIES</b>		
<i>Share Capital</i>		
- Equity Capital	3786950	3786950
- Share Application Money Pending Allot.		
Reserves & Surplus	67648500	67648500
(-) accumulated losses	25871947	45945497
<b>NET WORTH</b>	45563503	25489953
<b>LONG TERM LOANS</b>		
Secured Loans		
Unsecured Loans	5000000	5000000
Deferred Tax Liability	416000	291000
<b>TOTAL LONG TERM LOANS</b>	5416000	5291000
<b>SHORT TERM LOANS</b>		
<b>TOTAL SHORT TERM LOANS</b>	0	0
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
<b>Current Liabilities</b>		
Sundry Creditors	1806756	2024054
Statutory dues	461481	206635
Term loan installments falling due		
Security deposits		
Interest accrued but not due		
Other liabilities		
<b>Provisions</b>		
Proposed dividend		
- Equity Shares + tax on div	431808	
Leave Encashment	279811	116689
Gratuity	697670	254146
FBT	53339	
<b>TOTAL CURRENT LIABILITIES</b>	3730865	2601524
<b>TOTAL SHORT TERM LIABILITIES</b>	3730865	2601524
<b>TOTAL LIABILITIES</b>	54710368	33382477

<b>PROFIT &amp; LOSS ACCOUNT</b>	<b>2006-07</b>	<b>2005-06</b>
	(in Rs.)	(in Rs.)
Gross Sales		
Exports	66416368	29605937
Domestic		97127
<b>Operating Income</b>	66416368	29703064
Software dev & app exps	6819769	4907470
Employee cost	26908636	11068328
Selling & Administrative expenses	9300750	6867091
Other Interest Expenses	177176	304305
<b>Cost of Sales</b>	43206331	23147194
<b>PBDIT</b>	23210037	6555870
Less: Depreciation	3100388	2334402
Less: Other non-cash write-offs (bad Debts)		
<b>PBIT</b>	20109649	4221468
Less: Interest & Finance charges		
<b>OPBT</b>	20109649	4221468
Add: non operating income	520708	376566
<b>PBT</b>	20630357	4598034
Less: Provision for taxation	125000	291000
<b>PAT</b>	20505357	4307034
Less: Prov for div + div tax	431807	
	20073550	4307034
Add: Previous year B/d	-45945497	-50252531
<b>Accumulated loss c/f to B/S</b>	-25871947	-45945497

## AXLES INDIA LTD

<b>BALANCE SHEET</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In Lakhs)	(Rs. In Lakhs)
<b>ASSETS</b>		
Fixed assets (after depreciation – Revaluation Reserve)	5024.97	2818.02
Capital advances		
Capital Work – in – progress	670.04	295.11
<b>TOTAL FIXED ASSETS</b>	<b>5695.01</b>	<b>3113.13</b>
<b>Investments</b>		
- In subsidiaries & associates		
- Others (Non Trade Investments)	0.36	0.36
<b>TOTAL INVESTMENTS</b>	<b>0.36</b>	<b>0.36</b>
<b>CURRENT ASSETS LOANS &amp; ADVANCES</b>		
<i>Inventories</i>		
Raw materials / Semi finished goods	4138.31	3291.58
Finished goods	450.49	412.12
<i>Total Inventory</i>	4588.80	3703.70
Sundry Debtors	1447.38	1201.11
Cash & Bank balances	39.63	18.63
Loans & Advances	911.68	1006.38
Other Assets (interest acc on deposits)	4.87	0.32
<b>TOTAL CURRENT ASSETS</b>	<b>6992.36</b>	<b>5930.14</b>
<b>TOTAL ASSETS</b>	<b>12687.73</b>	<b>9043.63</b>

<b>BALANCE SHEET (Contd.)</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In Lakhs)	(Rs. In Lakhs)
<b>LIABILITIES</b>		
<i>Share Capital</i>		
- Equity Capital	1019.38	1019.38
Add: forfeited shares	0.44	0.44
Reserves & Surplus	827.79	418.10
(-) Misc. exp		2.70
<b>NET WORTH</b>	1847.61	1435.22
<b>LONG TERM LOANS</b>		
Secured Loans	3014.52	1765.34
Unsecured Loans	732.71	707.33
Deferred Tax Liability	615.80	460.49
<b>TOTAL LONG TERM LOANS</b>	4363.03	2933.16
<b>SHORT TERM LOANS</b>		
Secured Loans (Working capital)	2595.99	1563.82
Unsecured Loans (interest free short term loan)	102.21	145.70
<b>TOTAL SHORT TERM LOANS</b>	2698.20	1709.52
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
<b>Current Liabilities</b>		
Sundry Creditors	3742.82	2945.25
Statutory dues		
Term loan installments falling due		
Security deposits		
Interest accrued but not due	36.07	20.26
Other liabilities		
		0.22
<b>Provisions</b>		
Proposed dividend		
- Equity Shares + tax on div.		
<b>TOTAL CURRENT LIABILITIES</b>	3778.89	2965.73
<b>TOTAL SHORT TERM LIABILITIES</b>	6477.09	4675.25
<b>TOTAL LIABILITIES</b>	12687.73	9043.63

<b>PROFIT &amp; LOSS ACCOUNT</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In Lakhs)	(Rs. In Lakhs )
Gross Sales	25404.69	20916.85
Less: Excise duty & Sales tax payments	3638.05	2894.16
Net Sales	21766.64	18022.69
Add: Other related Income		
<b>Operating Income</b>	21766.64	18022.69
Materials consumed	16013.77	13263.86
Employee cost	1611.66	1359.99
Stock adjustments (+/-)		
Power & Fuel	704.78	525.76
Selling & Administrative expenses	1629.90	1298.05
Other Interest Expenses	368.87	250.37
<b>Cost of Sales</b>	20328.98	16698.03
<b>PBDIT</b>	1437.66	1324.66
Less: Depreciation	366.04	334.69
Less: Other non-cash write-offs		
<b>PBIT</b>	1071.62	989.97
Less: Interest & Finance charges	171.80	140.01
<b>OPBT</b>	899.82	849.96
Add: non operating income	6.54	6.19
<b>PBT</b>	906.36	856.15
Less: Provision for Taxation	322.31	344.01
<b>PAT</b>	584.05	512.14
Add: Excess provisions written back		
Add: Previous year B/d	369.67	14.40
<b>Profit available for appropriation</b>	953.72	526.54
<b>Appropriations</b>		
<i>Proposed dividend</i>		
- Tax on Proposed Dividend	21.45	
- Equity Shares (interim)	152.91	144.07
Transfer to General Reserve	30.00	12.80
Balance carried to Balance Sheet	749.36	369.67
<b>Total</b>	953.72	526.54

## GH INDUCTION INDIA P LTD

<b>BALANCE SHEET</b>	<b>2006-07</b>	<b>2005-06</b>
	(In Rs.)	(In Rs.)
<b>ASSETS</b>		
Fixed assets (after depreciation – Revaluation Reserve)	14663301	14231619
Capital advances		
Capital Work – in – progress		
<b>TOTAL FIXED ASSETS</b>	<b>14663301</b>	<b>14231619</b>
<b>Investments</b>		
- In subsidiaries & associates		
- Others (Non Trade Investments)		
<b>TOTAL INVESTMENTS</b>	<b>0</b>	<b>0</b>
<b>CURRENT ASSETS LOANS &amp; ADVANCES</b>		
<i>Inventories</i>		
Raw materials / Semi finished goods		
Finished goods	41301468	30594900
<i>Total Inventory</i>	41301468	30594900
Sundry Debtors	45910682	27446698
Cash & Bank balances	9360688	10061010
Loans & Advances	28790944	23747360
Other Assets		
<b>TOTAL CURRENT ASSETS</b>	<b>125363782</b>	<b>91849968</b>
<b>TOTAL ASSETS</b>	<b>140027083</b>	<b>106081587</b>

<b>BALANCE SHEET (Contd.)</b>	<b>2006-07</b>	<b>2005-06</b>
	(in Rs.)	(in Rs.)
<b>LIABILITIES</b>		
<i>Share Capital</i>		
- Equity Capital	5000000	5000000
- Preference Capital		
Reserves & Surplus	42250573	26334639
(-) Revaluation reserve		
<b>NET WORTH</b>	47250573	31334639
<b>LONG TERM LOANS</b>		
Secured Loans	4305323	
Unsecured Loans		
Deferred Tax Liability		
<b>TOTAL LONG TERM LOANS</b>	4305323	0.00
<b>SHORT TERM LOANS</b>		
Overdraft from Banks		
Secured Loans		
Interest accrued and due		
Unsecured Loans		
<b>TOTAL SHORT TERM LOANS</b>	0.00	0.00
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
<b>Current Liabilities</b>		
Sundry Creditors	28823579	19327590
Trade advances	7254000	15938712
Outstanding liab.	5698514	3136356
Duties and taxes	2144098	1142141
Interest accrued but not due		
Other liabilities		
<b>Provisions</b>	44550996	35202149
Proposed dividend		
- Equity shares		
- Tax on Proposed Dividend		
Leave Encashment on Gratuity		
<b>TOTAL CURRENT LIABILITIES</b>	88471187	74746948
<b>TOTAL SHORT TERM LIABILITIES</b>	88471187	74746948
<b>TOTAL LIABILITIES</b>	140027083	106081587
<b>PROFIT &amp; LOSS ACCOUNT</b>	<b>2006-07</b>	<b>2005-06</b>



	(In Rs)	(In Rs.)
Gross Sales	195978268	140932320
Less: Excise duty & Sales tax payments	171872.00	11670.00
Net Sales	195806396	140920650
Add: Other related Income	2567056	1986816
<b>Operating Income</b>	198373452	142907466
Materials consumed	98770020	72274654
Manufacturing Expenses		
Employee cost	13485127	10360819
Stock adjustments (+/-)		
Power & Fuel	1650938	1120632
Selling & Administrative expenses	17561785	13067432
Other Interest Expenses	6565721	4896924
<b>Cost of Sales</b>	138033591	101720461
<b>PBDIT</b>	60339861	41187005
Less: Depreciation	2511112	1778942
Less: Other non-cash write-offs	448462	166456
<b>PBIT</b>	57380287	39241607
Less: Interest & Finance charges	90700	58800
<b>OPBT</b>	57289587	39182807
Add: non operating income	3281225	211412
<b>PBT</b>	60570812	39394219
Less: Provision for Taxation	21764455	14496974
<b>PAT</b>	38806357	24897245
Add: Excess provisions written back		
Add: Previous year B/d	20746542	15414084
<b>Profit available for appropriation</b>	59552899	40311329
<b>Appropriations</b>		
<i>Proposed dividend</i>		
- Tax on Proposed Dividend		
- Equity Shares	22805000	17075063
Transfer to General Reserve	3880636	2489724
Balance carried to Balance Sheet	32867263	20746542
<b>Total</b>	59552899	40311329

## AMURTANJAN INDUSTRIES

<b>BALANCE SHEET</b>	<b>2006-07</b>	<b>2005-06</b>
	(In Rs.)	(In Rs.)
<b>ASSETS</b>		
Fixed assets (after depreciation)	125,176,080	162,541,859
Capital advances		
Capital Work – in – progress	1,313,186	8,832,817
<b>TOTAL FIXED ASSETS</b>	<b>126,489,266</b>	<b>171,374,676</b>
<b>Investments</b>		
- In subsidiaries & associates	42,765,828	42,765,828
- Others	313,876	313,876
<b>TOTAL INVESTMENTS</b>	<b>43,079,704</b>	<b>43,079,704</b>
<b>CURRENT ASSETS LOANS &amp; ADVANCES</b>		
<i>Inventories</i>		
Raw materials / Semi finished goods	34,897,246	37,274,799
Finished goods	30,002,040	26,900,832
<i>Total Inventory</i>	64,899,286	64,175,631
Sundry Debtors	75,624,550	71,615,215
Cash & Bank balances	20,147,801	12,383,448
Loans & Advances		
- Subsidiaries & associates	216,997,265	207,135,146
- Others	45,997,058	28,871,219
Other Assets (Interest accrued)	69,691	8,147
<b>TOTAL CURRENT ASSETS</b>	<b>423,735,651</b>	<b>384,188,842</b>
<b>TOTAL ASSETS</b>	<b>593,304,621</b>	<b>598,643,222</b>

<b>BALANCE SHEET (Contd.)</b>	<b>2006-07</b>	<b>2005-06</b>
	(in Rs.)	(in Rs.)
<b>LIABILITIES</b>		
<i>Share Capital</i>		
- Equity Capital	32,000,000	32,000,000
- Preference Capital		
Reserves & Surplus	173,074,004	257,197,308
(-) Misc & deferred revenue exp		917,371
<b>NET WORTH</b>	205,074,004	288,279,937
<b>LONG TERM LOANS</b>		
Secured Loans	42,256,348	128,441,047
Deferred Tax Liability	22,840,538	28,886,352
<b>TOTAL LONG TERM LOANS</b>	65,096,886	157,327,399
<b>SHORT TERM LOANS</b>		
Overdraft from Banks		
Secured Loans	15,018,000	10,335,000
Unsecured Loans	6,000	19,000
<b>TOTAL SHORT TERM LOANS</b>	15,024,000	10,354,000
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
<b>Current Liabilities</b>		
Sundry Creditors	55,331,986	54,593,390
Unclaimed Dividends	1,347,244	1,364,808
Term loan installation falling due		
Security deposits		
Interest accrued but not due		
Other liabilities	13,935,835	11,759,687
<b>Provisions</b>		
Proposed dividend		
- Equity shares	8,640,000	7,040,000
- Tax on Dividend	1,211,760	987,360
Provision for taxation	17,637,510	6,426,537
Provision for loans & advances	207,500,000	57,500,000
Provision for employee retirement benefit	2,505,396	3,010,104
<b>TOTAL CURRENT LIABILITIES</b>	308,109,731	142,681,886
<b>TOTAL SHORT TERM LIABILITIES</b>	323,133,731	153,035,886
<b>TOTAL LIABILITIES</b>	593,304,621	598,643,222

<b>PROFIT &amp; LOSS ACCOUNT</b>	<b>2006-07</b>	<b>2005-06</b>
	(In Rs.)	(In Rs.)
Gross Sales	708,521,531	679,084,545
Less: Excise duty & Sales tax payments	139,255,698	145,752,853
Net Sales	569,265,833	533,331,692
Add: Other related Income (chemicals)	94,042,900	80,098,869
<b>Operating Income</b>	<b>663,308,733</b>	<b>613,430,561</b>
Materials consumed	264,270,003	227,150,829
Other Interest Charges	7,195,642	7,273,725
Employee cost	97,658,561	96,415,348
Power & Fuel	11,187,811	12,342,196
Selling & Administrative expenses	137,464,774	158,441,465
<b>Cost of Sales</b>	<b>517,776,791</b>	<b>501,623,563</b>
<b>PBDIT</b>	<b>145,531,942</b>	<b>111,806,998</b>
Less: Depreciation	17,258,596	20,065,500
<b>PBIT</b>	<b>128,273,346</b>	<b>91,741,498</b>
Less: Interest & Finance charges	7,042,263	10,171,498
<b>OPBT</b>	<b>121,231,083</b>	<b>81,570,061</b>
Add: non operating income	4,932,359	7,474,745
Prior year Adjustments	252,217	-208,003
<b>PBT</b>	<b>125,911,225</b>	<b>89,252,809</b>
Less: Provision for diminishing value of investments		9,988,000
Less: Provision for Advances	60,000,000	27,500,000
Less: Taxation	45,439,329	28,932,877
<b>PAT</b>	<b>20,471,896</b>	<b>22,831,932</b>
Add: Excess provisions written back		
Add: Previous year B/d	16,983,124	16,882,212
<b>Profit available for appropriation</b>	<b>37,455,020</b>	<b>39,714,144</b>
<b>Appropriations</b>		
<i>Interim dividend</i>	4,160,000	4,160,000
- Tax on Proposed Dividend	583,440	543,660
Proposed dividend		
- Equity shares	8,640,000	7,040,000
- Tax on	1,211,760	987,360
Transfer to General Reserve	10,000,000	10,000,000
Balance carried to Balance Sheet	12,859,820	16,983,124
<b>Total</b>	<b>37,455,020</b>	<b>39,714,144</b>

## IMPAL INDUSTRIES

<b>BALANCE SHEET</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In Lakhs)	(Rs. In Lakhs)
<b>ASSETS</b>		
Fixed assets (after depreciation)	1084.37	854.78
Capital advances		
Capital Work – in – progress		
<b>TOTAL FIXED ASSETS</b>	1084.37	854.78
<b>Investments</b>		
- In subsidiaries & associates	1866.27	1784.04
- Others	1540.45	1335.58
<b>TOTAL INVESTMENTS</b>	3406.72	3119.62
<b>CURRENT ASSETS LOANS &amp; ADVANCES</b>		
<i>Inventories</i>		
Stock in trade	1916.67	1886.61
Goods in transit	121.63	166.06
<i>Total Inventory</i>	2038.30	2052.67
Sundry Debtors	1953.33	1889.39
Cash & Bank balances	694.79	617.58
Loans & Advances	469.07	368.69
Other Assets		
<b>TOTAL CURRENT ASSETS</b>	5155.49	4928.33
<b>TOTAL ASSETS</b>	9646.58	8902.73

<b>BALANCE SHEET (Contd.)</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In Lakhs)	(Rs. In Lakhs)
<b>LIABILITIES</b>		
<i>Share Capital</i>		
- Equity Capital	415.98	415.98
- Preference Capital		
Reserves & Surplus	6723.57	6148.66
(-) Misc & deferred revenue exp		
<b>NET WORTH</b>	7139.55	6564.64
<b>LONG TERM LOANS</b>		
Term loans from FI's		
Deferred Tax Liability	36.42	43.83
<b>TOTAL LONG TERM LOANS</b>	36.42	43.83
<b>SHORT TERM LOANS</b>		
Overdraft from Banks		
Secured Loans	636.78	276.17
Interest accrued and due		
<b>TOTAL SHORT TERM LOANS</b>	636.78	276.17
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
<b>Current Liabilities</b>		
Sundry Creditors	1468.52	1639.39
Unclaimed Dividends	21.01	17.35
Term loan installation falling due		
Unclaimed matured fixed deposit	0.16	0.85
Interest accrued but not due	0.44	0.58
Other liabilities		
<b>Provisions</b>		
Proposed dividend		
- Equity shares (interim dividend + div tax)	332.03	332.03
- Preference shares		
Provision for taxation	11.67	27.89
<b>TOTAL CURRENT LIABILITIES</b>	1833.83	2018.09
<b>TOTAL SHORT TERM LIABILITIES</b>	2470.61	2294.26
<b>TOTAL LIABILITIES</b>	9646.58	8902.73

<b>PROFIT &amp; LOSS ACCOUNT</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In Lakhs)	(Rs. In Lakhs)
Gross Sales	20707.03	21349.62
Less: Excise duty & Sales tax payments		
Net Sales	20707.03	21349.62
Add: Other related Income	95.79	94.03
<b>Operating Income</b>	20802.82	21443.65
Materials consumed & Manufacturing Expenses	18168.95	18752.33
Employee cost	607.87	549.74
Cash credit interest	0.10	0.14
Selling & Administrative expenses	662.64	705.93
<b>Cost of Sales</b>	19349.56	20008.14
<b>PBDIT</b>	1363.26	1435.51
Less: Depreciation	63.84	74.83
Less: Other non-cash write-offs		
<b>PBIT</b>	1299.42	1360.68
Less: Interest & Finance charges	1.63	4.92
<b>OPBT</b>	1297.79	1355.76
Add: non operating income	85.14	161.30
<b>PBT</b>	1382.93	1517.06
Less: Provision for Taxation	475.99	502.22
<b>PAT</b>	906.94	1014.84
Add: Excess provisions written back		
Add: Previous year B/d	319.91	254.10
<b>Profit available for appropriation</b>	1226.85	1268.94
<b>Appropriations</b>		
Proposed dividend		
- Preference shares		
- Equity shares (interim div + div tax)	332.03	332.03
Transfer to General Reserve	600.00	617.00
Balance carried to Balance Sheet	294.82	319.91
<b>Total</b>	1226.85	1268.94

## TITAN INDUSTRIES LTD

<b>BALANCE SHEET</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In Lakhs)	(Rs. In Lakhs)
<b>ASSETS</b>		
Fixed assets (after depreciation)	19602.00	17491.18
Capital advances		
Capital Work – in – progress		
<b>TOTAL FIXED ASSETS</b>	19602.00	17491.18
<b>Investments</b>		
- In subsidiaries & associates	287.19	287.19
- Others	2414.84	2414.84
<b>TOTAL INVESTMENTS</b>	2702.03	2702.03
<b>CURRENT ASSETS LOANS &amp; ADVANCES</b>		
<i>Inventories</i>		
Raw materials / Semi finished goods	14498.18	10845.41
Finished goods	22941.26	16316.41
<i>Total Inventory</i>	37439.44	27161.82
Sundry Debtors	9011.93	7708.96
Cash & Bank balances	3828.69	4417.54
Loans & Advances	14395.99	17163.80
Other Assets		
<b>TOTAL CURRENT ASSETS</b>	64676.05	56452.12
<b>TOTAL ASSETS</b>	86980.08	76645.33



<b>BALANCE SHEET (Contd.)</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In Lakhs)	(Rs. In Lakhs)
<b>LIABILITIES</b>		
<i>Share Capital</i>		
- Equity Capital	4227.63	4227.63
- Preference Capital	4000.00	4000.00
Reserves & Surplus	15029.57	9496.52
(-) Misc & deferred revenue exp	1430.53	2440.38
<b>NET WORTH</b>	21826.67	15283.77
<b>LONG TERM LOANS</b>		
Term loans from FI's – Secured	6466.04	9638.62
- Unsecured	1083.61	1041.81
Deferred Tax Liability	2375.48	2931.98
<b>TOTAL LONG TERM LOANS</b>	9925.13	13612.41
<b>SHORT TERM LOANS</b>		
Secured Loans	8417.73	9713.68
Unsecured Loans	10825.00	11425.00
<b>TOTAL SHORT TERM LOANS</b>	19242.73	21138.68
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
<b>Current Liabilities</b>		
Sundry Creditors	29323.47	20469.97
Unclaimed Dividends	52.80	51.68
Term loan installation falling due		
Security deposits		
Interest accrued but not due	62.56	57.41
Other liabilities	3874.74	3938.58
<b>Provisions</b>		
Proposed dividend		
- Equity shares	1331.7	845.53
- Preference shares		
Provision for taxation		60.13
Tax on dividend	186.77	118.58
Retiring gratuities	266.22	318.86
Others	887.29	749.73
<b>TOTAL CURRENT LIABILITIES</b>	35985.55	26610.47
<b>TOTAL SHORT TERM LIABILITIES</b>	55228.28	47749.15
<b>TOTAL LIABILITIES</b>	86980.08	76645.33

<b>PROFIT &amp; LOSS ACCOUNT</b>	<b>2006-07</b>	<b>2005-06</b>
	(Rs. In Lakhs)	(Rs. In Lakhs)
Gross Sales	148137.38	113466.08
Less: Excise duty & Sales tax payments	4118.88	3794.12
Net Sales	144018.50	109671.96
Add: Other related Income		
<b>Operating Income</b>	144018.50	109671.96
Expenses Capitalized	-89.49	-49.25
Materials consumed	98162.02	75029.73
Manufacturing expenses		
Employee cost	11923.07	10701.68
Stock adjustments (+/-)	-7257.50	-8790.97
Power & Fuel	1002.01	997.00
Selling & Administrative expenses	24883.14	20267.06
Others		
<b>Cost of Sales</b>	128623.25	98155.25
<b>PBDIT</b>	15395.25	11516.71
Less: Depreciation	1966.44	1961.26
Less: Other non-cash write-offs		
<b>PBIT</b>	13428.81	9555.45
Less: Interest & Finance charges short term	1783.57	2053.96
Less: Interest & Finance charges long term	700.00	1037.78
<b>OPBT</b>	10945.24	6463.71
Add: non operating income	242.94	272.63
Add: Provision for exceptional items	-2500	-3500
<b>PBT</b>	8688.18	3236.34
Less: Taxation	1233.50	500.94
<b>PAT</b>	7454.68	2735.40
Add: Income tax of Previous year	-92.70	-240.51
Add: Previous year B/d	2962.42	1955.99
<b>Profit available for appropriation</b>	10324.40	4450.88
<b>Appropriations</b>		
Proposed dividend		
- Preference shares	272.27	281.39
- Equity shares	1331.70	845.53
Tax n dividend	224.96	156.38
Transfer to General Reserve	745.47	205.16
Balance carried to Balance Sheet	7750.00	2962.42

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