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"FINANCIAL PERFORMANCE ANALYSIS OF V.R.FOUNDRIES"

A PROJECT REPORT

Submitted by

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REG NO.0820400024

In partial fulfilment of the requirements

For the award of the degree

Of

MASTER OF BUSINESS ADMINISTRATION

AUGUST 2009

KCT Business School

Department of Management Studies

Kumaraguru College of Technology

(An autonomous institution affiliated to Anna University, Coimbatore)

Coimbatore – 641 006

KCT Business School

Department Of Management studies

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(An ISO 9001:2000 Certified Institution)

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BONAFIDE CERTIFICATE

Certified that this project titled **"FINANCIAL PERFORMANCE OF V.R.FOUNDRIES"** Is the bonafide work of Mr.G.MANI MURUGAN (0820400024), 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 desertion on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

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Project Guide

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Director

Evaluated and viva-voce held on....11-09-09....

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Examiner-I

.....

Examiner-II

V.R.Foundries

(AN ISO/TS 16949:2002 & AN ISO 14001:2004 CERTIFIED FIRM)

83, P.K.D. Nagar, Peelamedu, Coimbatore - 641 004, INDIA.

Phone : 2571614 / 2571664 Fax : 91-0422-2573476

E-mail : vrfoundr@vsnl.net Website : http://www.vrfoundries.com

ISO 14001 REGISTERED

ISO/TS 16949 REGISTERED FIRM

MGMT.SYS. RvA C 425

DNV Certification B.V., The Netherlands

Ref. No.VR/PER/100/2009-10 09-09-2009

CERTIFICATE

This is to certify that **Mr. G. MANIMURUGAN (Reg. No.0820400024) First year MBA** Student of Kumaraguru College of Technology, Coimbatore has completed a project work on **"Financial Performance Analysis"** during the months of June and July 2009.

During the period his performance and character were good.

FOR V.R FOUNDRIES

[D.SOUNDARARAJAN]
ASST.MANAGER – HR

DECLARATION

DECLARATION

I, hereby declare that this project report entitled as **"FINANCIAL PERFORMANCE ANALYSIS OF V.R.FOUNDRIES"**, has undertaken for academic purpose submitted to Anna university in partial fulfilment of requirement for the award of the degree of Master of Business Administration .The project report is the record of the original work done by me under the guidance of, KCT Business school, during the academic year 2008-2010

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

Place: Coimbatore

Date: 11-09-09

G. Mani Murugan

(G. MANI MURUGAN)

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ACKNOWLEDGEMENT

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INTRODUCTION

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1.1. BACK GROUND OF THE STUDY

In our present study economy, finance is defined as the provision of money at the time when it is required for every enterprise, whether big, medium or small, needs finance to carry on its operations and to achieve its targets. In fact finance is so indispensable, today it is rightly said to be the lifeblood of an enterprise.

Every concern goal is to maximize the wealth of shareholders. Measurement of financial performance is very important for every concern. It guides the management to display the scarce resources in an effective return to the shareholders. The financial statements provide a summarized view of the financial position and operation of a firm and much can be learnt about a firm from a careful examination of its financial statement as performance reports. The analysis of financial statement is an important aid to financial analysis.

1.2 STATEMENT OF THE PROBLEM

Nowadays, competition is faced in all the fields such as production, marketing and service etc due to liberalization and globalization. A healthy competition is boon to the consumer, because the consumer shall get good quilted products and services at the least cost.

Every concern therefore has to measure the financial performances to fit them to win the game of competition by making use of the available opportunities in an effective manner.

Financial performance measurement could give the following benefit to an organization

1. Operating profits and growth of the firm can be arrived and predicted.
2. Measurement of economic capability of any concern indicates the real worth of the doing business.
3. Better capital structure, efficient working capital and better utilization of assets which shall in turn increase the strength of every concern.

Therefore the study concentrates over finding the financial performances of the company and giving suggestions to improve the same.

1.3. REVIEW OF LITERATURE

Strategic Organizational Development, Growing Pains and Corporate Financial Performance: An Empirical Test

The current paper builds upon this previous framework and presents an empirical test of the hypothesized relationship between 'organizational growing pains' and corporate financial performance. It also provides evidence that there appear to be certain threshold levels of growing pains which might be used to predict which organizations will be profitable versus those which are likely to be unprofitable. Although there has been research to test the overall relationship between the organizational effectiveness model and financial performance (Flamholtz and Aksehirli, 2000; Flamholtz and Hua, 2001), there has been no previous empirical research on the relationship between growing pains and financial performance, as reported in the present study. Another question of interest in this study is: are there benchmark levels of growing pains which might be used to predict which organizations will be profitable versus those which are likely to be unprofitable? The hypothesized relationship between growing pains and performance in previous literature has been conceptual in nature; in contrast, this study presents some very specific 'benchmarks' for growing pains in relation to successful organizational financial performance.

Source: European Management Journal, Volume 20, Issue 5, October 2002, Pages 527-536

Beyond Dichotomy: The Curvilinear Relationship between Social Responsibility and Financial Performance

A central and contentious debate in many literatures concerns the relationship between financial and social performance. We advance this debate by measuring the financial-social performance link within mutual funds that practice socially responsible investing (SRI). SRI fund managers have an array of social screening strategies from which to choose. Prior studies have not addressed this heterogeneity within SRI funds. Combining modern portfolio and stakeholder theories, we hypothesize that the financial loss borne by an SRI fund due to poor diversification is offset as social screening intensifies because better managed and more stable firms are selected into its portfolio. We find support for this hypothesis through an empirical test

on a panel of 61 SRI funds from 1972-2000. The results show that as the number of social screens used by an SRI fund increases, financial returns decline at first, but then rebound as the number of screens reaches a maximum. That is, we find a curvilinear relationship, suggesting that two long-competing viewpoints may be complementary. Furthermore, we find that financial performance varies with the types of social screens used. Community relations screening increased financial performance, but environmental and labor relations screening decreased financial performance. Based on our results, we suggest that literatures addressing the link between financial and social performance move toward in-depth examination of the merits of different social screening strategies, and away from the continuing debate on the financial merits of either being socially responsible or not.

Source: Strategic Management Journal, Vol. 27, No. 11, pp. 1101-1122, September 2006

Relationship between environmental performance and financial performance: an empirical analysis of Japanese corporations

The hypotheses that a firm's environmental performance has a positive impact on its financial performance and vice versa are statistically supported by Japanese data. However, this tendency for two-way positive interaction appears to be only a relatively recent phenomenon. The tendency for realizing the two-way interaction is not limited to the top-scoring firms in terms of both financial and environmental performance. On the contrary, this is also a trend that can be observed fairly generally. Obviously, when we consider only scores of those companies that published the relevant information in their environmental reports, and conduct the statistical causality test with such information as additional input to the pooled time-series and cross-section data of financial performance, the results become more strongly significant. From the recent experience of environmental policies in Japan, we infer that information-based environmental policy measures are effective to encourage the ongoing transition toward a more sustainable market economy.

Source: Business Strategy and the Environment Volume 16 Issue 2, Pages 106 – 118, Published Online: 10 Jul 2006

1.4. OBJECTIVES OF THE STUDY

Primary Objective:

To analyze the financial performance of VR Foundries for five years from 2003-04 to 2007-08.

Secondary Objectives:

1) To study the liquidity position of VR Foundries ltd.
2) To analyze the profitability of VR Foundries ltd.
3) To study activity ratio of VR Foundries ltd.
4) To study leverage ratio of VR Foundries ltd.
5) To study integrated ratio of VR Foundries ltd.

1.5. SCOPE OF STUDY

The study is restricted to the period of five years from 2003-04 to 2007-08. The financial performance of VR Foundries based on the company balance sheet, profit and loss a/c etc and is analyzed. The profitability, liquidity, solvency position of the company is studied.

1.6. RESEARCH METHODOLOGY

1.6.1. RESEARCH DESIGN

The research design used in this study on descriptive in nature. The analysis is confined to the existing facts and figures in respect to the financial performance of the company.

1.6.2. METHOD OF DATA COLLECTION

The study involves secondary data collected from the annual reports for the year (2003-04 to 2007-08).

1.6.3. TOOLS FOR ANALYSIS

The following tools have been used to study the financial performance of the company.

- Ratio Analysis
    - LIQUIDITY RATIOS
    - CAPITAL STRUCTURE/ LEAVERAGE RATIOS
    - PROFITABILITY RATIOS
    - ACTIVITY/EFFICIENCY RATIOS AND
    - INTEGRATED ANALYSIS OF RATIOS
- Method of least squares

RATIO ANALYSIS

A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis

There are many ratios that can be calculated from the financial statements pertaining to a company's performance, activity, financing and liquidity.

METHOD OF LEAST SQUARES

The method of least squares is used to approximately solve over determined, i.e. systems of equations in which there are more equations than unknowns. Least square is often applied in statistical contexts, particularly regression analysis.

Least squares can be interpreted as a method of fitting data. The best fit, between modeled and observed data, in the least-squares sense is that instance of the model for which the sum of squared residuals has its least value, a residual being the difference between an observed value and the value given by the model. The method was first described by Carl Friedrich Gauss around 1794. Least square corresponds to the maximum likelihood criterion if the experimental errors have a normal distribution and can also be derived as a method of moment's estimator. Regression analysis is available in most statistical software packages.

1.7. LIMITATION OF STUDY

The project has been done using tools which have their own inherent limitations and these form the limitations to the study undertaken.

Ratio analysis, one of the techniques used in the study suffers from the following limitation:

- Position in the interim period is not revealed by ratio analysis moreover they give no clue to the future.
- Impact of inflation: Financial statements are prepared using historical cost and the values are not adjusted for price level changes.
- Conceptual diversity: difference of opinion regarding the various concepts used to compute the ratio.
- Ratio fails to take in to considerations the market changes.
- The study is limited to the period 2003-2008.

CHAPTER-2

ORGANIZATION PROFILE

CHAPTER-2

ORGANIZATION PROFILE

2.1. HISTORY OF THE ORGANIZATION

Since its inception in 1979, V. R. Foundries, in its ceaseless pursuit of excellence have made major advances and perfected grey iron casting into a fully proven process for a wide range of Precision Castings for various engineering ,automobile and industrial sectors.

AN AGRRESIVE COMMITMENT

Our commitment to quality, refinement in moulding technology and a fully integrated operational system ensure high quality grey iron casting pattern to castings, fidelity and finish for pumps, Motors, textile machineries, machine tools, automobile parts, compressors and a host of other products.

PRODUCTION CAPABILITIES

Our fully instrumented electric Induction Furnaces and Mechanized Conveyor systems, pneumatically operated moulding machines, shot blasting units and above all, innovative moulding technology optimize production capabilities to over 11000 tons annually and that's only a part of the story ! Stringent and comprehensive quality control check systems, UNISPEC Spectrometer with 23 elements checked within three minutes that cover the whole gamut of manufacture enhance optimum performance and production. And our commitment to quality in an exacting and competitive market combined with our constant updating of technologies and productive process cast us in the mould of excellence.

2.2. PROCESS

In the casting process a pattern is made in the shape of the desired part. This pattern is made out of wax, wood, plastic or metal. Simple designs can be made in a single piece or solid pattern. More complex designs are made in two parts, called split patterns. A split pattern has a top or upper section, called a cope, and a bottom or lower section called a drag. Both solid and split patterns can have cores inserted to complete the final part shape. Where the cope and drag separates is called the parting line. When making a pattern it is best to taper the edges so that the pattern can be removed without breaking the mold.

The patterns are then packed in sand with a binder, which helps to harden the sand into a semi-permanent shape. Once the sand mold is cured, the pattern is removed leaving a hollow space in the sand in the shape of the desired part. The pattern is intentionally made larger than the cast part to allow for shrinkage during cooling. Sand cores can then be inserted in the mold to create holes and improve the casting's net shape. Simple patterns are normally open on top and melted metal poured into them. Two piece molds are clamped together and melted metal is then poured in to an opening, called a gate. If necessary, vent holes will be created to allow hot gases to escape during the pour. The pouring temperature of the metal should be a few hundred degrees higher than the melting point to assure good fluidity, thereby avoiding prematurely cooling, which will cause voids and porosity. When the metal cools, the sand mold is removed and the metal part is ready for secondary operations, such as machining and plating.

Sand casting is the least expensive of all of the casting processes.

2.3. ADVANTAGES

The finished product of a foundry can be more geometrically complex than the product of a rolling, forging, or machining process like milling or turning. The mechanical properties of castings are equal in every direction, which makes them more suitable for multi-directional loading conditions. A foundry is the original way to produce near net shape parts. Castings frequently do not require or only require a little machining to create the finished part.

CHAPTER-3

Micro & Macro Analysis

CHAPTER-3

MICRO-MACRO ANALYSIS

INDIAN SCENARIO

India the top ten economy in the world and has the second largest GDP among emerging economies, based on purchasing power parity. It has opened up new business opportunity to the world.

The Indian foundry industry occupies a special in shaping the country's economy. India is currently among the 10 largest producers of ferrous and non-ferrous castings and over 6500 foundries in the small, medium, and large scale sectors. Approximately 90% are in the small scale. India exports annually above Rs.700 crores worth of castings to countries like USA. U.K, Canada, Germany etc,

The foundry industry caster to the need of a wide range of industries and is one of the most important sectors shaping the Indian economy.

- Output of the Indian foundry sector is estimated US$ 2.08 billion (Rs. 10,000 crore)
- Indian foundry industry is the sixth largest in the world after USA, China, Japan, Russia and Germany.
- In terms of units and number of people employed India is the second largest player in the foundry industry after china.
- Over 4,500 recognized foundry units including small, medium, and large scale sectors all over the country, approximately 90% are in the small scale.

Indian foundry industry has a sizeable export turnover of goods valued at Rs. 2,000 crore per year. The growth in the industry is primarily due to growth in the auto component industry with a staggering market size of $650-$700 billion.

With the new liberalized policies of govt. of India, foundries have taken a new shape to cater to the present domestic and export demand of the country.

At present, the industry is growing at 6% per year, but we are determined to increase this to over 20% by 2010.

Since the 1980s, foundry, a unique business form in the semiconductor chip manufacturing industry has maintained a fast growth momentum. In the past few years, the global foundry market has grown even faster. In 2006, market size reached $23.274 billion. During the four years between 2002 and 2006, the market grew at a CAGR of 19.8%, far higher than the growth of the global semiconductor market during this same period.

Currently, Pure-play foundries have gradually gained a dominant position in the global foundry market. During the years between 2002 and 2006, Pure-play foundries saw their sales revenues grow at a CAGR of 22.2%, far higher than 9.7% CAGR of Non-pure-play foundries. Correspondingly, Pure-play foundries saw their percentage of total sales revenue in the global foundry market rise to 84.7% in 2006 from 78.3% in 2002.

In terms of structure, 300mm product lines and 90nm and under processors now account for raising percentage of the sales revenues in the global market, reaching 19.9% and 18.7% in 2006 from 15.6% and 0% in 2002, respectively. As market demand grows fast, global foundry production capacity also grows fast. Between 2002 and 2006, global foundry production capacity expanded by 60%, reaching 23.56 million pieces/year (converted to 200mm silicon chips). 300mm production accounted forn18% of the total production capacity, while 90mm and under processors 14.5%.

As for brand structure, the global foundry market is currently controlled by four enterprises, namely TSMC, UMC, Charter and SMIC. In 2006, these four enterprises accounted for 69.5% of the global market. TSMC alone got a market share of 43.3%.

CHAPTER-4

Ratio Analysis

CHAPTER-4

4.1. RATIO ANALYSIS

The liquidity ratios are used to study the liquidity position of the company. Liquidity is the measure of the firm's ability to meet its current liability as they fall due and reflect the short-term financial strength of a firm.

The ratio which indicate the liquidity of firm are

- Current ratio
- Acid-test ratio
- Inventory turnover ratio

Current ratio

The current ratio is a financial ratio that measures whether or not a firm has enough resources to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities. It is expressed as follows:

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The table below given the current asset

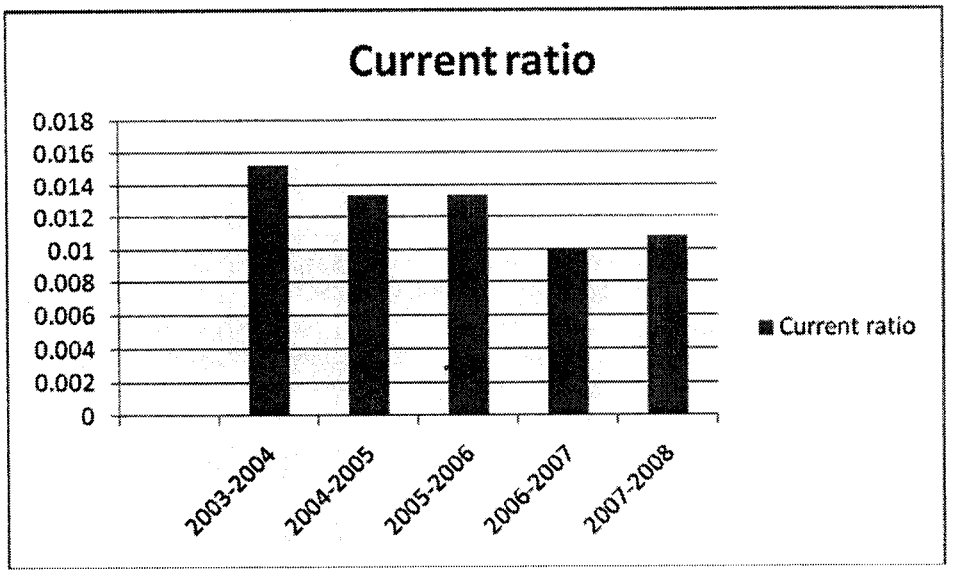
TABLE-4.1.1

TABLE SHOWING CURRET RATIO

Year	Current Assets (Rs)	Current Liabilities (Rs)	Current ratio
2003-2004	124260469.07	81110964.07	1.53%
2004-2005	137972548.50	75079106.47	1.34%
2005-2006	150860690.80	77756013.66	1.34%
2006-2007	158984572.10	81274498.32	1.00%
2007-2008	183622768.60	83445484.04	1.08%

CHART-4.1.1

CHART SHOWING CURRENT RATIO



INTERPRETATION:

The industry had 1 to 1.6 for the period 2003-04 to 2007-08. The current ratio has increased from 1.00 to 1.08 during the period 2007-08.

INFERENCE:

The current ratio of 1.53 during the period 2003-04, it signifies that the current assets are 1.53 times the current liability. The company will not able to meet its short term obligation in full and for the creditors the firm has high risk. The current ratio 2 is considered satisfactory and hence the current asset of the firm was not at standard.

4.1.2. Acid-test or quick ratio

Acid-test or quick ratio or liquid ratio measures the ability of a company to use its near cash or quick assets to immediately extinguish or retire its current liabilities. Quick include those current assets that presumably can be quickly converted to cash at close to their book values.

$$\text{Quick (Acid Test) Ratio} = \frac{\text{Cash} + \text{Marketable Securities} + \text{Accounts Receivables}}{\text{Current Liabilities}}$$

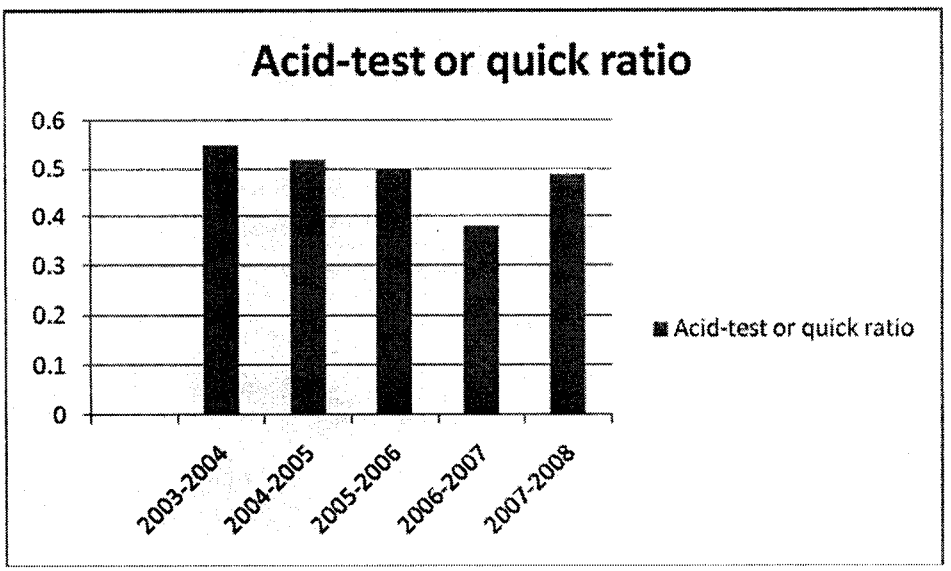
TABLE-4.1.2

TABLE SHOWING QUICK RATIO

Year	Liquid asset (Rs)	Current liabilities (Rs)	Acid-test or quick ratio
2003-2004	44770223.90	81110964.07	0.55
2004-2005	70204719.26	75079106.47	0.52
2005-2006	74993056.20	77756013.66	0.50
2006-2007	80507206.78	81274498.32	0.38
2007-2008	111104960.20	83445484.04	0.49

CHART-4.1.2

CHART SHOWING QUICK RATIO



INTERPRETATION:

The quick ratio was the company had been maintaining between 0.38 to 0.55during the 2007-08 it is 0.55 for the year 2003-04.

INFERENCE:

The acid-test ratio of 1:1 is considered satisfactory for firm to meet all current claims. The quick ratio of the company had been below the standard or optimum. In this way liquidity position was not satisfactory.

Inventory turnover ratio

Inventory turnover ratio is one of the Accounting Liquidity ratios, a financial ratio. This ratio measures the number of times, on average; the inventory is sold during the period. Its purpose is to measure the liquidity of the inventory. A popular variant of the Inventory turnover ratio is to convert it into an average day to sell the inventory in terms of days. Remember that the Inventory turnover ratio is figured as "turnover times" and the average days to sell the inventory is in "days".

$$\text{Inventory turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

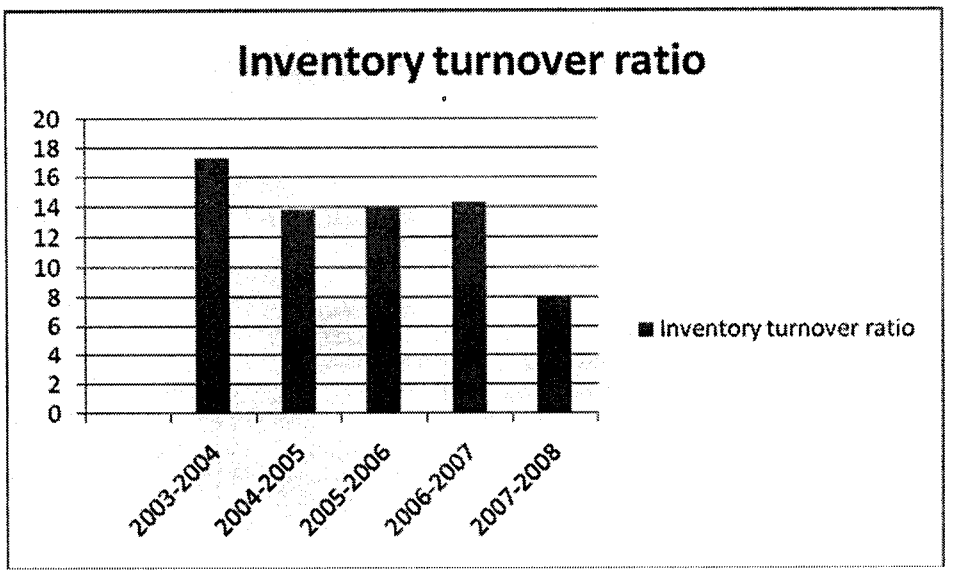
TABLE-4.1.3

TABLE SHOWING INVENTORY TURNOVER RATIO

Year	Cost of goods sold (Rs)	Average inventory (Rs)	Inventory turnover ratio
2003-2004	177262389.40	10242963.84	17.31
2004-2005	220078084.10	15907551.82	13.84
2005-2006	242773373.70	17285652.70	14.05
2006-2007	274509405.70	19129466.49	14.35
2007-2008	193497153.00	23965185.83	8.07

CHART-4.1.3

CHART SHOWING INVENTORY TURNOVER RATIO



INTERPRETATION:

The industry standard range is clear that inventory turnover ratio of EFL is quiet high and has been increasing year 7 to 15 expect the period 2007-08 where there is a decline. This decrease in the ratio can be attributed to low productivity.

INFERENCE:

The ratio indicates the speed of inventory control into sales. A high inventory turnover ratio of the firm is a sign of acceptable liquidity. It also indicates the better efficiency inventory management.

4.2. LEVERAGE RATIO

Leverage or capital structure ratio may be defined as financial ratios which throw light on the long-term solvency of a firm as reflected in its ability to assure the long term creditors. The leverage or capital ratios used to study the long term solvency of EFL are

Dept to total capital ratio

Dept to total asset

4.2.1. Debt to total capital ratio

The D/C ratio is regularly used to measure a company's capital structure and its financial solvency, and this metric is considered an expression of a company's so-called "leverage", with a higher proportion of debt constituting a higher degree of leverage.

$$\text{Debt to total capital ratio} = \frac{\text{Long term debt}}{\text{Permanent capital}}$$

The table below gives the Debt to total capital ratio:

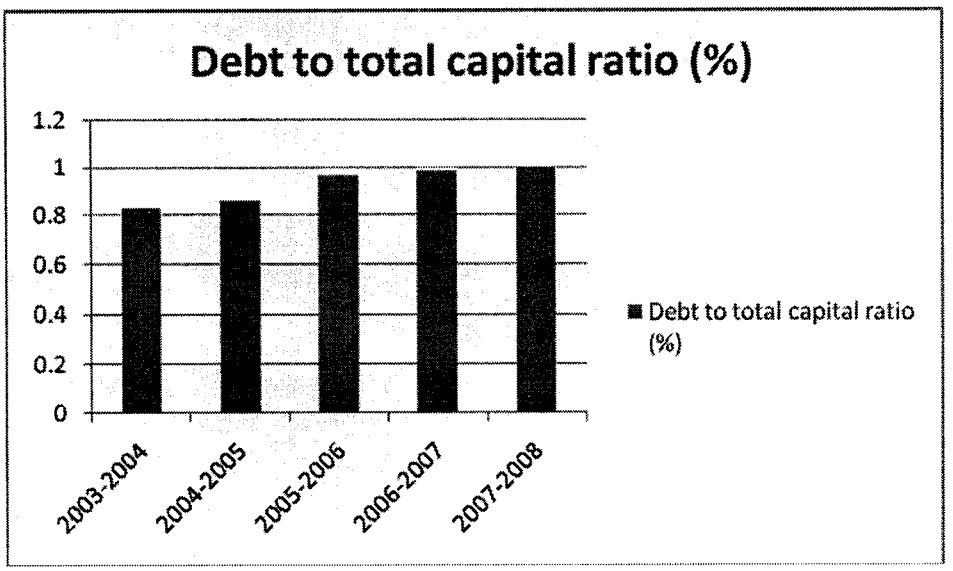
TABLE-4.2.1

TABLE SHOWING DEBT TO TOTAL CAPITAL RATIO

Year	long term debt (Rs)	Permanent capital (Rs)	Debt to total capital ratio (%)
2003-2004	46716918.07	56147711.54	0.83
2004-2005	63655985.48	73616139.76	0.86
2005-2006	68725841.72	70883138.46	0.97
2006-2007	108218878.00	109645552.80	0.99
2007-2008	114750990.40	115367811.1	1.00

CHART-4.2.1

CHART SHOWING DEBT TO TOTAL CAPIAL RATIO



INTERPRETATION:

The industry standard range is Dept to total capital ratio in respect of capital structure of firm. It is considered to be satisfactory except in year 2003-04 & 2004-05.

INFERENCE:

A conventional rule of debt to total capital ratio 1:2 is consider to be satisfactory. The debt to total capital ratio indicate in the table is satisfactory.

Total Debt to Total Assets

A metric used to measure a company's financial risk by determining how much of the company's assets have been financed by debt. Calculated by adding short-term and long-term debt and then dividing by the company's total assets.

$$\text{Total Debt To Total Assets} = \frac{\text{Short Term Debt} + \text{Long Term Debt}}{\text{Total Assets}}$$

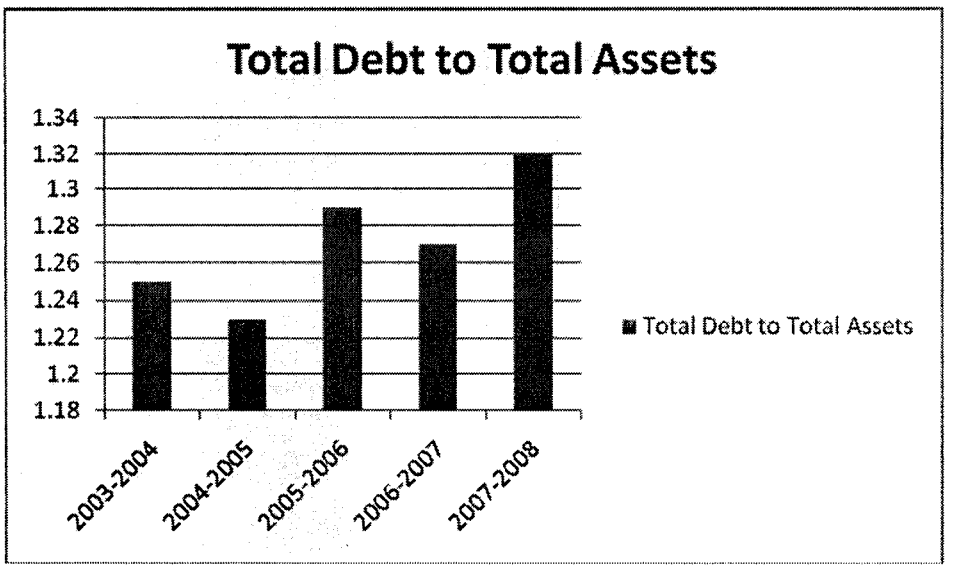
TABLE-4.2.2

CHART SHOWING DEBT TO TOTAL ASSET

Year	Short Term Debt + Long Term Debt (Rs)	Total Asset (Rs)	Total Debt to Total Assets
2003-2004	108399106.80	135686789.81	1.25
2004-2005	154851637.92	125885371.10	1.23
2005-2006	167967683.10	167967683.10	1.29
2006-2007	221882698.21	175314057.30	1.27
2007-2008	243587918.75	184848474.40	1.32

CHART-4.2.2

CHART SHOWING TOTAL DEBT TO TOTAL ASSET



INTREPRETATION:

The industry standard is varies from 1.25 to 1.35 during the period 2003-04 to 2007-08. The debt to total assets high in the year 2008 and low in the year 2005.

INFERENCE:

A low ratio of debt to total asset is desirable for the creditors as there is sufficient margin of safety available them. A high ratio would expose the creditors to high risk. The debt to total asset ratio of the company is considered risky.

PROFITABILITY RATIO

A class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well.

- Gross profit margin
- Net profit margin
- Cost of goods sold
- Operating expense ratio
- Financial expense

Gross Profit Margin

A financial metric used to assess a firm's financial health by revealing the proportion of money left over from revenues after accounting for the cost of goods sold. Gross profit margin Serves as the source for paying additional expenses and future savings.

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Net sales}} * 100$$

The table below gives the gross profit margin:

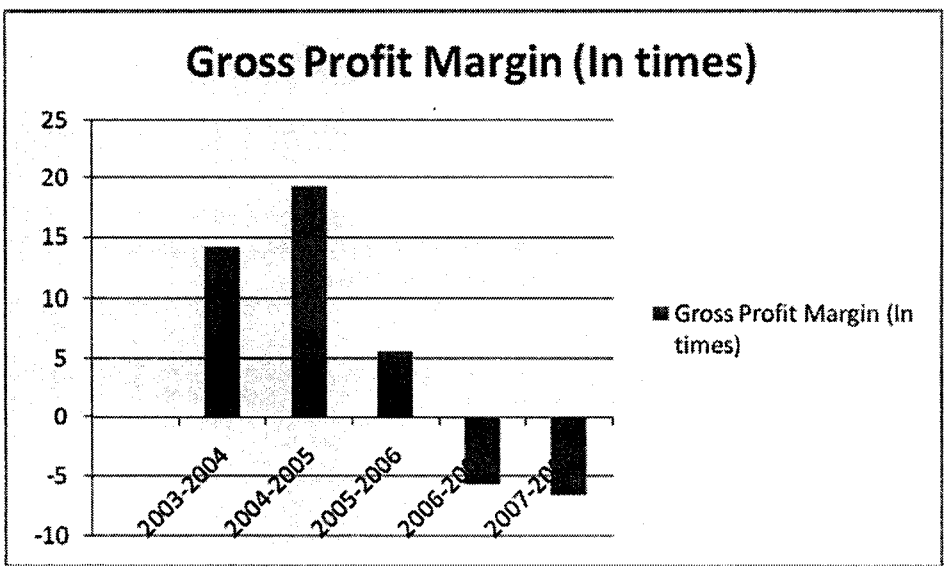
TABLE-4.3.1

TABLE SHOWING GROSS PROFIT MARGIN

Year	Gross Profit (Rs)	Sales (Rs)	Gross Profit Margin (In times)
2003-2004	38579722.24	270388782.32	14.27
2004-2005	71953044.29	342557111.12	19.31
2005-2006	22929513.01	410706507.30	5.59
2006-2007	-26106699.69	463080690.80	-5.64
2007-2008	-32407868.35	491691413.31	-6.59

CHART-4.3.1

CHART SHOWING GROSS PROFIT MARGIN



INTERPRETATION:

The industry standard is above table it could see that gross profit margin is moving upward trend except during the period 2007 & 2008. The gross profit ratio various from -6.5 to 19. The high ratio is during the year 2005.

INFERENCE:

The increase in gross profit and gross profit margin is good for management. The increase is a result of increased turnover and reduced cost.

4.3.2. Net profit margin

The profit margin is mostly used for internal comparison. It is difficult to accurately compare the net profit ratio for different entities. Individual businesses' operating and financing arrangements vary so much that different entities are bound to have different levels of expenditure, so that comparison of one with another can have little meaning. A low profit margin indicates a low margin of safety: higher risk that a decline in sales will erase profits and result in a net loss.

$$\text{Net profit margin} = \frac{\text{Net sales}}{\text{Sales}} * 100$$

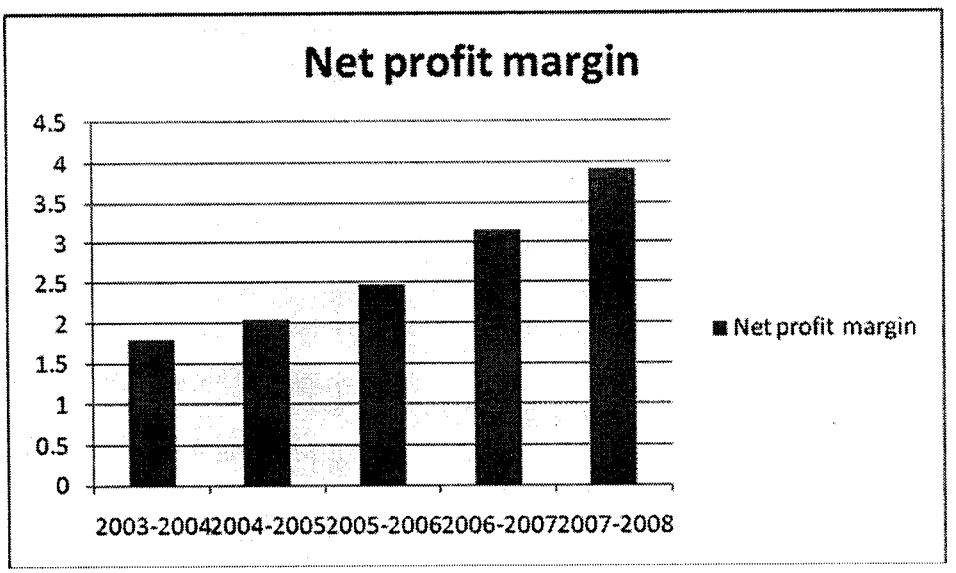
TABLE-4.3.2

TABLE SHOWING NET PROFIT MARGIN

Year	Net profit (Rs)	Sales (Rs)	Net profit margin
2003-2004	4831312.33	270388782.32	1.79
2004-2005	6978655	342557111.12	2.04
2005-2006	10152342.97	410706507.30	2.47
2006-2007	14613840.74	463080690.80	3.16
2007-2008	19281881.45	491691413.31	3.92

CHART-4.3.2

CHART SHOWING NET PROFIT MARGIN



INTERPRETATION:

The industry standard of V.R.Foundries has seen steady increase in last five years. The net profit margin is high during the year 2008.

INFERENCE:

The gross profit & net profit margin show the same trend during the previous five years. The net profit margin is indicating of management ability to operate the business with sufficient success not only to recover the revenues period.

4.3.3. Cost of Goods Sold – COGS

The direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labor costs used to produce the good. It excludes indirect expenses such as distribution costs and sales force costs. COGS appear on the income statement and can be deducted from revenue to calculate a company's gross margin.

$$\text{Cost of Goods Sold} = \frac{\text{Cost of Goods Sold}}{\text{Net sales}} * 100$$

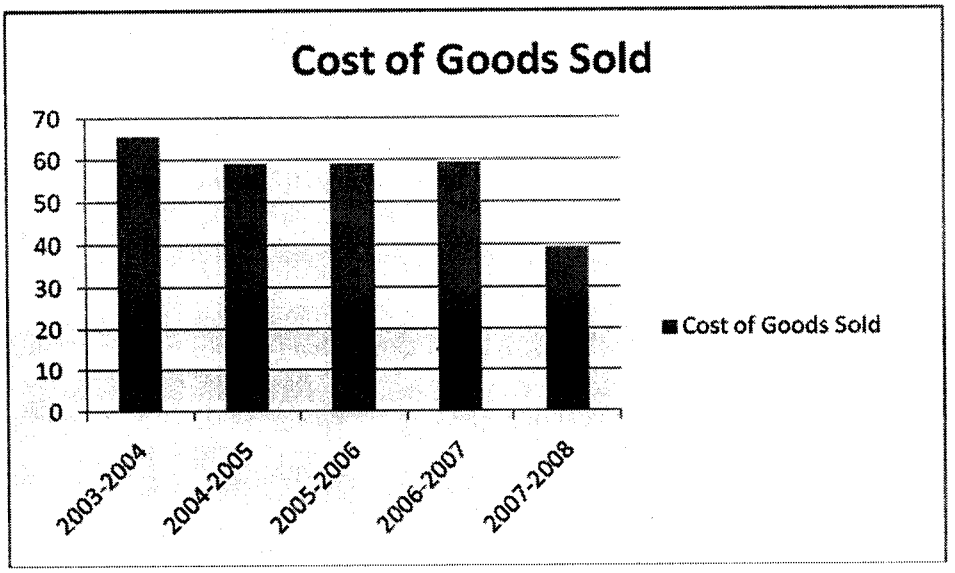
TABLE 4.3.3

TABLE SHOWING COST OF GOODS SOLD

Year	Cost of Goods Sold (Rs)	Net sales (Rs)	Cost of Goods Sold
2003-2004	177262389.40	270388782.32	65.58
2004-2005	220078084.10	372557111.12	59.07
2005-2006	242773373.70	410706507.30	59.11
2006-2007	274509405.70	463080690.80	59.28
2007-2008	193497153.00	491691413.31	39.35

CHART-4.3.3

CHART SHOWING COST OF GOODS SOLD



INTERPRETATION:

The industry standard is the cost of goods sold is varies from 35 to 65. The high cost of goods sold during the period 2004.

INFERENCE:

The cost of goods sold ratio show percentage of share of sales consumed by cost of goods sold.

Operating Expense Ratio

The Operating Expense Ratio is usually viewed as a measurement of management efficiency. This is because management usually has greater control over operating expenses than they do over revenues

$$\text{Operating Expense Ratio} = \frac{\text{Administrative expense + selling expense}}{\text{Net sales}}$$

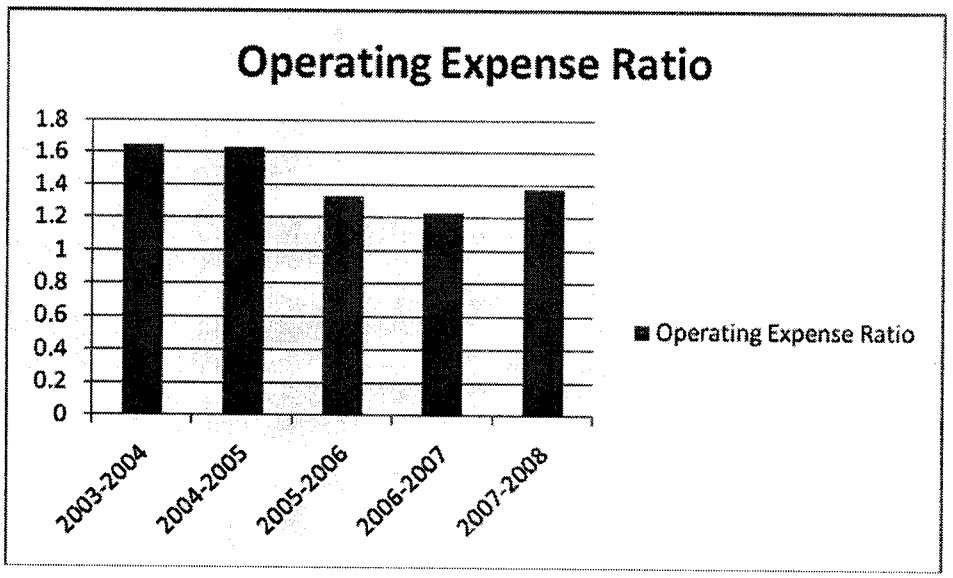
TABLE-4.3.4

TABLE SHOWING OPERATING EXPENSE RATIO

Year	administrative expense + selling expense (Rs)	Net sales (Rs)	Operating Expense Ratio
2003-2004	4312180.80	270388782.32	1.65
2004-2005	6080696.97	372557111.12	1.63
2005-2006	5464054.50	410706507.30	1.33
2006-2007	5709148.42	463080690.80	1.23
2007-2008	6770041.63	491691413.31	1.38

CHART-4.3.4

CHART SHOWING OPERATING EXPENSE RATIO



INTERPRETATION:

The industry standard is varies from operating expense ratio various from 1.2 to 1.6 during the period 2003 to 2008.

INFERENCE:

The expense ratio is very important for analyzing the profitability of firm. In this table showing operating & financial expense is down word trend, so the firm operational efficiency.

Financial expense

Interest, income taxes, and other such expenditure incurred in owning or renting an asset or property.

$$\text{Financial expense} = \frac{\text{Financial expense}}{\text{Net sales}}$$

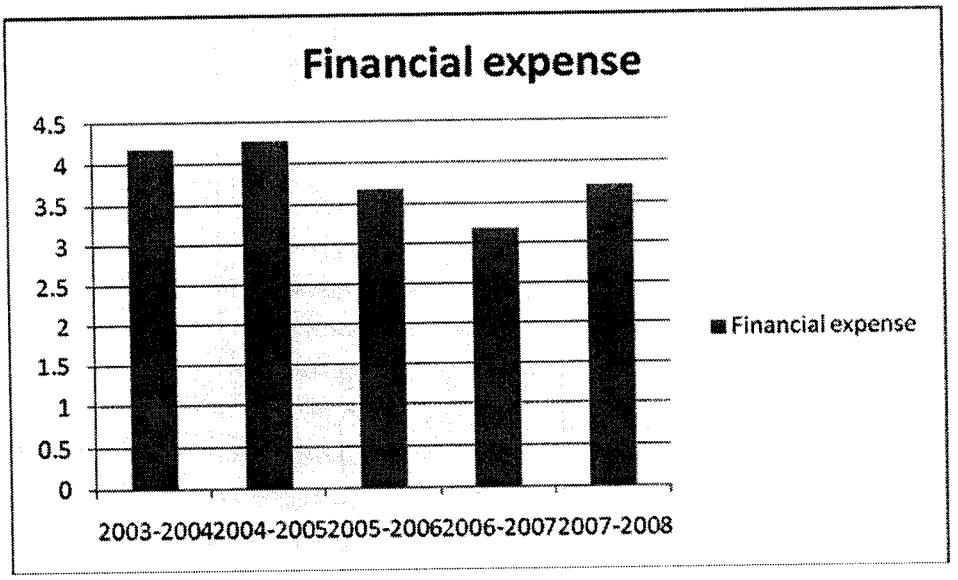
TABLE-4.3.5

TABLE SHOWING FINANCIAL EXPENCE

Year	Financial expense (Rs)	Net sales (Rs)	Financial expense
2003-2004	11297863.13	270388782.32	4.18
2004-2005	15888675.01	372557111.12	4.27
2005-2006	15074578.72	410706507.30	3.67
2006-2007	14743394.82	463080690.80	3.18
2007-2008	18207889.42	491691413.31	3.70

CHART-4.3.5

CHART SHOWING FINANCIAL EXPENCE



INTREPRETATION:

The industry standard is various from 3 to 4.3 during the period 2003 & 2008. The financial expense ratio is high during the year 2005.

INFERENCE:

The expense ratio is very important for analyzing the profitability of firm. In this table showing operating & financial expense is down word trend, so the firm operational efficiency.

4.4. ACTIVITY RATIO

Accounting ratios that measure a firm's ability to convert different accounts within their balance sheets into cash or sales.

Total asset turn over

Fixed asset turn over

Working capital turnover

4.4.1 Asset Turnover

Asset turnover measures a firm's efficiency at using its assets in generating sales or revenue - the higher the number the better. It also indicates pricing strategy: companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover

$$\text{Asset Turnover} = \frac{\text{Cost of goods sold}}{\text{Average total asset}}$$

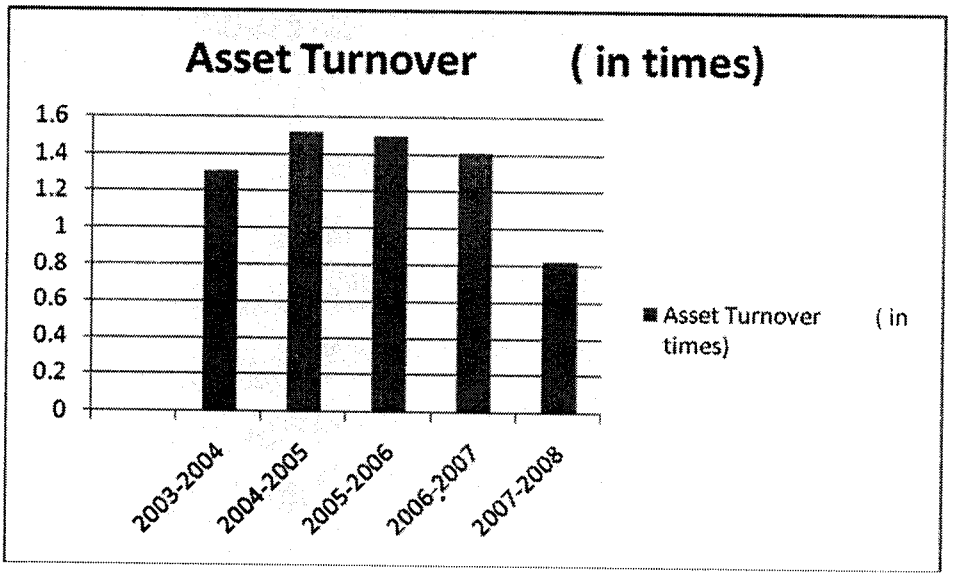
TABLE-4.41

TABLE SHOWING ASSET TURNOVER

Year	Cost of Goods Sold (Rs)	Average total asset (Rs)	Asset Turnover (in times)
2003-2004	177262389.40	135686789.81	1.31
2004-2005	220078084.10	145269213.9	1.52
2005-2006	242773373.70	161409660.50	1.50
2006-2007	274509405.70	194925190.70	1.41
2007-2008	193497153.00	232735308.50	0.83

CHART-4.4.1

CHART SHOWING ASSET TURNOVER



INTERPRETATION:

The industry standard is varies from 0.8 to 1.5 during the period 2003-04 to 2007-08. The asset turnover is high in the year 2005, and low in the year 2008.

INFERENCE:

This ratio also known as the investment turnover ratio. It is based on relationship with cost of goods sold and asset/investment of a firm.

4.4.2 Fixed-Asset Turnover Ratio

A financial ratio of net sales to fixed assets. The fixed-asset turnover ratio measures a company's ability to generate net sales from fixed-asset investments - specifically property, plant and equipment (PP&E) - net of depreciation. A higher fixed-asset turnover ratio shows that the company has been more effective in using the investment in fixed assets to generate revenues.

$$\textbf{Fixed-Asset Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average fixed asset}}$$

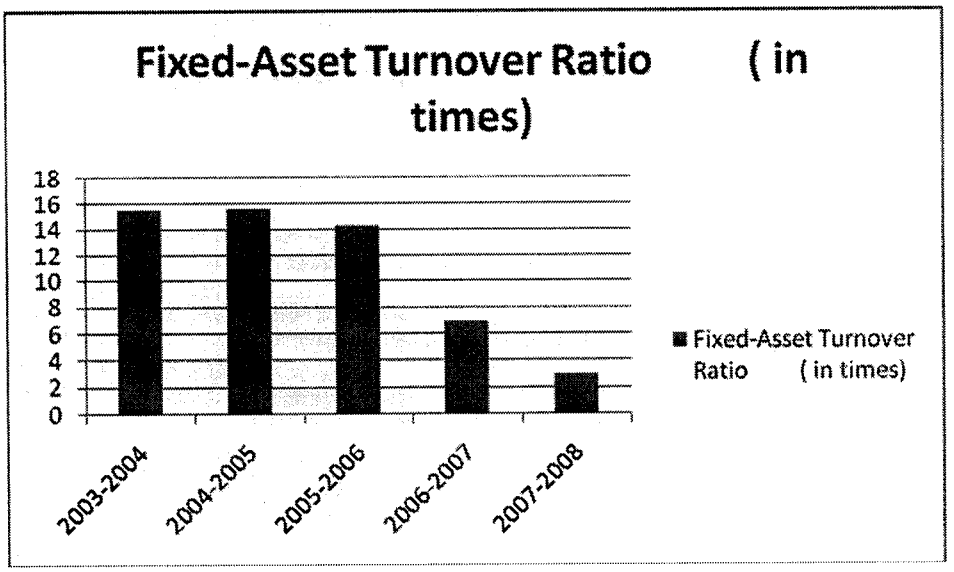
TABLE -4.4.2

TABLE SHOWING FIXED-ASSET TURNOVER RATIO

Year	Cost of Goods Sold (Rs)	Average fixed asset (Rs)	Fixed-Asset Turnover Ratio (in times)
2003-2004	177262389.40	11426320.73	15.51
2004-2005	220078084.10	14152705.10	15.55
2005-2006	242773373.70	16993040.89	14.29
2006-2007	274509405.70	40002559.22	6.86
2007-2008	193497153.00	63731345.15	3.01

CHART -4.4.2

CHART SHOWING FIXED-ASSET TURNOVER RATIO



INTERPRETATION:

The industry standard is varies from 3 to 15 during the period 2003-2008. The fixed asset turnover is high in the year 2005, and low in the year 2oo8.

INFERENCE:

The asset turnover ratio howsoever, defined, measure the efficiency of a firm managing and utilizing asset.

4.4.3. Working capital turnover ratio

Working capital turnover ratio indicates the velocity of the utilization of net working capital. This ratio represents the number of times the working capital is turned over in the course of year and is calculated as follows:

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

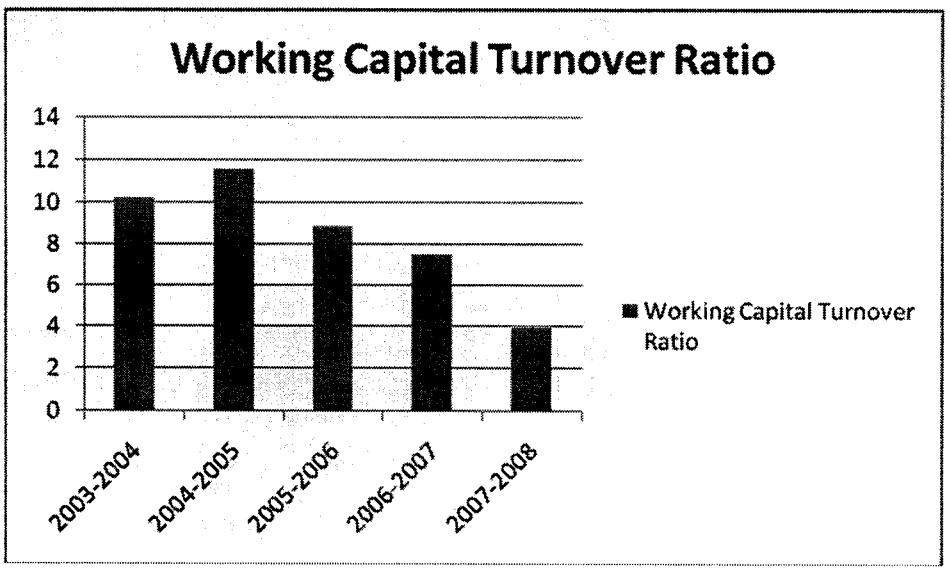
TABLE-4.4.3

TABLE SHOWING WORKING CAPITAL TURNOVER RATIO

Year	Cost of Goods Sold (Rs)	Net Working Capital (Rs)	Working Capital Turnover Ratio
2003-2004	177262389.40	17287683.04	10.25
2004-2005	220078084.10	18966266.83	11.60
2005-2006	242773373.70	27353489.72	8.88
2006-2007	274509405.70	36568640.82	7.51
2007-2008	193497153.00	48739444.29	3.97

CHART-4.4.3

CHART SHOWING WORKING CAPITAL TURNOVER RATIO



INTERPRETATION:

The industry standard is varies from 3.7̇ to 11 during the period 2003-2008. The working capital turnover is high in the year 2005, and low in the year 2oo8.

INFERENCE:

The working capital turnover ratio howsoever, defined, measure the efficiency of a firm managing and utilizing capital.

4.5.1. Earning powers

The ability of a company to make a profit on its operations. There is no single way to estimate a company's earning power, and indeed it varies from company to company. For example, a well-established company's earning power may be best estimated by its dividend yield. On the other hand, one may determine a start-up's earning power through other metrics, like return on assets.

Earning powers = net profit margin * asset turn over

Net profit margin = earnings after tax / sales

Asset turn over = sales/ total asset

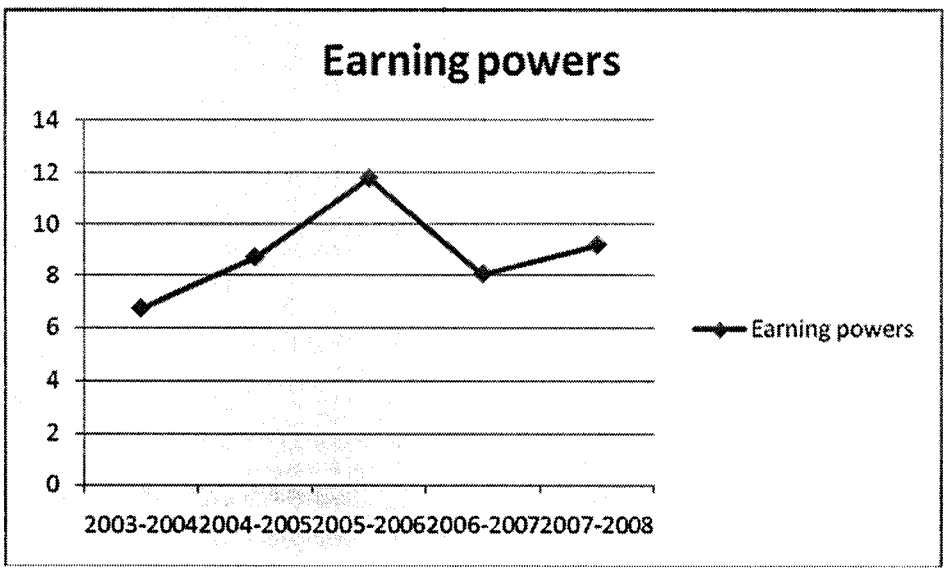
TABLE-4.5.1

TABLE SHOWING EARNIGS POWER

Year	Net profit margin (Rs)	Asset turn over (Rs)	Earning powers
2003-2004	3.38	1.99	6.73
2004-2005	2.41	2.41	8.72
2005-2006	4.82	2.45	11.80
2006-2007	3.87	2.09	8.08
2007-2008	4.55	2.02	9.20

CHART-4.5.1

CHART SHOWING EARNIGS POWER



Assets turn over

The amount of sales generated for every dollar's worth of assets. It is calculated by dividing sales in dollars by assets in dollars.

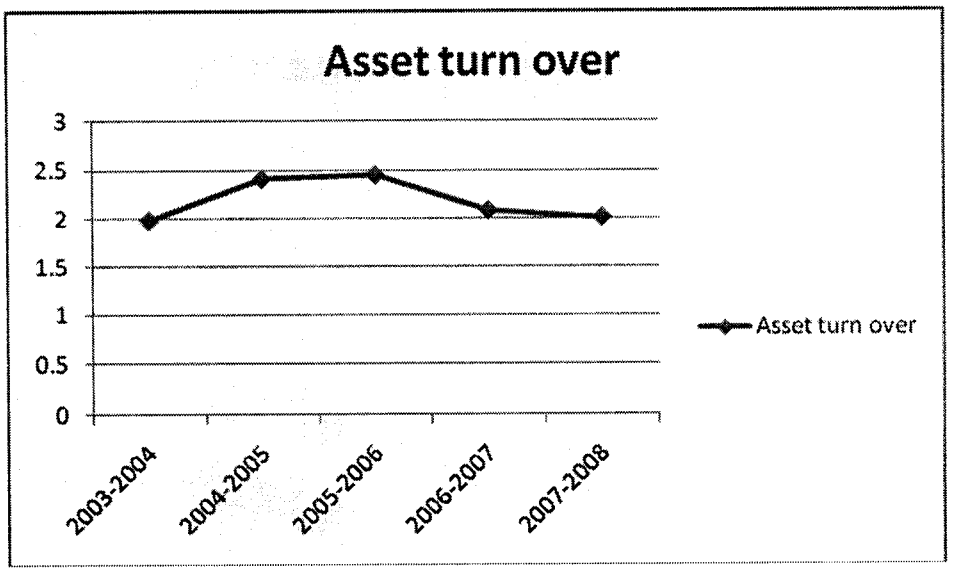
TABLE-4.5.2

TABLE SHOWING EARNIGS POWER

Year	Sales	Total asset	Asset turn over
2003-2004	270388782.32	135686789.81	1.99
2004-2005	372557111.12	145269213.9	2.41
2005-2006	410706507.30	161409660.50	2.45
2006-2007	463080690.80	194925190.70	2.09
2007-2008	491691413.31	232735308.50	2.02

CHART-4.5.2

CHART SHOWING EARNIGS POWER



INTREPRETATION:

The industry standard is varies from 6.73 to 11.8 during the period 2003-2008. The earning power is high in the year 2006, and low in the year 2004.

INFERENCE:

Earning power is the overall profitability of firm. In the section upward trends for last three years & greater asset turn over during the period except in the year 2006-07.

4.6. TREND ANALYSIS

The straight line trend or the first degree parabola is represented by the mathematical equation.

$Yc = a+bx$

Yc = required trend value

x = unit of time

Here a and b are constants or unknowns.

In the equation for the first degree parabola $Yc = a+bx$, the values of the constants or unknowns can be calculated by the following two normal equations.

$\sum Y = na+b\sum x$

$\sum xy = a\sum x+b\sum x$

n = number of years or months for which data are given.

When x = 0, the equation will take the form of

$\sum Y = na$ since $b\sum x = 0$

$\sum xy = b\sum X^2$ since $a\sum x = 0$

By these equations we can know the value of a and b i.e.

$a = \sum Y/N$ and $b = \sum Y/\sum X^2$

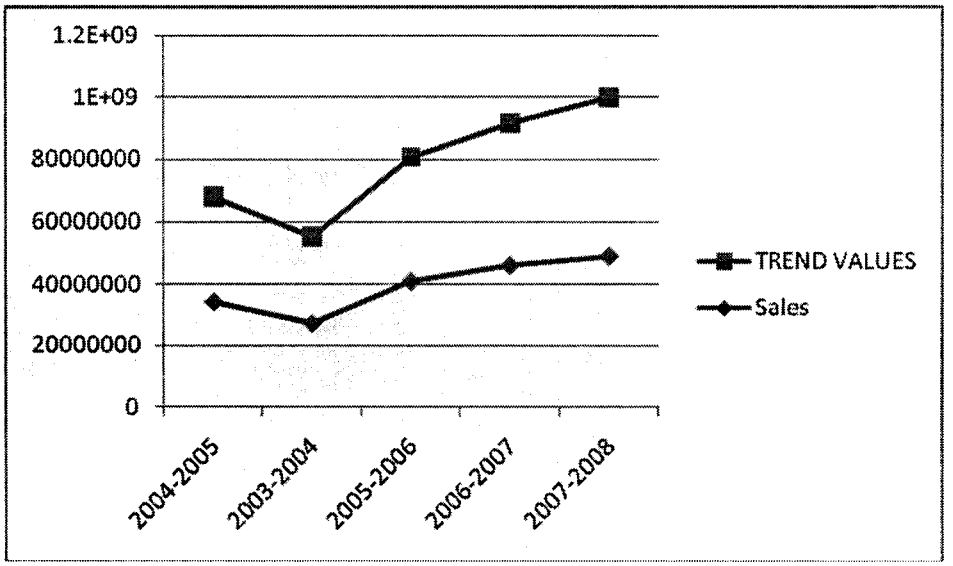
TABLE4.6.1

TABLE SHOWING TREND VALUE FOR SALES

Year	Sales	X	X^2	XY	TREND VALUES
2004-2005	342557111.12	1	1	342557111.1	339372016.8
2003-2004	270388782.32	2	4	540777564.6	283059132.6
2005-2006	410706507.30	0	0	0	395684901
2006-2007	463080690.80	-1	1	-463080690.8	451997785.1
2007-2008	491691413.31	-2	4	-983382826.6	508310669.3
	$\sum Y$= 1978424505	X=0	$\sum X^2$ =10	$\sum XY$=(-563128841.7)	

CHART-4.6.1

CHART SHOWING ACTUAL AND TREND VALUES FOR SALES



INTERPRETATION:

The projected sales for the year 2009 and 2010 as calculated using straight line trend are 564623553.5 and 620936437.6 respectively. It is evident from the above values that the trend for sales will continue to raise if the same level of increase in demand exists.

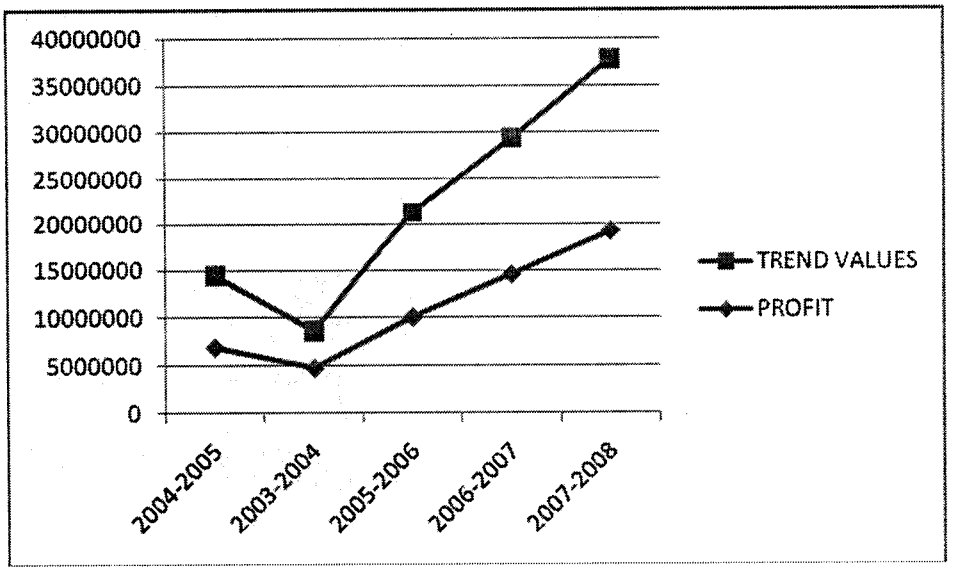
TABLE-4.6.2

TABLE SHOWING TREND VALUE FOR PROFIT

Year	PROFIT	X	X^2	XY	TREND VALUES
2003-2004	4831312	2	4	9662624.7	3864342
2004-2005	6978655	1	1	6978655	7517974
2005-2006	10152343	0	0	0	11171606
2006-2007	14613841	-1	1	-14613841	14825239
2007-2008	19281881	-2	4	-38563763	18478871
	$\sum Y$=55858032.49	$\sum X$=0	$\sum X^2$ =10	$\sum XY$=(36536324)	

CHART-4.6.2

CHART SHOWING ACTUAL AND TREND VALUES FOR PROFIT



INTERPRETATION:

The project net profit for the year 2008-09 and 2009 are 22132504 and 25786136 respectively. If the same level of performance is maintained the trend for net profit for the future period will continue raise.

CHAPTER-5

Findings & Suggestion

CHAPTER-5

FINDINGS & SUGGESTIONS

5.1. FINDINGS

- Current ratio maintained by the firm is found to match the conventional ratio which indicates the firm will not be able to meet the short term obligation in full.
- Quick ratio is found to be not satisfactory. This is high risk.
- Inventory turnover ratios indicate the sign of decline last year, previous three years are constant.
- Debt to total capital ratio is found to be satisfactory level.
- Debt to total asset ratio indicates the creditors as there is sufficient margin of safety available them.
- Gross profit margin is moving upward trend except during the period 2007 & 2008.
- Net profit margin is moving upward trend, which can be attributed to constant direct expenses.
- Cost of goods sold show percentage of share of sales consumed by cost of goods sold.
- Operating expense is down word trend, so the firm operational efficiency.
- Financial expense is down word trend, except the period 2008, so the firm operational efficiency.
- Total asset turn over It is based on relationship with cost of goods sold and asset/investment of a firm, except year in 2008.
- Fixed asset turn over howsoever, defined, measure the efficiency of a firm managing and utilizing asset, except during the period 2007 & 2008.

- Working capital turnover is downstream trend for four years, except during the period 2004.
- Earning power is the overall profitability of firm. In the section upward trends for last three years & greater asset turn over during the period except in the year 2006-07.
- Trend analysis is used to predict the sales for the year 2009 and 2010 which is expect to be at 564623553.5 and 620936437.6 respectively.
- Trend analysis is used to predict the net profit for the year 2009 and 2010 which is expect to be at 22132504 and 25786136 respectively.

5.2. SUGGESTIONS

- The company should make optimum investment in working capital.
- They are more concentrate the current ratio & quick ratio.
- Dept to total capital ratio, Dept to total asset ratio indicate satisfactory, so maintained same level.
- Profitability can be maintained same level.
- Gross profit should be increase
- Operating & financial expenses are maintained low level.
- Asset turnover is maintained at same level
- Cost reduction and control methods are adopted promptly.

5.3. CONCLUSION

The study on financial performance of V.R.FOUNDRIES LIMITED for the period of 2003-04 to 2007-08 was carried out by applying ratio analysis, trend analysis and the financial position is found to be satisfactory.

The liquidity of company is not acceptable. The profitability is low and growing trend and the solvency position of the company is satisfactory.

The study will be helpful to the management in improving its financial efficiency.

CHAPTER-6

BIBOLOGRAPHY

CHAPTER-6

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