



P-2057

**APPLICATION OF SERVICE TAX AND FINANCIAL
PERFORMANCE OF RANE (MADARS) LIMITED.**

P-2057

SUMMER PROJECT REPORT
Submitted to the
Faculty of Management Science, Anna University
In partial fulfillment of the requirements
For the Award of the degree of
MASTER OF BUSINESS ADMINISTRATION

By



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October 2006
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BONAFIED CERTIFICATE

Certified that this project titled “APPLICATION OF SERVICE TAX AND FINANCIAL PERFORMANCE OF RANE (MADRAS) LIMITED” is a bonafied work of S.VIJAY (71205631059) 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 an earlier occasion on this or any other candidate.

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MS.S.SANGEETHA

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Evaluated and Viva conducted on _____

Examiner 1

Examiner 2

CERTIFICATES

August 8, 2006

TO WHOMSOEVER IT MAY CONCERN

This is to certify that **Mr.S.Vijay (Reg.No.71205631059)** Second Year MBA student of **Kumaraguru College of Technology, Coimbatore,** has done his project work titled as **“A Study on Service Tax and Its Application”** in our organisation between **11-07-2006 to 08-08-2006.**

A handwritten signature in black ink, appearing to read "Johnson Andrews", written in a cursive style.

**JOHNSON ANDREWS
VICE PRESIDENT - HR**

DECLARATION

DECLARATION

I S.VIJAY (Reg.No.71205631059) here by declare that the project work entitled “APPLICATION OF SERVICE AND FINANCIAL PERFORMANCE OF RANE (MADRAS) LIMITED” is my original work and the project work has not been submitted to this university or any other university for the fulfillment of the requirements of any other study.

Signature of the Faculty Guide
MISS.S.SANGEETHA
Department of Management Studies,
KCT.



Signature of student
VIJAY.S

Place: Coimbatore
Date:

ACKNOWLEDGEMENT

I express my profound gratitude to all those who have helped me in the preparation of this project work. I extend my hearty thanks to the Principal **Prof. Joseph V. Thanikal**, for his guidance and encouragement to complete my project work.

I would like to thank **Prof. S.Ganesan**, Director, KCT Business School, for giving encouragement to complete the project work.

I am deeply indebted to Ms.**S.Sangeetha**, Lecturer, KCT Business School, who evinced keen interest and spending his valuable time and providing guidance that, has resulted in the present form.

First and for most my hearty thanks to my external project coordinator **Mr.K.Srivatsan, Secretary, Rane (Madras) Limited.**

I am also indebted to all the employees of Rane.

Finally, I thank my friends and parents for their continuous support and encouragement without which the project could not have been a success.

CONTENTS

CHAPTERS	PARTICULARS	PAGE NO
	LIST OF TABLES	i
	LIST OF CHARTS	ii
	EXECUTIVE SUMMARY	iii
1	INTRODUCTION	
	1.1 OBJECTIVE OF STUDY	01
	1.2 SCOPE OF STUDY	02
	1.3 METHODOLOGY	
	1.3.1 TYPE OF STUDY	03
	1.3.2 DATA COLLECTION	19
	1.3.3 TOOLS OF ANALYSIS	20
	1.3.4 LIMITATION OF STUDY	21
2	ORGANIZATION PROFILE	
	2.1 HISTORY OF THE ORGANIZATION	22
	2.2 MANAGEMENT	23
	2.3 ORGANIZATION STRUCTURE	24
	2.4 PRODUCTS PROFILE AND MARKET POTENTIAL	25
	2.5 COMPETITIVE STRENGTH OF THE COMPANY	26
	2.6 FUTURE PLANS	27
3	DATA ANALYSIS AND INTERPRETATION.	28
4	CONCLUSION.	50
	4.1 RESULT AND DISCUSSION	
	4.2 CONSIDER RECOMMENDATION.	
	BIBLIOGRAPHY	53

LIST OF TABLES

LIST OF TABLES:

TABLE NO:	TITLE OF THE TABLES	PAGE NO
1.	TABLE SHOWING WORKING CAPITAL TURNOVER RATIO	28
2.	TABLE SHOWING CURRENT RATIO	30
3.	TABLE SHOWING QUICK RATIO	32
4.	TABLE SHOWING CURRENT ASSET TURN OVER RATIO	34
5.	TABLE SHOWING CURRENT ASSET TO TOTAL ASSET RATIO	36
6.	TABLE SHOWING CAPITAL EMPLOYED RATIO	38
7.	TABLE SHOWING CASH RATIO	40
8.	TABLE SHOWING INTEREST COVERAGE RATIO	42
9.	TABLE SHOWING DEBTORS TURNOVER RATIO	44
10.	TABLE SHOWING DEBT EQUITY RATIO	46
11.	TABLE SHOWING INVENTORY TURNOVER RATIO	48

LIST OF CHARTS

LIST OF CHARTS:

CHART NO:	TITLE OF THE CHARTS	PAGE NO
1.	CHART SHOWING WORKING CAPITAL TURNOVER RATIO	29
2.	CHART SHOWING CURRENT RATIO	31
3.	CHART SHOWING QUICK RATIO	33
4.	CHART SHOWING CURRENT ASSET TURN OVER RATIO	35
5.	CHART SHOWING CURRENT ASSET TO TOTAL ASSET RATIO	37
6.	CHART SHOWING CAPITAL EMPLOYED RATIO	39
7.	CHART SHOWING CASH RATIO	41
8.	CHART SHOWING INTEREST COVERAGE RATIO	43
9.	CHART SHOWING DEBTORS TURNOVER RATIO	45
10.	CHART SHOWING DEBT EQUITY RATIO	47
11.	CHART SHOWING INVENTORY TURNOVER RATIO	49

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY:

A study on overall financial performance was conducted in the RANE (MADRAS) limited, Chennai. The secondary objective of the study was to analysis the efficiency of over all financial performance during the last five years from 2002 – 06.

The financial performance analysis diagnosis the information contained in the financial statements, so as to judge the profitability and financial soundness of the firm. Ratio analysis was used to identify the financial strength and weakness of the company.

Data used for analyzing the financial statement were secondary in nature and it was collected from the annual reports of the company.

Based on this finding, recommendations were given to improve the financial performance of the RANE (MADRAS) limited, Chennai.

CHAPTER - I

INTRODUCTION

OBJECTIVE OF THE STUDY

Main objective:

To study the application of service tax and financial performance of RANE (MADRAS) limited, Chennai.

Secondary objective:

- **To analyze the financial performance using ratios through.**
 1. **liquidity analysis**
 2. **operational efficiency analysis**
 3. **profitability analysis**
 4. **solvency analysis**
 - **To give findings and recommendation for the improvement of financial**
 1. **Performance of the company.**
-

SCOPE OF THE STUDY

FINANCIAL STATEMENT ANALYSIS:

The term financial analysis also known as analysis and interpretation of financial statements; refers to the process of determining financial strengths and weakness of the firm by establishing strategic relationship between the items of the balance sheet, profit and loss account and other operative data.

PROCEDURE OF FINANCIAL STATEMENT ANALYSIS

Broadly speaking there are three steps involved in the analysis of financial statement. These are

- Selection
- Classification
- Interpretation

METHODS OR DEVICES OF FINANCIAL ANALYSIS

Analysis and interpretation of financial statement is used to determine the financial position and results. A number of methods are used to study the relationship between statements.

- Comparative statement
- Trend analysis
- Ratio analysis
- Cost sheet analysis

The present study at analyzing the financial performance of the RANE (MADRAS) limited. For this purpose the ratio analysis had been used as tools.

METHODOLOGY

This study is based on secondary data obtained from audited annual report of the concern. Further information is collected through records and books of the RANE (MADRAS) limited.

Research Design:

As the study aims at narration of facts regarding the financial position of the company, the research design adopted in the study has been descriptive in nature.

Period of study:

The period of study has been taken for five years from the year 2002 – 06.

Sources of data:

Data used for the study are secondary in nature. The information was collected from the published annual reports and accounting records constitutes the secondary data.

ORIGIN OF SERVICE TAX IN INDIA

Chapter V of the finance act, 1994(32 of 1994) (section 64 to 96) deals with imposition of service tax on

- a. Service rendered by the telegraph authorities to the subscribers in relation to telephone connection.
- b. Service provided by the insurer to the policy holder in relation to general insurance business; and
- c. Service provided by a stockbroker.

The finance Act of 1996, 1997 and 1998 added 3, 12 and to more service respected to be taxed for service tax purpose. Finance act 2001 added 15 new service under the tax net w.e.f 16th July 2001. While finance act, 2002 added ten more services w.e.f 1st July 2003. Finance act 2004 has enlarged the scope of service tax by bringing in 13 new services under the tax.

MEANING OF SERVICE TAX

Service constitutes a very heterogeneous economic category. Over a period of time the definition of service has also undergone change. In older days, it was difficult to separate service from the service provider and recipient and people were crucial to the definition of service.

Today service also include business service which also eternalize part of research and development, management functions and include service such as banking, insurance, administration distribution, retailing business process outsoaring etc.,

- No basic exemption limit.
 - No registration charge. Registration shall be deemed to have been granted, if not granted within 7 days of application.
 - Penalty for non-registration or delayed registration
 - Uniform tax rate @ 10% plus Education cess @ 2% of service tax.(prior to 10.09.04 it was 8% and no such cess was applicable).
 - Certain exemptions are provide in case of service provide to UN international organization and SEZ, subject to fulfillment of certain conditions.
 - Payment of tax only OB realization of value of taxable service.
 - Payment to be on quarterly basis in case of individual, proprietary or partnership firm monthly payment in other cases.
 - Delay in payment of tax – simple interest and stringent penalty.
 - Credit of tax paid on input service and suites paid on inputs and capital goods can be availed subject to fulfillment of certain conditions.
 - No specific records have been prescribed.
 - Half yearly returns to be filed respective of income. Return is in the form of self – assessment.
 - Electronic filing of return is now possible for all service.
 - Failure to file return may entail penalty consequences.
 - Central excise officers have the power to issue notices for production of documents, accounts etc.,
 - Central excise officers have the power to search premises and size the document books or other things.
-

Service tax was introduced for the first time in the year 1994, through the insertion of chapter V in the finance act 1994 (here in after referred to as the act) there are three service in organized sector viz., telephone, general insurance and stock broking. Since then the act has been amended year after year, in order to bring more service into the tax net, as well to insert certain new provisions found necessary as on date (10.09.2004) as many as 76 service have been covered under the act effectively.

SCOPE OF THE SERVICE TAX RULES

- Rule 1 covers “title and commencement”.
 - Rule 2 relates to definitions of various terms.
 - Rule 3 relates to empowerment of officers at different level by CBEC.
 - Rule 4 deals with the procedure for registration.
 - Rule 5 covers the records to be maintained by the assesses
 - Rule 6 relates to procedure for payment of service tax.
 - Rule 7 prescribes the procedure for filling return.
 - Rule 7A prescribes returns in case of GTO’s and CFAS.
 - Rule 8 relates to form of appeals to commissions (appeals)
 - Rule 9 relates to forms of appeals to tribunal.
-

Clause so of the bill seeks to amend chapter V of the finance act, 1994 relating to service tax in the following manner namely:

1. To any person by airport authority or any person authorized by it. In an airport or civil enclave.
 2. To any person, by an aircraft operator in relation to transport of goods by aircraft.
 3. To any exhibitor by the organization of and business exhibition in related to business exhibition.
 4. To any customer, by a goods transport agency in relation to transport of goods by road in goods courage.
 5. To any person, by a commercial concern in relation to construction service;
 6. To any person, by the holder of intellectual property rights in relation to intellectual property service.
 7. To any person, by an opinion poll agency in relation to opinion poll.
 8. To any person, by an outdoor caterer.
 9. To any person, by a programme produces, in relation to a programme.
 10. To a customer, by any person in relation to survey and exploration of mineral.
 11. To any person, by a travel agent in relation to the booking of passage for travel.
 12. To any person, by a member of a recognized association or a registered association, in relation to a forward contract.
-

- Section 64 gives extent, commencement & application
 - Section 65 defines the different service and terms used in act.
 - Section 65A provides classification of taxable service.
 - Section 66 empowers the government to levy. Prescribe rate of tax and collect service tax on taxable service.
 - Section 67 explains the valuation of different service of taxation.
 - Section 68 specifies persons liable to pay the tax on service rendered.
 - Section 69 requires every person liable to pay the tax to apply for registration and obtain registration certificate.
 - Section 70 requires person liable to pay service tax to file periodical returns.
 - Section 71 and 72 relate to assessment and best judgment assessment committed by finance Act – 2004.
 - Section 71A provide, for filling of returns by certain customer (GTOs and CFAs)
 - Section 73 prescribes recovery of service tax not levied or paid or short levied or short paid or erroneously refunded.
 - Section 74 empowers the assistant/deputy commissioners to rectify mistakes within two years of the order.
 - Section 75 requires payment of interest @24% per annum on delayed payment of tax.
 - Section 75A prescribes penalty for failure of registration (omitted by finance act, 2004).
 - Section 76 prescribes penalty for failure to pay service tax.
 - Section 77 relates to penalty for contravention of any provision for which no penalty is provided.
 - Section 78 relates to penalty for suppressing value of taxable service.
 - Section 79 prescribes penalty for failure to comply with notice (omitted by finance act, 2004).
-

- Section 81 prescribes procedure for dealing with offences by companies (omitted by finance act, 2004).
 - Section 82 empowers assistant/deputy commissioners to search premises and to seize.
 - Section 83 makes provisions of sees. 9C,9D,11,11B,11BB,12A,12C,12D,12E,14,15,35F to 350(both inclusive) 35Q,36,36A,36B,37A,37B,37C,37D and 40 applicable to service tax.
 - Section 84 empowers the commissioners of CE to review orders passed by his subordinates within two years.
 - Section 85 provides that appeals can be filed before the commissioner of central excise (appeals) against orders passed by the assistant/deputy commissioners including denial of refunds.
 - Section 86 provides for appeal to appellate tribunal against orders of the commissioner of CE under section 84 or the commissioners of CE (appeals) under section 85 by the taxpayer or the CBEC prescribe fee for filling such appeals.
 - Section 93 empowers the government to grant exemption from service tax.
 - Section 94 empowers the government to make rules for specified purpose in the section (credit, exemptions, rebate, export, etc...).
 - Section 95 empowers the central government to remove difficulties.
 - Section 96 provides for consequential amendment
 - Section 96A to 96- 1 provides for advance rulings (chapter V A).
-

1. The government benefits because of the higher revenue realization on a wider tax base than earlier.
2. A substantial position of the GDP contribution gets covered by the tax.
3. The tax payers should not find it difficult. As they are required to pay the tax after nearly 40 days (on an average basis after collecting the service tax from this customer). In the case of individuals, proprietary firms or partnership firms. The retention period of the service tax with the taxpayer will be nearly 105 days.
4. The tax payers are not required to maintain any special accounts for the purpose of service tax.
5. No documents are required to be filed along with the return except the details about the transactions.
6. The tax rate is quite low and should not be a burden on any one.
7. The procedure prescribed is very simple and the numbers of sections and rules in the finance act and the service tax rules are not too many and therefore create less complications.
8. There cannot be many disputes about rates and valuation.
9. Incidence of tax can be passed on the beneficiary of service.
10. Service tax is the first e – tax of India where code numbers, registration and returns can be electronically filed.
11. Input tax credit is available to assess.

DISADVANTAGE OF SERVICE TAX:

The only disadvantage is that, the service tax, like any other indirect tax, is regressive it is bound to affect all sections of the society. There also exist several areas of confusion and doubts on various definitions, scope of service and taxability of service.

The application for registration is to be made in Form ST – 1 to the central excise officer within 30 days from the date of which service tax is levied. Sub rule (3A) of rule (4) provides that where an assessee is providing taxable service from more than one premises or office and has a centralized accounting system in respect of such service rendered to clients from such service premises or offices at any one premises or office. The commissioners of central excise may permit such assessee to register only one premises or office from where such centralized accounting is done.

Since the introduction of service tax in 1994 revenue collected from service tax has been increasing slowly by steadily. The collections are as under.

Year	No. of assesses	Gross collection	No. of service
1994 - 95	3943	407 core	3
1995 - 96	4865	862 core	3
1996 - 97	13982	1059 core	6
1997 - 98	45991	1586 core	18 (levied on different dates)
1998 - 99	904456	1957 core	30 (12 added w.e.f 16.10.98)
1999 - 2000	100000	2072 core	25
2000 - 01	132000	2612 core	26
2001 - 02	175000	3305 core	41 (15 new service added w.e.f 16.07.01)
2002 - 03	230000	6026 core	51 (10 new service added w.e.f 16.08.02)
2003 - 04	380000	8300 core	58 (7 new service added w.e.f 01.07.03)
2004 - 05	N.A	14150 core	71 (13 new service)
2005 - 06	N.A	17620 core	81 (10 new service)
		(up to Feb. 2006)	



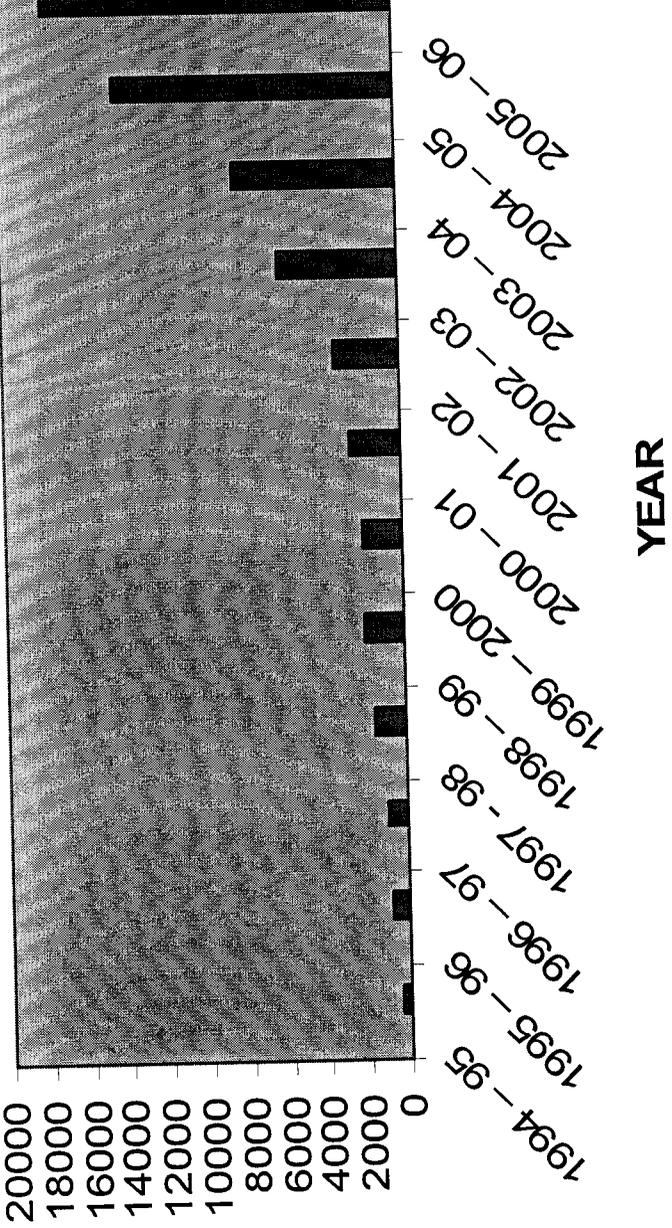
P - 2057

GROWTH OF SERVICE TAX REVENUE AT A GLANCE

GROWTH IN SERVICE TAX

20000
18000
16000
14000
12000
10000
8000
6000
4000
2000
0

- Series 1
- Series 2



1. WORKING CAPITAL TURNOVER RATIO

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

NET SALES

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

2. CURRENT RATIO

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

CURRENT ASSETS

CURRENT RATIO =

CURRENT LIABILITIES

Quick ratio can be defined as the relationship between quick assets and current liabilities. Quick assets are cash like assets representing all current assets other than inventory. It is also called Acid test ratio. It is more severe and stringent test of a firm's ability to meet current obligations assessing how liquid the firm would be if the business operations come to an abrupt halt. A quick ratio of 1:1 is considered as a fair indication of the good financial condition of a business concern.

$$\text{QUICK RATIO} = \frac{\text{QUICK ASSETS}}{\text{CURRENT LIABILITES}}$$

4. CURRENT ASSET TURNOVER RATIO

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

$$\text{CURRENT ASSET TURNOVER RATIO} = \frac{\text{NETSALES}}{\text{CURRENT ASSET}}$$

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

$$\text{CURRENT ASSET TO TOTAL ASSET RATIO} = \frac{\text{CURRENT ASSET}}{\text{TOTAL ASSET}}$$

6. NET WORKING CAPITAL TO CAPITAL EMPLOYED RATIO

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

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

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

$$\text{CASH RATIO} = \frac{\text{CASH IN HAND \& BANK}}{\text{CURRENT LAIBILITIES}}$$

8. CASH FLOW COVERAGE RATIO

Cash flow coverage ratio is the relationship between sum of earnings before interest and tax and depreciation and interest. Cash flow coverage includes earnings before interest and tax, depreciation, preference dividend and installment of principle. It measures the relationship between what is normally available from operations of the firm and claims of the outsiders the liquidity position of a firm to serve the outsiders is reflected in the ratio. The higher the ratio, the better the ability. Similarly lower the ratio, lesser the ability.

$$\text{CASH FLOW COVERAGE RATIO} = \frac{\text{EBDIT}}{\text{INTEREST}}$$

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

$$\text{DEBTORS TURN OVER RATIO} = \frac{\text{NET CREDIT SALES}}{\text{AVERAGE SALES}}$$

10. *DEBT EQUITY RATIO*

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

$$\text{DEBT EQUITY RATIO} = \frac{\text{OUTSIDERS FUND}}{\text{SHAREHOLDERS FUND}}$$

Inventory turnover ratio is the number of times the inventory is turned over in the business during a particular period and it measures the relationship between sales and average inventory. This ratio measures how quickly inventory is sold and indicates whether investment in inventory is within proper limits or not, signifying the liquidity of the inventory. Higher the ratio more the sales and minimum level of inventory is held and hence possessing good inventory management.

$$\text{INVENTORY TURN OVER RATIO} = \frac{\text{SALES}}{\text{INVENTORY}}$$

DATA COLLECTION

Data used for the study are secondary in nature. The information was collected from the published annual reports and accounting records constitutes the secondary data.

TOOLS OF ANALYSIS

The tools used for analyzing the financial performance were:

Ratio analysis

LIMITATION OF STUDY

The study has the following limitations.

1. The analysis has been done based on the published financial statements of the company. The limitation of the financial statement will also apply to interpretation of the study.
 2. The interpretation of the study was based on the past data changes in price structures and market situation also affect the interpretation.
 3. The figures taken for analysis are mostly approximate.
-

CHAPTER – 2

ORGANISATION PROFILE

*HISTORY OF THE
ORGANIZATION*

The Rane group amongst the oldest and most forceful groups in the automotive component industry was founded over six decades ago.

Beginning unpretentiously in 1929 as “RANE PRIVATE LIMITED” trading in automobiles and parts – Rane has moved over the years to become a manufacturer and leader today in each of its major product lines.

The industrial policy in the mid-fifties provided virtually the new deal for the Indian automotive industry, Rane, ever responsive to the emerging opportunities, launched into the production of auto components with engine values limited in 1959. Rane (Madras) Limited commenced manufacturing operations in 1960. Rane Brake Linings was born in 1964 and in 1965. When Rane (Madras) Limited shed its trading activities, the transformation of a trading enterprise into a manufacturing entity was complete.

- 1929** Started out a trader of automobiles and parts.
 - 1959** The manufacturing operation for steering linkages commenced.
 - 1960** Manufacture of brake linings was started.
 - 1964** The manufacture of brake linings was started.
 - 1974** Operations, in associate company. Kar mobiles limited, Specializing in medium and large diesel values was started.
 - 1975** Commenced manufacture of manual steering gears
 - 1987** Commenced manufacture of integral power steering system.
 - 1995** Three new company was incorporated for the manufacture of
 - ❖ Clutch assemblies
 - ❖ Energy absorbing steering columns
 - ❖ Seat belt system
-

MANAGEMENT

Management

“Management is the art of getting things done through others”. In the words of Koontz O Donnel “Management is the creation and maintenance of an internal environment in an enterprise where individuals working groups can perform efficiently and effectively towards the attainment of group goals”

Functions of Management

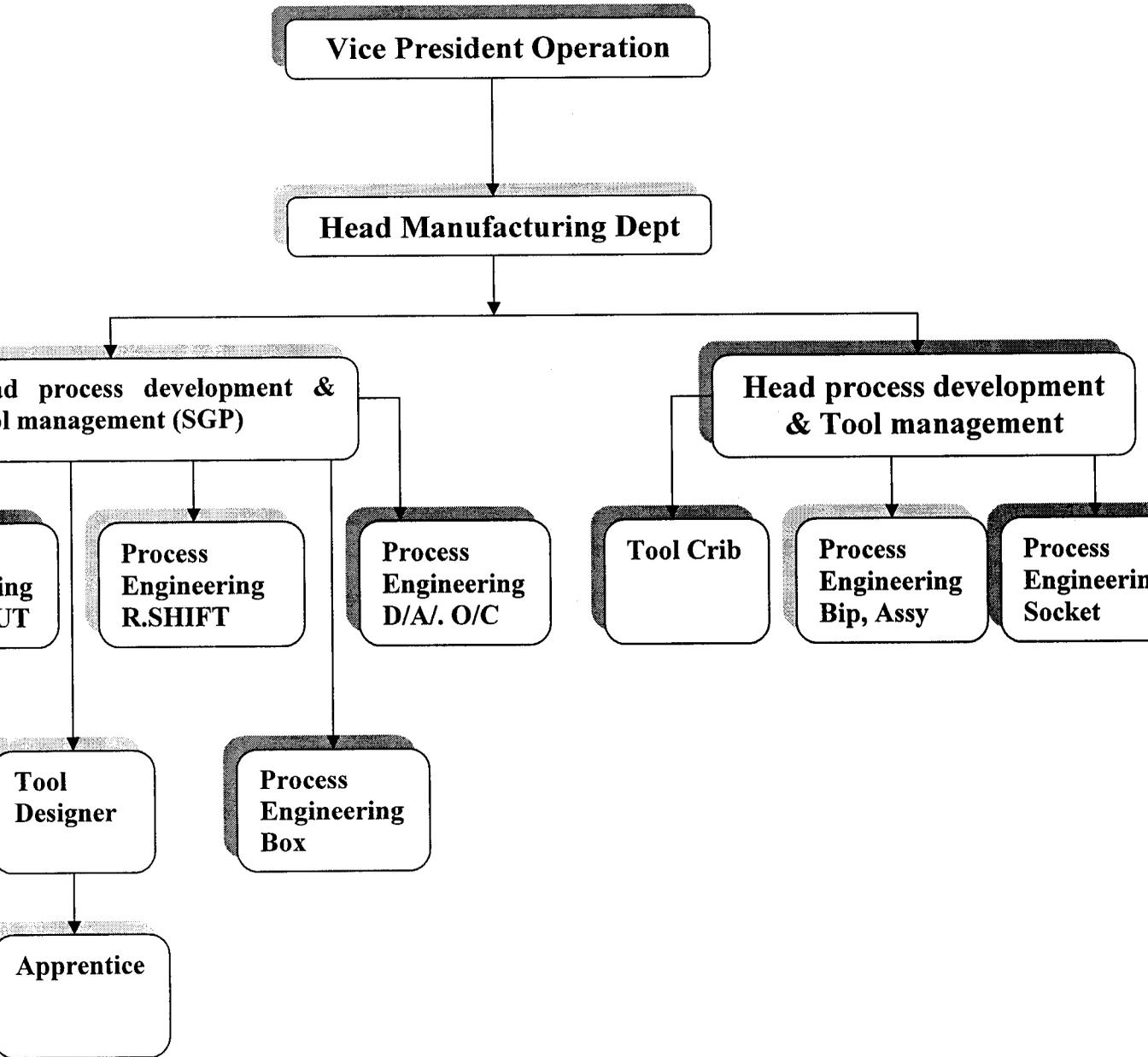
- ❖ Planning
- ❖ Organizing
- ❖ Staffing
- ❖ Directing
- ❖ Controlling

Administration

Administration is a determinative function concerned with the determination of objectives and policies.

According to Oliver Sheldon “Administration is the function in industry concerned with the determination of corporate policy”, the co-ordination of finance, production and distribution the settlement of the compass of the organization and ultimate control of the executive.

*ORGANIZATION
STRUCTURE*



*PRODUCTS PROFILE
AND MARKET POTENTIAL*

RANE has been a key support system in the growth of automotive industry. They emphasize more on international quality and reliability. The major products manufactured by RML are steering and suspension joints and steering gears.

Strength of Rane

The tie rods (SSLP) and steering gear box (SGD) produced by RML are used in most of the vehicles such as Cars, LCV, HCV, Tractors and Utilities.

Rane ensures high standards of business ethics and integrity in all their actions. This serves as a vital success for RML.

Success of Rane

RANE aims to satisfy their customers through quality.

“Customers are the king of the modern marketing”

“Customers are the final judges of our quality”

‘Each and Every employee in the company contributes towards achieving our quality goods. It is therefore the responsibilities of every employee to ensure high standard.

ISO 9001 CERTIFICATION

It is the endeavor to attain the world class quality standards. RML commences procedure for ISO 9001 in 1994 the company got the ISO 9001 accreditation in 1995 from BVQI of U.K.

- ✓ Pondicherry plant (Qs certification obtained in 2001)
- ✓ Chennai and Mysore plants obtained QS9000 certification on 2003.

Entire company is gearing towards TQM.

*COMPETITIVE STRENGTH
OF THE COMPANY*

Uniqueness of the company

- Only Manufacturer of Steering Gears and Linkages.
- RML manufactures all Range Manual Steering gears.
 - Re- Circulation ball.
 - Worm & Roller.
 - Rack and Pinion

- RML manufactures all Range of Linkages.
- With Grease Nipple.
- Greaseless.
- Only company to supply PC, LC, HCV and Tractors markets.
- Along with group companies uniquely positioned to supply full system from steering wheel to road wheels.
- Market leaders in both product groups
 - SSIP- 60% & SGP- 48%

Rane Madras Today

- Technology from world's best sources.
 - Strong R&d, CAD and testing facilities.
 - Cost effective design.
 - Multi location – Chennai, Mysore pundy.
 - Leading and preferred supplier for all domestic OMS.
 - Customer focus through L.P.S
 - Export to tractors segment.
 - Certified to ISO 9001.
-

FUTURE PLANS

RANE continues to create new relationships and forge partnership with world leaders in the auto components industry. It includes.

Products

Seat belt systems

State of the art clutch system

Energy absorbing steering

Japan/Torrington,

Column

Partners

TRAW, U.S.A.

LUK, Germany.

NSK,

U.K.



CHAPTER – 3

*DATA ANALYSIS AND
INTERPRETATION*

1. WORKING CAPITAL TURNOVER RATIO

Table: no: 3.1

Table showing the Working Capital turnover ratio of RML

YEARS	NETSALES (Rs.)	NET WORKING CAPITAL (Rs.)	RATIO
2001-02	1376148817	141952600	09.69
2002-03	1461005	121953	11.98
2003-04	1756888	121953	14.41
2004-05	1984763	135391	14.66
2005-06	2796236	124141	22.52

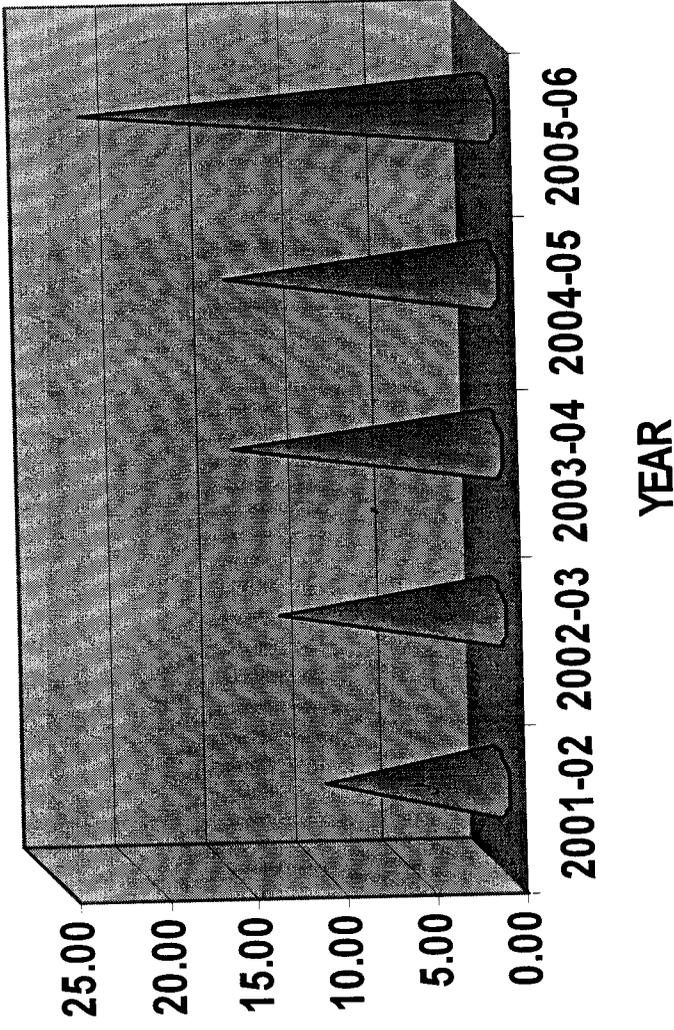
INTERPRETATION:

The Working Capital Turnover ratio of RML during 2001-02 was 9.69 that of 2002-03 were 11.98 and 2003-04 was 14.41. Lowest was recorded in the year 2001-02. The ratio shows an increasing trend from 2001-02 to 2005-06. Here sales have increased constantly from 2002-03 but at the same time working capital has also increased, as a result production also increased in subsequent years.

INFERENCES:

It is found that the Working capital turnover ratio has gradually increased during the year 2001-06; hence it is good sign of effective utilization of working capital to produce more goods and increase in sales.

WORKING CAPITAL TURNOVER RATIO



WORKING CAPITAL TURNOVER RATIO

Table: no: 3.2

Table showing the Current Ratio of RML

YEARS	CURRENT ASSETS	CURRENT LIABILITIES	RATIO
	(Rs.)	(Rs.)	
2001-02	664091526	343889701	1.93
2002-03	540187	254518	2.12
2003-04	685221	367622	1.86
2004-05	875988	383675	2.28
2005-06	888055	480320	1.85

INTERPRETATION:

During the year 2001-02, the current ratio was 1.93 which is increased to 2.12 and 2.28 during 2002-03 and 2005-06. In 2003-04 it has decreased to 2.074 and during 2005-06 it has increased to 2.28. There shows a slight decrease in ratio during 2003-04 because of increased current liabilities due to increase in the income tax payment, sales tax and excise liability.

INFERENCES:

It is found that the current ratio was fluctuating during the study period. Especially in the year 2005-06 it is very low i.e.1.85. The low current ratio represents that the liquidity position of firm is not good and the firm may not be able to pay its short term obligations.

CURRENT RATIO

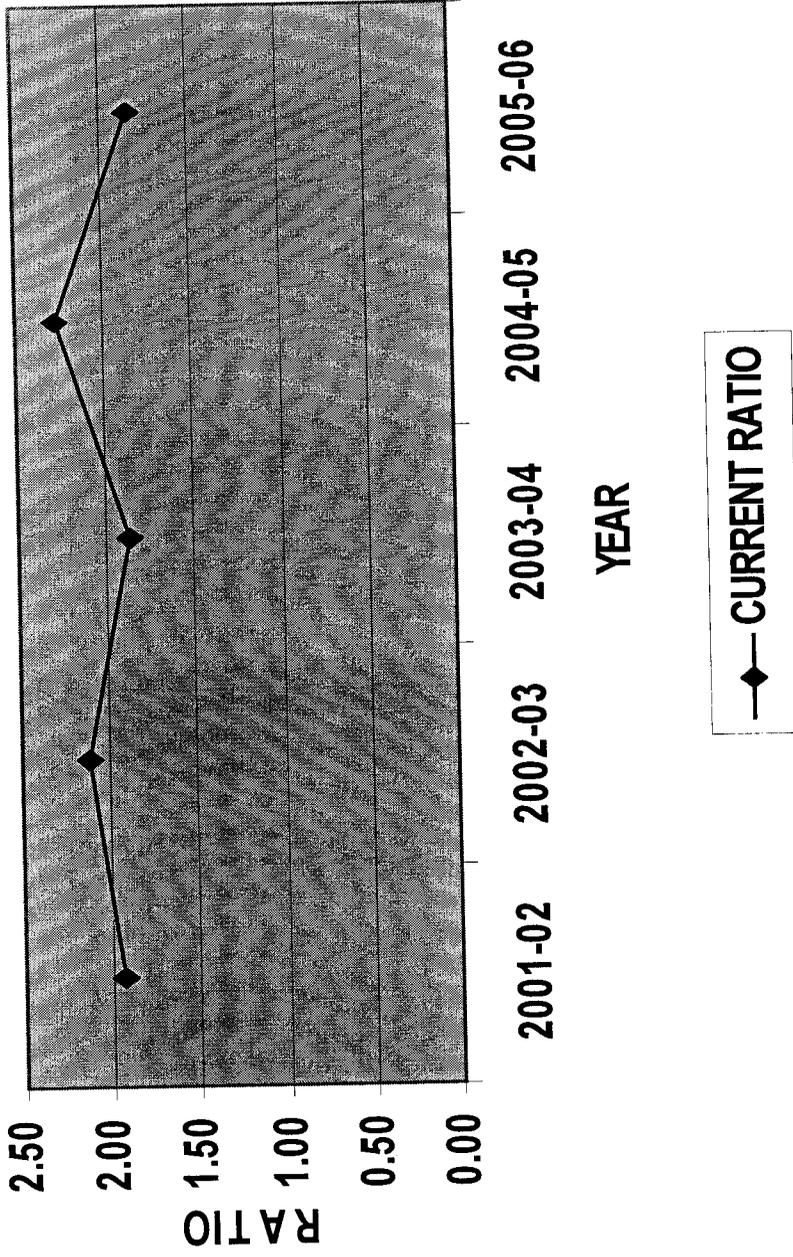


Table: no: 3.3

Table showing the quick ratio of RML

YEARS	QUICK ASSETS	CURRENT LIABILITES	RATIO
	(Rs.)	(Rs.)	
2001-02	634771273	343889701	1.85
2002-03	476971	254518	1.87
2003-04	634803	367622	1.73
2004-05	802383	383675	2.09
2005-06	833741	480320	1.74

INTERPRETATION:

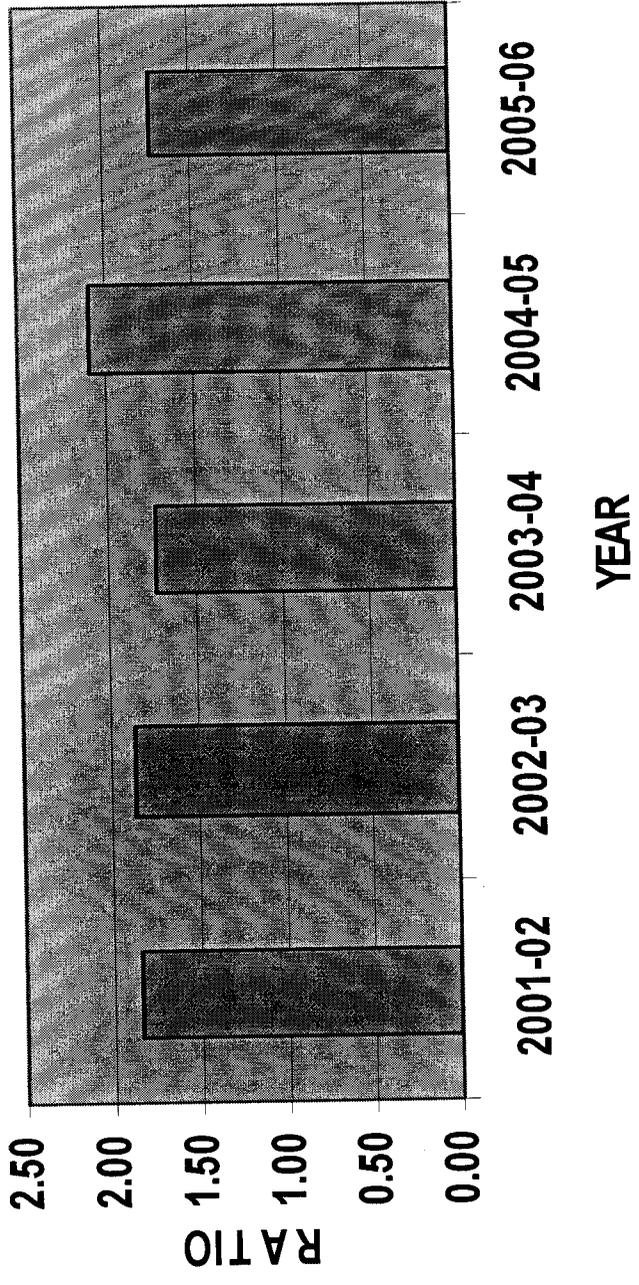
Quick ratio of RML during 2001-02 was 1.85 and it has increased to 1.87 and 2.09 in 2002-03 and 2005-06 respectively. In 2003-04 the ratio has decreased to 1.73 because of increase in current liability. In 2005-06 again it was increased to 2.09. This increasing trend was due to increased quick assets.

INFERENCES:

It is found that the quick ratio shows the increasing trend due to decrease in current liabilities.

Chart showing quick ratio

QUICK RATIO



■ QUICK RATIO

Table: no: 3.4

Table showing the current asset turn over ratio of RML

YEARS	NETSALES	CURRENT ASSET	RATIO
	(Rs.)	(Rs.)	
2001-02	1376148817	664091526	2.07
2002-03	1461005	540187	2.70
2003-04	1756888	685221	2.56
2004-05	1984763	875988	2.27
2005-06	2796236	888055	3.15

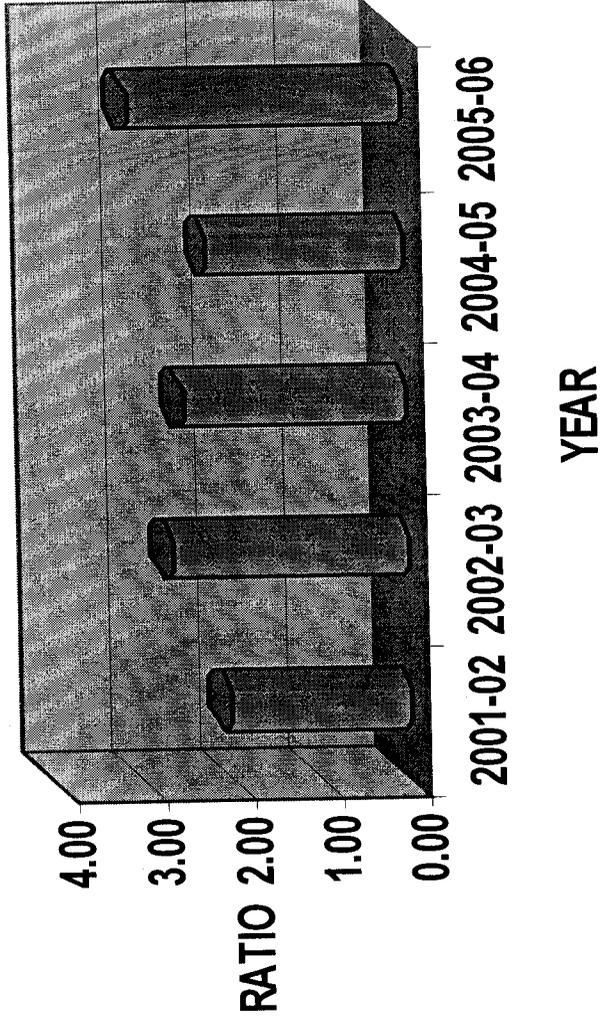
INTERPRETATION:

During 2001-02 the ratio is 2.07 and after that the ratio was 2.70, 2.56, 2.27, and 3.15 in the subsequent years respectively. The highest ratio was found in 2005-06, due to the efficient use of current assets. The basic reason for this was decreased loans.

INFERENCES:

It is found that the current asset turnover ratio had an increasing trend during the study period which was due to increase in sales every year.

CURRENT ASSET TURNOVER RATIO



■ CURRENT ASSET TURNOVER RATIO

Table: no: 3.5

Table showing the current asset to total asset ratio of RML

YEAR	CURRENT ASSET	TOTAL ASSET	RATIO
	(Rs.)	(Rs.)	
2001-02	64091526	311808689	0.21
2002-03	540187	279512	1.93
2003-04	685221	289212	2.37
2004-05	875988	466708	1.88
2005-06	888055	365777	2.43

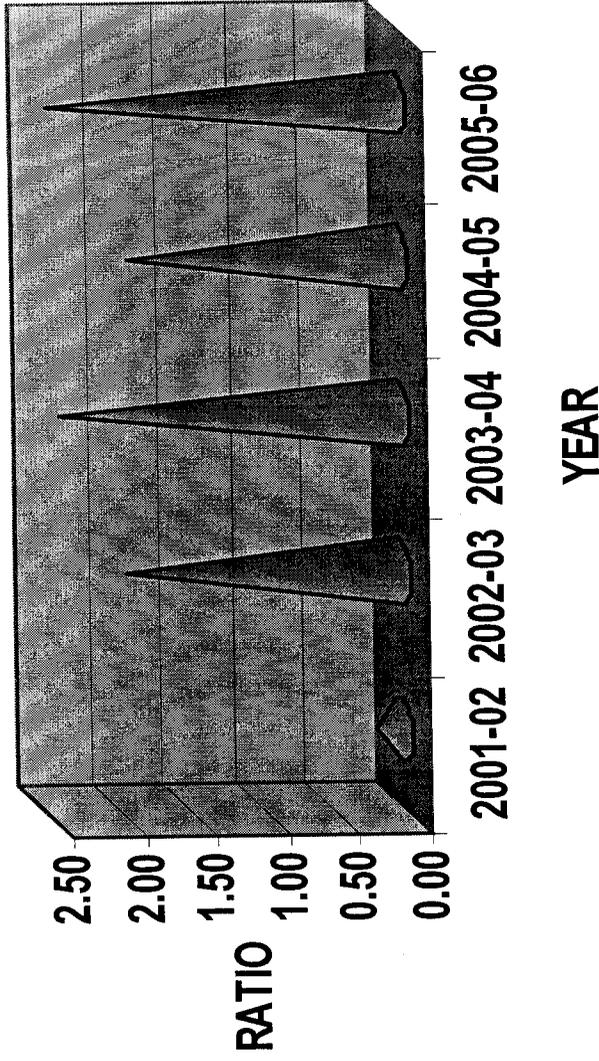
INTERPRETATION:

Current asset to total asset ratio for the year 2001-02 was 0.21, 2002-03 was 1.93, and 2003-04 was 2.37, respectively. Higher ratio was found in 2005-06 as the proportion of current asset to total asset is high. This was because of increase in Current asset utilization resulting in less profitability when compared to previous year. It shows that company's profitability position shows slight decreasing trend. But overall profitability is satisfactory.

INFERENCES:

It is found that the total asset turnover ratio was fluctuating during the years 2001-06. This implies that there was excessive investment and also improper utilization of current assets.

CURRENT ASSET TO TOTAL ASSET RATIO



■ CURRENT ASSET TO TOTAL ASSET RATIO

Table: no: 3.6

Table showing the net working capital to capital employed ratio of RML

YEAR	WORKING CAPITAL	CAPITAL	RATIO
	(Rs.)	(Rs.)	
2001-02	1300006	141952600	0.01
2002-03	22648	121953	0.19
2003-04	15618	121953	0.13
2004-05	10067	135391	0.07
2005-06	7498	124141	0.06

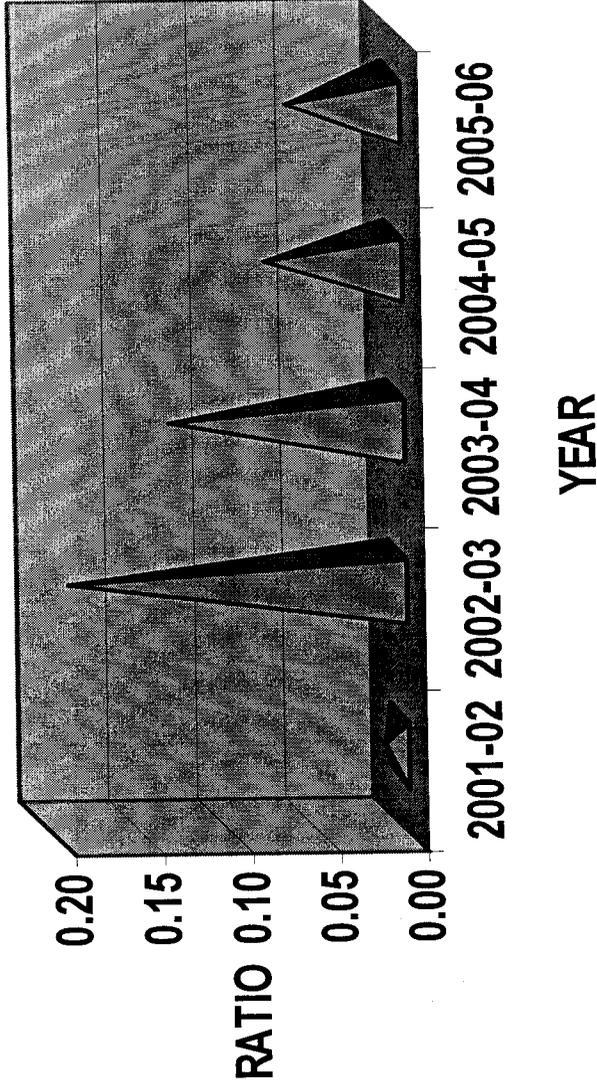
INTERPRETATION:

Net working capital to capital employed ratio during 2001-02 was 0.01 and it shows an increasing trend in the subsequent years. During 2001-02 the ratio was 0.01 and 0.19, 0.13 and 0.07 respectively for 2002-03, 2003-04 and 2005-06. The ratio was found to be high in the year 2002-03. This reveals that the working capital employed is less due to decline in sales during that year.

INFERENCES:

It is found that the net working capital to capital employed ratio shows fluctuating trend. This reveals that the working capital employed is less due to decline in sales during those years.

NET WORKING CAPITAL EMPLOYED RATIO



■ NET WORKING CAPITAL EMPLOYED RATIO

Table: no: 3.7

Table showing the cash ratio of RML

YEAR	CASH IN HAND & BANK	CURRENT LAIBILITIES	RATIO
	(Rs.)	(Rs.)	
2001-02	12303111	343889701	0.04
2002-03	6041	254518	0.02
2003-04	4266	367622	0.01
2004-05	66080	383675	0.17
2005-06	4381	480320	0.01

INTERPRETATION:

In the year 2001-02 the cash ratio was 0.04 then it has decreased to 0.02 and 0.01 during 2002-03 and 2003-04 respectively. The higher liquidity was found during 2004-05. The ratio shows a decreasing trend due to decrease in cash credit account balance, excise liability and sales tax. Since ratio is showing decreasing trend, liquidity level rises up possessing unsatisfactory results.

INFERENCES:

It is found that the cash ratio shows fluctuating trend and hence liquidity level rises up possessing unsatisfactory results.

CASH RATIO

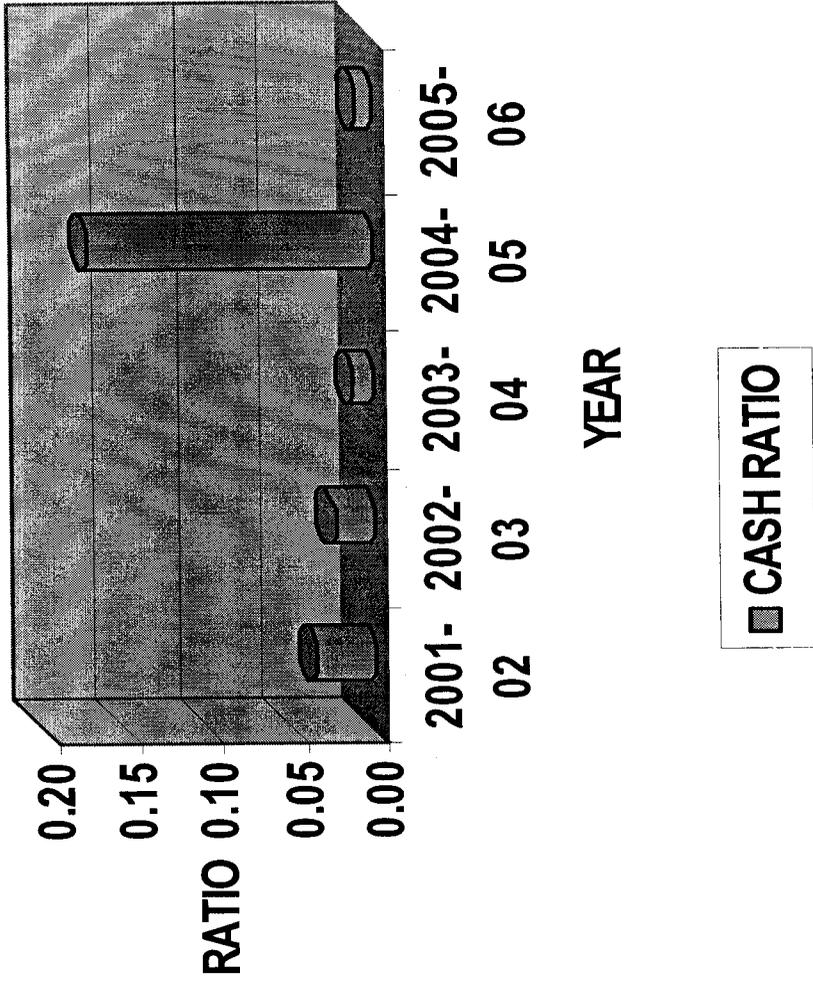


Table: no: 3.8**Table showing the cash flow coverage ratio of RML**

YEAR	EBDIT	INTEREST	RATIO
	(Rs.)	(Rs.)	
2001-02	125230810	115132963	1.09
2002-03	134020	108650	1.23
2003-04	193814	84590	2.29
2004-05	179280	43244	4.15
2005-06	229577	35778	6.42

INTERPRETATION:

In the year 2001-02 the cash flow coverage ratio of RML was 1.09. Then the ratio shows an increasing trend from 2001-02 to 2005-06 and reached up to 6.42. The increasing trend was mainly due to increased EBIT and depreciation; this means that RML has the ability to serve outsiders liability there by maintaining their liquidity position. So the study reveals a satisfactory position, as shows it has better ability to serve the outsiders liabilities.

INFERENCES:

It is found that the cash flow coverage ratio is increasing constantly from 2001-06 reveals a satisfactory position, as it shows better ability to serve the outsiders liabilities.

INTEREST COVERAGE RATIO

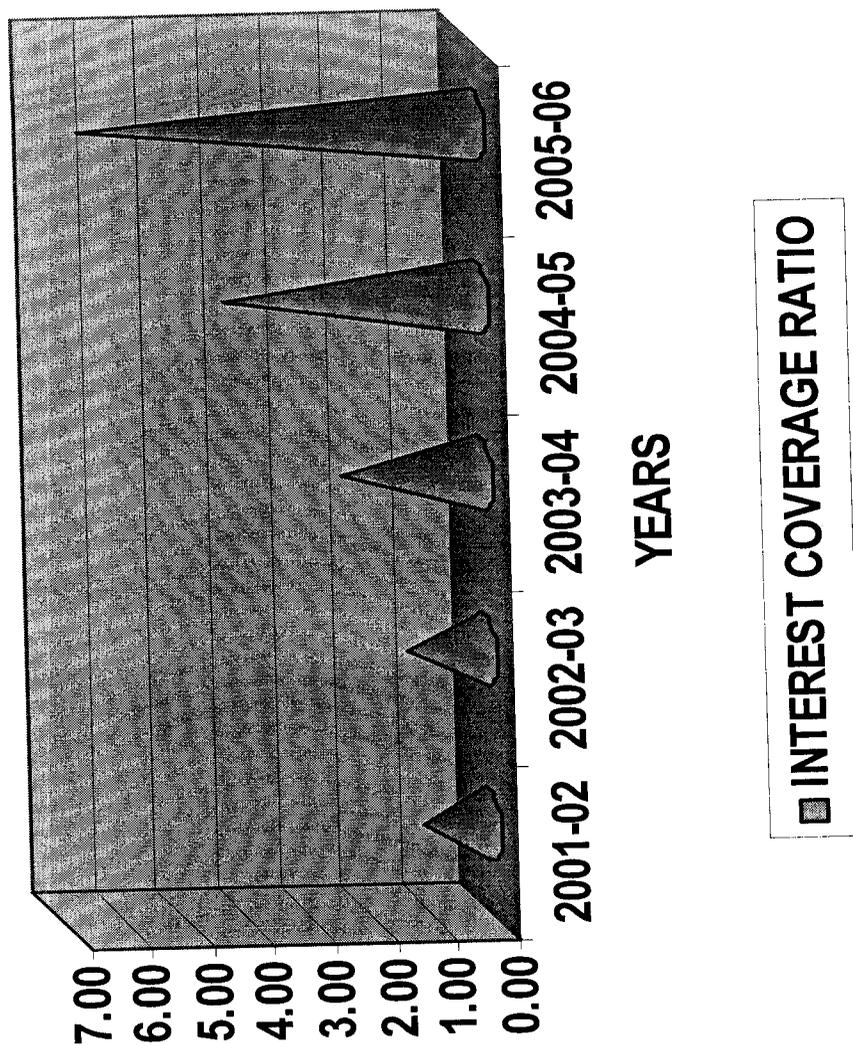


Table showing the debtors turnover ratio of RML

YEAR	NET CREDIT SALES (Rs.)	AVERAGE SALES (Rs.)	RATIO
2001-02	1376148817	455055167	3.02
2002-03	1461005	289598	5.04
2003-04	1756888	353757	4.97
2004-05	1984763	413568	4.80
2005-06	2796236	435864	6.42

INTERPRETATION:

In the present study, debtor's turnover of RML during 2002-03 was 5.04 and reduced to 4.80 in 2004-05. The ratio shows a fluctuating trend. This was due to delay in collection of debts. This shows inefficient credit management of the company. This was due to increased sundry debtors because of high price of product fixed as per recent government policies. So it is to be concluded that debtor's turnover ratio shows unsatisfactory position of RML because of decreasing trend in the ratio. Though there was an unsatisfactory trend prevailing during the previous years, it shows a satisfactory result in the current year as it has increased from 4.8 to 6.42.

INFERENCES:

It is found that the companies debtors turnover is increasing gradually from 2001-06. The higher the value of debtors' turnover ratio implies a Firms inability to sell on credit thereby loosing sales and profits.

Chart showing the debtors turnover ratio

DEBTORS TURN OVER RATIO

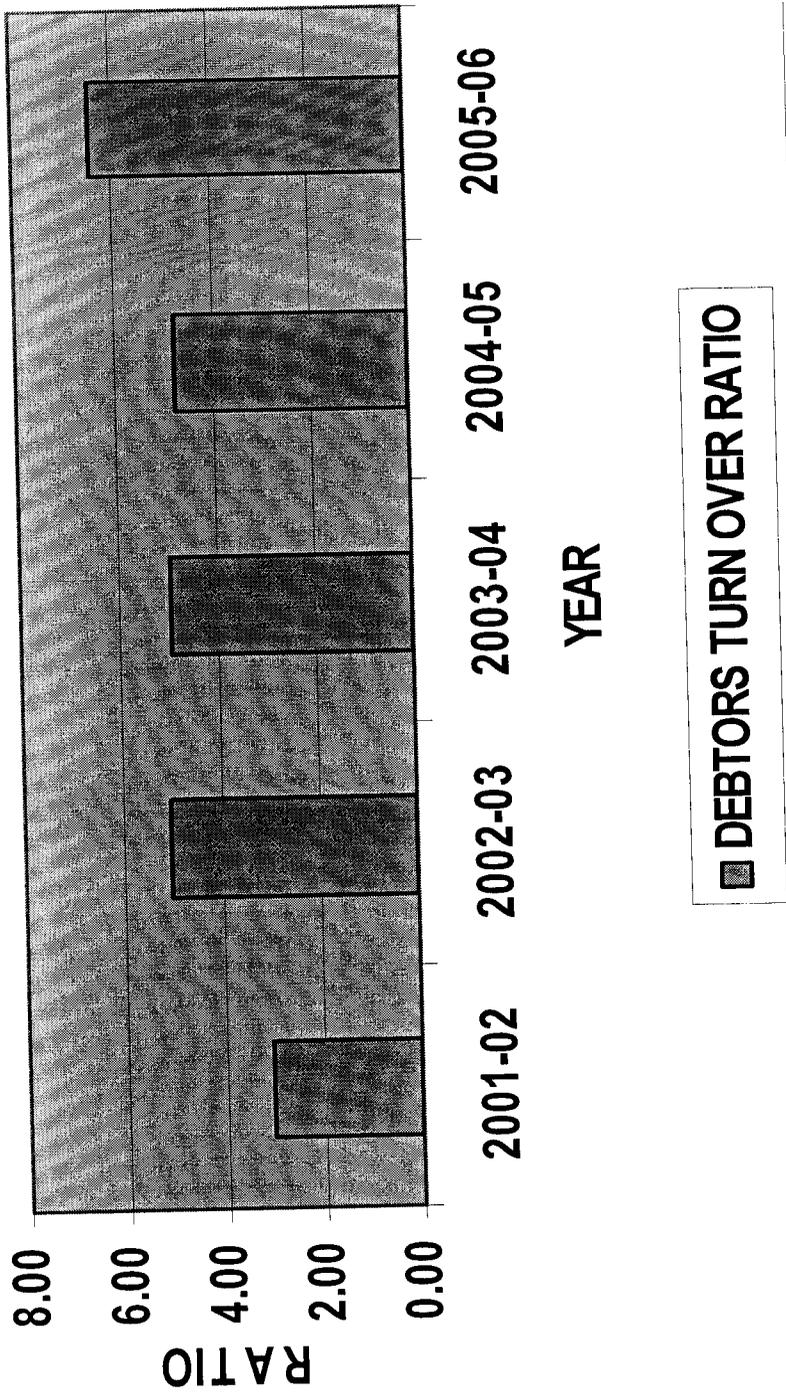


Table showing the debt equity ratio of RML

YEAR	OUTSIDERS FUND (Rs.)	SHAREHOLDERS FUND (Rs.)	RATIO
2001-02	642365210	366625365	1.75
2002-03	598035	316875	1.89
2003-04	583004	357737	1.63
2004-05	596604	370184	1.61
2005-06	449383	375652	1.20

INTERPRETATION:

During 2001-02 the ratio is 1.75 and it has increased to 1.89 in 2002-03 and there was a decreasing trend from 1.63 to 1.20 during the years 2003-06. The lower ratio was found in the year 2005-06 implies creditors have to bear high levels of risks. This was due to reduced long term debt and increased net worth. So the debt equity ratio reveals that there is greatest risk for money lenders, since outsiders fund is larger than shareholders fund.

INFERENCES:

It is found that the debt equity ratio was very low in the year 2005-06 reveals that there is greatest risk for money lenders, since outsiders fund is larger than shareholders fund.

Chart: no: 3.10
Chart showing the debt equity ratio

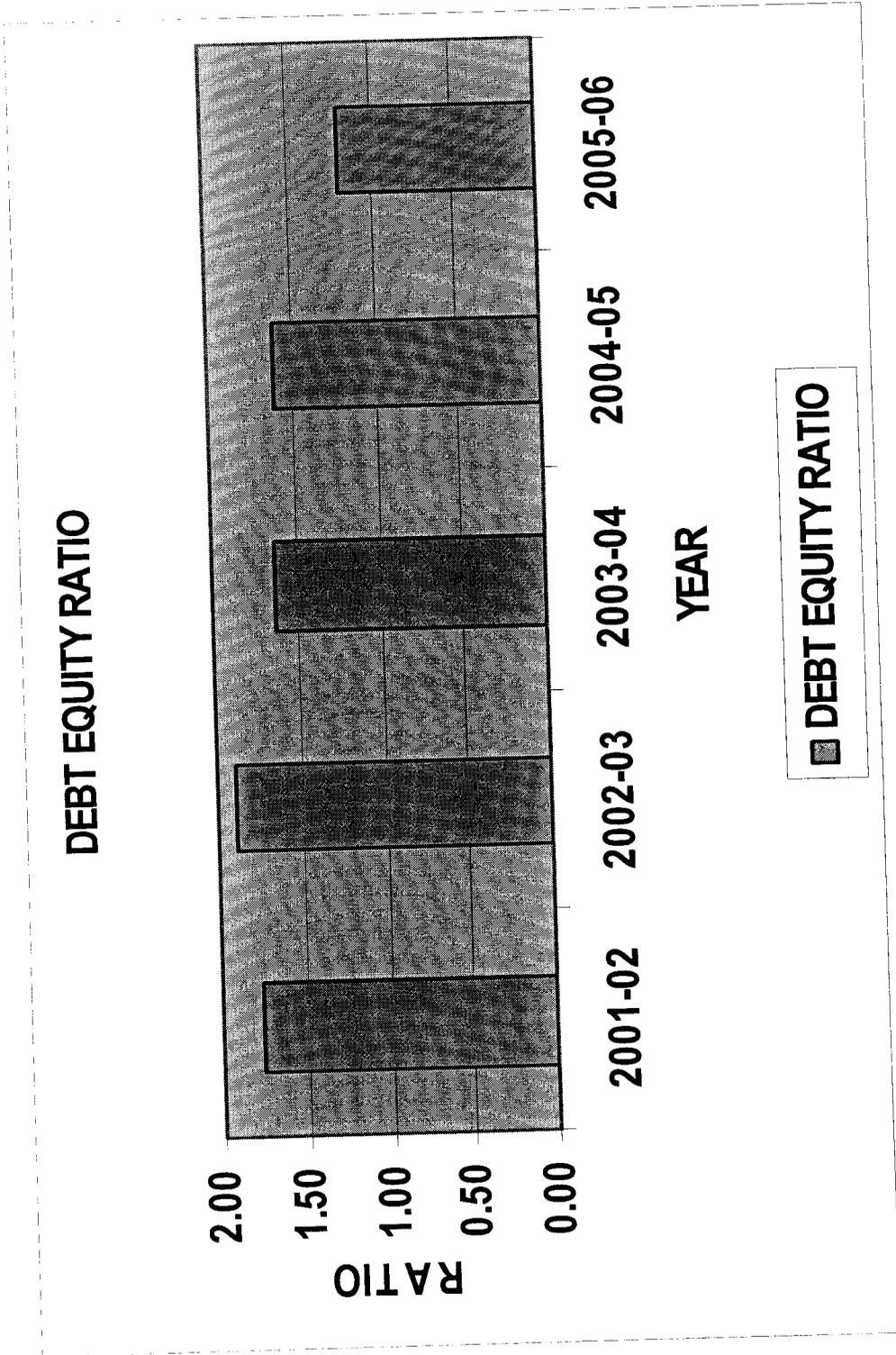


Table: no: 3.11**Table showing the inventory turnover ratio of RML**

YEAR	SALES	INVENTORY	RATIO
	(Rs.)	(Rs.)	
2001-02	1376148817	167412995	8.22
2002-03	1461005	181332	8.06
2003-04	1756888	276780	6.35
2004-05	1984763	322735	6.15
2005-06	2796236	393103	7.11

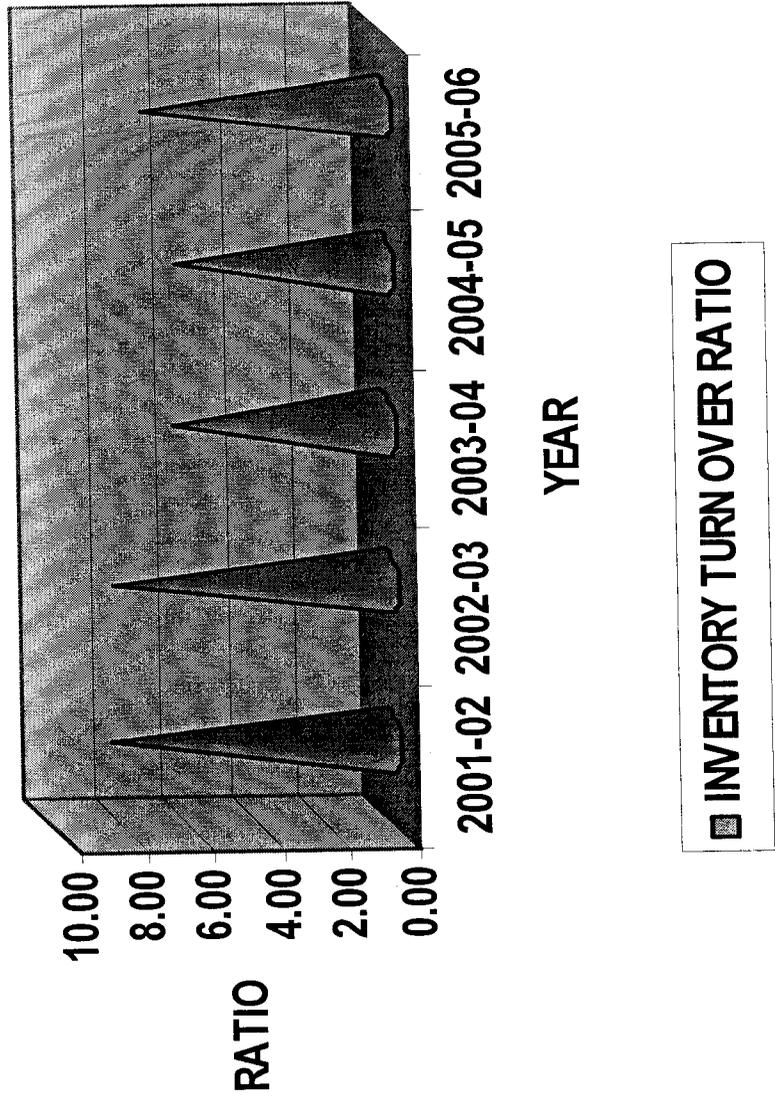
INTREPRETATION:

During the year 2001-02 the inventory turnover ratio was 8.22. The ratio was highest during 2005-06 and was 7.11 because of increase in sales and minimum level of inventory held on stock. It has decreased to 6.15 and then it has slightly increased to 7.11 in 2005-06. It shows the speedy conversion of stock into sales.

INFERENCES:

It is found that the inventory turnover was high in the year 2001-02, which implies maximum utilization of inventories. In the year 2005-06 it declined to 7.11 which mean inefficiency in utilization of inventories during that year.

INVENTORY TURN OVER RATIO



CHAPTER - 4

CONCLUSION

*RESULTS AND
DISCUSSIONS*

RESULT AND DISCUSSION

Based on Ratios:

- It is found that the Working capital turnover ratio has gradually increased during the year 2001-06; hence it is good sign of effective utilization of working capital to produce more goods and increase in sales.
 - It is found that the current ratio was fluctuating in all five years especially in the year 2005-06 it is low i.e.1.85. The low current ratio represents that the liquidity position of firm is not good and the firm may not be able to pay its current liabilities.
 - It is found that the quick ratio shows the increasing trend due to decrease in current liabilities.
 - It is found that the current asset turnover ratio had an increasing trend during the study period which was due to increase in sales every year.
 - It is found that the total asset turnover ratio was fluctuating during the years 2001-06. This implies that there was excessive investment and also improper utilization of assets.
 - It is found that the net working capital to capital employed ratio shows decreasing trend. This reveals that the working capital employed is less due to decline in sales during those years.
 - It is found that the cash ratio shows decreasing trend and hence liquidity level rises up possessing unsatisfactory results.
-

reveals a satisfactory position, as shows it better ability to serve the outsiders liabilities.

- It is found that the companies debtors turnover is increasing gradually from 2001-06. The higher the value of debtors' turnover ratio implies a Firms inability to sell on credit thereby loosing sales and profits.
 - It is found that the debt equity ratio was very low in the year 2005-06 reveals that there is greatest risk for money lenders, since outsiders fund is larger than shareholders fund.
 - It is found that the inventory turnover was high in the year 2001-02, which implies maximum utilization of inventories. In the year 2005-06 it declined to 7.11 which mean inefficiency in utilization of inventories during that year.
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*CONSIDERED
RECOMMENDATION*

- The Current ratio implies that the liquidity position of RANE (MADRAS) limited is not satisfactory. There is negative relationship existing between current assets and current liabilities. Hence, measure has to be taken to improve its liquidity position.
 - The total asset turnover ratio was fluctuating during the years 2001-06. This implies that there was excessive investment and also improper utilization of assets. Hence, measure has to be taken for proper utilization of assets.
 - The net working capital to capital employed ratio shows decreasing in sales due improper utilization of working capital. Hence, measure has to be taken to concentrate on increasing sales.
 - The debt equity ratio was very low in the year 2005-06 reveals that there is greatest risk for money lenders, since outsiders fund is larger than shareholders fund. Hence, measure has to be taken to control over the outsider's fund.
 - The inventory Turnover Ratio implies that there is a fluctuating trend prevailing in inventories. The company should follow a proper inventory control technique to avoid cost.
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