# A STUDY ON THE WORKING CAPITAL ANALYSIS
## WITH REFERENCE TO
## SAKTHI FINANCE LIMITED,
## COIMBATORE

A PROJECT REPORT

Submitted by

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In partial fulfilment of the requirements

for the award of the degree

Of

# MASTER OF BUSINESS ADMINISTRATION

## AUGUST, 2009

**KCT Business School**

Department of Management Studies

**Kumaraguru College of Technology**

**(An autonomous institution affiliated to Anna University, Coimbatore)**

**Coimbatore – 641 006**

# DEPARTMENT OF MANAGEMENT STUDIES
## KUMARA GURU COLLEGE OF TECHNOLOGY (AUTONOMOUS)
### COIMBATORE

## BONAFIDE CERTIFICATE

Certified that this project titled **"A STUDY ON THE WORKING CAPITAL ANALYSIS WITH REFERENCE TO SAKTHI FINANCE LIMITED, COIMBATORE"** is the bonafide work of **Ms. K. PRATHIBHA** who carried out this project 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.

**Prof.K.R.Ayyaswamy**

**Faculty Guide**

**Prof.Dr.S.V.Devanathan**

Director

**Evaluated and viva-voce conducted on** ......................................

**Examiner I**

**Examiner II**

CERTIFICATE

# SAKTHI FINANCE LTD

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July 29, 2009

### To Whomsoever It May Concern

This is to certify that **Ms.PRATHIBHA.K**(Regn No - 0820400033) MBA student of **KCT BUSINESS SCHOOL** has successfully completed the project titled "**A STUDY ON WORKING CAPITAL ANALYSIS WITH REFERENCE TO SAKTHI FINANCE LIMITED, COIMBATORE**" during the period June 2009-July 2009.

Her commitment and dedication shown in completing the project is excellent. We wish her success in all her future endeavors.
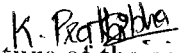
For SAKTHI FINANCE LIMITED

**V. Srirangan**
**Officer - HRD**

DECLARATION

# DECLARATION

I hereby declare that the dissertation entitled "**A STUDY ON THE WORKING CAPITAL ANALYSIS WITH REFERENCE TO SAKTHI FINANCE LIMITED, COIMBATORE**" submitted for the Master of Business Administration degree is my original work and the dissertation has not formed the basis for the reward of any Degree, Associate ship, Fellowship or any other similar titles.

K. Prathibha

Signature of the candidate

(K.PRATHIBHA)

ACKNOWLEDGEMENT

# ACKNOWLEDGEMENT

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# INTRODUCTION

## 1.1 INTRODUCTION OF THE STUDY

Finance is regarded as the blood of a business enterprise. This is because in the modern money oriented economy. Finance is one of the foundations of all kinds of economic activities.

Financial statement primarily comprise two basic statements (i) the position statement of the balance sheet and (ii) the income statement or the profit and loss account. However, generally accepted accounting principles (GAAP) specify that a complete set of financial statements must include: balance sheet and an income statement.

**BALANCE SHEET:**

The American Institute of Certified Public Accountants defines Balance Sheet as, "A tabular statement of summary of balances (debits and credits) carried forward after an actual and constructive closing of books of accounts and kept according to principles of accounting". The purpose of the balance sheet is to show the resources that the company has. i.e.. its assets. and from where those recourses come from. i.e., its liabilities and investments by owners and outsiders.

The balance sheet is one of the important statements depicting the financial strength of the concern. It shows on the one hand the properties that it utilizes and all the liabilities and claims it owners and outsiders. The right hand side shows properties and assets. Normally there is no particular sequence for showing various assets and liabilities.

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The companies Act, 1956 has prescribed a particular form for showing assets and liabilities in the balance sheet for companies registered under this act. These companies are also required to give figures for the previous year along with the currency year's figures.

## INCOME STATEMENTS OR (PROFIT AND LOSS ACCOUNT):

Income statement is prepared to determine the operational position of the concern. It is a statement of revenues earned and the expenses incurred for earning that revenue. If there is excess of revenues over expenditures it will show a profit and if the expenditures are more than the income then there will be a loss. The income statement is prepared for a particular for a particular period, generally a year. When income statement is prepared for the year ending $31^{st}$ December than all revenues and expenditures falling due in that year will be taken in to account irrespective of the receipts or payments.

## WORKING CAPITAL MANAGEMENT

Capital is required for a business. It can be classified under the two main categories fixed capital. Every business needs funds for two purposes- for its establishment and to carry out its day-to-day operations. Long –term funds are required to create production facilities through purchase of fixed assets such as plant and machinery, land, building, furniture, etc. Investments in these assets represent that part if firm's capital, which is blocked on the permanent of fixed basis and is called, fixed capital. Funds are also needed for short-term purposes for the purchase of raw materials, payment of wages and other day-to-day expenses, etc. These funds are also known as working capital.

Net working capital may be positive or negative. When the current assets exceed the current liabilities, the working capital is positive and the negative working capital results when the current liabilities are more than the current assets. Current liabilities are those liabilities, which are intended to be paid in the ordinary course of business within a short period of normally one accounting year out of the current assets or the income of the business.

# 1.2 AN OVERVIEW OF NON-BANKING FINANCE COMPANIES AND THE PROFILE OF SAKTHI FINANCE LIMITED

## INTRODUCTION

The role of NBFCs is not different from that of Bank mobilizing money from people with the promise of repaying more. No wonder that nearly 40000 NBFCs set up establishments to mobilize money with a promise of high interest, unfortunately, many of them fly-by night operators.

The Indian Economy is growing through a period of rapid "Financialiation". Today a wide range of financial institutions, through plethora customer friendly financial products, is conducting the "intermediation". Repeated evaluation of the role of NBFCs by study group set up periodically by the government has confirmed. "That NBFCs usefully supplement the activities of playing a dynamic role in an economy.

## MEANING OF AN NBFC

A Non-Banking Finance Company (NBFC) is a company under the Companies Act, 1956 and is engaged in the business of loans and advances, acquisition of shares/ stock/ debentures/ securities issued by Government or local authority or other securities of like marketable nature, leasing, hire-purchase, insurance business, and chit business.

A non-banking institution which is a company and which has its principal business of receiving deposits under any scheme of arrangement or any other manner, or lending in any manner is also a non-banking financial company (Residuary non-banking company).

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# THE DIFFERENT TYPES OF NBFCS REGISTERED WITH RBI

The NBFC's that are registered with FBI are:

> ➢ Equipment Leasing Company;

> ➢ Hire-purchase Company;

> ➢ Loan Company;

> ➢ Investment Company;

> ➢ Residuary Non-Banking Company

## REGULATORY MEASUREMENTS OF NBFC's

The Reserve Bank of India is entrusted with the responsibility of regulating and supervising the Non-Banking Financial Companies by virtue of powers vested in chapter III B of the Reserve Bank of India Act, 1934.

The regulations and supervisory objective is to:

i. Ensures healthy growth of the financial companies;

ii. Ensures that these companies function as a part of the financial system within the policy framework, in such a manner that their existence and functioning do not lead to systemic aberrations; and that

iii. The quality of surveillance and supervision exercised by the bank over the NBFC's is sustained by keeping pace with the developments that take place in this sector of the financial system.

# THE SALIENT FEATURES OF NBFCS REGULATIONS

The important regulations relating to acceptance of deposits by NBFC's are under:

1. The NBFC's are allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 months. They cannot accept deposits repayable on demand.

2. NBFC's cannot offer interest rates higher than the ceiling rate prescribed by RBI from time to time. The present ceiling is 11 per cent per annum. The interest may be paid or compounded at rests not shorter than monthly rests.

3. NBFCs cannot offer gifts/incentives or any other additional benefit to the depositors.

4. NBFCs (except certain equipment leasing/ hire-purchase finance companies) should have minimum investment grade credit rating.

5. The deposits with NBFCs are not insured.

6. There are certain mandatory disclosures about the company in the Application Form issued by the company soliciting deposits

7. In the case of NBFC fails to repay the deposits or the interest, the depositor can complain to:

    a. Consumer Dispute Redressal forum at the district level

    b. Company Law Board at Chennai/ Delhi/ Kolkata/ Mumbai or

    c. Nearest RBI office

# CEILING ON ACCEPANTANCE OF PUBLIC DEPOSITS

Presently, the maximum rate of interest a NBFC can offer is 11%. The interest may be paid or compounded at rests not shorter than monthly rests.

The NBFCs are allowed to accept/ renew public deposits for a minimum period of 12 months and maximum period of 60 months. They cannot accept deposits repayable on demand.

There is ceiling on acceptance of public deposits. A NBFC maintaining required NOF/CRAR and complying with the prudential norms could accept public deposits shown in the table

## CEILING ON PUBLIC DEPOSITS

| CATEGORY OF NBFC | CEILING ON PUBLIC DEPOSITS |
|---|---|
| EL/HP Companies maintaining CRAR of 15% without credit rating | 1.5 times of NOF or Rs.10 cores Whichever is less |
| EL/HP Companies with CRAR of 12% and having minimum investment grade credit rating | 4 times of NOF |
| LC/IC with CRAR of 12% and having minimum investment grade credit rating | 1.5 times of NOF |

Source: Sakthi Finance Ltd Journal-2005

## RATING OF NBFCS

An unrated NBFC, except certain equipment leasing/hire-purchase (EL/HP) companies, cannot accept public deposits. An exception is made in case of unrated EL/HP companies with CRAR of 15% which can accept public deposit up to 1.5 times of the NOF or Rs.10 cores whichever is lower without having a credit rating.

## THE SYMBOLS OF MINIMUM INVESTMENT GRADE RATING OF DIFFERENT COMPANIES

| Name of rating agencies | Level of minimum investment grade credit rating(MICR) |
|---|---|
| CRISIL | FA- (FA MINUS) |
| ICRA | MA- (MA MINUS) |
| CARE | CARE BBB (FD) |

Source: Sakthi Finance Journal-2005

A NBFC may get itself rated by any of the four rating agencies namely, CRISIL, CARE, ICRA and FITCH Ratings India Pvt. Ltd.

# 1.3 INTRODUCTION OF THE COMPANY

## THE ORIGIN

The story begins with a bullock cart, a very special one. Mr.P.Nachimuthu Gounder of pollachi, a small farmer, supplemented his income by renting out his bullock cart, soon he had saved enough to buy another and yet another till he had a whole fleet of them. In 1921, he made a transition from bullock cart to the automobile. Pioneering a taxi service, he acquired a bus in 1927. Four years later, along with some other operations he founded the **Anamallais bus transport company** with a fleet of 21 buses. By 1940, ABT's fleet strength had registered a five – fold increase & its operations covered every hook & corner of South India. He did not rest on his laurels. But aided by his son Mahalingam who had joined him in the business, he diversified into manufacturing and trading allied line and a whole group of companies sprang up.

Mr.N.Mahalingam son of Mr.P.Nachimuthu added even more momentum to the growth by his new ideas & innovations. As one of the successful group it plays a significant role in Agriculture, Industries, Financial & Social development of South India. From the bullock cart, the trial led to a wide range of interest, to establishment of one of the big industrial houses of South India.

# THE SAKTHI GROUP OF INDUSTRIES

The Sakthi group today is one of the foremost industrial houses with combined turnover exceeding Rs.1500 crores.

Currently, the Sakthi industrial conglomerate has diverse interests spanning across sugars, textiles, transport, finance & soya products, synthetic gem, estate & other trading activities.

## History of the company

The company was promoted by Dr. Mahalingam during the year 1955 in the name of "The pollachi credit society limited company. The company was later converted into a public limited company as "**Sakthi finance limited**" on July 27th 1967. The company came out with its first issue of equity shares in 1984 and rights issues in 1986. The second and third rights issues were floated in 1993 and 1995 with overwhelming responses from the investors. The paid up share capital of the company as on 2006-2006 is 20007.13 lakhs. In the year 1994, the company obtained credit rating for fixed deposit programme through ICRA and was rated "MA". Later in the year 1995 the rating was upgraded from "MA" to "MA+|". The grading of the company fixed deposits programme is "MA-"at present.

Company's business currently involves acceptance of deposits. Non-convertible debentures. hire purchase financing of commercial vehicles. machinery. etc. Mortgage financing and other finance related activities with its main focus on the financing of used commercial vehicles are its main leading activities.

The total deposits mobilized by the company crossed Rs.100 crore marks in the year 1991. The stock on hire has grown steadily over the years from Rs.203.60 lakhs in the financial year 2006. In the compliance of the regulations, the company reduced the deposit base to less than Rs.100 crores and the depository as on 31$^{st}$ march 2007 stood at Rs.8186.11. at present the company has 17 branches in Tamil Nadu, Andra Pradesh and Karnataka specializing in leading and 20 branches in the business of accepting resources and leasing out lockers.

The major area of application of funds of Sakthi finance limited is deployment in hire purchase business and the major source of income to company is derived from the financial charges on hire purchase. The company is having a good operational efficiency and showing a positive growth year by year on all parameter.

## OBJECTIVES OF THE COMPANY

- To lead and / or to advance money or grant loans on any terms that may be thought fit with or without security to persons, firms, individuals, companies, local bodies or government and particularly to customers and other persons having dealing with the company.

- To promote, assist in promoting, finance, aid, procure aids, manage, takeover or create any undertaking whether existing or new.

- To act as secretaries and financiers to enterprises.

- To act as an issue house, registrars and share transfer agents, financial advisers, technical consultants, system analysts and data processors.

- To purchase, sell, exchange, deal in or invest in shares, debentures, bonds, stock of joint stock companies, firms, and local bodies or of government.

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> To carry on the business of underwriters, sub – writers, brokers, managers, advisors, consultants to issue of shares, debentures, bonds, fixed deposits and other securities and of syndication of loans, project finance, working capital facilities and deferred payment facilities.

**Constituent companies in Sakthi group**

- ✓ Automobile & transport
- ✓ Abt industries limited
- ✓ Sugar
- ✓ Auto components
- ✓ Textiles
- ✓ Sakthi in service of society
- ✓ Educational institutions

# CHAPTER II

## 2.1 SCOPE OF THE STUDY

The scope of the study is to determine the working capital utilization & short term liquidity. This study also projects the trend analysis for the next three years of 2009-2011

## 2.2 OBJECTIVES OF THE STUDY

### PRIMARY OBJECTIVES:

The primary objective of the study is to assess the working capital of the company.

### SECONDARY OBJECTIVE:

➤ To study the structure and growth of the working capital.

## 2.3 LIMITATIONS OF THE STUDY

➤ The financial analysis is based on the annual reports published by the concern. Thus the reliability of the analysis is dependent on the date provided in the balance sheets.

➤ The study on the financial analysis is confined to only five years. i.e., from 2004 – 2008 due to the constraints in the collection of data.

## 2.4. REVIEW OF LITERATURE

In the year 2004-2008 Ms.K.Vardhini[1] have done a project work on financial performance or working capital management in Sakthi sugars limited, Coimbatore, objectives of the study are

1. To identify the working capital approach followed by the company

2. To determine the structure & effective utilization of working capital

3. To find out the relationship between working capital & liquidity position of the concern. The findings of the study are, the current ratio of the company under consideration was below the standard norm 2:1, the company's average current ratio is 1.13:1 for advancing working capital finance. So the company is in the position to meet its current obligation.

A.K.sharma [2] in his study examined the "practice prevailing in the management of working capital in the textile industry of private corporate sector in Rajasthan" interring for a period of 5 years first 2000 – 04. The major findings of his study were the mills covered under the study have failed to plan their working capital requirements and only in the recent past mills have stated giving due considerations for working capital management.

Textile mills have more inventories and they should plan carefully to reduce their investment in inventory.

R.S.Suganthi[3] in her study entitled "analysis of working capital management in Lakshmi mill and premier mills, Coimbatore" made an attempt to analyse and compare the working capital structure of Lakshmi mills and Premier Mills.

She collected secondary data from their annual reports of these units for a period of 5 years from 00 –05. The major findings of the study was that the textiles mills had continuous task of managing the composition of current assets and financial them. Also inventories and management receivables played a crucial role.

K.J.Joseph[4] in his study entitled "Working Capital Management in textile industry in India". Examined the major objective to find out the structure and utilization of working capital in textile mills. For this purpose 20 mills were selected at random. The secondary dates pertaining to variables of working capital were collected from the annual reports of these mills.

Simple tools like serious, percentages and averages were used. The major findings of the study were that the rural investment in all selected textiles units showed on increasing trend. The study gave the conclusion as if the blocked amount of cash in current assets were not affect the day to day process rather this would increase the profit and reduce risks.

K.UmaSharma[5] in her study made an attempt to analyse "the management of working capital in Air Corporation of India". For this purpose she selected data from annual reports of the company for the periods from 03-08.

She made use of the simple tool of ratio analysis for her study.

The major findings of the study were in the inventory turnover ratio were fluctuating, the position of receivables showed an increasing trend, the overall percentage increase in total each was greater than the operating revenue and the working capital showed an increasing capital in all the years.

1. The Financial performance or working capital management in Sakthi sugars limited, Coimbatore.

2. The "practice prevailing in the management of working capital in the textile industry of private corporate sector in Rajasthan"

3. "The analysis of working capital management in Lakshmi mill and premier mills, Coimbatore"

4. "Working Capital Management in textile industry in India"

5. "The management of working capital in Air Corporation of India"

# METHODOLOGY
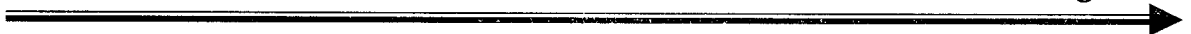
# CHAPTER IV

# ANALYSIS AND INTERPRETATION

"**Financial Statements**" refers to a package of statements such as balance sheet, income statement, funds flow statements, cash flow statement and statement of retained earnings. The balance sheet and income statement are traditional financial statements. Other statements are prepared to supplement them.

"**Analysis**" refers to the methodical classification of the data given in the financial statement. For e.g., the amount of capital employed is net directly available in the balance sheet. The figures have to re-arrange to calculate the amount of capital employed.

The term "**Interpretation**" means explaining the meaning and significance of the data so arranged. It is the study of the relationship between various financial factors. The relationship between profit and capital employed, current assets and current liabilities, sales and gross profit have to be explained.

# 4.1 RATIO ANALYSIS

The relationship between two figures expressed mathematically is called a "Ratio". It is a numerical relationship between two numbers which are related in some manner. Ratio analysis is a technique of analysis and interpretation of various ratios for helping in decision making.

## DEFINITION

According to **Myers** "Study of relationship among the various financial factors of the enterprise".

## Ratio analysis involves three steps.

✓    Calculation of appropriate ratios from the financial statements.

✓    Comparison of the ratios with standards or with ratios of the past period.

✓    Comparison can also be made with the ratios of other firms.

✓    Interpretation of ratios.

## IMPORTANT MANAGERIAL USES OF RATIO ANALYSIS

➤ **Simplifies financial statements:**

Ratio analysis simplifies the comprehension of financial statements. It explains the whole story of changes in the financial condition of the firm.

> **Helps measuring performance and position:**

Through leverage and solvency ratios, ratio analysis helps in assessing the financial position of a firm. Similarly, activity ratios and profitability ratios are useful in evaluating the performance.

> **Helps in communicating:**

The financial strength and weakness of a firm are communicated in a more easy and understandable manner by the use of ratios. The information contained in the financial statements is conveyed in a meaningful manner to the one for whom it is meant. Thus ratios help in communications and enhance the value of the financial statements.

> **Helps in forecasting and planning:**

Profitability ratios indicate trends in costs, sales, profits, etc., the ascertainment of trends helps in making forecasts. For e.g., if gross profit ratio indicates an upward trend, it can be said that gross profit for the next year will also rise. Such financial forecasts are useful in planning.

> **Help in co-ordination:**

Ratio analysis communicates the financial strength or weakness of a firm in a more easy and understandable manner. Such a clear communication helps in better co-ordination in the enterprise.

> **Other uses:**

There are so many other uses of the ratio analysis. It is an essential part of the budgetary control and standard costing. Ratios are of immense importance in the analysis and interpretation of financial statements as they bring the strength or weakness of a firm.

## LIMITATIONS OF RATIO ANALYSIS

Ratio analysis suffers from certain limitations. They are discussed below.

> **Inadequacy of standards:**

Ratios are useful only if they are compared with some standards. But, adequate standards like industry averages are not easily available.

> **Ratios alone are not adequate:**

Ratios are only indicators. They cannot be taken as final regarding good or bad financial position of the firm. Other things have also to be seen. For e.g., a high current ratio generally means a satisfactory liquidity position. But if current assets comprise mostly of outdates stocks, the ratio will be misleading.

> **Limitations of financial statements:**

Ratios are based only on the information recorded in the financial statements. Financial statements suffer from a number of limitations. Hence, the ratios derived from them are also subject to those limitations.

> **Problem of price level changes:**

Ratio analysis does not take into account the effects of changes in price level. Because of this, interpretation of ratios becomes invalid.

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## Difficulty in comparison:

In actual practice, it is difficult to have similar companies for comparison. Even if similar companies are available, their accounting period may differ. This makes inter-firm comparison difficult.

## Window dressing:

Financial statements can easily be window dressed to present a better picture of the financial and profitability positions. Hence, one has to be very careful in making a decision on the basis of ratios calculated from such financial statements. But, it is very difficult for an outsider to know about the window dressing made by a company.

## No fixed standards:

No fixed standards can be laid down. For e.g.. ideal current ratio is said to be 2:1. However for firms which have adequate credit arrangement with their bankers. it may be perfectly ideal to have a ratio of 1:1.

## Personal bias:

Ratios are only a means of financial analysis. They have to be interpreted and different people many interpret the same ratio in different ways.

# TABLE NO 4.1.1

## TABLE SHOWING CURRENT RATIO

(Rs. in lakhs)

| Year | Current Assets | Current Liabilities | Ratio |
|------|---------------|---------------------|-------|
| 2003-2004 | 18568 | 1043 | 17.81 |
| 2004-2005 | 18985 | 1148 | 16.55 |
| 2005-2006 | 20265 | 1871 | 10.83 |
| 2006-2007 | 23699 | 2798 | 8.47 |
| 2007-2008 | 30322 | 3878 | 7.82 |

**Source: Annual Report**

**Interpretation:**

From the above table it is understood that the current ratio has been ranged inbetween 7.82 – 17.81. The company does not fulfill the rule of thumb (2:1). Since it is a financial institution it does not apply for it. There may be idle investment in the current asset by the company. Therefore the company can look into the possibility of investing idle investment from the current asset to the fixed asset.

**EXHIBIT NO 4.1.1**

**EXHIBIT SHOWING CURRENT RATIO**
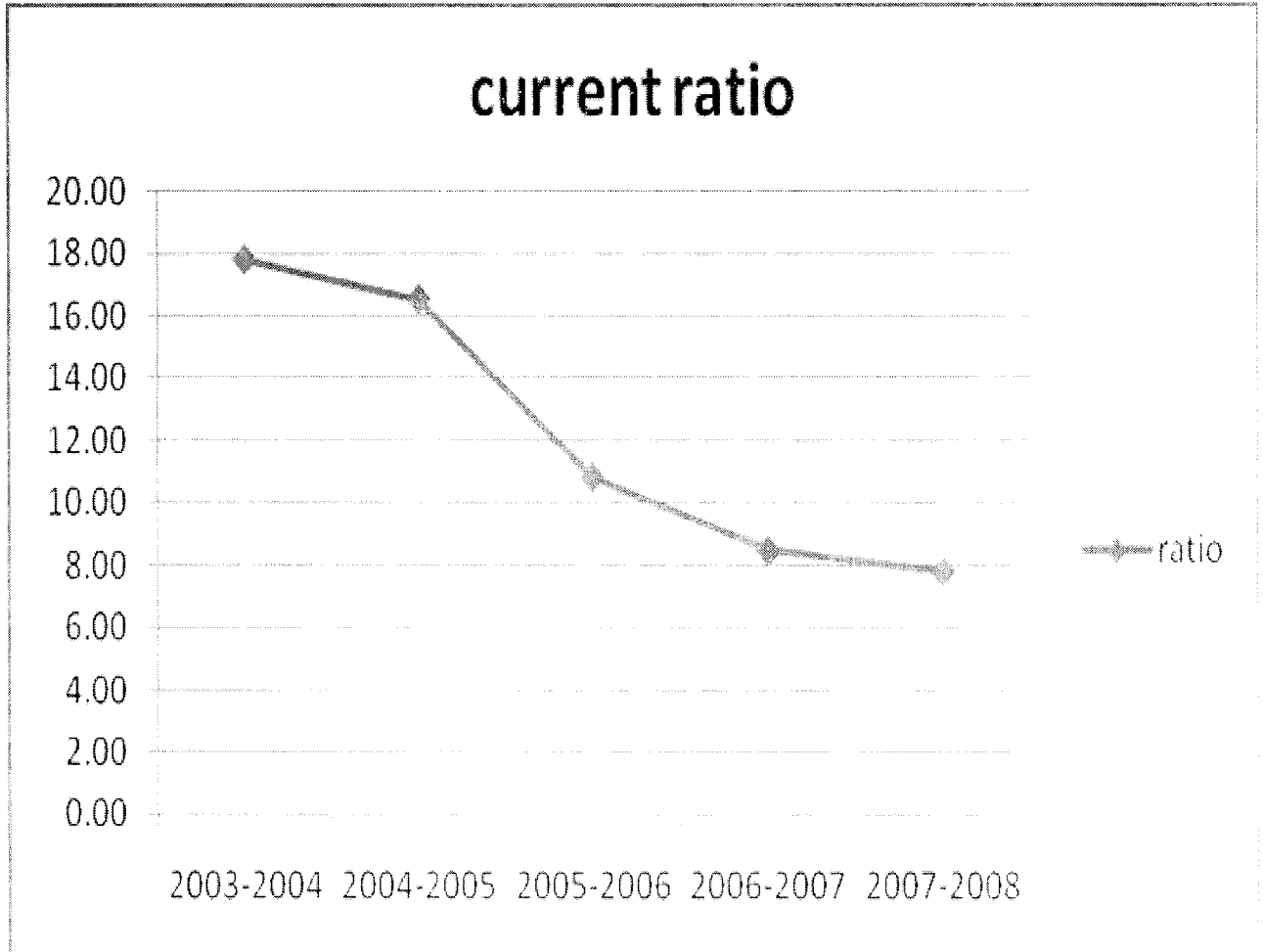
## current ratio



**Inference:**

The above chart shows that the current ratio is in decreaseing trend. It is because the stock of the company is gradually been increased.

## 4.1.2. ABSOLUTE LIQUID RATIO

Absolute liquid ratio is also known as **Cash Ratio**. It is calculated by dividing the absolute liquid assets and current liabilities.

$$\text{Absolute Liquid Ratio} = \frac{\textbf{Absolute Liquid Assets}}{\textbf{Current Liabilities}}$$

Absolute liquid Assets include cash in hand and at bank and marketable securities or temporary investments. The acceptable norm for this ratio is 50% or 0.5:1 or 1:2.

# EXHIBIT NO 4.1.2

# EXHIBIT SHOWING QUICK RATIO
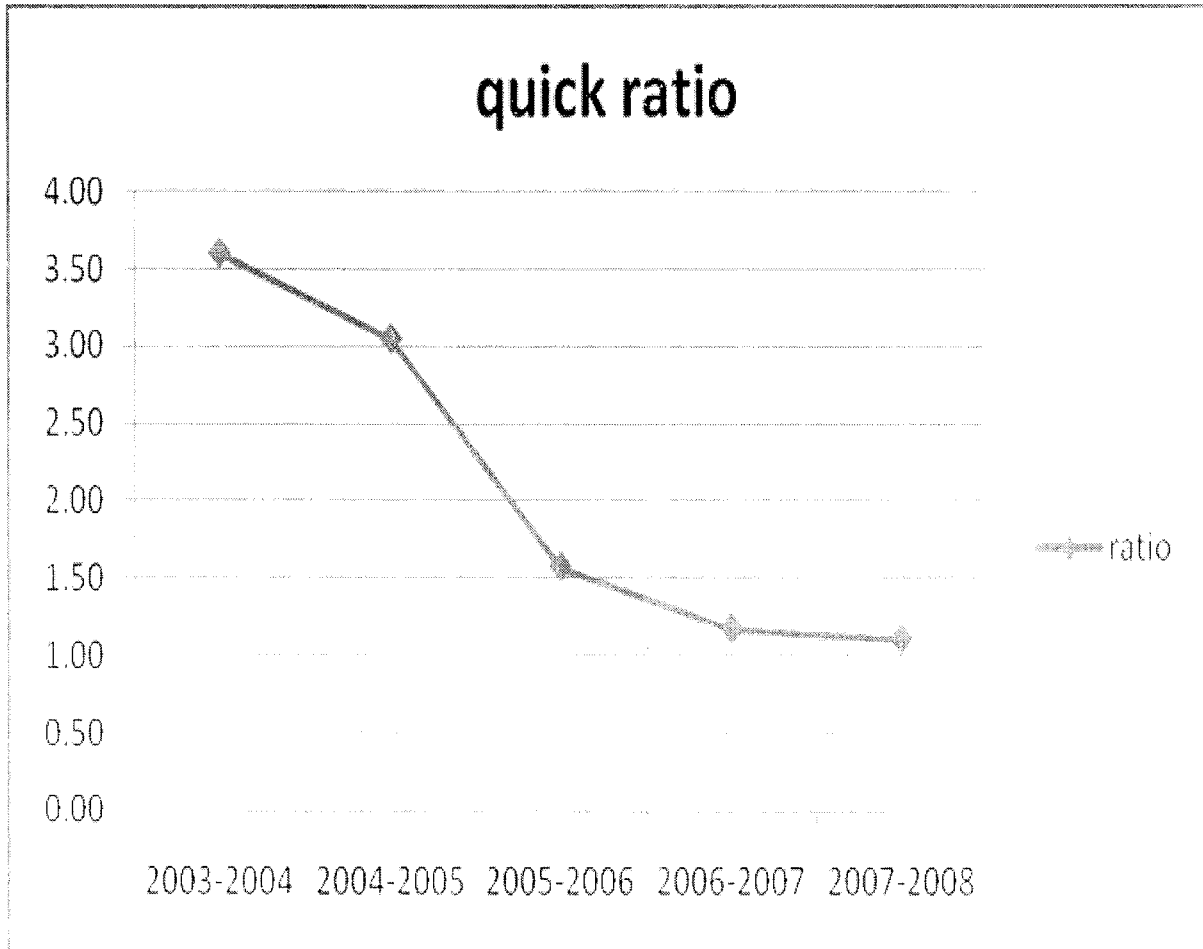


**Inference:**

The quick ratio has increased because the loans has been increased from year after year to meet the expenses.

## 4.1.3. WORKING CAPITAL TURNOVER RATIO

Working capital turnover ratio indicates the velocity of the utilization of net working capital. The ratio measures the efficiency with which the working capital has been used by a firm. A highest ratio indicates better utilization of working capital.

$$\text{WORKING CAPITAL TURNOVER RATIO} = \frac{\text{INCOME}}{\text{NET WORKING CAPITAL}}$$

# TABLE NO 4.1.3

## TABLE SHOWING WORKING CAPITAL TURNOVER RATIO

(Rs. in lakhs)

| Year | Income | Working capital | Ratio |
|------|--------|-----------------|-------|
| 2003-2004 | 2526 | 17525 | 0.14 |
| 2004-2005 | 2736 | 17838 | 0.15 |
| 2005-2006 | 2580 | 18394 | 0.14 |
| 2006-2007 | 3000 | 20901 | 0.14 |
| 2007-2008 | 4008 | 26443 | 0.15 |

**Source: Annual Report**

**Interpretation:**

From the above table it is understood that the working capital turnover ratio ranges in between 0.14 - 0.15 and the maximum ranges is 0.15 during the year 2004-2005 & 2007-2008. This ratio is on fluctuating trend. Among the five year the above mentioned period the working capital is used better.

## EXHIBIT SHOWING WORKING CAPITAL TURNOVER RATIO
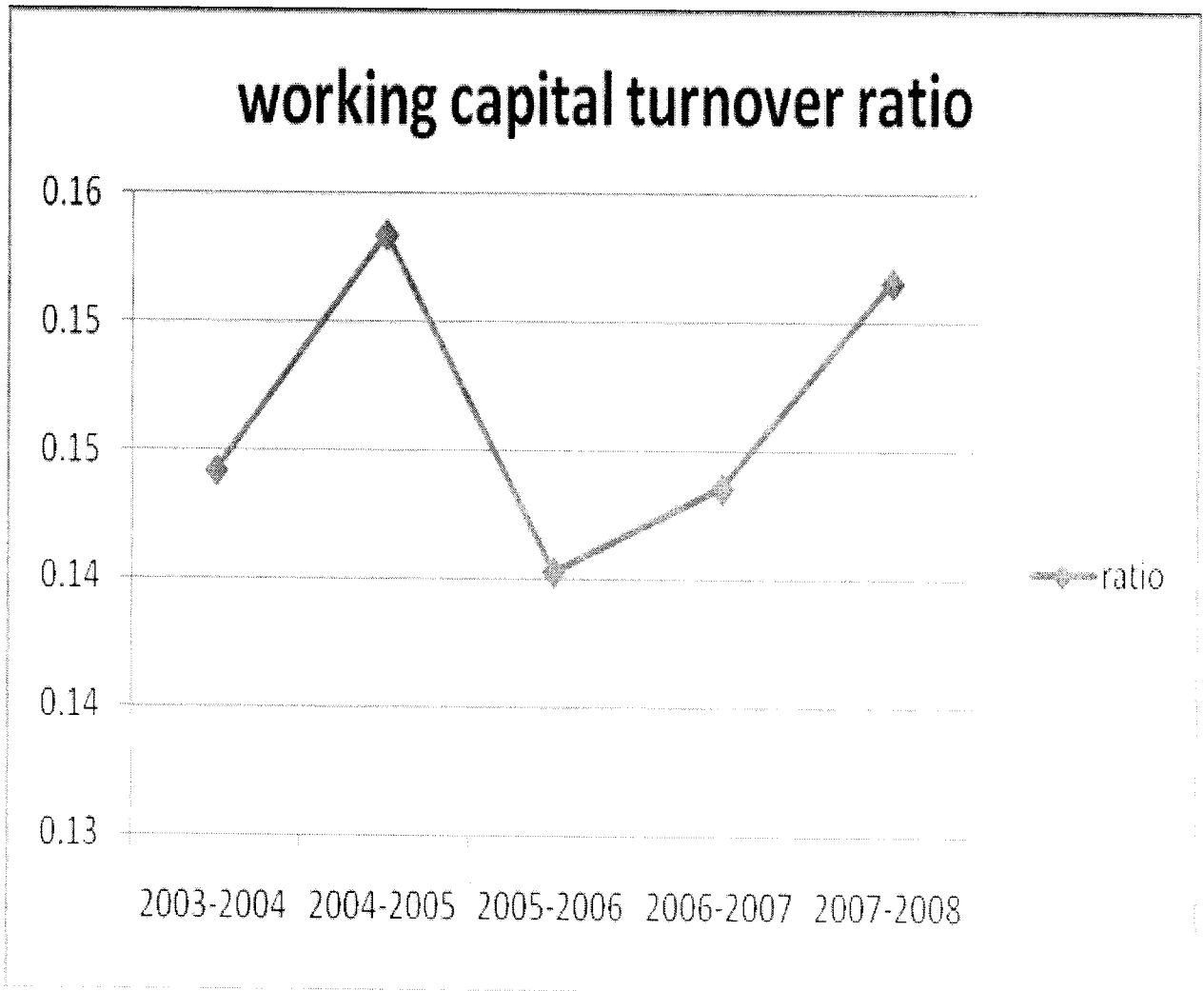


**Inference:**

The working capital to the in come is been gradually stated increase in the 2004 and it had a dip because the income earned has been reduced in the next year and the income started to increase and the ratio also increased.

## 4.1.4. WORKING CAPITAL TO TOTAL ASSET RATIO

Working capital to total asset indicates the relationship between working capital and total assets. Higher the ratio the better it is.

$$\text{WORKING CAPITAL TO TOTAL ASSETS} = \frac{\text{GROSS WORKING CAPITAL}}{\text{TOTAL ASSETS}}$$

# TABLE NO 4.1.4

# TABLE SHOWING WORKING CAPITAL TO TOTAL ASSETS RATIO

(Rs. in lakhs)

| Year | Working capital | Total Assets | Ratio |
|------|-----------------|--------------|-------|
| 2003-2004 | 17526 | 20304 | 0.86 |
| 2004-2005 | 17838 | 21007 | 0.85 |
| 2005-2006 | 18394 | 21314 | 0.86 |
| 2006-2007 | 20902 | 23496 | 0.89 |
| 2007-2008 | 26443 | 29670 | 0.89 |

**Source: Annual Report**

**Interpretation:**

From the above table it is understood that the working capital to total assets ratio ranges between 0.85 – 0.89. The maximum of 0.89 was in last two years of the study period. Though the ratio was high between net working capitals and total assets it has not resulted better performance. So the working capital to total assets ratio was not satisfactory due to heavy investments in total assets.

# EXHIBIT NO 4.1.4

# EXHIBIT SHOWING WORKING CAPITAL TO TOTAL ASSETS RATIO

## working capital to total asset ratio

| | |
|---|---|
| 0.90 | |
| 0.89 | |
| 0.88 | |
| 0.87 | |
| 0.86 | |
| 0.85 | |
| 0.84 | |
| 0.83 | |
| 0.82 | |

2003-2004   2004-2005   2005-2006   2006-2007   2007-2008
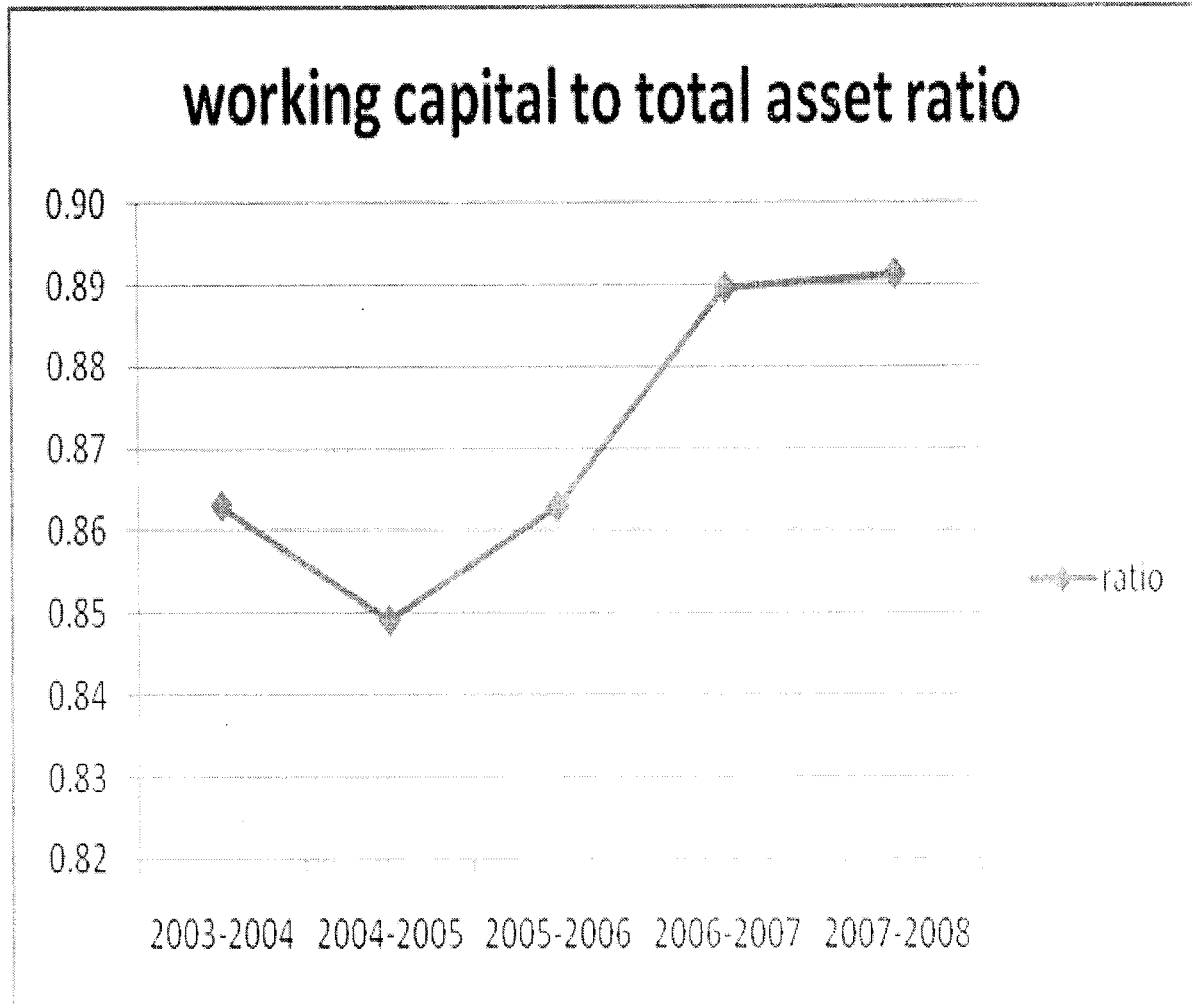
**Inference:**

Even though the working capital shows an increasing trend the investment in the total asset has been increased so there is an increase in the ratio.

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## 4.1.5. WORKING CAPITAL TO FIXED ASSET RATIO

Working capital to fixed asset indicates the relationship between working capital and fixed assets. It is the level of liquidity of the firm. A high ratio indicates a conservative current assets policy indicates greater liquidity and lower risk. While a lower ratio indicates an aggressive current assets policy indicating higher risk and poor liquidity.

$$\text{WORKING CAPITAL TO FIXED ASSETS} = \frac{\text{WORKING CAPITAL}}{\text{FIXED ASSETS}}$$

# TABLE NO 4.1.5

## TABLE SHOWING WORKING CAPITAL TO FIXED ASSETS RATIO

(Rs. in lakhs)

| Year | Working capital | Fixed Assets | Ratio |
|------|-----------------|--------------|-------|
| 2003-2004 | 17525 | 2878 | 6.09 |
| 2004-2005 | 17838 | 2829 | 6.31 |
| 2005-2006 | 18394 | 2657 | 6.92 |
| 2006-2007 | 20902 | 2472 | 8.45 |
| 2007-2008 | 26443 | 3227 | 8.19 |

**Source: Annual Report**

**Interpretation:**

From the above table it is understood that the working capital to fixed assets ratio. This ratio ranges 6.09 as the minimum during the year 2003-2003; the organizations maintained more working capital and invest in the fixed assets.

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# EXHIBIT NO 4.1.5

## EXHIBIT SHOWING WORKING CAPITAL TO FIXED ASSETS RATIO
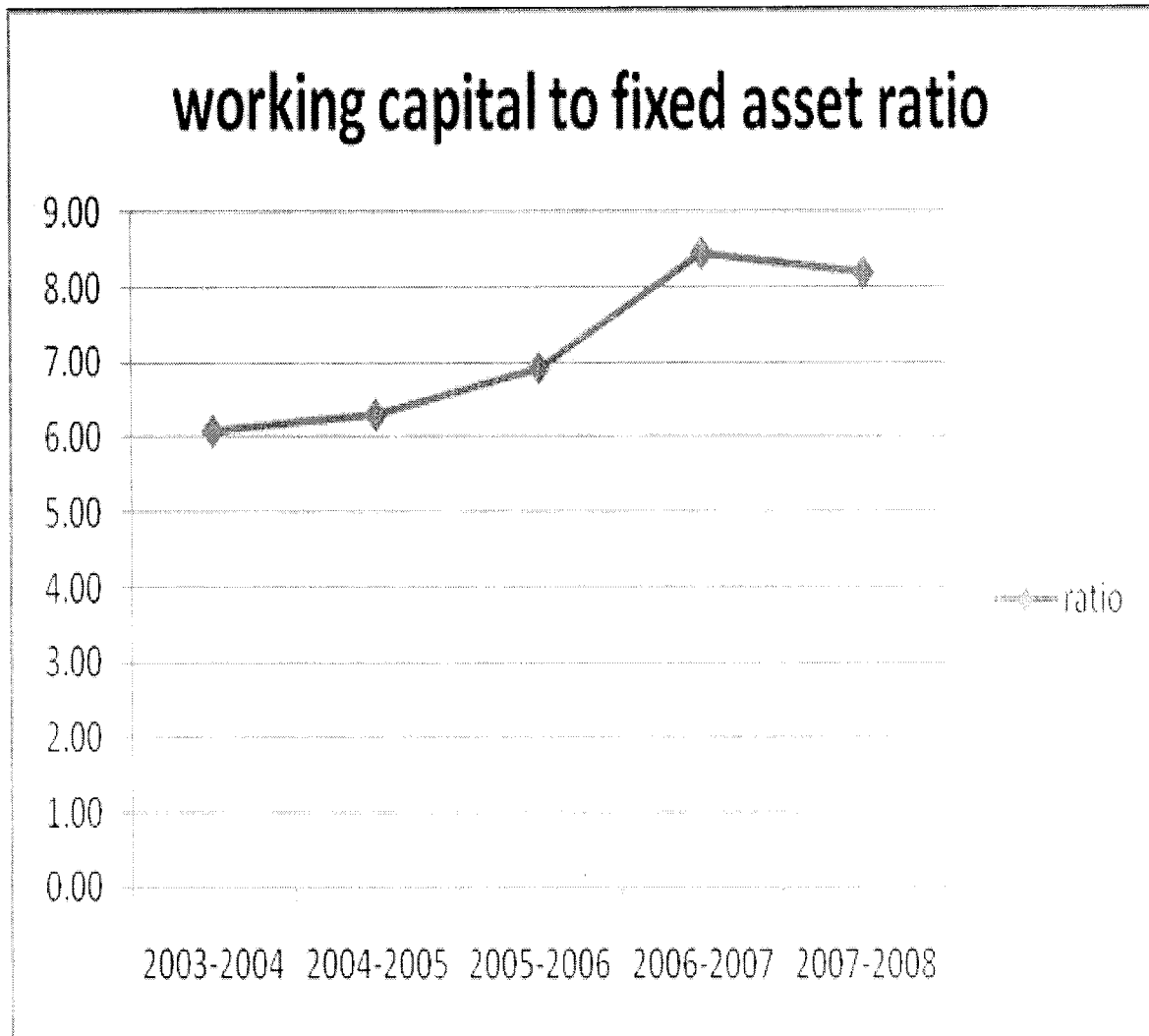


**Inference:**

The level of investment in the fixed asset has been gradually been increased since th company has enough working capital. It shows a good trend.

## 4.1.6. CASH AS A PERCENTAGE OF CURRENT ASSETS

It is the relationship between cash balance at the end and current assets expressed as a percentage. The ratio of cash as percentage current assets is used to determine the minimum level of cash required.

$$\text{CASH AS A \% OF CURRENT ASSETS} = \frac{\text{OPENING CASH BALANCE}}{\text{CURRENT ASSETS}}$$

# TABLE NO 4.1.6

## TABLE SHOWING CASH AS A PERCENTAGE OF

## CURRENT ASSETS RATIO

(Rs. in lakhs)

| Year | Cash | Current Assets | Ratio |
|------|------|----------------|-------|
| 2003-2004 | 432 | 18568 | 2.33 |
| 2004-2005 | 886 | 18985 | 4.67 |
| 2005-2006 | 773 | 20265 | 3.81 |
| 2006-2007 | 1197 | 23699 | 5.05 |
| 2007-2008 | 1517 | 30321 | 5.00 |

**Source: Annual Report**

**Interpretation:**

From the above table it is understood that the maximum range is between the years 2006 – 2007. The percentage of cash was more during the year 5.05 and the liquidity position was also high. The cash required by the company is been satisfactory.

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# TABLE NO 4.1.7

## TABLE SHOWING INVENTORY TO CURRENT ASSETS RATIO

**(Rs. in lakhs)**

| Year | Inventory | Current Assets | Ratio |
|------|-----------|----------------|-------|
| 2003-2004 | 14814 | 18568 | 0.80 |
| 2004-2005 | 15492 | 18986 | 0.82 |
| 2005-2006 | 17321 | 20266 | 0.85 |
| 2006-2007 | 20418 | 23699 | 0.86 |
| 2007-2008 | 26023 | 30322 | 0.86 |

**Source: Annual Report**

**Interpretation:**

From the above table it is understood that the maximum range is between the years 2006 – 2007 and 2007-2008. The percentage of high inventory leads to better performance.

# EXHIBIT NO 4.1.7

# EXHIBIT SHOWING INVENTORY TO CURRENT ASSETS RATIO
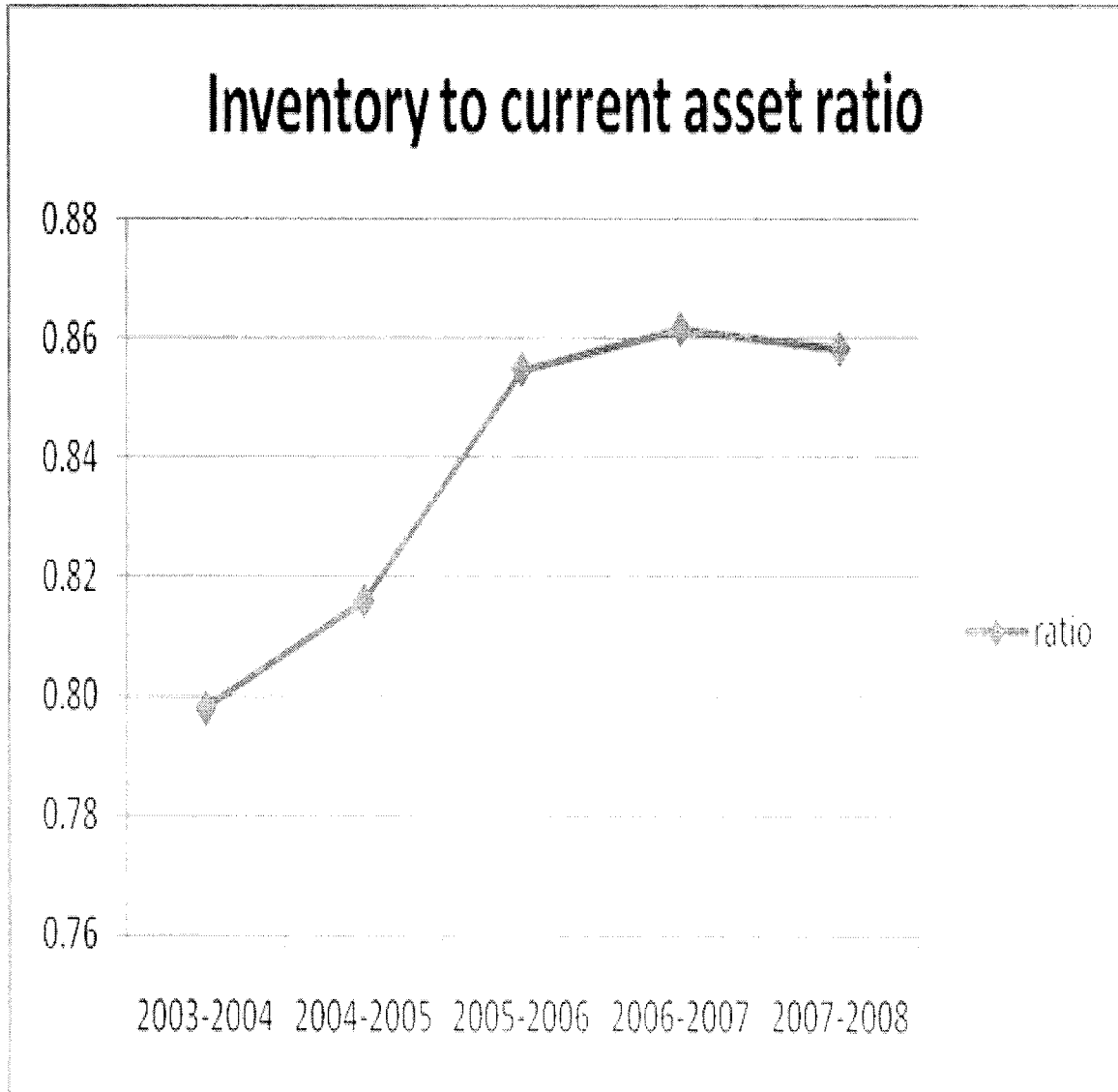


**Inference:**

The inventory is high and it shows the better performance and the lower liquidity of the company as the ratio is been increasing trend.

## 4.1.8. INVENTORY TURNOVER RATIO

It is the relationship between closing inventory and income. The ratio indicates the amount of investment in inventory to income received. The proportion of inventory to income earned shows the lower the liquidity as compared to other income.

$$\text{INVENTORY TURNOVER RATIO} = \frac{\text{INCOME}}{\text{INVENTORY}}$$

# TABLE NO 4.1.8

## TABLE SHOWING INVENTORY TURNOVER RATIO

(Rs. in lakhs)

| Year | Income | Inventory | Ratio |
|------|--------|-----------|-------|
| 2003-2004 | 2527 | 14814 | 0.17 |
| 2004-2005 | 2736 | 15492 | 0.18 |
| 2005-2006 | 2580 | 17321 | 0.15 |
| 2006-2007 | 3000 | 20418 | 0.15 |
| 2007-2008 | 4008 | 26023 | 0.15 |

**Source: Annual Report**

**Interpretation:**

The above table clearly shows that the inventory turnover ratio ranges between maximum of 0.18 during the period of 2004 -2005. Every one rupee of the inventory has fetch 0.18 rupee of income to the organization.

## EXHIBIT NO 4.1.8

## EXHIBIT SHOWING INVENTORY TURNOVER RATIO
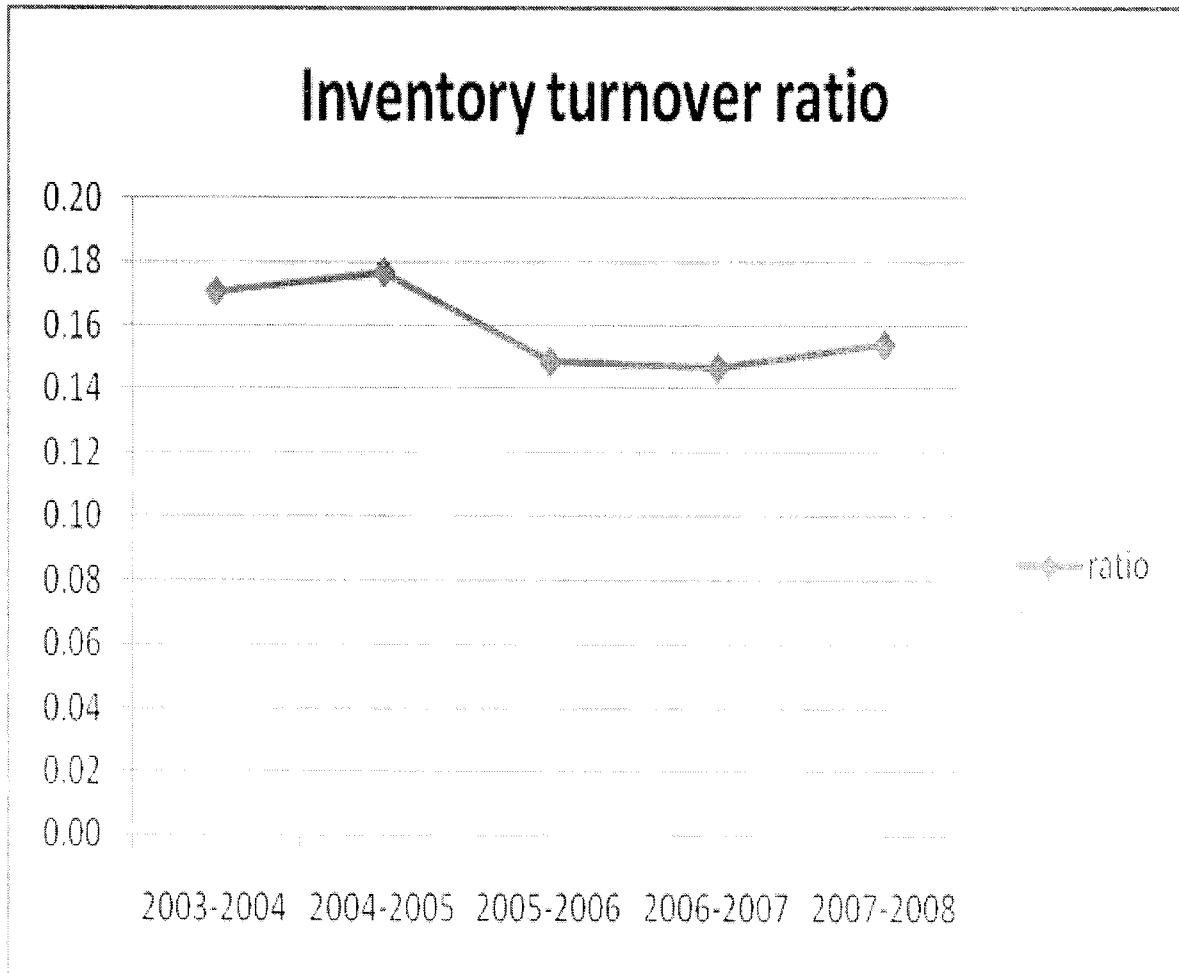


**Inference:**

The above chart shows that the relationship between the inventory and the income received. It shows a fluctuating trend. It is because there is an increase in the inventory a year after year.

### 4.1.9. INVENTORY TO WORKING CAPITAL RATIO

It is the relationship between closing inventory and working capital. The ratio indicates the amount of investment in inventory with the working capital. The proportion of inventory to working capital should not be more.

$$\text{INVENTORY TO WORKING CAPITAL RATIO} = \frac{\text{INVENTORY}}{\text{WORKING CAPITAL}}$$

# TABLE NO 4.1.9

## TABLE SHOWING INVENTORY TO WORKING CAPITAL RATIO

(Rs. in lakhs)

| Year | Inventory | Working capital | Ratio |
|------|-----------|-----------------|-------|
| 2003-2004 | 14814 | 17526 | 0.85 |
| 2004-2005 | 15492 | 17838 | 0.87 |
| 2005-2006 | 17321 | 18394 | 0.94 |
| 2006-2007 | 20418 | 20902 | 0.98 |
| 2007-2008 | 26023 | 26443 | 0.98 |

**Source: Annual Report**

**Interpretation:**

The above table clearly shows that the inventory to working capital ratio is maximum during 2006-2007 &2007-2008. This ratio shows a fluctuating trend and it has got gradual increase during the years.

# EXHIBIT NO 4.1.9

# EXHIBIT SHOWING INVENTORY TO WORKING CAPITAL RATIO

## Inventory to working capital ratio
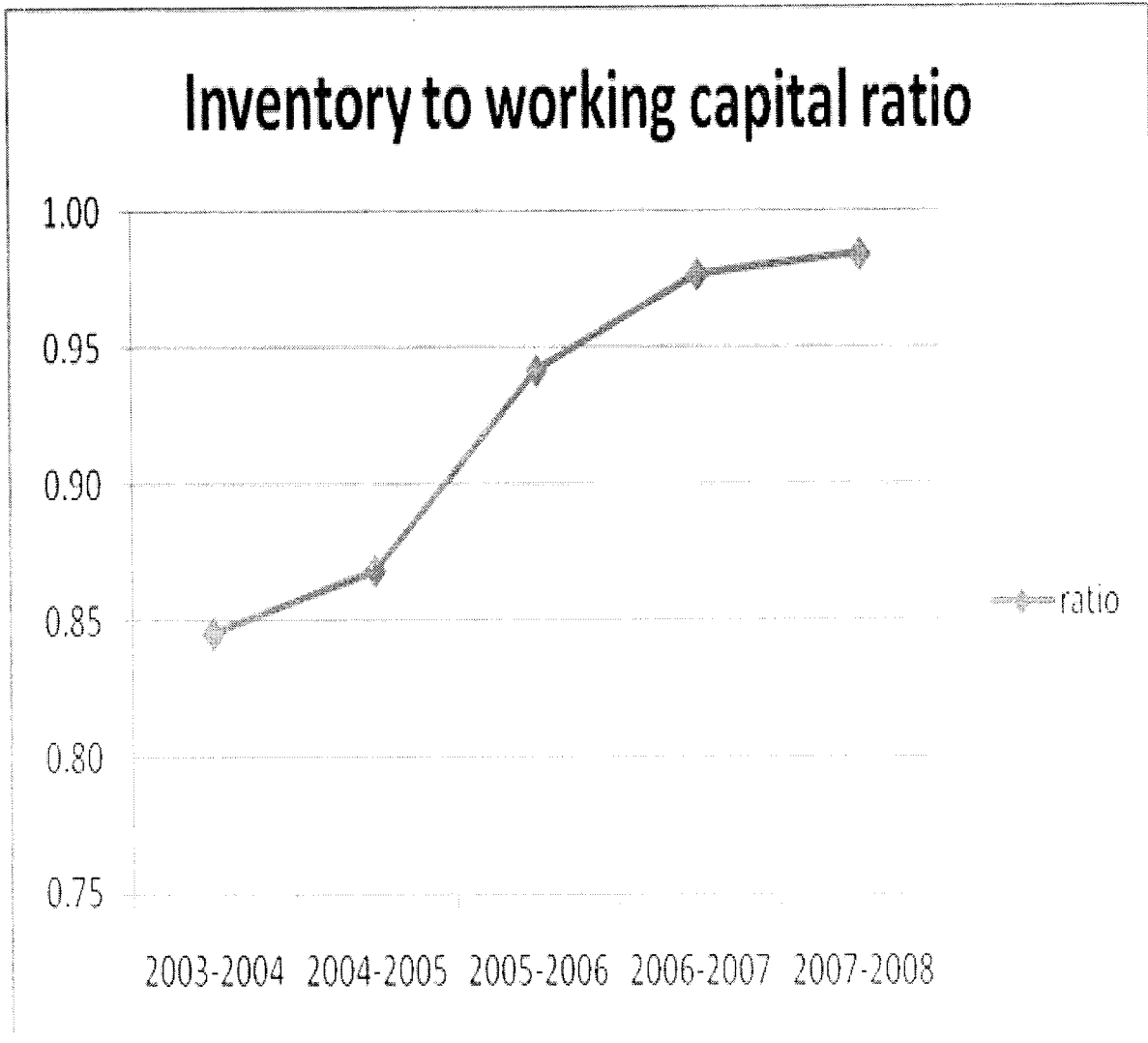


**Inference:**

The above chart shows the increse in trend of the inventory as there is an increase in maintainence of stock.

## 4.1.10. INCOME TO FIXED ASSETS

It is the relationship between income and the fixed assets. The ratio indicates the amount of investment in fixed assets with the income earned. The proportion of income to fixed asset should be more.

$$\text{INCOME TO FIXED ASSETS} = \frac{\text{INVENTORY}}{\text{WORKING CAPITAL}}$$

# TABLE NO 4.1.10

## TABLE SHOWING INCOME TO FIXED ASSETS RATIO

(Rs. in lakhs)

| Year | Income | Fixed Assets | Ratio |
|------|--------|--------------|-------|
| 2003-2004 | 2527 | 2878 | 0.88 |
| 2004-2005 | 2736 | 2829 | 0.97 |
| 2005-2006 | 2580 | 2657 | 0.97 |
| 2006-2007 | 3000 | 2472 | 1.21 |
| 2007-2008 | 4008 | 3227 | 1.24 |

Source: Annual Report

**Interpretation:**

The above table clearly shows that the income to the fixed assets has been gradually increased. It shows an investment in the fixed asset has been increased and the maximum is in 2007-2008.

## EXHIBIT SHOWING NET SALES TO FIXED ASSETS RATIO



**Net sales to fixed asset ratio**
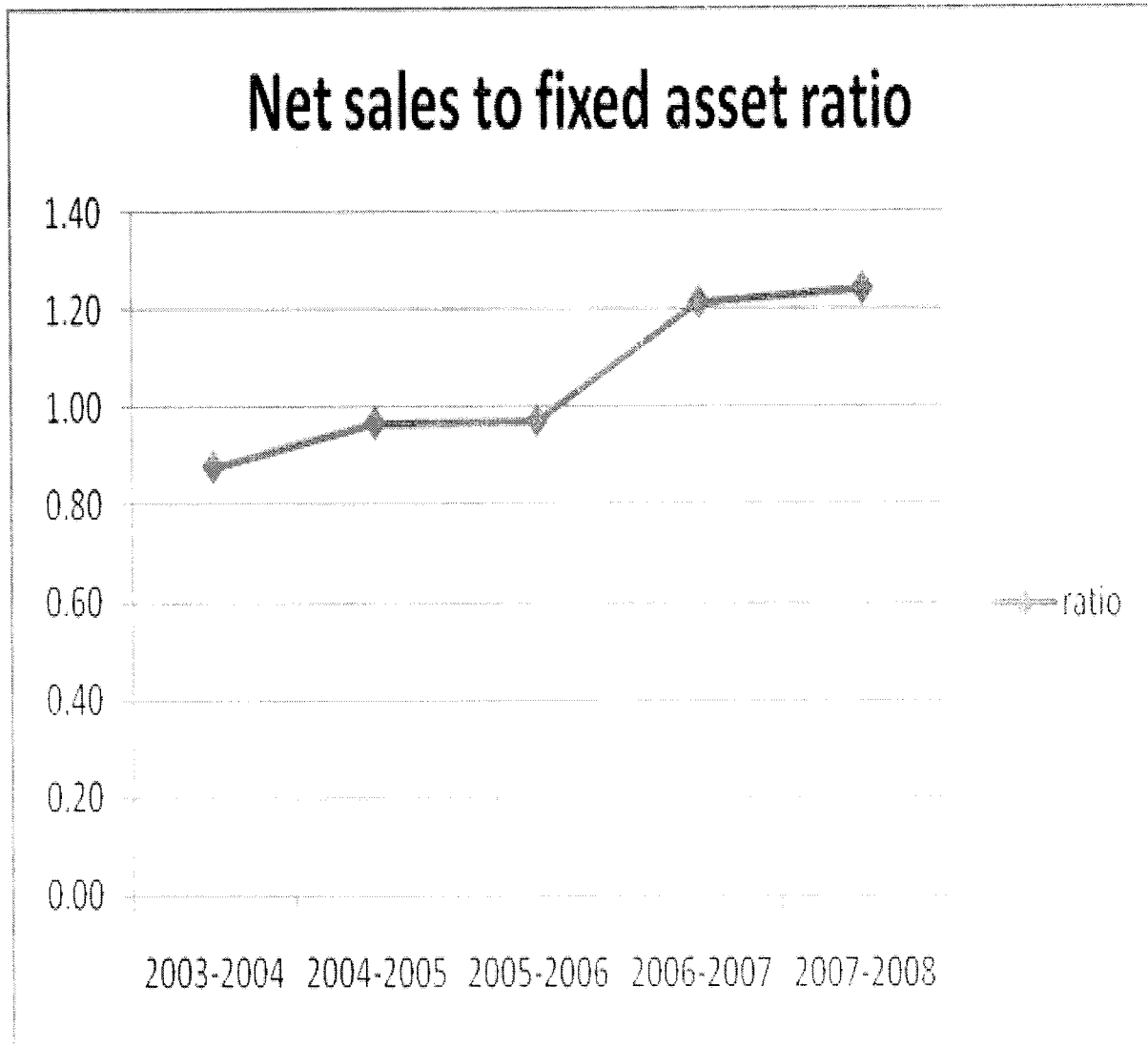
**Inference:**

From the above chart it is clearly shown that there is an increasing trend in the investment of fixed asset and the income earned is also constantly been increased.

## 4.1.11. CASH AS A PERCENTAGE OF TOTAL ASSET RATIO

It is the relationship between cash and the total assets. The cash is an important component of current assets. It is a common denominator of which all assts can be reduced. The proportion of cash to total asset should be satisfactory.

$$\text{CASH AS A PERCENTAGE OF TOTAL ASSET} = \frac{\text{CASH}}{\text{TOTAL ASSETS}}$$

# TABLE NO 4.1.11

## TABLE SHOWING CASH AS A PERCENTAGE OF

## TOTAL ASSETS RATIO

(Rs. in lakhs)

| Year | Cash | Total Assets | Ratio |
|------|------|--------------|-------|
| 2003-2004 | 433 | 20305 | 2.13 |
| 2004-2005 | 887 | 21008 | 4.22 |
| 2005-2006 | 773 | 21314 | 3.63 |
| 2006-2007 | 1197 | 23496 | 5.09 |
| 2007-2008 | 1517 | 29670 | 5.11 |

**Source: Annual Report**

**Interpretation:**

From the above table it is understood that the maximum range is between the year2007-2008. The investment of asset has been increased in that to a percentage of 5.11.

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# EXHIBIT NO 4.1.11

## EXHIBIT SHOWING CASH AS A PERCENTAGE OF

## TOTAL ASSETS RATIO



cash as a percentage of total assets ratio
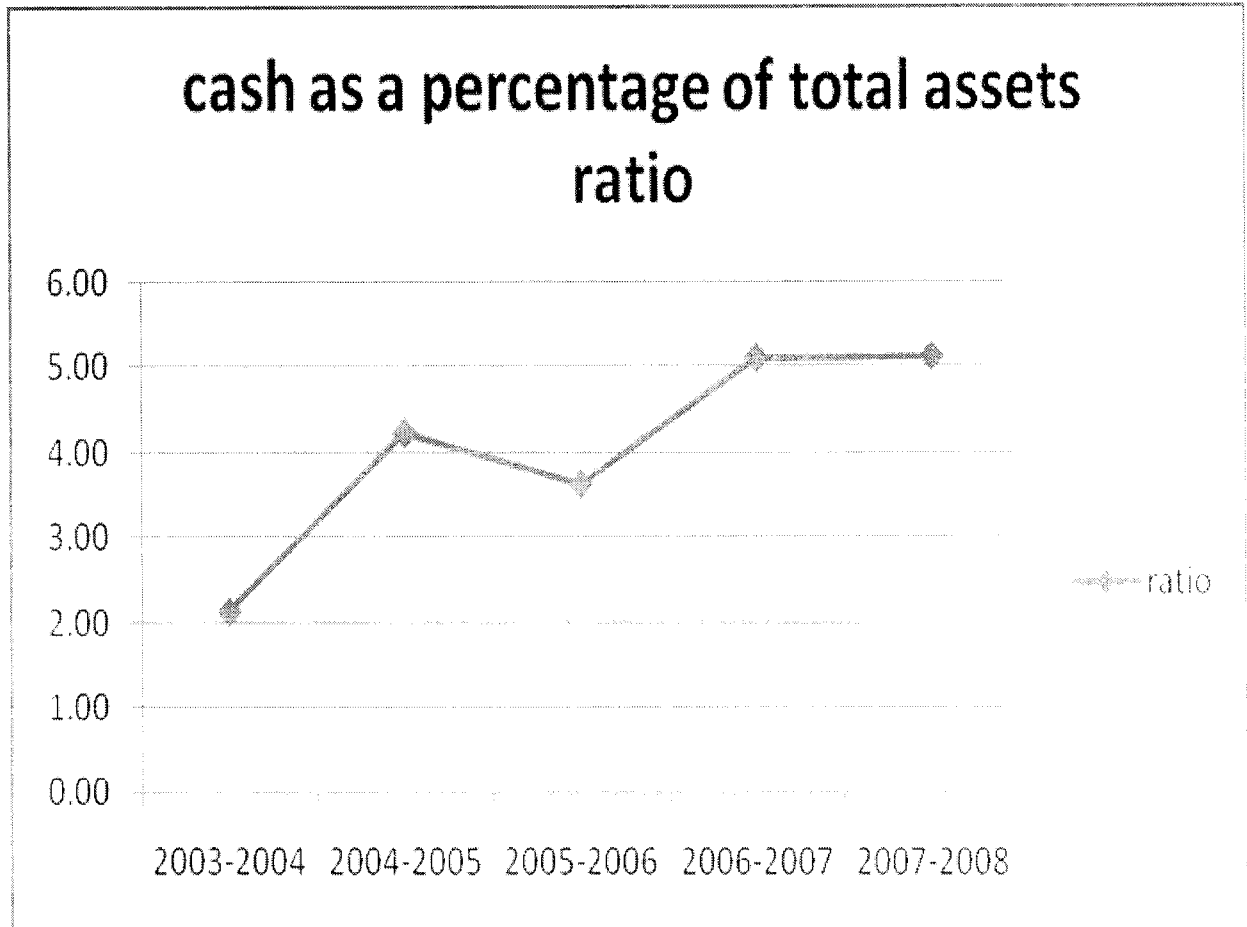
**Inference:**

The chart shows thefluctuating trend and it shows an increase in the cash over the asset. This is because the cash is maintained is in increasing trend.

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## 4.1.12. NET WORKING CAPITAL TO CAPITAL EMPLOYED RATIO

It is the relationship between working capital and the capital employed. The capital is important for the business and the working capital is one of the important components.

$$\text{NET WORKING CAPITAL TO CAPITAL EMPLOYED RATIO} = \frac{\text{WORKING CAPITAL}}{\text{CAPITAL EMPLOYED}}$$

# EXHIBIT NO 4.1.12

## EXHIBIT SHOWING NET WORKING CAPITAL TO CAPITAL

## EMPLOYED RATIO

**Net working capital to capital employed ratio**
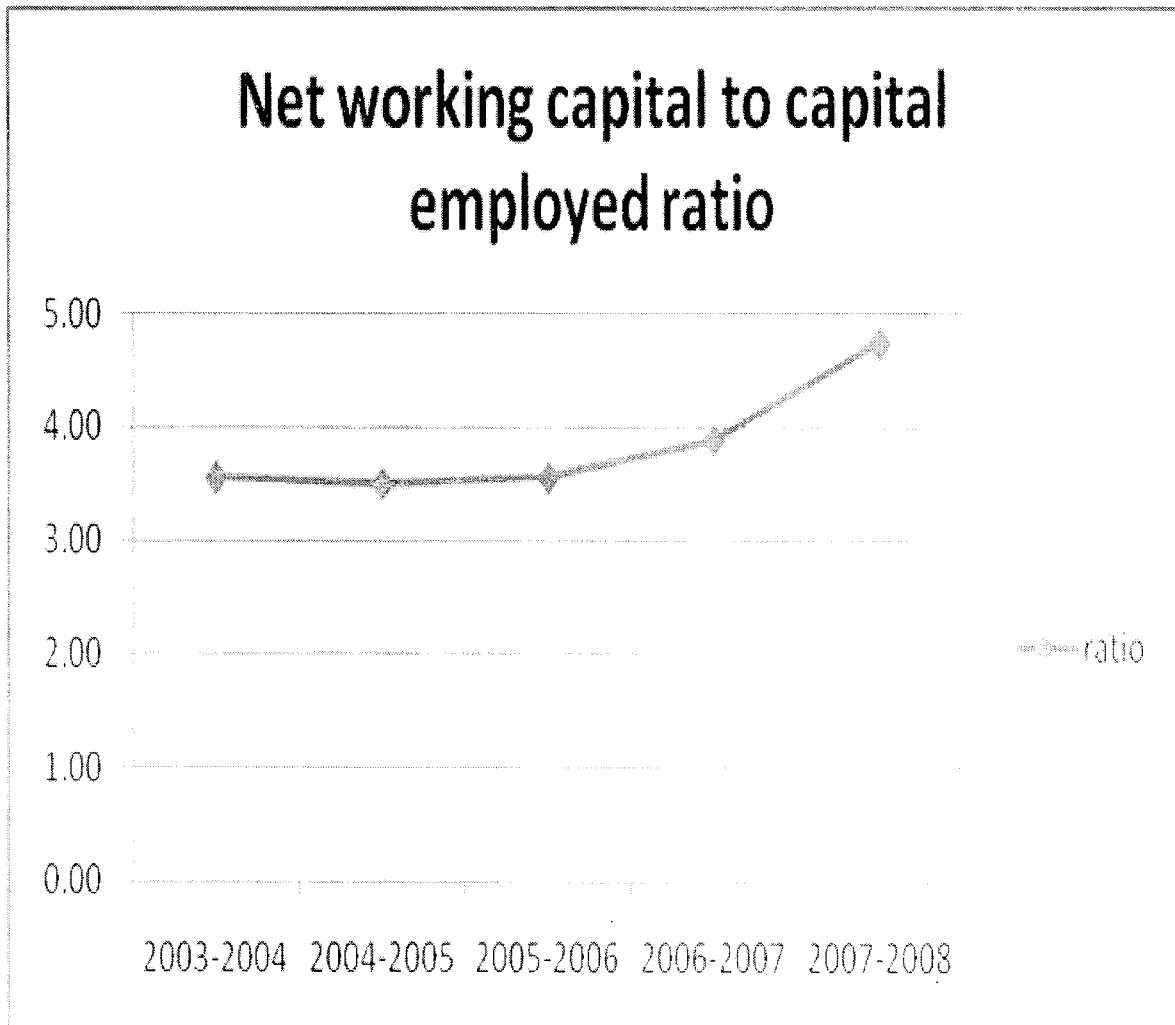


**Inference:**

The investment from the capital to the working capital has been gradually increased due to the increase in the inventory by the company.

## 4.2. TIME SERIES ANALYSIS

Statistical data which relate to successive intervals or points of time are referred as **"Time Series"**. Here the time series plays a vital role and it requires special techniques for its analysis of time series, we analyze the past in order to understand the future better.

The financial statement may be analyzed by comparing trends of series of information. This method determines the direction upwards or downwards involves a computation of the percentage relationships that each statement item bears to the same item in the base year. The information for a number of years is taken up and one year generally the first year taken as base year.

This is most widely used in practice. It is a mathematical method and with its help, a trend line is fitted to the data. The method of the least square may be used either to fit straight-line trend or a parabolic trend. The straight line is represented by the equation.

$$Yc = A + BX$$

**Yc** is used to designate the trend value to distinguish them from the actual value. Yc is intercept of Y on the compound trend figure of the Y variable when X=0.B represents the slope of the trend line or the amount of changes in X variable.

# TABLE NO: 4.2.1

## TABLE SHOWING TIME SERIES ANALYSIS FOR WORKING CAPITAL

| Year | Actual Value (Rs. In lakhs) | Trend Value | Fluctuation |
|---|---|---|---|
| 2003-2004 | 17525 | 16040.4 | 1484.6 |
| 2004-2005 | 17838 | 18130.5 | -292.5 |
| 2005-2006 | 18395 | 20220.6 | -1825.6 |
| 2006-2007 | 20901 | 22310.7 | -1409.7 |
| 2007-2008 | 26444 | 24400.8 | 2043.2 |

**FUTURE WORKING CAPITAL PROJECTION**

| Year | Amount (in lakhs) |
|---|---|
| 2009 | 26490.9 |
| 2010 | 28581 |
| 2011 | 30671.1 |

**INTERPRETATION:**

The time series analysis of working capital clearly shows the projection of the future. It has been gradually been increased. And the projection is made for 2009-2011.

# EXHIBIT NO 4.2.1

## EXHIBIT SHOWING TIME SERIES ANALYSIS FOR
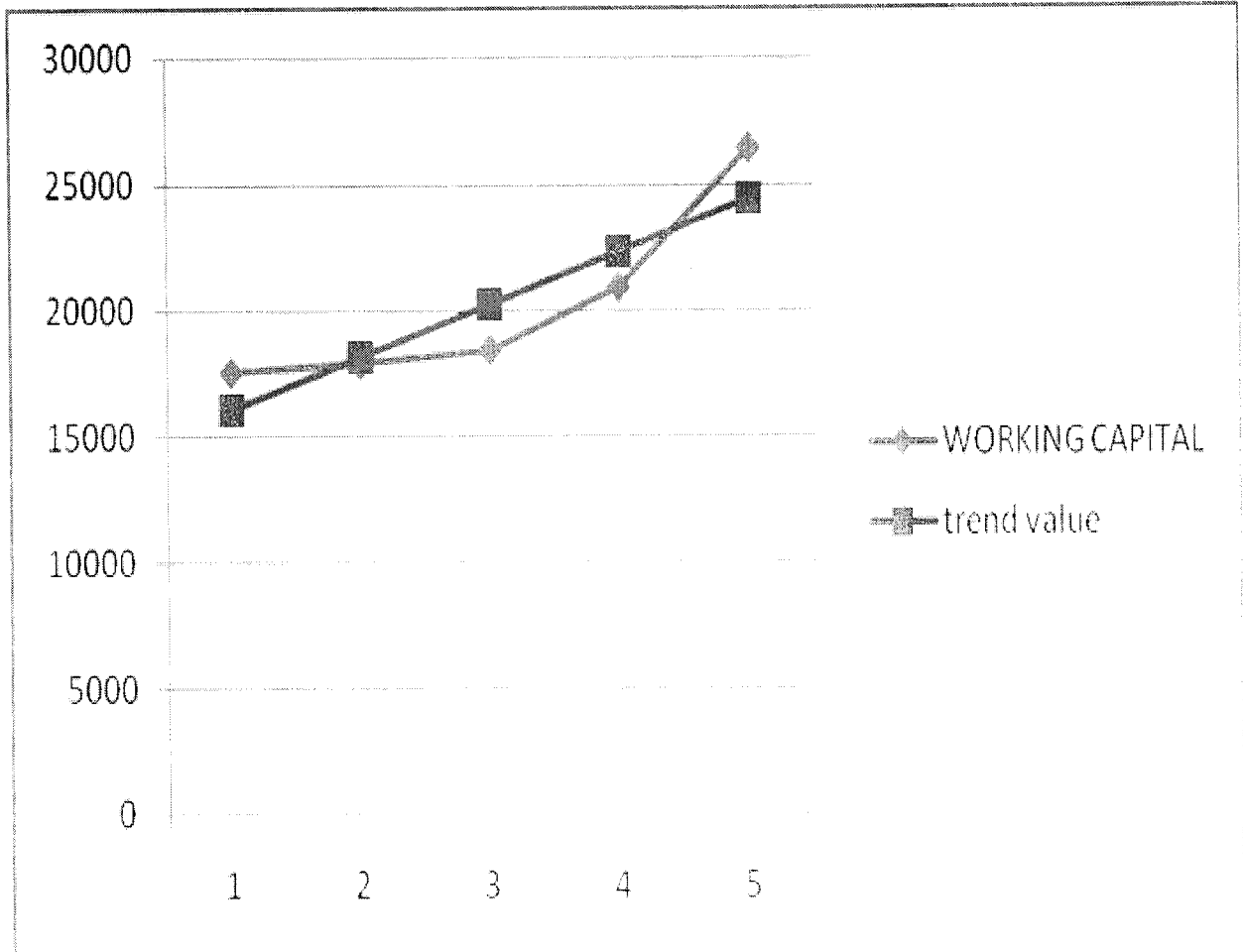
## WORKING CAPITAL



**Inference:**

From the above chart it is clearly shown that there is an increase in the working capital from year after year. This is due to the increase in the inventory maintained.

# TABLE NO: 4.2.2

## TABLE SHOWING TIME SERIES ANALYSIS FOR CURRENT ASSET

| Year | Actual value | Trend value | Fluctuation |
|---|---|---|---|
| 2003-2004 | 18568 | 16724 | 1844 |
| 2004-2005 | 18986 | 16163.9 | 2822.1 |
| 2005-2006 | 20266 | 22368.2 | -2102.2 |
| 2006-2007 | 23699 | 25190.3 | -1491.3 |
| 2007-2008 | 30322 | 28012.4 | 2309.6 |

## FUTURE CURRENT ASSET PROJECTION

| Year | Amount (in lakhs) |
|---|---|
| 2009 | 30834.5 |
| 2010 | 33656.6 |
| 2011 | 36478.7 |

## INTERPRETATION:

The time series analysis of current asset clearly shows the projection of the future. It has been gradually been increased. And the projection is made for 2009-2011.

**EXHIBIT SHOWING TIME SERIES ANALYSIS FOR CURRENT ASSET**
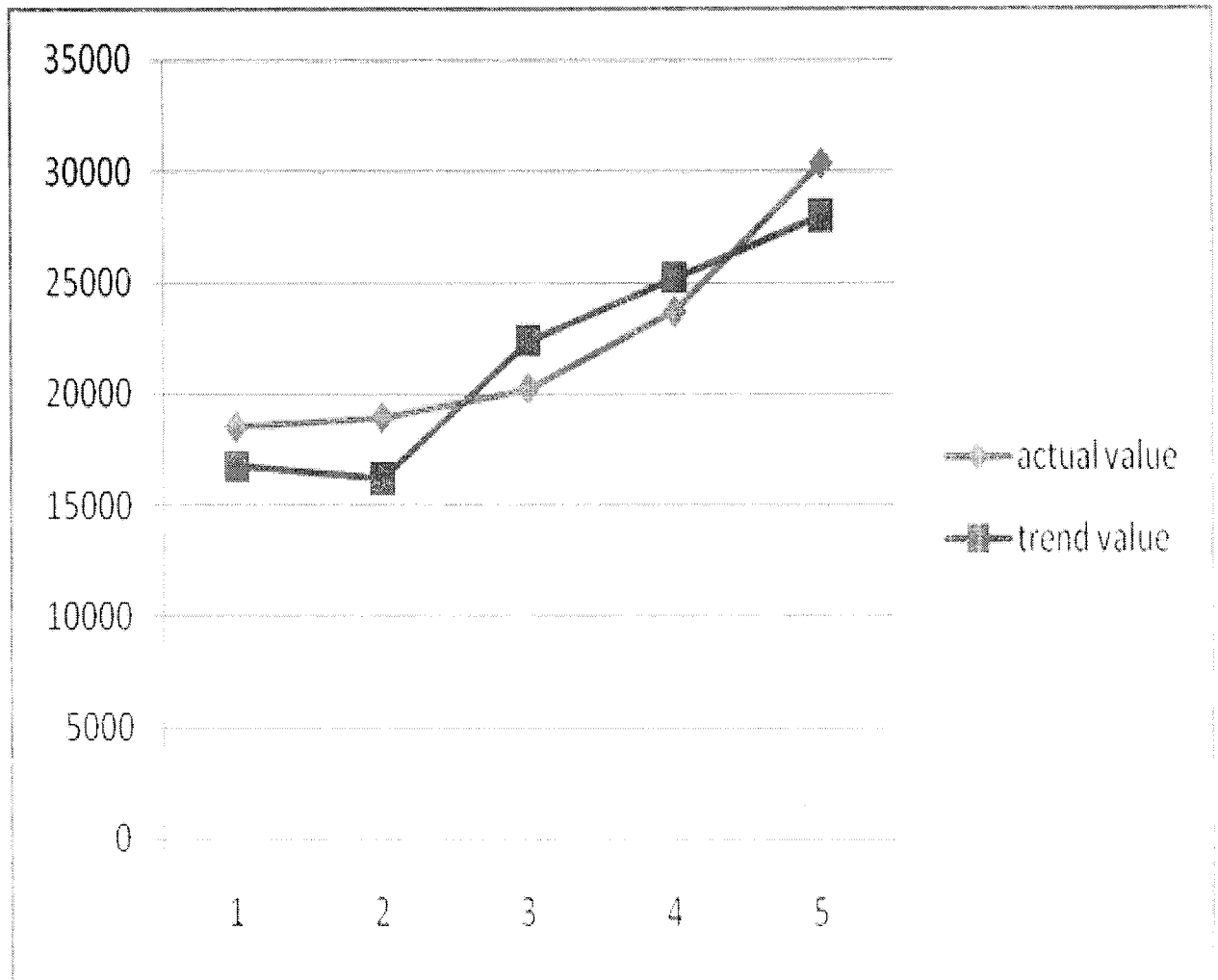


**Inference:**

The above chart shows the fluctuating trend. This is because the current asset has been increased from year after year.

# TABLE NO: 4.2.3

## TABLE SHOWING TIME SERIES ANALYSIS FOR INCOME

| Year | Actual Value | Trend Value | Fluctuation |
|------|--------------|-------------|-------------|
| 2003-2004 | 2527 | 2325 | 202 |
| 2004-2005 | 2736 | 2647.6 | 88.4 |
| 2005-2006 | 2580 | 2970.2 | -390.2 |
| 2006-2007 | 3000 | 3292.8 | -292.8 |
| 2007-2008 | 4008 | 3615.4 | 392.6 |

**FUTURE INCOME PROJECTION**

| Year | Amount (in lakhs) |
|------|-------------------|
| 2009 | 3938 |
| 2010 | 4260.6 |
| 2011 | 4583.2 |

**INTERPRETATION:**

The time series analysis of income clearly shows the projection of the future. It has been gradually been increased. And the projection is made for 2009-2011.

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# TABLE NO: 4.2.4

## TABLE SHOWING TIME SERIES ANALYSIS FOR NPBIT

| Year | Actual Value | Trend Value | Fluctuation |
|------|-------------|-------------|-------------|
| 2003-2004 | 71 | 65.2 | 5.8 |
| 2004-2005 | 212 | 207.4 | 4.6 |
| 2005-2006 | 329 | 349.6 | -20.6 |
| 2006-2007 | 496 | 491.8 | 4.2 |
| 2007-2008 | 640 | 634 | 6 |

## FUTURE NPBIT PROJECTION
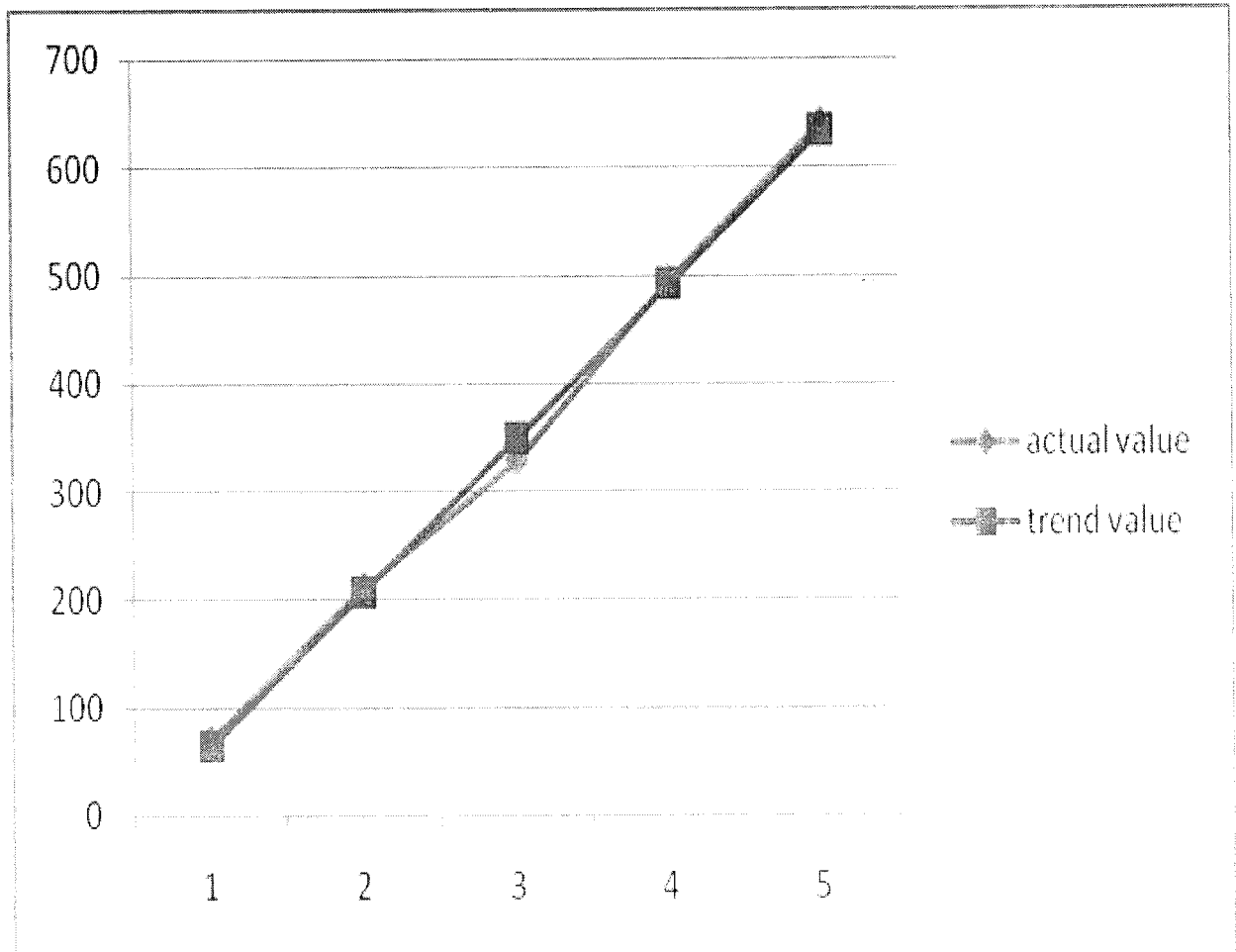
| Year | Amount (in lakhs) |
|------|-------------------|
| 2009 | 776.2 |
| 2010 | 918.4 |
| 2011 | 1060.6 |

INTERPRETATION:

The time series analysis of net profit before interest and tax clearly shows the projection of the future. It has been gradually been increased. And the projection is made for 2009-2011.

66

# EXHIBIT NO 4.2.4

# EXHIBIT SHOWING TIME SERIES ANALYSIS FOR NPBIT



**Inference:**

the net profit before interest and tax is been gradually increasing. This is because there is an increase in the profit earned.

# TABLE NO: 4.2.5

## TABLE SHOWING TIME SERIES ANALYSIS FOR NPAIT

| Year | Actual Value | Trend Value | Fluctuation |
|------|--------------|-------------|-------------|
| 2003-2004 | 66 | 116.2 | -50.2 |
| 2004-2005 | 195 | 180.3 | 14.7 |
| 2005-2006 | 319 | 244.4 | 74.6 |
| 2006-2007 | 316 | 308.5 | 7.5 |
| 2007-2008 | 326 | 372.6 | -46.6 |

## FUTURE NPAIT PROJECTION
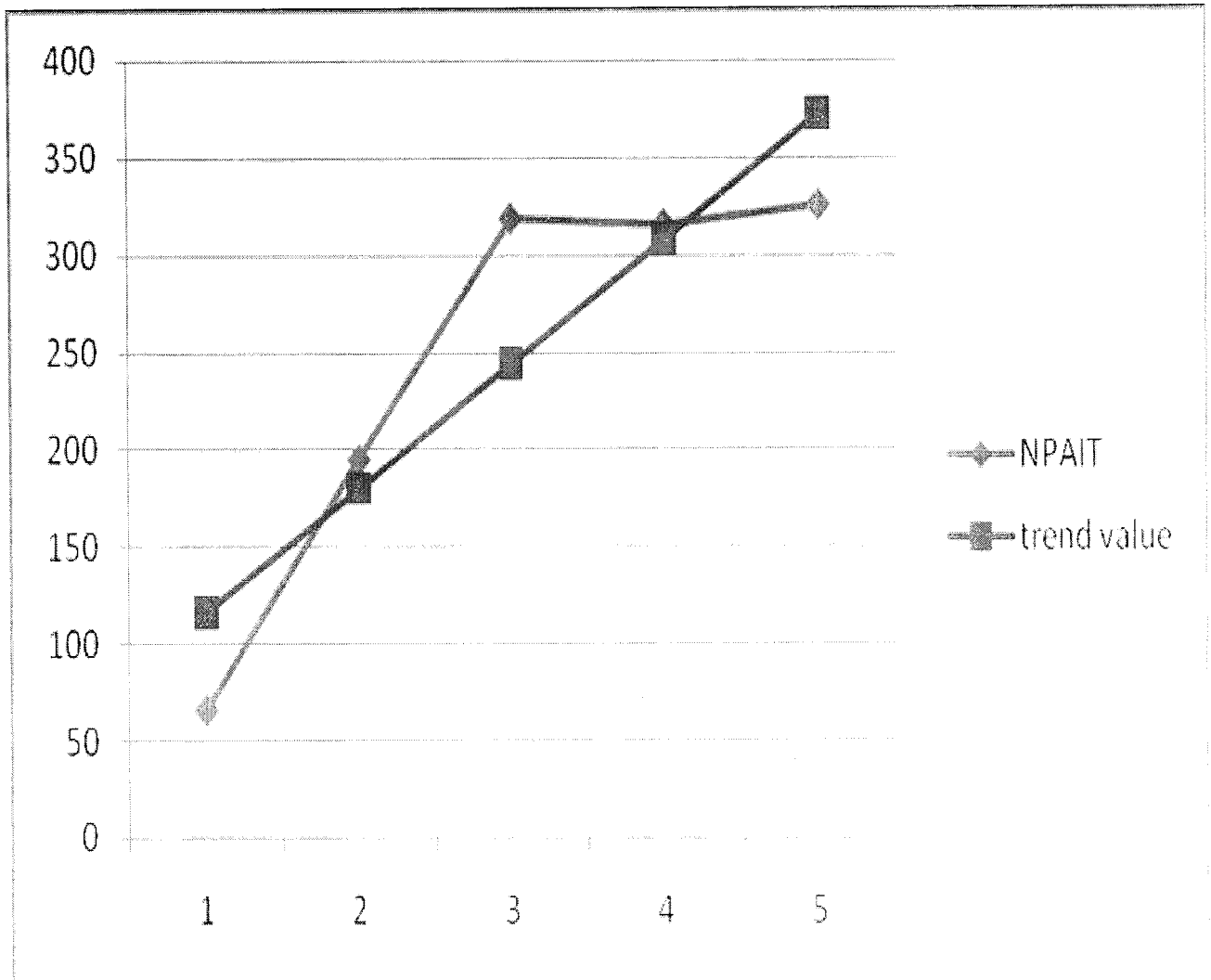
| Year | Amount (in lakhs) |
|------|-------------------|
| 2009 | 436.7 |
| 2010 | 500.8 |
| 2011 | 564.9 |

## INTERPRETATION:

The time series analysis of net profit after interest and tax clearly shows the projection of the future. It has been gradually been increased. And the projection is made for 2009-2011.

# EXHIBIT NO 4.2.5

## EXHIBIT SHOWING TIME SERIES ANALYSIS FOR NPAIT



**Inference:**

The net profit after interest and tax has been increased and in the last year it started to dip because there is an increase in the expenses.

# FINDINGS AND SUGGESTIONS

*CONCLUSION*

# CHAPTER V

# FINDINGS, SUGGESTIONS AND CONCLUSIONS

## 5.1. FINDINGS

1. The current ratio acquired during the period of study is gradually decreasing; the company can look into the possibility of investing idle investment from the current asset to the fixed asset. It indicates a better position to meet the short-term obligations.

2. The quick ratio indicates that the creditors were highly secured. Liquidity position of the company is in satisfactory position.

3. Working capital during 2005-2006 showed an increase of 556.02lakhs. This is the period in which high volume of working capital is incurred.

4. Working capital of the company is highly satisfactory that the current assets are more than the current liabilities during the period of study.

5. The major area of application of funds by the company is deployment in hire purchase business and income from financial charges on hire purchase.

6. The cash maintained with the company and compared to fixed asset and total asset shows an effective utilization of funds.

7. Regarding the trend percentage analysis it is found that working capital. of Sakthi Finance Limited has showed a fluctuating trend during the period of study.

8. Regarding the trend percentage analysis it is found that profits, of Sakthi Finance Limited have showed an increasing trend during the period of study.

9. Regarding the trend percentage analysis it is found that current asset, of Sakthi Finance Limited has showed an increasing trend during the period of study.

10. The capital employed by the company also been satisfied with reference to the working capital.

## 5.2 CONCLUSION

The study revealed that Sakthi Finance Limited have a sound liquidity position because the current ratio and quick ratio are satisfactory. As for as working capital management is concerned, working capital turnover ratio is very high. The working capital also shows a fluctuating tendency during the study period. The firm shows efficiency in managing its current assets. Inventory turnover is satisfactory. The firm shows a high efficiency in fixed asset utilization. Adequate steps should be implemented to increase the sales and also to increase the effective utilization of resources.

## 5.3 SUGGESTIONS

- The company should take all necessary steps to increase the net profit by lending keeping more persons. So that the company will be able to pay dividend to the share holders.

- The company can look into the possibility of investing idle investment from the current asset to the fixed asset.

- The working capital management ratio shows a fluctuating trend in management of working capital, this can be made consistent by having a consistent sale.

- The investment from the capital to the working capital has been gradually increased due to the increase in the inventory by the company, so the company can reduce by not keeping more inventories.

- Trend analysis of net working capital is showing a high amount so increase and decrease in subsequent years, so the company can reduce the stock to keep the net working capital consistent by maintaining the current asset at a consistent phase.

*BIBLIOGRAPHY*

APPENDIX

# APPENDIX

## TIME SERIES ANALYSIS

## TIME SERIES ANALYSIS FOR WORKING CAPITAL

| Year | Working Capital | X | XY | $X^2$ |
|---|---|---|---|---|
| 2004 | 17525 | -2 | -3505 | 4 |
| 2005 | 17838 | -1 | -17838 | 1 |
| 2006 | 18395 | 0 | 0 | 0 |
| 2007 | 20901 | 1 | 20901 | 1 |
| 2008 | 26444 | 2 | 52888 | 4 |
| Total | 101103 | | 20901 | 10 |

$Y=a+bx$

$$A= \frac{\Sigma y}{N}$$

$$B= \frac{\Sigma XY}{10}$$

Y=a+bx

2004=20220.6+2090(-2)=16040.4

2005=20220.6+2090(-1)=18130.5

2006=20220.6+2090(0)=20220.6

2007=20220.6+2090(1)=22310.7

2008=20220.6+2090(2)=24400.8

2009=20220.6+2090(3)=26490.9

2010=20220.6+2090(4)=28581

2011=20220.6+2090(5)=30671.1