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FINANCIAL PERFORMANCE ANALYSIS OF UNIJET CORPORATION.,
SINGANALLUR

By

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A PROJECT REPORT
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DEPARTMENT OF MANAGEMENT STUDIES

KUMARAGURU COLLEGE OF TECHNOLOGY

, COIMBATORE.

BONAFIDE CERTIFICATE

Certified that this project titled Financial performance analysis of Unijet Corporation is the bonafide work of Ms. Preethi Meegal who carried out this research under my supervision. Certified further , that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

Faculty Guide   Director

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Evaluated and Viva Voce conducted on- - - - 2/6/0 - - - - - - - - - - - -

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DECLARATION

I, Preethi Meegal. S., Reg.No. 71205631040, final year MBA student of KCT Business School, hereby declare that the project entitled "Financial Performance Analysis of Unijet Corporation, Singanallur" has been done by me under the guidance of Dr. K. Chitra, submitted in partial fulfillment for the award of the degree of Master of Business Administration of Anna University.

Station : Coimbatore   Signature of the candidate

Date   : 01.06.2007

EXECUTIVE SUMMARY

In the Modern industrial economy, Finance is one of the basic foundations of all kinds of Economic activities. The Finance function of the enterprise deals with raising the funds and their effective utilization, keeping in view the overall objective of the Company. The Management of the company makes use of various financial techniques, devices etc for administrating financial affairs of the company in the most effective and efficient way. The "ratio analysis" was the tool used to calculate the financial performance of the organization.

The main objective of the project is to study the organization as a whole and to study the various activities undergone in all the functional departments of the organization. Also the financial performance of Unijet Corporation was analyzed for the past 5 years from 2002 to 2007 to find the financial health of the organization. The various ratios like profitability ratio, solvency ratio, Liquidity ratio, and Turn-over ratios were calculated.

The profitability ratio shows that the net profit of the organization has increased compared to the previous years and the return to the share holders has also increased. Turn-over ratio shows the organization had efficiently used the investments, fixed assets and the working capital etc. Liquidity ratio shows that the short term liquidity position of the organization is also good. In general, the financial position of the organization has increased in all aspects for the past years. It shows the good sign to its shareholders to invest more in the organization, and it can be forecasted that the company will grow higher in the future.

PROJECT COMPLETION CERTIFICATE

THIS IS TO CERTIFY THAT MISS S.PREETHI MEEGAL (ROLL NO –
71205631040) A STUDENT OF KCT BUSINESS SCHOOL, KUMARAGURU
COLLEGE OF TECHNOLOGY, HAD UNDERGONE A PROJECT BETWEEN
JAN 25, 2007 (DATE OF JOINING) AND APR25, 2007 (DATE OF LEAVING)
ENTITLED FINANCIAL PERFORMANCE ANALYSIS IN UNIJET
CORPORATION.

DURING THE TENURE HER PERFORMANCE WAS VERY GOOD.

NAME & DESIGNATION
OF ORGANISATION GUIDE: G.IMMANUEL DHINAKARAN
                        MANAGER FINANCE / ADM

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CHAPTER 1

INTRODUCTION

1.1 Background of the study:

Financial performance in an industry is an important factor which decides the success or failure of the concern. Financial performance is necessary to know whether the industry is proceeding in a right way. Financial performance can be analyzed through financial statements.

Financial statements (or financial reports) are formal records of business financial activities. These statements provide an overview of a business profitability and financial condition in both short and long term. There are four basic financial statements; they are balance sheet, income statement, cash flow statement and statement of retained earnings.

The focus on financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance. The first task of financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statement. The second step involved in financial analysis is to arrange the information in a way to highlight significant relationships. The final step is interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of selection, relation and evaluation.

The financial statements are prepared on the basis of recorded facts. The

are prepared for a particular period, generally one year. The accounting records and financial statements are prepared from those records that are based on historical facts. The financial statements by nature are summaries of the items recorded in the business and these statements are prepared periodically, generally for the accounting period.

The need to study about the financial performance is to know the firm's position in this competitive world. The financial performance analysis helps us to know how efficiently the resources are used by the firm to earn profits. The objective of the study is to understand the financial performance of UNIJET Corporation. UNIJET Corporation is involved in the production of valves. It has started its operation in 1993. The findings of the study would enable the concern to frame suitable financial strategies to enhance its performance.

1.1.2 Review of Literature:

A study on financial performance of textile industry with special reference to M/S Cambodia Mills was done by R.Shanmugavelu (1989)[1] with the objective of analyzing the financial performance of the textile unit by studying the profitability, financial status and sources of funds. It seems to study the changes that have been taken place there a period of time and judge the profitability and financial strength with the help of ratio analysis, fund flow statement, common size statement and break-even analysis. The outcome of the result was that the profitability of the concern was negative during 1984-1989 due to booking of prior year expenses and the company's inventories holding was abnormally high. Further the receivables and the sundry debtors were high during the year 1984-1986. The suggestions for the study stated as the cost control measures should be adopted to reduce the operating cost in the business and over investment in current assets should be brought down. The fixed cost should be controlled and minimized and the turnover should be increased further.

A study on financial analysis and viability of JayaPrakash Narayanan Co-Operative Spinning Mills Limited in Karaikal was done by Usha (June 1989)[2] with the view to measuring the factors increases the productivity in JCOSPIN Mills limited and to highlight the level of performance through the analysis of changes in productivity. The study also dealt with the analyzing the financial performance of JCOSPIN Mills limited through the analysis of different ratios. The data was analyzed through the statistical tools like mean, standard deviation, coefficient of variance and financial tools like ratio analysis. The textile productivity calculations were also used to find out the viability of JCOSPIN Mills limited and the results were expressed in terms of percentages. The outcome of the result was that the cost involved in JCOSPIN Mills limited of raw material and administration cost and the labour productivity in ring frames and speed frames reveals that is very low. It was found that the spinning spindle utilization percentage was not satisfactory which leads to the

[1] Shanmugavelu, financial performance of textile industry, PSG College of technology, Coimbatore, 1989
[2] Usha, A study on financial performance analysis of JCOSPIN Mills, Avinashilingam Deemed

increase in the cost of production. The capital structure was found to be satisfactory. The fixed asset was increased than the debt and the current liability was lesser than the proprietor's funds. The reserves and surplus was found to be lesser than the equity capital. The suggestions include that the spindle utilization in ring frames should be maintained at a high level of 95%. The labour productivity should be maintained at maximum level possible. The firm was suggested to increase its operating profit by controlling the expenses.

A study on financial performance analysis has been conducted by Praveen Cherian of PSG College of Technology during June (1989)[3] at O/E/N Connectors limited, Cochin. The researcher wants to find out the future performance as they have planned for massive expansion of products. The researcher has used ratio analysis a powerful tool of analysis. The researcher found that the solvency position of the firm is satisfactory and very good. The researcher also found that the current ratio shows a decreasing trend, quick ratio shows a increasing trend, total debt ratio shows a downward trend indicating that the company is less dependent on outside debt.

A study on financial analysis was done by A.D.DevaPradas with special reference to Ashok Leyland finance limited in the year (1990)[4] with main objectives of finding the financial status of the company over the period of three years and to find the increase or decrease in various assets and liabilities by comparing the balance sheets. The tools that were implied for obtaining these objectives were ratio analysis, comparative statements. The findings include that the liquidity position is not satisfactory and the proprietory ratios showed that the creditors are in danger situation and there has been steady increase in the earnings per share. The suggestions that were given by the researcher was to improve current ratio by increasing the current assets and more attention is to be paid to improve its profitability in future through some techniques that will improve its profitability position.

[3] Praveen Cherian, A study on financial performance analysis of O/E/N Connectors, PSG College of Technology, June 1989.

A study on financial analysis of M/S India Shoes limited was conducted by N.Ramesh of PSG College of Technology in the year (1994)[5]. The main objective of the research was to find out the profitability position, solvency position, and overall financial status of the concern. The researcher has used the ratio analysis as main tools of analysis for obtaining these objectives. The researcher has found that the liquidity position was found to be satisfactory and the proprietory ratios showed that creditors are in danger.

A study on financial performance analysis was made by Praveen Velukutty with special reference to Lakshmi Mills Private Limited (1999)[6] setting the objectives as to determine the profitability of the concern through ratio analysis, to analyze the factors in financial statements, to know the liquidity position of the concern. The tools that were used for obtaining these objectives are ratio analysis, comparative statements and trend analysis. The findings that were made are gross profit has been increased in both cash profit and net profit ratio, then the debt equity ratio is very low and the interest coverage ratio has come down drastically

A study has been undertaken by Professor S.Ranganathan of cheran arts and Science College in kangayam on financial management in self financing colleges (dec2000)[7]. The main objective of the study was to have first-hand knowledge of state of affairs of the institutions with reference to finance and to study the impact of the observations collected or made. The study was done with the view to suggest suitable financial structure for the long standing of the self financing institutions. The researcher observes that the rights have been able to sustain the goals and committed. It was observed that the few management do not follow a fixed pattern of salary structure, follow code of ethics in collecting tution fees.

[5] N.Ramesh, A study on financial performance analysis of M/S India Shoes limited, PSG College of Technology, Coimbatore, 1994.

[6] Praveen Velukutty, A study on financial performance analysis of Lakshmi Mills Private limited, published in SIMA library, 1999.

[7] Professor S Ranganathan, A study on financial management in self financing colleges, cheran arts and

A research was done by Prasanth on the topic financial performance and segment reporting system in the year (2002)[8] keeping the objectives as to determine the long-term liquidity of the funds as well as efficiency position, to examine the profitability of the firm, to decide the future prospects of the firm, to determine the short-term and long-term position of the concern. The tools applied for obtaining the objectives are financial tools such as ratio analysis and statistical tools such as graphs and charts. The findings made by the researcher through this work are that the company is very satisfactory in overall performance; the current ratio is maintained properly, the interest coverage ratio has a decreasing trend, net working capital ratio shows a decreasing trend and the solvency ratio have varied with normal limits.

A study on financial analysis of Western India Cotton Mills Private limited was conducted by Kiron Prabhakar of Nehru College of Management in the year (2003)[9]. The main objective of the research was to find out the profitability position, solvency position, and overall financial status of the concern. The researcher has used the ratio analysis as main tools of analysis for obtaining these objectives. The researcher has found that the liquidity position was found to be satisfactory and the proprietory ratios showed that creditors are in danger.

C.Thangamani (June 2004)[10] has conducted a research on the topic A Study on financial statement analysis for a period of past five years of Shakthi Sugars limited, Coimbatore the objectives is to analyze the performance of the firm in terms of its liquidity position, long term solvency and operational efficiency, the profitability of the firm, to evaluate the financial position of the firm for the five years, to identify how effectively and efficiently the company's resources are being

[8] Prasanth, A research was done on the topic financial performance and segment reporting system, 2002.

[9] Kiron Prabhakar, A study on financial analysis of Western India Cotton Mills Private limited, Nehru College of Management, 2003.

[10] C.Thangamani, A Study on financial statement analysis of Shakthi Sugars limited, Coimbatore,

utilized and to provide appropriate suggestions with the view to improve the financial health of the company. The tools used for obtaining these objectives were comparative statements, ratio analysis and trend analysis. The findings that were made by researcher was the total current assets has been increasing up to the year 2000 and then slowly decreasing from the year 2001 to 2003 during the period of the study. The quick or liquid ratio of the concern goes beyond the standard norms, this shows that the short term liquidity position of the concern is not satisfactory. The trend analysis shows the decreasing trend in sales. The main suggestion given by the researcher was the company has to concentrate more on current assets. The retained earnings of the concern are more so the company should utilize them in a better way to compensate their loss.

A Study on Financial Performance analysis of Union Bank of India was made by Linu Ancy George in the year (2004)[11] with the objective of finding the overall profit of the bank. The tools applied were ratio analysis, trend analysis. The findings made by the researcher was the net profit to average working fund gone up mainly due to higher non-interest revenue and return on investment and share holder's fund has gone up drastically.

A study on financial performance of Milma was done on the basis of ratio analysis by Ranjeev.M.S of Nehru College of Management during the year (2004)[12] the main objectives are to study how efficiently the corporation manages its fund, to analyze the leverage and profitability position of the company and to analyze the overall efficiency of the organization. The tools adopted for obtaining these objectives was ratio analysis. The findings that was made after applying this particular tool is that the researcher found the current ratio, quick ratio has increased drastically, the debt maintained by the concern is very low and there is slow and rapid increase in the coverage ratios.

[11] Linu Ancy George, A Study on Financial Performance analysis of Union Bank of India, Nehru College of Management, 2004.

Saritha.K.P of Nehru College of Management has done a project on financial performance analysis of HMT Machine tools limited in the year (2005)[13] the objectives is to analyze the liquidity position of the concern, short-term solvency position of the concern, profitability position of the concern and working capital position of the concern. The tools applied for obtaining these objectives are trend analysis, ratio analysis and comparative statements. The findings made through this are the current ratio is below the standard norm 2:1, the liquidity position of the concern is not satisfactory, stock turnover is not satisfactory creditors are paid in time and debtors turnover is not maintained properly.

Sarath Babu (June 2005)[14] has undertaken a Study on Financial Performance of the Edappal Hospitals Private Limited, Malapuram with the objectives of analyzing the efficient usage of assets by the concern, to analyze the liquidity position of the concern, to study the operational efficiency of the concern and to analyze the solvency position of the concern. The various tools used for this purpose was trend analysis, comparative statements and ratio analysis. The findings made by the researcher are the current ratio is fluctuating, liquid ratio has decreased from the standard norms, and the company's debtor's turn over ratio has come down and is fluctuating.

Shiva (2001)[15] has undertaken a project work on the financial performance of Lakshmi Mills Private Limited the objectives were to determine the long-term liquidity of the funds as well as efficiency position, to examine the profitability of the firm, to decide the future prospects of the firm, to determine the short-term and long-term position of the concern. The tools applied for obtaining the objectives are financial tools such as ratio analysis and statistical tools were used. The findings show that the company is very satisfactory in overall performance; the current ratio is maintained properly, the interest coverage ratio has a decreasing trend, net working

[13].Saritha.K.P, financial performance analysis of HMT Machine tools limited, Nehru College of Management, 2005.

[14] Sarath Babu, A Study on Financial Performance of the Edappal Hospitals Private Limited,, Malapuram, June 2005.

capital ratio shows a decreasing trend and the solvency ratio have varied with in normal limits.

1.1.3 Statement of the problem:

The efficiency of the organization is measured mainly through financial performance. This study is undertaken in Unijet Corporation. The study aims to analyze the financial performance of the concern with the help of financial statements. It enables to identify the present financial performance and ways to improve the same.

1.1.4 Objectives of the study:

The objectives of the study are:
- To analyze the performance of the firm in terms of its liquidity position
- To analyze the long-term solvency position of the concern.
- To find out the profitability position of the concern.
- To determine the efficiency in utilizing its assets.
- To evaluate the financial position of the company for past five years by using comparative balance sheets.

1.1.5 Scope of the study:

The scope of the study is limited to Unijet Corporation. The study period taken into account is from 2002-2007. the financial statement used for the purpose of the study are trading account, profit and loss account and balance sheet provided by the concern. The financial tools used are ratio analysis and comparative balance sheets.

1.1.6 Methodology:

a). Type of Study:
The study is descriptive in nature as it describes the financial performance in terms of liquidity, profitability, solvency and turnover ratios. The study is made through observations in the organization.

b). Method of data collection:

Sources of data collection:
The data is collected mainly through secondary sources i.e. from financial records of the concern. The data relating to past records of the concern. The data relating to past five years from 2002 to 2007 were considered for the study.

c). Tools of analysis:
- The following ratios were used for analysis. They are current ratio, quick ratio, debt-equity ratio, proprietory ratio, gross profit ratio, net profit ratio, debtor's turnover ratio, creditor's turnover ratio, assets turnover ratio, inventory turnover ratio and working capital turnover ratio.
- Comparative balance sheets are used to know the overall efficiency of the concern.

1.1.7 Limitations:

- The secondary data collected for the purpose of ratio analysis was collected from the published balance sheets, which only show a fair picture of the affairs of the concern and they don't show the accurate and correct picture of the concern.
- Ratio analysis which has been used as a tool for financial analysis has its own set of limitations.
- A balance sheet may fail to reflect the average or typical situation as it is

- It ignores short term fluctuations in assets and equities that may occur within the period.
- Financial statements can be easily be window dressed to present a better picture of its financial and profitability position to outsiders. Hence, one has to be very careful in making decision from ratios calculated from such financial statements.

1.1.8 Chapter Scheme:

The first chapter deals with the introduction of the study, scope of the study, objectives of the study, methodology and limitations of the study. The second chapter is about the profile of the organization. The third chapter provides the micro and macro analysis of the organization. The fourth chapter contains the analysis and interpretations of data, tools and techniques used for this purpose. The fifth chapter deals with the findings, results and suggestions for the organization.

CHAPTER – 2

ORGANIZATIONAL PROFILE

2.1 History of the Organization:

Unijet Corporation, the leader in manufacturing pneumatic valves for compressed air system was established in the year 1993. The firm has been in the field of manufacturing pneumatic valves for over one decade now and broadly involved in manufacturing four categories of products. The range of products manufactured by the firm could be categorized as pilot valves, electro pneumatic valves, pneumatic products and automobile accessories.

Unijet Corporation is well equipped with state-of-the-art machines, which can produce components with high accuracy and finish. The company has a habit of offering prompt deliveries of excellent quality every time a batch of execution takes place. Stringent quality checks are accomplished at every stage of process by their qualified and experienced quality control team with sophisticated equipment, which assures the quality of products.

The company's objectives is to create innovative ideas, new techniques and blend them in the design of products in order to produce quality control and compact products and supply at competitive price to our customers. It has been regularly supplying these products to major compressor manufacturers, compressed air dryer manufacturer and automobile industry.

The company is situated in Vasantham Nagar, Singanallur in an area of about 4000 square meters. The firm is ideally located in a place well connected to state highways, close proximity to airport, railways and container terminals, with close proximity to the prospective vendor units who supply raw materials and other components to this unit.

Organisation Profile

The firm has implemented the Quality Management Systems in accordance with the requirements of international standard ISO 9001-2000. The scope of quality management systems is to design, manufacture and supply of pneumatic valves. There are no exclusions in Quality Management systems. The company's quality policy is that we are committed to increase our customer satisfaction level by continually improving our quality performance in meeting the requirements of customers. The committed policy is achieved through adhering to delivery schedule; reduce the complaints from customers and by increasing the turnover in sales.

The company follows processing steps in each of their products. The raw materials used by the company are aluminium castings, aluminium extruded rods, stainless steel rods, brass rods, gunmetal castings. The bought out components are fasteners, rubber components, nylon rods, pipes and plastic components.

2.2 Management:

The company is headed by Mr.Tamizhselvan, managing partner a man with excellent experience in the engineering field. He is a Ex-design Engineer of M/S Elgi Equipments limited, Coimbatore. He is ably assisted by a team of technical and administration, who have good experience in their respective fields. The management of Unijet Corporation has two technical staffs and two managerial staffs. They have five non-technical and administration staffs.

2.3 Organization Structure:
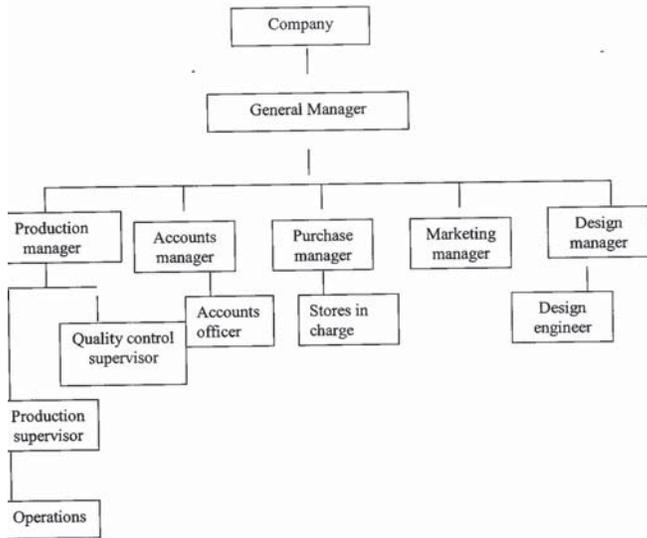
2.4 Product Profile:

The products produced in the concern are described below:

- Pilot operated valve with indicator:

Unijet poppet valves are pilot operated, high flow, spring return, directional control valves. They offer a wide range of design alternatives for pneumatic control system. Functionally the valve is available in two types that is two way and three way and six basic body sizes 1/2", ¾", 1, 11/2", 2", 3" are available. The valve has unique red indicator which shows valve's functioning. The rugged, simple design eliminates metal-to-metal contact ensuring long life and trouble free operation.

- Solenoid valves:

Unijet solenoid valves are direct acting 3/2 way valves. These valves are available up to 20 bar working pressure and with various Orifice sizes. The standard valve is available with aluminium body. Unijet offers both N/C and N/O configuration and available with various voltages and with moulded Din connector coil and fly lead coils.

- High pressure solenoid valves:

Unijet solenoid valves are direct acting 3/2 way valves. These valves are available up to 40 bar working pressure. The standard valve is available with brass body. Unijet offers N/C configuration and available with various voltages and with moulded Din connector coil and fly lead coils.

- Mini Solenoid valves:

Unijet solenoid valves are direct acting 3/2 way valves. These valves are available up to 12 bar working pressure. The standard valves are available with aluminium body. Unijet offers both N/C and N/O configuration and available with various voltages and with moulded Din connector coil and fly lead coils.

- Online Solenoid valves:

Unijet online solenoid valves are direct acting 2/2 way valves. These valves are available up to 40 bar working pressure with various orifice sizes. The standard valve is available with aluminium body. For higher pressures, brass and steel body will be available based on requirement. Unijet offers N/C configuration and available with various voltages and with moulded din connector coil and fly lead coils. These solenoid valves are available for both ¼" BSP and 1/8" BSP end connections.

- Gang Solenoid valves:

Unijet gang solenoid valves are direct acting 3/2 way valves with multiple outputs. These valves are available up to 12 bar working pressure with various orifice sizes. The standard valve is available with aluminium body. Unijet offers N/C configuration and available with various voltages and with moulded din connector coil and fly lead coils. These solenoid valves are available for both ¼" BSP and 1/8" BSP end connections.

- Solenoid operated pilot valves:

Unijet solenoid operated poppet valves are pilot operated, high flow, spring return, directional control valves. They offer a wide range of design alternatives for pneumatic control systems. Functionally the valve is available in 2/2 way configuration and six basic body sizes ½", ¾", 1, 11/2", 2", 3" are available. The rugged, simple design eliminates metal-to-metal contact ensuring long life and trouble free operation. Unijet offers both N/C and N/O configuration and available with various voltages and with moulded Din connector coil and fly lead coils.

- Quick Exhaust valves:

Quick exhaust valve is designed to unload the system. The valve is used in the pneumatic system to increase the speed by providing immediate outlet to the atmosphere of the air exhausted from the system.

- Non return valve:

Unijet non return valve opens on a very low cracking pressure and close at a low differential even at high pressure. The valve is efficient in operation while handling gases and liquids under pressure. The valve is self-aligning unit and hence can be mounted in any position.

- Air receiver check valve:

Unijet Air receiver check valve is specially designed for compressor application where the valve can be mounted directly in to the air receiver. The valve is available in various sizes and available with connection suitable for fitting.

- Safety valves:

Safety valves are widely used by compressor and dryer manufacturers. The safety valve available in various sizes and setting pressure can be varied from 8 bars to 16 bars.

- Regulators:

Regulators are diaphragm operated, designed to meet the low pressure precision requirements as desired. It has a good flow and regulating characteristics. The high ratio of diaphragm to orifice provides excellent performance and stability at low reduced pressure.

- Hand lever valve:

Hand lever valve is compact, packed spool valves featuring stainless steel spool operating in an anodized aluminium body with nitrile seat. The valve is available in 3 port 2 position configuration.

2.5 Description of various functional areas:

Production Department:

Production is the functional area responsible for turning inputs into finished outputs through a series of production processes. The Production Manager is responsible for making sure that raw materials are provided and made into finished goods effectively. He or she must make sure that work is carried out smoothly, and must supervise procedures for making work more efficient and more enjoyable.

Purchase Department:

The major purchases done by purchase department are as follows:

Purchase of raw material

Purchase of capital goods

Contracts of job works and rate contracts

Client sourcing is one of the important task of purchases department. Client sourcing is done when there is a need for unique component to be manufactures for a particular order.

Production Planning Department:

The order received from Marketing Department is transferred to production department. The availability of raw materials and components are checked. The time and manpower required for the order is estimated. The machine utilization for the product is calculated.

Marketing Department:

Marketing is about acquiring and retaining customers for products and services by delivering customer value. It is about having a finger on the pulse of the consumer so that it is possible to identify and create needs, and to cater to them effectively and efficiently. In order to do this, a firm has to constantly track

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consumers, monitor the environment, and keep an eye on competition. This concern has created its market through its web site and by advertisements.

Human Resource Department:

The human resource department is concerned with the maintaining personal details of employees including family details. They deal with the pay roll management for staffs and workers.

Finance department:

The finance department plays a major role in all organizations as they are the one who deal with the financial requirements of the concern for producing the products in the market.

Maintenance Department:

The maintenance department is classified into two categories. They are Electrical maintenance and Mechanical maintenance. These two departments take care of electrical and mechanical faults and rectification of the faults that occur.

Inspection Department:

The inspection is classified into three categories. They are raw material inspection, finished product inspection and in-house inspection. The machined components received from subcontract parties are inspected as per Unijet drawing and the approved quantity is transferred to the stores.

CHAPTER – 3

MACRO MICRO ANALYSIS

A global perspective of the valve industry:

The valve industry in the Western World has changed a lot lately with conglomerates taking over independent family businesses, users changing the way they buy valves and famous brand names releasing workers from their production facilities in North America, Europe and Japan and having their valves built in China, India, Korea, and Eastern Europe to reduce cost and increase profits. As a consequence of this phenomenon, Velan is the only remaining manufacturer of API 600 cast steel gate, globe and check valves in Canada and the USA with falling pricing and a world overproduction. A comparative analysis of changes in our prices and wages over 20 years indicates that while wages increased 219%, prices went down ten per cent. As a result of these overall policies called globalization, 1.1 million workers lost their jobs in 2001 in the USA, in manufacturing. Twenty years ago the company had to be twenty per cent cheaper out of Canada to sell against USA-made valves. The company have to adapt to the changing marketplace but the company continue investing in our own North American, European and South Korean facilities. There are an estimated 1,365 valve manufacturers in the developed and developing countries and over 2,000 in China, covering 81% of the highly fragmented market and eleven conglomerates with 108 companies covering 19% of the estimated total yearly sales of USD 39.5 billion of all types of valves.

Indian Valves Industry:

Indian valves industry has come a long way from making simple valves to producing a wide range of sophisticated precision valves. About 70% of the valves market depends on user industries like oil & gas, power, petrochemical, chemical industries followed by pulp & paper, iron & steel, food & beverage. With many new projects coming up, this sector is on an upward business cycle. The competition

industrial valves. "In the domestic valves segment, the competition is stiffer due to small range and sizes of valves, which are easily manufactured by industries in the unorganized sector. Further, there is a glut of valves from China and other countries, which are easily available in the market. On the other hand, the industrial valves segment faces stringent quality requirement that leaves this field to a few major valve manufacturers. Now, these manufacturers are those who have produced quality goods and built a brand image over the years. However, the unorganized sector disturbs them by duplicating their brand with substandard material,"
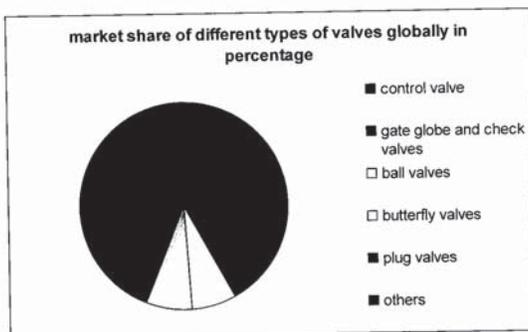
Indian market

The organized sector of the Indian valves industry is estimated to be Rs 900 crore, while the unorganized sector contributes additionally over Rs 500 crore. Close to 50% of the market is shared by two companies (L&T and BHEL), while the rest have individual market shares of 4% or less. There are over 100 companies mostly in the unorganized or small-scale sector and the industry, as evident, is highly fragmented. The growth rate of this industry is estimated at 10 to 15%. With increasing activity in the manufacturing and infrastructure sectors, there is a huge potential for growth for the Indian valves manufacturers. Investments between April 2004 and September 2005 in the iron & steel sector alone will be in the region of Rs 28,798 crore while in the hydrocarbon segment of petrochemicals it is estimated at Rs9,420 crore. Going by the ballpark of 1.5% of the project cost, the valve requirement in these projects would be close to Rs 600 crore.

The global view

Total global valves market is estimated at about US$ 46 billion. The demand for valves is
Witnessing growth in almost all areas. All core sectors of industry require various types of valves for expansion of capacities, de-bottlenecking or routine maintenance and repair of plants. Control and self-acting valves comprising control valves, check

automation. The global industrial valves market has seen a host of mergers and acquisitions over the last few years. The relatively flat growth of the market is one of the main underlying factors driving such acquisitions. This trend is set to continue as manufacturers face growing competition from global conglomerates and pressure to reduce costs. "The valve industry in the Western world has changed a lot with conglomerates taking over independent family business, users changing the way they buy valves and famous brand names releasing their workers from production facilities in America, Europe and Japan and having their valves built in China, India, Korea etc to reduce manufacturing cost".

Looking for outsourcing:

Five to ten years ago, many developing countries were irrelevant to sourcing decisions. They had no infrastructure, no quality control and no understanding of the requirements of sophisticated buyers. However, this perception has changed over the time. Global sourcing has allowed many manufacturers to see dramatic bottom-line savings, enabling them to stay competitive in a tough economy. Now, China and India are becoming the countries of choice as manufacturing base for their global requirements. Although, companies prefer China because of its stable policy, low-cost manpower, easy availability of finance and favorable labour laws, the scenario is slowly but surely changing. MNCs are also looking at India as manufacturing base because of a large pool of technically qualified personnel, low manufacturing costs and large English speaking population. India has the capability of producing quality goods at comparatively cheaper costs and this makes it an ideal destination for outsourcing. In fact a number of international valves companies are already reaping these benefits and with wider global representation many more companies could be attracted. India is already a manufacturing hub for many internationally renowned valves and pumps manufacturers like Crane, Audco, Flowserve, Durco, AK, KSB, Spirex Sarco and Xomox.

The market share of different type of valves globally in percentage is given below:

market share of different types of valves globally in percentage
- control valve
- gate globe and check valves
- ball valves
- butterfly valves
- plug valves
- others

Global Impact of Pneumatic Valves Industry

Although the non-electrical portion of International Standards Organization (ISO) 15407, Part 1, has existed since March 1, 2000 — and used widely in Europe and Asia — only recently has Part 2, the electrical portion, shown up as a significant blip on the radar screen in the United States. The impacts of ISO 15407's two parts continue to increase as global applications require standardization.

Part 2 of ISO 15407 states that ISO pneumatic valves must be constructed to a set of specifications that require manufacturers to conform to dimensional and electrical patterns. These include the interface mounting patterns and the electrical connections resulting in interchangeable components.

Standardization of valves was not that important a decade or so ago because industrial production was, for the most part, regional. Today, however, in a truly global manufacturing environment such as the auto industry, for example, an engineer in Michigan may write a machine specification, the machine may be manufactured in

Germany, and then half the machines are shipped to production facilities in the U.S. and the other half to Mexico.

Other fluid power products have met standards for years. Hydraulic and pneumatic cylinders, as well as hydraulic valves, conform to both ISO and National Fluid Power Association (NFPA) standards, creating common component interfaces. Pneumatic valves smaller than an ISO size 1 did not have a standard until much later. ISO 5599-2 (plug-in) and 5599-1 (non-plug-in) pneumatic valve standards created common interfaces. Sizes 1 through 4 have a flow coefficient (CV) of 1.1 through 7.4. Size 1, however, is a larger and more expensive valve than that required for most pneumatic applications (cylinders with at least a 4-in. bore and 12-in. stoke), creating a gap in availability. ISO 15407, which designates the valve footprint, was developed to standardize five-port directional pneumatic control valves sized 18 mm and 26 mm, with C_Vs of 0.55 and 1.1, respectively. Two types of ISO 15407 valves exist — 15407-1 and -2. An ISO 15407-2 valve has a body-to-base plug, in which the valve plugs into the base electrically. The bottom of the valve has a female socket and the base has a male plug. An ISO 15407-1 valve is a non-plug-in design with no electrical connectivity through the base. It is an adaptation of an existing VDMA (European) standard. Electrical connections are made via DIN connectors or M12 or M8 connections on the valve body or coil.
Until recently, no standard valves in these sizes were available to designers. ISO 15407 valves typically can control cylinders with a bore to 4 in. and a stroke to 12 in. with adequate speed. Probably 50% of applications for pneumatic valves fall within in this range.

The absence of these valve sizes in ISO configurations led to a proliferation of proprietary valves from many manufacturers. Proprietary valves benefit manufacturers by creating a captive customer base by selling a brand name product with features that guarantee future business. Furthermore, proprietary designs generally do not lend themselves to component standardization. Increasing globalization and the demand for standard platforms and interchangeable valves are

changing the landscape of the pneumatic valve designs the same way open operating systems changed computer designs.

Users held a false perception that purchasing ISO-compliant valves would be too expensive for many applications. However, leading pneumatic valve manufacturers recognize that globalization is here to stay and are introducing ISO 15407 pneumatic valves and redesigned ISO 5599 valves that satisfy the ever-growing demand for standardization.

Benefits:

From the user's viewpoint, ISO 15407 means standardized air valves will be readily available from manufacturers around the globe. In conjunction with ISO 5599 for Parker, standardization will be in place for a complete range of sizes, including ISO 15407 sizes 18 and 26; and ISO 5599 sizes 1, 2, and 3. Flow ranges will be from 0.5 to 6.6 Cv.

Standardization:

With dimensional and electrical components standardized, users can write specifications that meet a standard, rather than relying on a single brand name. Dimensional requirements address the footprint for valves and bases; bolt locations, thread depths, and number of bolts; electrical connection location and configuration; and pin spacing. If an international company has facilities around the world, standardization ensures interchangeability with valves from multiple suppliers.

Reduced risk:

If business conditions change and quality, delivery, or performance issues arise with one valve supplier, user can easily change brands because proprietary limitations will be eliminated.

More freedom and flexibility.

Standardization facilitates choice. Users may still have brand preference, but ISO-compliant valves will meet quality and interchangeability criteria. Users will have been able to deal with multiple valve manufacturers anywhere in the world.

Communication, Connectivity:

Communication and connectivity are critical issues when implementing fluid power control applications. The prevailing trend is toward the use of Ethernet Industrial Protocol — which supports real-time messaging — as the standard for air valve control. Ethernet IP is based on commercial, off the shelf Ethernet communication chips but uses an open protocol at the application layer. Ethernet IP nodes show a 40% annual growth rate; Control Net, 8.1%, (IMS European Union); Device Net sales exceed 5 million nodes globally.

CHAPTER – 4

DATA ANALYSIS AND INTERPRETATION

To analyze the performance of the firm in terms of its liquidity position.

4.1 Liquidity ratios:

Liquidity ratios are used to measure the firm's ability to meet current obligations. Liquidity refers to the ability of a concern to meet its current obligations as and when they become due. The short-term obligations are met by realizing amounts from current floating or circulating assets. The current assets should be neither liquid or near liquidity. If current assets can pay off current liabilities, then liquidity position will be satisfactory. On the other hand if current liabilities may not be easily met out of current assets then the liquid position will be bad. To measure the liquidity position of the firm following ratios can be calculated:

- Current ratio
- Quick ratio

Current ratio:

It may be defined as the relationship between current assets and current liabilities. This ratio also known as working capital ratio. It is a measure of general liquidity and is most widely used to make the analysis of a short-term financial position or liquidity of a firm.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Table –1: Current ratio

Year	Current assets	Current liabilities	Current ratio
2002-03	1919428.33	263554.58	1.02
2003-04	2474998.22	2365425.54	1.05
2004-05	2497385.85	2250499.65	1.11
2005-06	4036537.73	3829618.51	1.05
2006-07	5934782.50	5312611.67	1.12

Interpretation:

A relatively high current ratio is an indication that the firm is liquid and has the ability to pay the current obligations in time as and when they become due. In case of this firm a gradual increase in the current ratio can be notified. During the year 2002-03 the ratio was 1.02 which has gradually increased till the year 2004-05 for which the ratio is 1.11 after this year there was a gradual decrease in the year 2004-05 the ratio was 1.05 which has then increased to 1.12. This is an indication of profit in the liquidity position of the firm. The firm is in a good position to meet all its short term dues.

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Data Analysis And Interpretation

CHAPTER – 4

DATA ANALYSIS AND INTERPRETATION

To analyze the performance of the firm in terms of its liquidity position.

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Liquidity ratios are used to measure the firm's ability to meet current obligations. Liquidity refers to the ability of a concern to meet its current obligations as and when they become due. The short-term obligations are met by realizing amounts from current floating or circulating assets. The current assets should be neither liquid or near liquidity. If current assets can pay off current liabilities, then liquidity position will be satisfactory. On the other hand if current liabilities may not be easily met out of current assets then the liquid position will be bad. To measure the liquidity position of the firm following ratios can be calculated:
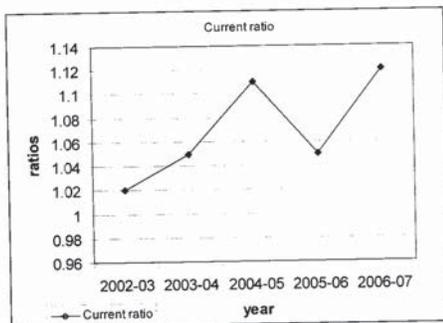
- Current ratio
- Quick ratio

Current ratio:

It may be defined as the relationship between current assets and current liabilities. This ratio also known as working capital ratio. It is a measure of general liquidity and is most widely used to make the analysis of a short-term financial position or liquidity of a firm.

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Interpretation:

A relatively high current ratio is an indication that the firm is liquid and has the ability to pay the current obligations in time as and when they become due. In case of this firm a gradual increase in the current ratio can be notified. During the year 2002-03 the ratio was 1.02 which has gradually increased till the year 2004-05 for which the ratio is 1.11 after this year there was a gradual decrease in the year 2004-05 the ratio was 1.05 which has then increased to 1.12. This is an indication of profit in the liquidity position of the firm. The firm is in a good position to meet all its short term dues.

Figure – 1: current ratio

Inference:

Their is an indication of enhancement in the liquidity position of the firm as there is a gradual increase in the current ratio of the company. The firm is in a good position to meet all its short-term dues.

Quick ratio:

Quick ratio is also known as acid test ratio or liquid ratio is a more rigorous test of liquidity than the current ratio. The term liquidity refers to the ability of a firm to pay the short-term obligation as and when they become due. It may be defined as the relationship between liquid assets and liquid liabilities.

$$\text{Quick ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$$

Table – 2: Quick ratio

Year	Quick assets	Current liabilities	Quick ratio
2002-03	2342428.22	263554.58	0.95
2003-04	179288.33	2365425.54	0.99
2004-05	2350885.85	2250499.65	1.04
2005-06	3688017.73	3829618.51	0.96
2006-07	5419302.5	5312611.67	1.02

Interpretation:

Usually, a high acid test ratio is an indication that the firm is liquid and has the ability to meet its current or liquid liabilities in time and on the other hand a low quick ratio represents that the firm's liquidity position is not good. During 2002-03 the quick ratio has been 0.95 which has gradually increased to 0.99 in the year 2003-04 and then 1.04 in the year 2004-05 after which there was a slight decrease of 0.96 in the year 2005-06 which the company has then increased to 1.02. A quick ratio of 1:1 is considered to be satisfactory.

Figure – 2: Quick ratio
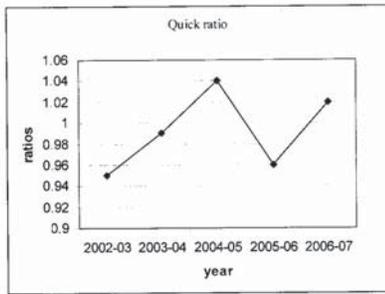
Quick ratio

Inference:

During the year 2004-05 there was a decrease in quick ratio due to the increase in current liabilities. Increase in current liabilities was mainly due to increase in provisions and sundry creditors.

To analyze the long term solvency position of the concern.

4.2 Solvency ratios:

Solvency ratios measure the financial soundness of a business and how well the company can satisfy its short- and long-term obligations. The solvency ratio measures the size of a company's after-tax income; excluding non-cash depreciation expenses, as compared to the firm's total debt obligations. It provides a measurement of how likely a company will be to continue meeting its debt obligations. Acceptable solvency ratios will vary from industry to industry, but as a general rule of thumb, a solvency ratio of greater than 20% is considered financially healthy. Generally speaking, the lower a company's solvency ratio, the greater the probability that the company will default on its debt obligations. To analyze the solvency position of the firm following ratios are to be calculated:

- Debt – equity ratio
- Proprietory ratio
- Fixed assets to current assets ratio

Debt – equity ratio:

A measure of a company's financial leverage is calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets. It is also known as external-internal equity ratio. It is calculated to measure the relative funds of outsiders and the owner's against the firm's assets. The ratio indicates the relationship between the external equities or the outsider's funds and the internal equities or the share holder's funds. The outsider's funds include all debts, liabilities to outsiders, whether long-term or short-term or whether in form of debentures, bonds, mortgages or bills. A high ratio shows a large share of financing by the creditors of the firm, a low ratio implies a

$$\text{Debt – equity ratio} = \frac{\text{Long term debt}}{\text{Share holder's equity}}$$

Table – 3: Debt Equity ratio

Year	Long term debt	Equity	Ratio
2002-2003	9.92	171.05	5.7%
2003-2004	9.11	171.14	5.3%
2004-2005	4.90	177.94	2.7%
2005-2006	0.33	179.23	.18%
2006-2007	8.61	185.54	4.6%

Interpretation:

During 2002-03 the ratio was 0.57 which was then decreased to 0.53 in the year 2003-04, then to 0.27 in the year 2004-05, then 0.18 in the year 2005-06 and then it increased to 0.46 in the year 2006-07. The lower ratio was found in the year 2005-06 which shows the satisfactory risk to creditors and high margin of safety and protection against shrinkage of assets. This was due to reduced long term debt and increased net worth. So the debt equity ratio reveals good signal to the company.

Figure – 3: Debt Equity ratio
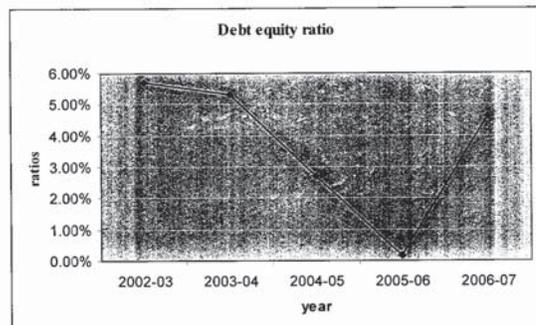
Debt equity ratio

Inference:

If the debt equity ratio is high, the owner's are putting up relatively less money of their own. It is dangerous signal for the creditors. If the firm fails financially then the creditors would lose heavily. During the year 2005-06 the debt equity ratio is very low which is satisfactory to the firm as the owner's have invested more in the firm. There is only little risk for the creditors.

Fixed assets to current assets ratio:

Fixed assets to current asset ratio are the relationship between fixed assets and the current assets. This ratio varies from industry to industry. Increase in this ratio means that trading is slack or mechanization has been used. A decline in this ratio means that the debtors and stocks are increased too much or fixed assets are more intensively used. If the current assets increase with increase in profit, it shows that the business is expanding.

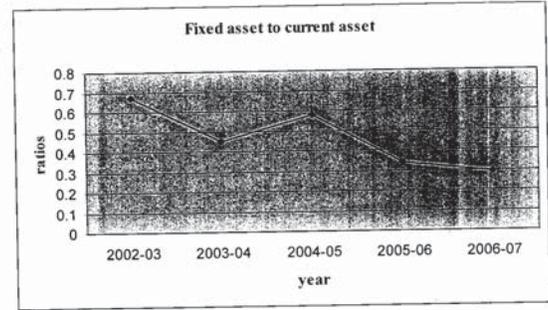$$\text{Fixed assets to current assets ratio} = \frac{\text{Fixed Assets}}{\text{Current Assets}}$$

Table – 4: Fixed assets to Current assets ratio

Year	Fixed assets	Current assets	Ratio
2002-2003	1288436.46	1919428.33	0.67
2003-2004	1120266.50	2474998.22	0.45
2004-2005	1447832.94	2497385.85	0.58
2005-2006	1383229.14	4036537.73	0.34
2006-2007	1709924.94	5934782.50	0.29

Interpretation:

During 2002-03 the fixed asset to current asset ratio was 0.67 which was then decreased to 0.29 in the year 2006-07. There was slight decrease in the ratio only in the second year and there after in the last two years. A decline in this ratio indicates that the debtors and stocks are increased too much and the fixed assets are more intensively used. The increase in the current assets with increase in profit indicates that the business is expanding.

Figure – 4: Fixed assets to Current assets ratio

Inference:

During the year 2006-07 the fixed assets to current assets ratio has been decreased to 0.29 from 0.67 in the year 2002-03. This was due to increase in current assets that are debtors and stock. This indicates that the fixed assets of the concern are not used appropriately along with the current assets.

Proprietory ratio:

A variant of debt equity ratio is the proprietory ratio which is also known as equity ratio or shareholder's to total equity ratio. This ratio establishes the relationship between share holder's funds to total assets of the firm. The ratio of proprietor's funds to total funds is an important ratio to determine the long-term solvency position of a firm. The components of the ratios are share holder's funds or proprietor's funds and total assets.

$$\text{Proprietory ratio} = \frac{\text{proprietor's funds}}{\text{Total assets}}$$

Table – 5: Proprietory ratio

Year	2002-03	2003-04	2004-05	2005-06	2006-07
Proprietory ratio	0.10	0.13	0.12	0.09	0.15

Interpretation:

The proprietor ratio shows a satisfactory level as there is an increasing trend. However, too high a proprietary ratio say 100% means that management has not effectively utilizing cheaper sources of finance like trade and long term creditors. As these sources of funds are cheaper, the inability to make use of it might lead to lower earnings and hence a lower rate of dividend payout. This ratio is a test of credit strength as too low a proprietary ratio would mean that the enterprise is relying a lot more on its creditors to supply its working capital.

Figure – 5: Proprietory ratio
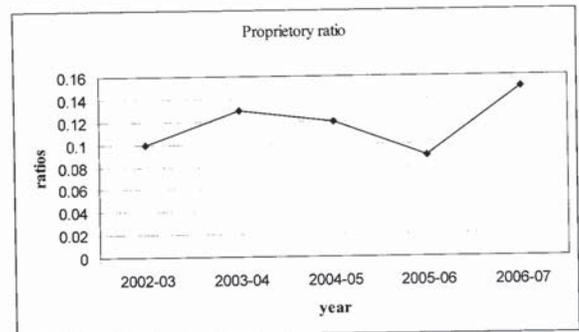
Inference:

This ratio is a test of credit strength as too low a proprietary ratio would mean that the enterprise is relying a lot more on its creditors to supply its working capital. The proprietory ratio has been increased from 0.10 in the year 2002-03 to 0.15 in the year 2006-07. This shows that the management is utilizing the cheaper sources of funds like trade and creditors very effectively. As these sources of funds are cheaper, the inability to make use of it might lead to lower earnings and hence a lower rate of dividend payout.

To find out the profitability position of the concern.

4.3 Profitability ratios:

The profitability ratios are the basic bank financial ratios. Profitability ratios are the financial statement ratios which focus on how well a business is performing in terms of profit. Profitability ratios offer several different measures of the success of the firm at generating profits. Profit margins measure performance with relation to sales. To analyze the profitability position of the firm following ratios can be calculated:

- Gross profit ratio
- Net profit ratio

Gross profit ratio:

The ratio expresses the relationship between gross profit and net sales. It indicates the degree to which the selling price of goods per unit may decline without resulting in losses from operations to company. The two basic components of gross profit ratio are sales and cost of goods sold since gross profit is simply the excess of net sales over cost of goods sold. Net sales can be found by deducting the sales returns or return inwards. The gross profit margin reflects the efficiency with which management produces each unit of product. A high gross profit margin relative to the industry average implies that the firm is able to produce at relatively lower cost.

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}}$$

Table – 6: Gross Profit ratio

Year	Gross profit	Net sales	Gross profit ratio
2002-03	1341514.24	3400104.83	0.39
2003-04	1563685.52	4719952.30	0.33
2004-05	1692713.49	4821340.98	0.35
2005-06	1952958.40	6563827.50	0.30
2006-07	2486429.45	11855160.71	0.21

Interpretation:

The gross profit position of the firm is weak as it shows a decreasing trend. At the beginning the position was good with a highest ratio of 0.39 and it has started to decline in the year 2003-04 to 0.33, in the year 2004-05 it has been increased to 0.35, in the year 2005-06 it has been decreased to 0.30, in the year 2006-07 to 0.21. At present they have only 0.21 as their gross profit ratio which is very risky for the firm.

Figure – 6: Gross Profit ratio

Inference:

The gross profit position of the firm is weak as it shows a decreasing trend. The net sales of the firm should be taken care of properly to have an increasing trend. During the year 2002-03 the gross profit ratio was 0.39 which has then decreased to 0.21 in the year 2006-07.

Net profit ratio:

The ratio expresses the relationship between net profit and sales. Net profit after taxes divided by sales for a given 12-month period, expressed as a percentage, also called as profit margin. The two basic elements of the ratio are net profits and sales. The net profits are obtained after deducting income tax and general non-operational incomes and expenses are excluded from the net profits for calculating this ratio. Thus incomes such as interest on investment outside the business profit on sale of fixed assets are also excluded.

$$\text{Net profit ratio} = \frac{\text{net profit after tax}}{\text{Net sales}}$$

Table – 7: Net Profit ratio

Year	Net profit	Net sales	Net profit ratio
2002-03	16464.77	3400104.83	0.04
2003-04	65886.34	4719952.30	0.01
2004-05	79969.96	4821340.98	0.02
2005-06	-19970.78	6563827.50	0.00
2006-07	291419.75	11855160.71	0.02

Interpretation:

The net profit position of the firm is in a satisfactory position as it shows an increasing trend from the year 2006-07 even though the firm had a loss during the year 2005-2006. In the beginning of year it was very high by 0.04 in the year 2002-03 after which the ratio has been decreased to 0.01 in the year 2003-04 then their was a slight increase in the year 2004-05 by 0.02, then in the year 2005-06 there was a complete loss for the company then increased to 0.02 in the year 2006-07.

Figure – 7:
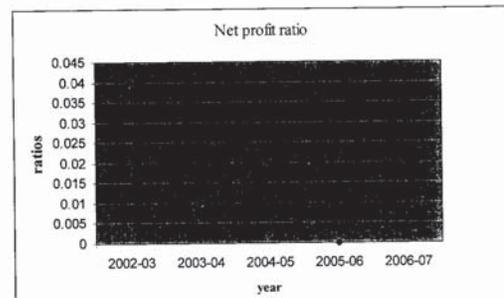
Inference:

The company had a decreasing trend in the net profit ratio. During the year 2002-03 it was 0.04 which then had a loss in the year 2005-06 after which the company maintained to increase their profit by 0.02 in the year 2006-07.

To determine the efficiency in utilizing its assets

4.4 Turnover ratios:

Turnover ratios reflect the firm's efficiency in utilizing its assets. Funds are invested in various assets in a business to make sales and earn profits. The efficiency with which assets are managed directly affects the volume of sales. These ratios determine how quickly certain current assets can be converted into cash. They are also called efficiency ratios or asset utilization ratios as they measure the efficiency of a firm in managing assets. These ratios are based on the relationship between the level of activity represented by sales or cost of goods sold and levels of investment in various assets. The important turnover ratios are debtors turnover ratio, average collection period, inventory/stock turnover ratio, fixed assets turnover ratio, and total assets turnover ratio. These are described below:
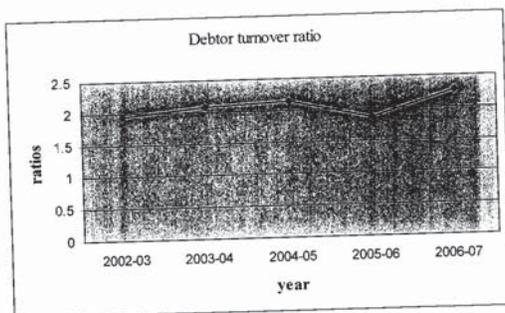
- Debtor's turnover ratios
- Creditor's turnover ratios
- Assets turnover ratio
- Inventory turnover ratio
- Working capital turnover ratio

Debtor's turnover ratio:

Debtor Turnover Ratio measures the number of times receivables turn over during the year. The higher the turnover of receivables, the shorter the time between sales and cash collection. Debtor Turnover is a good way to gauge the effectiveness of your company's payment terms. If this ratio is low, it may indicate that you are offering lenient payment terms or have trouble collecting debts. Both circumstances have a negative impact on cash flow.

Debtor's turnover ratio = sales

Table – 8: Debtor's Turnover ratio

Year	Sales	Debtors	Debtor turnover ratio
2002-03	3400104.83	1740247.27	1.95
2003-04	4719952.30	2271843.44	2.08
2004-05	4821340.98	2245813.89	2.15
2005-06	6563827.50	3515473.68	1.87
2006-07	11855160.71	5205229.90	2.27

Interpretation:

The debtor's turnover ratio plays an important role in each and every firm for their smooth establishment. The higher the Debtor's Turnover ratio, the better it is for the organization. In this case the firm has a satisfactory as well as a good position in maintaining its ratio. Even though in the beginning it was low it has gradually increased. During the year 2002-03 the ratio was 1.95 which has gradually increased to 2.27 in the year 2006-07.

Figure – 8: Debtor's Turnover ratio

Inference:

The debtor's turnover ratio has been increased from 1.95 in the year 2002-03 to 2.27 in the year 2006-07. This indicates that the firm maintains a very good position in the market has there is short time lag between credit sales and cash collection. A low ratio shows that debts are not being collected rapidly which is not happening in this firm.

Average collection period:

Average Collection Period is calculated by dividing the days in a year by the debtors' turnover. The average collection period represents the number of day's worth of credit sales that is blocked with the debtors (accounts receivable). It is computed as follows:

Average collection period = 365 / Accounts Receivable Turnover

Table – 9: Average Collection period

Year	Days	Debtors turnover	Average collection period
2002-03	365	1.95	187.17
2003-04	365	2.08	175.48
2004-05	365	2.15	169.76
2005-06	365	1.87	195.18
2006-07	365	2.27	160.79

Interpretation:

The average collection period of the company is in a good position as the firm has a decreasing period of time for its collection. The debtor's collection period is in a decreasing trend so the firm is in a good position.

Stock turnover ratio:

This ratio applies only to finished goods. It indicates the speed with which inventory is sold-or, to look at it from the other angle, how long inventory items remain on the shelves. It can be used for the inventory balance as a whole, for classes of inventory, or for individual inventory items. The figure produced by the stock turnover ratio is not important in itself, but the trend over time is a good indicator of the validity of changes in inventory policies. In general, a higher turnover ratio indicates that a lower level of investment is required to serve the department. Most departments do not hold significant inventories of finished goods, so this ratio will have only limited relevance.

Stock turnover ratio = $\frac{\text{cost of sales}}{\text{Average stock level}}$

Table – 10: Stock Turnover ratio

Year	Cost of goods sold	Average Stock	Ratio
2002-03	2852.19	165.41	17.24
2003-04	3175.22	172.53	18.40
2004-05	3134.62	195.38	16.04
2005-06	3470.53	212.11	16.36
2006-07	2779.46	242.62	11.45

Interpretation:

The inventory turnover ratio measures the number of times a company sells its inventory during the year. A high inventory turnover ratio indicated that the product is selling well. The inventory turnover ratio should be done by inventory categories or by individual product. In this the firm has maintained a proper inventory turnover to have a smooth run in the market. During the year 2002-03 the ratio was 17.24 which then increased in the year 2003-04 to 18.40, then in the year 2004-05 it was decreased to 16.04 which then increased to 16.36 and then it decreased to 11.45 in the year 2006-07.

Figure – 9: Stock Turnover ratio
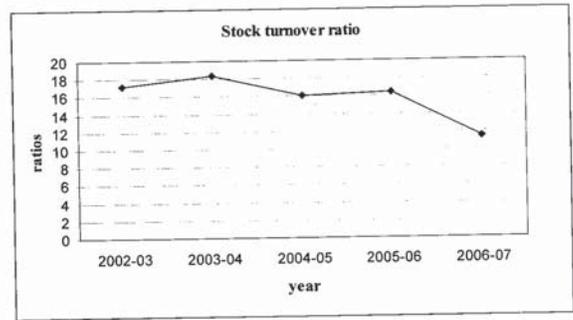
Inference:

The stock turnover ratio has been decreased from 17.24 in the year 2002-03 to 11.45 in the year 2006-07 which shows that the inventories have not been sold in the market properly. Due to this the company is not able to maintain its net profit level.

Creditor's turnover ratio:

Creditor Turnover measures how many times a business payables turn over during a year. A low payables turnover may indicate a shortage of cash in the business. However, a high turnover of credit payments indicates a relatively short time between purchase and payment settlement, which may mean that you are not taking full advantage of your credit periods.

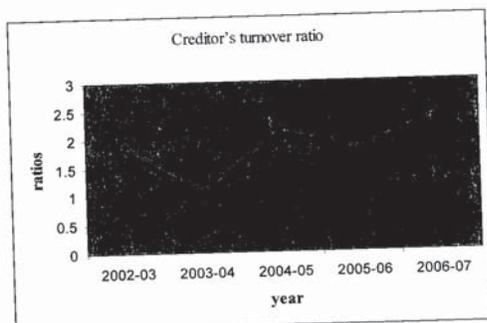Creditor's turnover ratio = $\frac{\text{sales}}{\text{Creditors}}$

Table – 11: Creditor's Turnover ratio

Year	Sales	Creditors	Creditor's turnover ratio
2002-03	3400104.83	1807267.28	1.88
2003-04	4719952.30	2281579.14	1.09
2004-05	4821340.98	2225674.65	2.17
2005-06	6563827.50	3588692.15	1.82
2006-07	11855160.71	4859596.73	2.43

Interpretation:

The firm is in a good position maintaining a short period of payment period. At first the ratio level was low which then has gradually increased. This indicates that the firm is maintaining a good position in making the short term payment. During the year 2002-03 the firm maintained a ratio of 1.88 which has gradually increased to 2.43 in the year 2006-07.

Figure – 10: Creditor's Turnover ratio

Inference:

The creditor's turnover ratio has been increased from 1.88 in the year 2002-03 to 2.43 in the year 2006-07. This indicates that the firm is in a good position to maintain a short period of payment period.

Working capital turnover ratio:

Working capital of a concern is directly related to sales. The current assets like debtors, bills receivables, cash, stock, etc... Charge with the increase or decrease in sales. The working capital is taken as current assets minus current liabilities. Working capital turnover ratio indicates the velocity of utilization of net working capital. This ratio indicates the number of times the working capital is turned over in the course of a year.

Working capital turnover ratio = $\frac{\text{sales}}{\text{Working capital}}$

Table – 12: Working Capital Turnover ratio

Year	Sales	Working capital	Working capital turnover ratio
2002-03	3400104.83	29373.75	115.75
2003-04	4719952.30	109572.68	43.08
2004-05	4821340.98	240886.2	20.02
2005-06	6563827.50	206919.22	31.72
2006-07	11855160.71	622170.83	19.03

Interpretation:

Working capital turnover ratio of a concern is directly related to sales. A higher ratio indicates efficient utilization of working capital and a low ratio indicates otherwise. A very high working capital ratio is not a good situation for any firm and hence care must be taken while interpreting this ratio. In this case the firm had a very high working capital ratio at the beginning but later on the ratio was declining. At the last the ratio is very low which is not safe for the firm. So the firm should take care utilization of current assets and current liabilities properly. During the year 2002-03 the ratio was 115.75 which were then decreased to 19.03 in the year 2006-07.
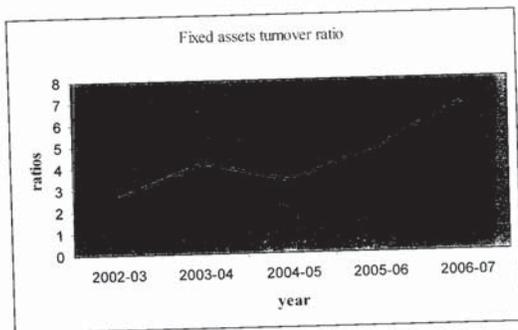
Figure – 11: Working Capital Turnover ratio
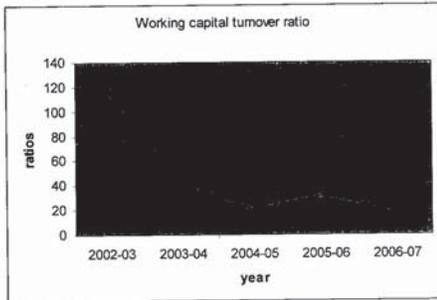
Inference:

During the year 2002-03 the working capital turnover ratio was 115.75 and then it has been decreased to 19.03 in the year 2006-07. The company should take care of utilization of current assets and current liabilities properly.

Fixed assets turnover ratio:

Fixed assets turnover ratio shows the firm's ability in generating sales from fixed assets. It determines how successful the company has been in using its fixed assets to enhance sales. In manufacturing concerns the fixed assets turnover ratio is important and appropriate as the sales are produced not only in use of working capital but also by the ability of capital invested in fixed assets.

Fixed assets turnover ratio = $\dfrac{\text{sales}}{\text{Fixed assets}}$

Table – 13: Fixed Assets Turnover ratio

Year	Sales	Fixed assets	Fixed assets turnover ratio
2002-03	3400104.83	1288436.46	2.64
2003-04	4719952.30	1120266.50	4.21
2004-05	4821340.98	1447832.94	3.33
2005-06	6563827.50	1383229.14	4.85
2006-07	11855160.71	1709924.94	6.92

Interpretation:

It is a credit to the company to utilize minimum fixed assets for having maximum sales turnover. Hence a high fixed asset turnover ratio is desired. A steady increase in the fixed assets turnover ratio indicates in the better utilization of current assets for increasing sales. In the case of this firm at the beginning there was a decrease in the ratio and at the end there was a very high increase in the ratio. The firm is in a proper position to earn profits. During the year 2002-03 it was 2.64 after

Figure – 12: Fixed Assets Turnover ratio

Inference:

During the year 2002-03 the fixed assets turnover ratio was 2.64 after which it has been increased to 6.92 in the year 2006-07. There is fluctuation in the ratio due to utilization of fixed assets.

To evaluate the financial position of the company for past five years by using comparative balance sheets.

4.5. Comparative balance sheet analysis:

The comparative balance sheet analysis is the study of the trend of the same items, group of items and computed items in two or more balance sheet of the same business enterprises on different dates. The changes in periodic balance sheet items reflect the conduct of a business. The changes can be observed by comparing the balance sheet at the beginning and at the end of the period and these changes can help in forming an opinion about the progress of an enterprise. The company balance sheet has two columns for the date of original balance sheets. The third column is used to show the increase or decrease in figures.

Guidelines for interpretation of comparative balance sheet:

While interpreting comparative balance sheet the interpreter is expected to study the following aspects:

- Current financial position
- Liquidity position
- Long-term financial position
- Profitability position of the concern.

Comparative balance sheet analysis for the year ended 31.12.2002 and 31.12.2003

Particulars	2002	2003	Increase/decrease in amounts	Increase/decrease in percentages
Sources of funds: Current account·	816499.84	782046.18	-34453.66	-3.2
Capital account	319460.00	460000.00	+140540	+43
Loans	229057.37	0	-229057.37	-100
Current liabilities	82787.30	83846.40	+1059.1	+1.27
Sundry creditors	1807267.28	2281579.14	+474311.86	+26
Goodwill	303	303	0	0
Total	3255374.79	3607774.72	+352399.93	+10.83
Application of funds: Fixed assets	1288436.46	1120266.50	-168169.96	-13.05
Current assets: Closing stock	126440.00	132570	+6130	+4.8
Deposits	47510	12510	-35000	-74
Cash and bank balances	52741.06	70584.78	+17843.72	+33.83
Sundry debtors	1740247.27	2271843.44	+531596.17	+30.5
Total	3255374.79	3607774.72	+352399.93	10.8

Interpretation:

During the year 2003 the current assets of the firm has increased by352399.93 i.e. 10.8% and cash has increased by 17843.72 i.e. 33.83%. On the other hand there has been an increase in inventories amounting to 6130 i.e. 4.8%. The current liabilities have also increased by 10.83%. This fact depicts that the company has raised long term finances even for the current assets resulting into an improvement in the liquidity position of the company. ·

Comparative balance sheet analysis for the year ended 31.12.2003 and 31.12.2004

Particulars	2003	2004	Increase/decrease in amounts	Increase/decrease in percentages
Sources of funds: Current account	782046.18	917216.14	135169.96	+17.28
Capital account	460000.00	460000.00	0	0
Loans	0	402710.00	-402710.00	0
Current liabilities	83846.40	30825.00	-53021.4	-63.23
Sundry creditors	2281579.14	2225674.65	-55904.49	-2.5
Goodwill	303	303	0	0
Total	3607774.72	4036728.79	+428954.07	+12
Application of funds: Fixed assets	1120266.50	1447832.94	+327566.44	+29.24
Current assets: Closing stock	132570	146500.00	+13930	+10.50
Deposits	12510	91510.00	+79000	+631
Cash and bank balances	70584.78	105071.96	+34487.18	+48.86
Sundry debtors	2271843.44	2245813.89	-26029.55	-1.15
Total	3607774.72	4036728.79	+428954.07	+11.88

Interpretation:

During the year 2004 the current assets have increased when compared to the previous year 2003. The proportion of current liabilities has been decreased when compared to previous year 2003. During the year 2004 the closing stock has increased by 10.50%. The current liabilities has been decreased which is not safe for the concern. Therefore the concern should concentrate on its liquidity position.

Comparative balance sheet analysis for the year ended 31.12.2004 and 31.12.2005

Particulars	2004	2005	Increase/decrease in amounts	Increase/decrease in percentages
Sources of funds: Current account	917216.14	87745.36	-829470.78	-90.4
Capital account	460000.00	460000	0	0
Loans	402710.00	235910	-166800	-41.4
Current liabilities	30825.00	240926.36	+210101	+682
Sundry creditors	2225674.65	3588692.15	+1363017.5	+61.2
Goodwill	303	303	0	0
Total	4036728.79	5403276.87	+1366548.08	+33.9
Application of funds: Fixed assets	1447832.94	1353229.14	-94603.8	-6.53
Current assets: Closing stock	146500.00	13510	-132990	-90.8
Deposits	91510.00	3515473.68	+3423963.7	+37.4
Cash and bank balances	105071.96	348520	+243448.04	+231.7
Sundry debtors	2245813.89	172544.05	-2073269.84	-92.8
Total	4036728.79	5403276.87	+1366548.08	+33.85

Interpretation:

During the year 2005 the current assets have increased when compared to the

compared to previous year 2004. These facts signal overall increase in the liquidity position of the firm.

Comparative balance sheet analysis for the year ended 31.12.2005 and 31.12.2006

Particulars	2005	2006	Increase/decrease in amounts	Increase/decrease in percentages
Sources of funds: Current account	87745.36	97745.36	+10000	+11.4%
Capital account	460000	116785	-343215	-74.62
Loans	235910	69197	-166713	-71
Current liabilities	240926.36	5312611.67	+5071685.31	+210
Sundry creditors	3588692.15	3688692.15	+100000	+2.79
Goodwill	303	303	0	0
Total	5403276.87	9285334.18	+3882057.31	+72
Application of funds: Fixed assets	1353229.14	1709924.94	+356695.8	+26.36
Current assets: Closing stock	348520	515480	+166960	+47.91
Deposits	13510	118655	+105145	+77.82
Cash and bank balances	172544.05	200297.60	+27753.55	+16.01
Sundry debtors	3515473.68	5205229.90	+1689756.22	+48.1
Total	5403276.87	7749587.44	+2346310.57	+43.42

Interpretation:

During the year 2006 the current assets have increased when compared to the previous year 2005. The proportion of current liabilities has also been increased compared to previous year 2005. These facts signal overall increase in the liquidity position of the firm. The current liabilities have been increased by 210% when compared to the previous year, this shows that the firm is in a liquidity position.

Conclusion

CHAPTER – 5

CONCLUSIONS

5.1 Results and discussions:

The findings of the study are given below under various headings

5.1.1 Liquidity Ratios:

- A gradual increase in the current ratio is noticed. This is an indication of enhancement in the liquidity position of the firm. The firm is in a good position to meet all its short term dues.

- During the year 2004-05 there was a decrease in quick ratio due to the increase in current liabilities. Increase in current liabilities was mainly due to increase in provisions and sundry creditors.

5.1.2 Solvency Ratios:

- If the debt equity ratio is high, the owner's are putting up relatively less money of their own. It is dangerous signal for the creditors. If the firm fails financially then the creditors would lose heavily. During the year 2005-06 the debt equity ratio is very low which is satisfactory to the firm as the owner's have invested more in the firm. There is only little risk for the creditors.

- During the year 2006-07 the fixed assets to current assets ratio has been decreased to 0.29 from 0.67 in the year 2002-03. This was due to increase in current assets that are debtors and stock. This indicates that the fixed assets of the concern are not used appropriately along with the current assets.

- The proprietory ratio has been increased from 0.10 in the year 2002-03 to 0.15 in the year 2006-07. This shows that the management is utilizing the cheaper sources of funds like trade and creditors very effectively. As these sources of funds are cheaper, the inability to make use of it might lead to lower earnings and hence a lower rate of dividend payout.

5.1.3 Profitability Ratios:

- The gross profit position of the firm is weak as it shows a decreasing trend. The net sales of the firm should be taken care of properly to have an increasing trend. During the year 2002-03 the gross profit ratio was 0.39 which has then decreased to 0.21 in the year 2006-07.

- The company had a decreasing trend in the net profit ratio. During the year 2002-03 it was 0.04 which then had a loss in the year 2005-06 after which the company maintained to increase their profit by 0.02 in the year 2006-07.

5.1.4 Turnover Ratios:

- The debtor's turnover ratio plays an important role in each and every firm for their smooth establishment. The higher the Debtor's Turnover ratio, the better it is for the organization. In this case the firm has a satisfactory as well as a good position in maintaining its ratio. Even though in the beginning it was low it has gradually increased. The debtor's turnover ratio has been increased from 1.95 in the year 2002-03 to 2.27 in the year 2006-07. This indicates that the firm maintains a very good position in the market has there is short time lag between credit sales and cash collection. A low ratio shows that debts are not being collected rapidly which is not happening in this firm.

- The stock turnover ratio measures the number of times a company sells its inventory during the year. During the year 2006-07 the firm has a declining trend as the product was highly priced and sales were reduced during the period. The stock turnover ratio has been decreased from 17.24 in the year 2002-03 to 11.45 in the year 2006-07 which shows that the inventories have not been sold in the market properly. Due to this the company is not able to maintain its net profit level.

- The creditor's turnover ratio measures how many times the business payables turnover during the year. The firm has a high ratio during the year 2002-03 after which it has been declining for the next year then it has been increased in the forthcoming years. The creditor's turnover ratio has been increased from 1.88 in the year 2002-03 to 2.43 in the year 2006-07. This indicates that the firm is in a good position to maintain a short period of payment period.

- The firm had a very high working capital ratio at the beginning but later on the ratio was declining. At the last the ratio is very low which is not safe for the firm. During the year 2002-03 the working capital turnover ratio was 115.75 and then it has been decreased to 19.03 in the year 2006-07. The company should enhance proper utilization of current assets and current liabilities.

- In the case of this firm at the beginning there was a decrease in the fixed assets turnover ratio and at the end there was a very high increase in the ratio. The firm is in a proper position to earn profits. During the year 2002-03 the fixed assets turnover ratio was 2.64 after which it has been increased to 6.92 in the year 2006-07. There is fluctuation in the ratio due to utilization of fixed assets.

5.2 Considered Recommendations:

The suggestions of the study are discussed below.

- The current liquidity position of the firm should be maintained in the same level itself for the smooth running of the firm.

- The firm's quick ratio is in a satisfactory level so the firm can maintain the usage of quick assets and current liabilities.

- The fixed assets to current assets ratio should be improved by maintaining the stocks and debtors properly.

- The proprietory ratio can be improved by utilizing the cheaper sources of finance like trade and long term creditors.

- The gross profit of the firm should be improved by increasing the net sales of the concern.

- The debtor's turnover ratio has shown a very good impact in the year 2006-07 which can be maintained for the forthcoming years.

- The inventory turnover ratio can be brought to the satisfactory level by reducing the price of the product and increasing the sales of the product in the market.

- The creditor's turnover ratio can be improved by utilizing the advantage of credit periods.

- The working capital turnover ratio should be improved by the proper

CONCLUSION

This study has been undertaken to analyze the financial performance of Unijet Corporation limited. The study is taken into account the data from the past five years from 2002-2007. The various ratios like profitability ratio, solvency ratio, Liquidity ratio, and Turn-over ratios were calculated.

The profitability ratio shows that the net profit of the organization has increased compared to the previous years and the return to the share holders has also increased. Turn-over ratio shows the organization had efficiently used the investments, fixed assets and the working capital etc. Liquidity ratio shows that the short term liquidity position of the organization is also good. In general, the financial position of the organization has increased in all aspects for the past years. It shows the good sign to its shareholders to invest more in the organization, and it can be forecasted that the company will grow higher in the future.

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