A STUDY ON FINANCIAL PERFORMANCE OF SAKTHI SUGARS LIMITED,COIMBATORE

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KCT
BUSINESS SCHOOL

BONAFIDE CERTIFICATE

Certified that this project report titled “A STUDY ON FINANCIAL PERFORMANCE OF SAKTHI SUGARS, who carried out the project under my supervision. Certified further, that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

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Submitted for the Project Viva-Voce examination held on _____

Internal Examiner

External Examiner

DECLARATION

I, hereby declare that this project report entitled as “A STUDY ON FINANCIAL PERFORMANCE OF SAKTHI SUGARS,COIMBATORE”, being submitted in partial fulfillment for the award of Master or Business Administration is the original work carried out by me. It has not found the party other project work submitted for award of any degree or diploma, either in this or any other university.

Signature of the Candidate

JAYARAM M

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SYNOPSIS

Sakthi sugars belong to Sakthi Group and were established in 1964. It is one of the largest producers of sugar in India with a capacity of over 19,500 tonnes of cane crushing per day To understand the financial position and sustainability of your institution. To use financial analysis to improve your institution's sustainability, by Identifying the components, purpose,relationships, and importance of the main

of income statements and balance sheets to easily separate the effect of donor funds;

Analyzing financial statements to monitor profitability, efficiency, and portfolio quality;

Adjusting costs for inflation, subsidized cost of funds, and ; and Identifying critical factors for moving toward financial sustainability,financial statement; Learning the formats. An Analytical research was undertaken to study the Financial Analysis of Sakthi Sugars ltd, Coimbatore to its present solvency position. The study is conducted with five years financial data. The study shows that company is incurring losses, but it can earn profit if are effectively managed and cost of production is controlled by reducing the avoidance expenses. The study is to judge the financial soundness of the company. the current ratio is decreasing that represents the liquidity position of the firm is not good and the firm shall not be able to pay its current liabilities in time without facing difficulties.

CHAPTER – 1

INTRODUCTION

1.1 About the study

Financial performance of the firm enables the management to know their financial strengths of the firm to make best use. Financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time. This study will spot out the financial weaknesses of the firm and help in finding a corrective actions.

1.2. About the Organisation

COMPANY OVERVIEW:

Sakthi sugars belong to Sakthi Group and were established in 1964. It is one of the largest producers of sugar in India with a capacity of over 19,500 tonnes of cane crushing per day. The company was promoted by Dr.N.Mahalingam, Chairman of the Company. White crystal sugar is the main product of the company. Sakthi sugars have units/plants in the states of Tamil Nadu and Orissa.

Sugar manufactured by Sakthi Sugars Limited has met global standards of ICUMSA 35 units maximum and hence, has a huge market overseas. One of the key factors for the success of Sakthi Sugars Limited is its efficient infrastructural facilities. Following are the key reasons for the success of the sugar production.

- Auto setting facilities in the sugar mills
- Production of export quality Sugar
- Scientific farming
- Mechanized cane farming

- ❖ Hygiene , neat, and clean factory site

The Sakthi group has been laying emphasis on other core areas for development such as industrial alcohol, soya products, power, textiles, transport, finance, dairy and software. Significant contributions have been made towards social welfare and rural development.

Company Profile:

Year of Incorporation	:	1961
Registered office	:	Sakthi nagar,Bhavani Taluk, Erode District, Tamil Nadu-638315
Corporate Office	:	180, Race Course road Coimbatore-641018
Units		
Sugar	:	Tamil Nadu Sakthi nagar, rode district Padamathur village,Sivaganga District Pondurai Semur Village,ModaiKurichi Taluk, Erode district. Orissa Haripur Village, Dhenkanal District
Distillery	:	Tamil Nadu-Sakthi Nagar Erode District Orissa- Haripur Village
Soya units	:	Marichinaikenpalayam,Pollachi.

Co-Generation Plant	:	Sakthi nagar, Bhavani Taluk, Erode District Pondurai semur Village Erode District & Padamathur Village, Sivaganga District
Ethanol Plant	:	Sakthi Nagar, Bhavani taluk Erode District

Figure 1 STRUCTURE OF SAKTHI GROUP

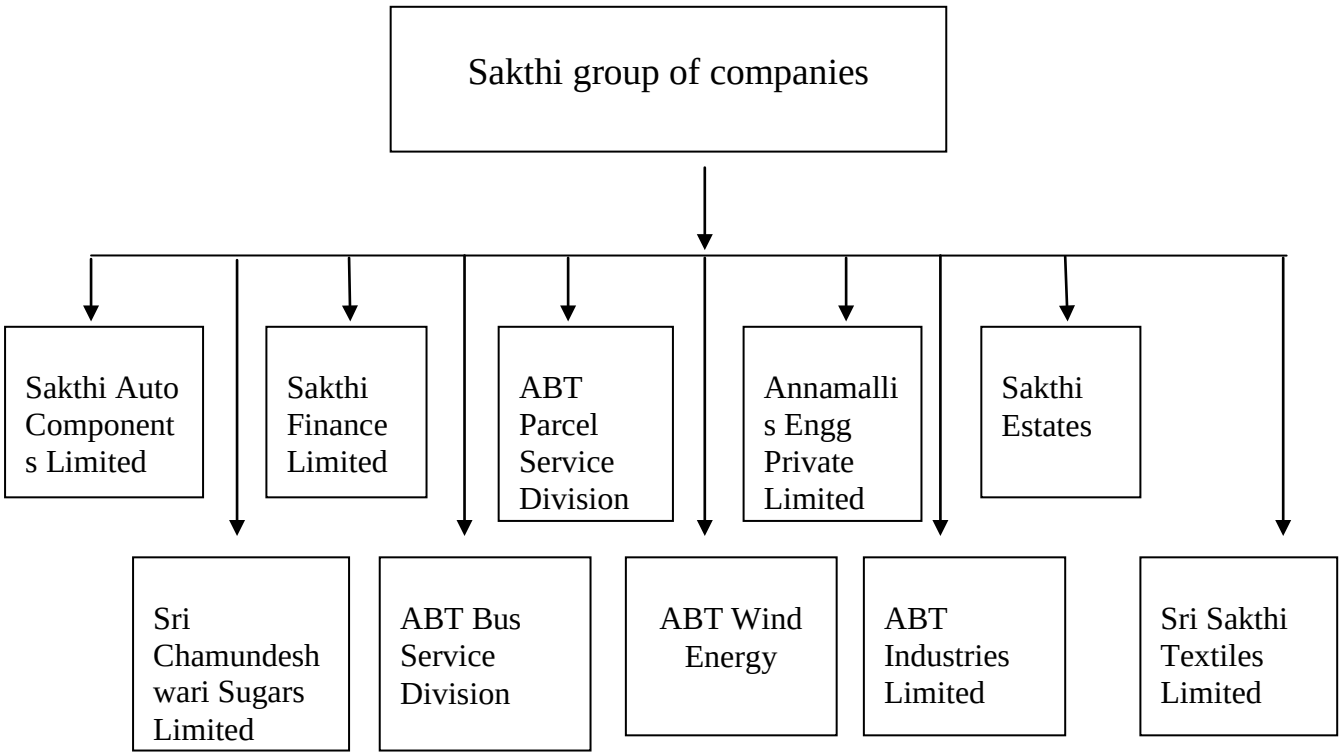
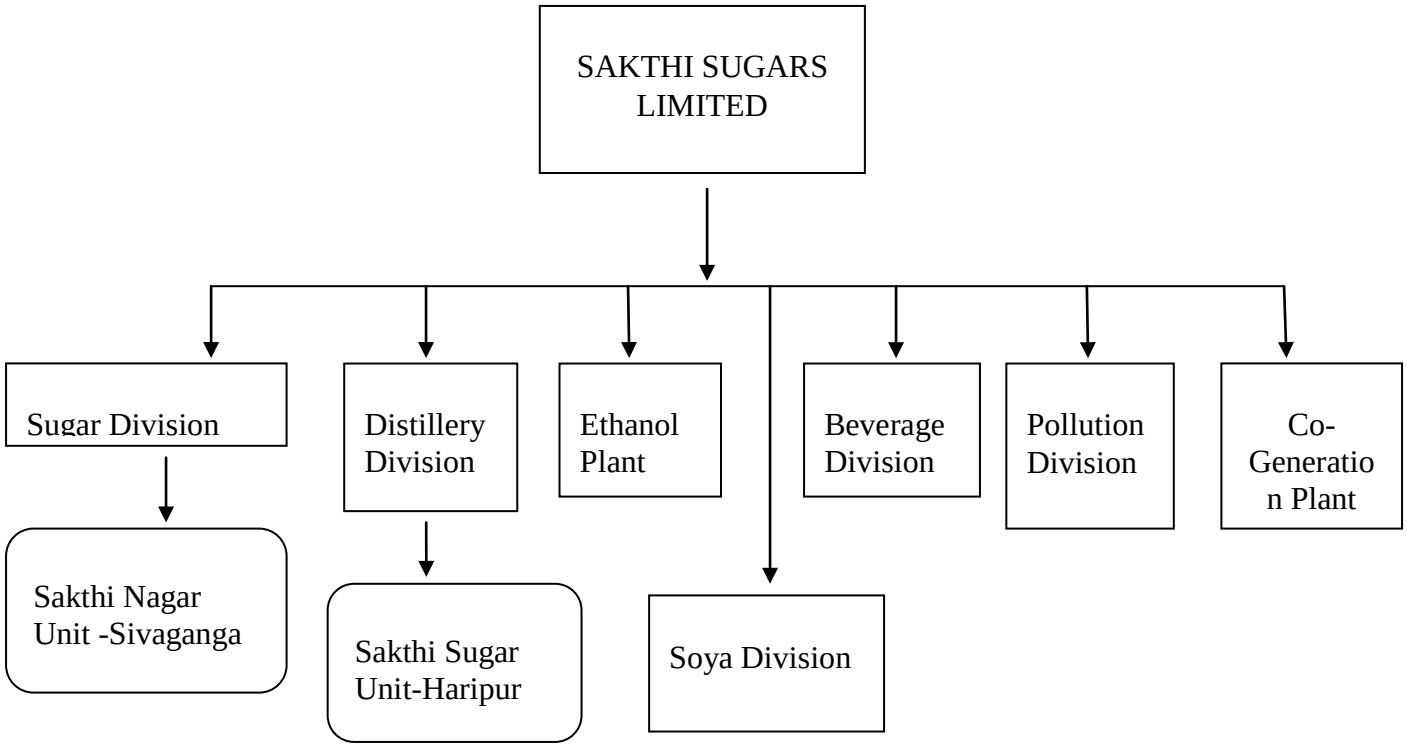


Figure 2 STRUCTURE OF SAKTHI SUGARS LIMITED



1.3 Statement of the problem

Indian sugar industry is affected by following three problems namely, over capacity, High debt, Sustenance of margins. Thus any investment in sugar sector has to be done after thorough analysis of stock as short term news like favorable results in a state should not be a reason to get into a sector unless one is convinced about the prospects

The problem of the study is to analyse the financial performance of Sakthi Sugars, for the last five years. And make the trend analysis for the financial performance. This is done to make the financial data more meaningful.

1.4 Scope of the study

- The financial analysis are the mirrors, which reflects the financial positions and operating strength or weakness of the concern
- The primary objective of the study is to judge the profit and financial soundness of the company.
- Firm’s position and performance can be understood better by this study.

CHAPTER – 2

REVIEW OF LITERATURE

Allen N. Berger,David B. Humphrey*[(1)]*, suggests The primary goals are to summarize and critically review empirical estimates offinancial institution efficiency and to attempt to arrive at a consensus view. We find that the various efficiency methods do not necessarily yield consistent results and suggest some ways that these methods might be improved to bring about findings that are more consistent, accurate and useful. Secondary goals are to address the implications of efficiency results forfinancial institutions in the areas of government policy, research and managerial performance. Areas needing additional research are also outlined.

Erik Ottosson,Fredrik Weissenrieder [(2)] suggests a model that bridges the gap between measurement of historic financial performance and investment evaluation in order to make better strategic choice. The model must measure discounted cash flow, since cash flow and time value of money determines value. Shareholders want to make money on the company's ventures and therefore have financial requirements on management's strategic decisions, i.e. strategic investments. All additional, nonstrategic outlays with the purpose of maintaining the original value of the venture should be considered as "costs". In this paper we present a new model called Cash Value Added (CVA) that introduces a relevant cash flow benchmark which will make it possible to measure historic financial performance based on discounted cash flow.

[(1)] *Allen N. Berger,David B. Humphrey,"*Efficiency of Financial Institutions: International Surveyand Directions for Future Research", Florida State University - Department of Finance
1997

[(2)] *Erik Ottosson,Fredrik Weissenrieder ,"* Cash Value Added - A New Method For Measuring Financial Performance", March 1, 1996 Gothenburg University Working Paper 1996:1

Richard M. Frankel,S.P. Kothari [(3)]**,**suggests Without predictive tests, the risk of overfitting theory to data is large considering the potentially boundless set of psychological biases underlying the behavioral explanations for observed security price behavior. Theye test pricing effects attributed to a central psychological bias, representativeness, which underlies many behavioral-finance theories. This bias influences individuals beliefs about future outcomes based on how closely past outcomes represent certain categories. To produce out-of-sample tests, we use accounting performance to identify these categories and test the idea that investors misclassify firms and thus systematically misprice them. Evidence fails to suggest that trends and sequences of accounting performance, as a proxy for representativeness bias, influence investor expectations to generate return predictability.

John R. Graham, Campbell R. Harvey,Shivaram Rajgopal[(4)],determine the key factors that drive decisions related to performance measurement and voluntary disclosure. The majority of firms view earnings, especially EPS, as the key metric for an external audience, more so than cash flows. We find that the majority of managers would avoid initiating a positive NPV project if it meant falling short of the current quarter's consensus earnings. Similarly, more than three-fourths of the surveyed executives would give up economic value in exchange for smooth earnings. Managers believe that missing an earnings target or reporting volatile earnings reduces the predictability of earnings, which in turn reduces stock price because investors and analysts dislike uncertainty. They also find that managers make voluntary disclosures to reduce information risk associated with their stock but at the same time, try to avoid setting a disclosure precedent that will be difficult to maintain.

[(3)]Richard M. Frankel,S.P. Kothari,Testing Behavioural Finance Theories Using Trends and Sequences in Financial Performance, Massachusetts Institute of Technology (MIT) - Sloan School of Management June 2003 MIT Sloan Working Paper No. 4375-02

[(4)]John R. Graham, Campbell R. Harvey,Shivaram Rajgopa," The Economic Implications of Corporate Financial Reporting", National Bureau of Economic Research (NBER) January 11, 2005

In general, management's views support stock price motivations for earnings management and voluntary disclosure, but provide only modest evidence consistent with other theories of these phenomena (such as debt, political cost and bonus plan based hypotheses).

Robert M. Bushman,Abbie J. Smith [(5)],reviews and proposes additional research concerning the role of publicly reported financial accounting information in the governance processes of corporations. They first review and analyze research on the use of financial accounting measures in managerial incentive plans and explore future research directions.They then propose that governance research be extended to explore more comprehensively the use of financial accounting information in additional corporate control mechanisms, and suggest opportunities for expanding such research in the U.S. and abroad, including the consideration of interactions among control mechanisms. We also propose research to investigate more directly the effects of financial accounting information on economic performance through its role in governance and more generally using a cross-country approach.

***Melek Akgün and Meltem Gürünlü*[(6)]** suggest that the coordination and integration of these flows within a firm and among firms are critically important for an effectively operating supply chain. For this reason, new performance criteria should be introduced in order to evaluate the performance of the supply chain as a whole. One of these new criteria is Cash to Cash Cycle (CCC) which is calculated for any firm by subtracting the debt turnover period from the sum of inventory turnover and receivables turnover periods. Hence, one effective way of shortening the cash conversion cycle for an individual firm may be by contracting the days of receivables and inventory outstanding and extending the days of payables outstanding

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[(5)]*Robert M. Bushman,Abbie J. Smith ,"Financial Accounting Information and Corporate Governance", April 2001,JAE Rochester Conference April 2000*

However, some of the measures taken by a firm within a four-tier supply chain, consisting of suppliers, manufacturers, distributors and customers in a debt-receivable relation, have zero effects on the supply chain's total cash conversion cycle.

Sugata Roychowdhury [(7)] suggests that manipulation of real activities to meet earnings targets. I analyze cash flow from operations (CFO), production costs and discretionary expenses. Using a simple model to determine the normal levels of these variables, the paper detect abnormally low CFO and abnormally high production costs for companies that report small positive profits at the annual level. The evidence is consistent with firms trying to increase reported annual earnings beyond zero by giving price discounts to boost sales temporarily and by overproduction. There is also find evidence suggesting that some of these firms reduce discretionary expenses to report higher margins. Further analysis in the paper yields interesting insights into cross-sectional variation in the nature and extent of real activities management.

Wayne Guay,Jarrad Harford [(8)]***,*** hypothesize that firms choose dividend increases to distribute relatively permanent cash-flow shocks and repurchases to distribute more transient shocks. As predicted, we find that post-shock cash flows of dividend increasing firms exhibit less reversion to pre-shock levels compared with repurchasing firms. They also examine whether the stock market uses the announcement of the payout method to update its beliefs about the permanence of cash-flow shocks.

[(6)] *Steven N. Kaplan, Richard S. Ruback ," The Valuation of Cash Flow Forecasts: An Empirical Analysis", NBER Working Paper No. 4724 Issued in April 1994*

[(7)] *Melek Akgün and Meltem Gürünlü," Cash to Cash Cycle as an Integral Performance Metric in Supply Chain Management:A Theoretical Review", The IUP Journal of 20 Supply Chain Management, Vol. VII, Nos. 1 & 2, 2010.*

Controlling for payout size and the market's expectation about the permanence of the cash-flow shock, the stock price reaction to dividend increases is more positive than the reaction to repurchases.

Kenneth A. Froot, David S. Scharfstein, Jeremy C. Stein [(9)] develops a general framework for analyzing corporate risk management policies. We begin by observing that if external sources of finance are more costly to corporations than internally generated funds, there will typically be a benefit to hedging: hedging adds value to the extent that it helps ensure that a corporation has sufficient internal funds available to take advantage of attractive investment opportunities. They then argue that this simple observation has wide-ranging implications for the design of risk management strategies. This delineates how these strategies should depend on such factors as shocks to investment and financing opportunities. They also discuss exchange-rate hedging strategies for multinationals. as well as strategies involving "nonlinear" instruments like options. It find evidence that two components of earnings,cashflow from operations and changes in working capital, are used to achieve increases in earnings. It present two theories, based on stakeholder use of information-processing heuristics and prospect theory, about the motivation for avoidance of earnings decreases and losses.

[(8)]*Wayne Guay,Jarrad Harford," The cash-flow permanence and information content of dividend increases versus repurchases", Journal of Financial Economics Volume 57, Issue 3, September 2000,*

[(9)]*Kenneth A. Froot, David S. Scharfstein, Jeremy C. Stein," Risk Management: Coordinating Corporate Investment and Financing Policies", NBER Working Paper No. 4084 Issued in May 1992*

David Burgstahler,Ilia Dichev[(10)] provides evidence that firms manage reported earnings to avoid earnings decreases and losses. Specifically, in cross-sectional

distributions of earnings changes and earnings, they lind unusually low frequencies of small decreases in earnings and small losses and unusually high frequencies of small increases in earnings and small positive income. It find evidence that two components of earnings,cashflow from operations and changes in working capital, are used to achieve increases in earnings. It presents two theories, based on stakeholder use of information-processing heuristics and prospect theory, about the motivation for avoidance of earnings decreases and losse

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(10)*David Burgstahler,Ilia Dichev," Earnings management to avoid earnings decreases and losses", Journal of Accounting and Economics,Volume 24, Issue 1, December 1997.*

CHAPTER – 3

RESEARCH METHODOLOGY

Research Methodology means a careful critical enquiry or examination in seeking facts or principles, diligent investigation in order to ascertain something.

3.1 Type of Research

A research design is the arrangement of conditions from collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure.

In this study the researcher undertaken Descriptive study in order to describe the characteristics of the variables. Descriptive research design is a scientific method which involves observing and describing the behaviour of a subject without influencing it in any way.

3.2 Objective of the study

- To compute the financial position of the Sakthi Sugars
- To analyze the profitability and solvency position of the firm.
- To analyze the efficiency of the firm through ratios.
- To suggests ways and means to improve the present condition.
- To examine the overall performance of the company.

3.3 Data and Sources of Data

The secondary data is used in this study. Secondary data is the data that have been already collected by and readily available from other sources. Such data are more quickly obtainable than the primary data and also may be available when primary data cannot be obtained at all. The secondary data that are used here are obtained from the five year annual report of the company.

3.3 Time period covered

For the time period of the 2007-2012 has been covered for the analysis.

3.4 Statistical Tool used

- Ratio Analysis
- Comparative analysis

3.5 Limitations of the study

- The study was conducted for a limited period of 5 years only.
- The study is largely depending on secondary data like Profit and Loss account and Balance sheet.
- The study is based on the constant data of the past five years which will not helps for the efficient analysis future operations.

CHAPTER – 4

ANALYSIS AND INTERPRETATION

The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance. The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account. The first task is to select the information relevant to the decision under consideration from the total information contained in the financial statements. The second is to arrange the information in a way to highlight significant relationships. The final is interpretation and drawing of inferences and conclusions. In short, "financial performance analysis is the process of selection, relation, and evaluation.

ANALYSIS OF RATIO TAKEN FOR THE STUDY:

A) LIQUIDITY RATIO

Liquidity refers to the ability of a concern to meet its current obligations as and when they become due. Thus these ratios reflect the short term financial solvency of a firm. A firm should ensure that it does not suffer from lack of liquidity. The failure to meet obligations on due time may result in bad credit image, loss of creditors confidence, and even in legal proceedings against the firm on the other hand very high degree of liquidity is also not desirable since it would imply that funds are idle and earn nothing. So therefore it is necessary to strike a proper balance between liquidity and lack of liquidity.

To measure the liquidity of the firm, the following ration can be calculated:

1. Current ratio
2. Liquid /Acid test/ Quick ratio
3. Absolute liquid ratio

1. CURRENT RATIO :

The current ratio measures the short term solvency of the firm. It establishes the relationship between the Current assets and current liabilities. Acceptable current ratio varies from industry to industry.

If a company's current ratio in this range, then it is generally good short term financial strength. If current liabilities exceed the current assets, then the company may have problems meeting its short term obligations. It is expressed as follows:

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current Liabilities}}$$

TABLE 1

CURRENT RATIO

(Rs in lakhs)

Year	**Current Assets**	**Current Liabilities**	**Ratio**
2006	72215.30	10677.28	6.76
2007	62233.94	13098.49	4.75
2008	57407.71	31374.76	1.8
2009	82406.77	33343.94	2.47
2011-2012	63539.96	42340.22	1.5

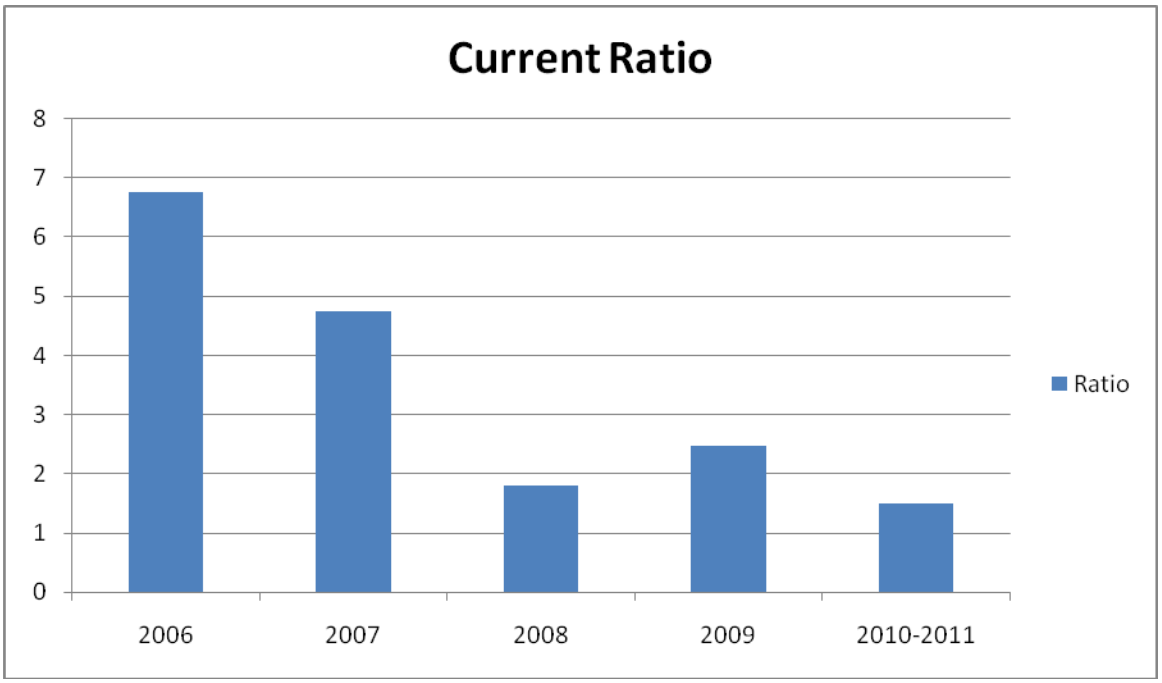

Figure 1. Graph of Current Ratio

Interpretation:

During 2006 to 2011, the current ratio was relatively medium which is an indication that the firm is liquid and has the ability to pay its current obligations. But the current ratio is decreasing that represents the liquidity position of the firm is not good and the firm shall not be able to pay its current liabilities in time without facing difficulties.

2. LIQUID / QUICK/ ACID TEST RATIO

Acid test ratio is the relationship between the liquid assets and current liabilities. It measures the ability of a company to use its near cash or quick assets to extinguish or retire its current liabilities immediately. Quick assets include those current assets that can be quickly converted to cash at close to their book values. It is expressed as follows:

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

TABLE 2

LIQUID / QUICK/ ACID TEST RATIO

(Rs in lakhs)

Year	Liquid Assets	Current Liabilities	Ratio
2006	67594.27	10677.28	6.33
2007	54136.83	13098.49	4.13
2008	53055.27	31374.76	1.6
2009	63616.37	33343.94	1.91
2010-2011	49415.14	42340.22	1.17

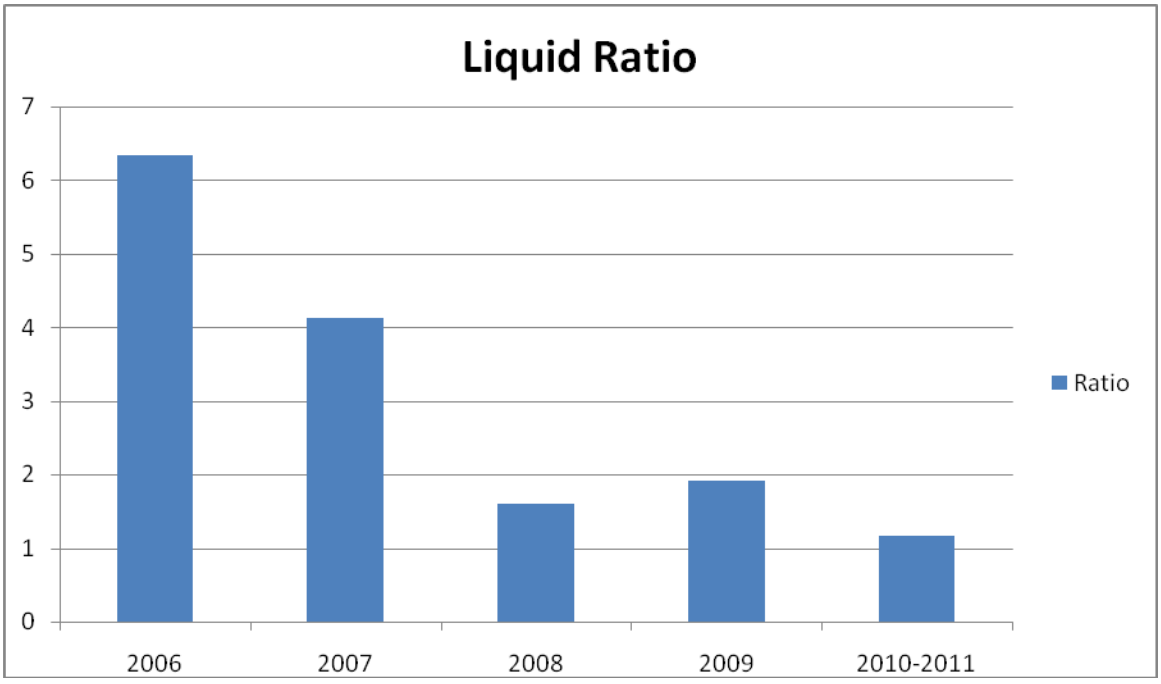

Figure 2. Graph of Liquid Ratio

Interpretation:

It is inferred that acid test ratio that liquid ratio is also decreasing in the same way as current ratio which means company was unable to meet the current claims and inability to take advantage of cash discounts and other rewards for prompt payment. During the year 2006, there are enough assets to meet the liabilities. But in the subsequent year it is in reduced.

3. CASH RATIO/ABSOLUTE LIQUID RATIO :

Absolute liquid ratio extends the logic further and eliminates accounts receivables also. It shows the relationship between absolute liquid assets and current liabilities. Absolute liquid assets include cash in hand and at bank and marketable securities or temporary investments.

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

TABLE 3

CASH/ABSOLUTE LIQUID RATIO

(Rs in lakhs)

Year	**Absolute Liquid Assets**	**Current Liabilities**	**Ratio**
2006	52243.04	10677.28	4.89
2007	45459.72	13098.49	3.47
2008	43679.50	31374.76	1.39
2009	41947.77	33343.94	1.25
2010-2011	31926.43	42340.22	0.75

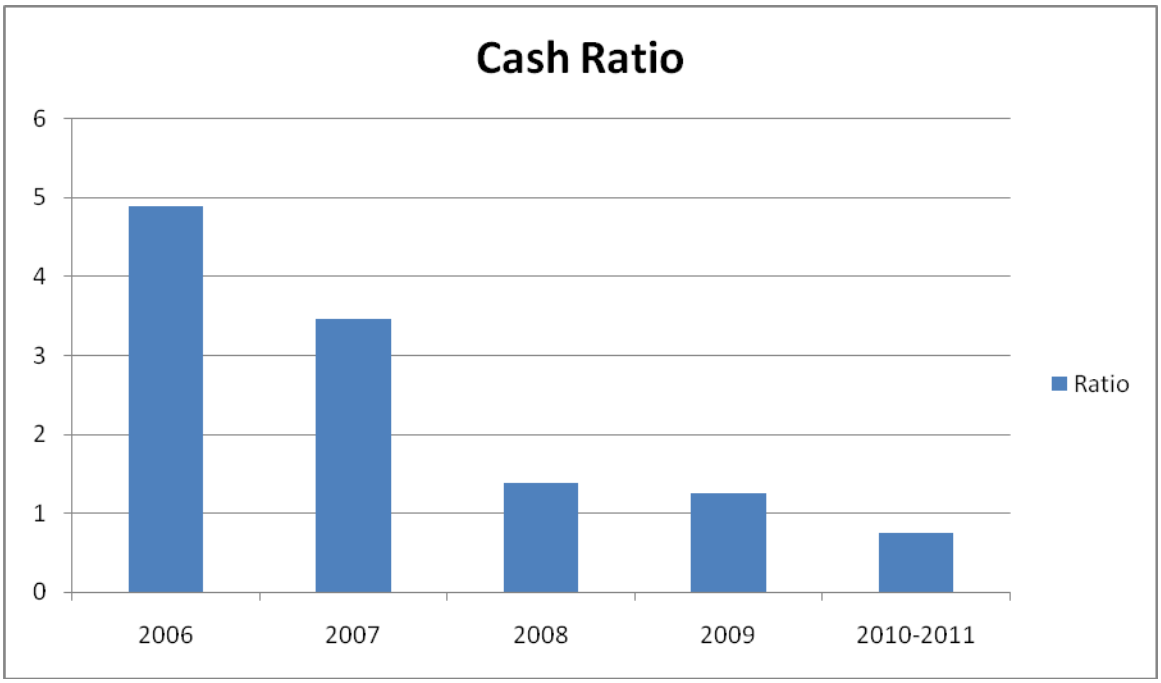

Figure 3. Graph of Cash Ratio

Interpretation:

From the graph it is clear that the acid test ratio for the financial year 2010-2011 is reduced when compared to the previous year value. Though it is reducing that absolute liquid ratio is higher than the standard norm (0.5:1), so it is quite satisfactory.

B) TEST OF SOLVENCY OR LONG TERM FINANCIAL POSITION

Solvency refers to the ability of a concern to meet its long term obligations. The solvency throws a light on the long term solvency of a firm reflecting its ability to assure the long term creditors with regard to periodic payment of interest during the period and loan repayment of principal on maturity or in predetermined installments at due dates.

The main two aspects of long term solvency are

- Ability to repay the principal amount when due
- Regular payment of the interest

The various solvency ratios are

1. Debt equity ratio
2. Proprietary ratio
3. Fixed assets to Net worth fund
4. Ratio of current assets to Proprietors fund
5. Return on capital employed

1. DEBT EQUITY RATIO :

Debt equity ratio is calculated to measure the relative claims of outsiders and the owners against the firm's assets. This can be calculated by dividing outsiders' funds by the shareholders funds.

The outsider's funds include all debts/liabilities to outsiders, whether long term or short term. The shareholders funds consists of equity share capital, preference share capital, reserves and surplus including accumulated profits.

$$\text{Debt-Equity Ratio} = \frac{\text{Total Long Term Funds}}{\text{Shareholders' Funds}}$$

TABLE 4

DEBT EQUITY RATIO

(Rs in lakhs)

Year	**Total Long Term Funds**	**Shareholders' funds**	**Ratio**
2006	71495.18	40509.67	1.76
2007	104271.15	40339.53	2.58
2008	134927.21	65651.44	2.06
2009	147890.15	80597.63	1.83
2010-2011	158673.3	70061.72	2.26

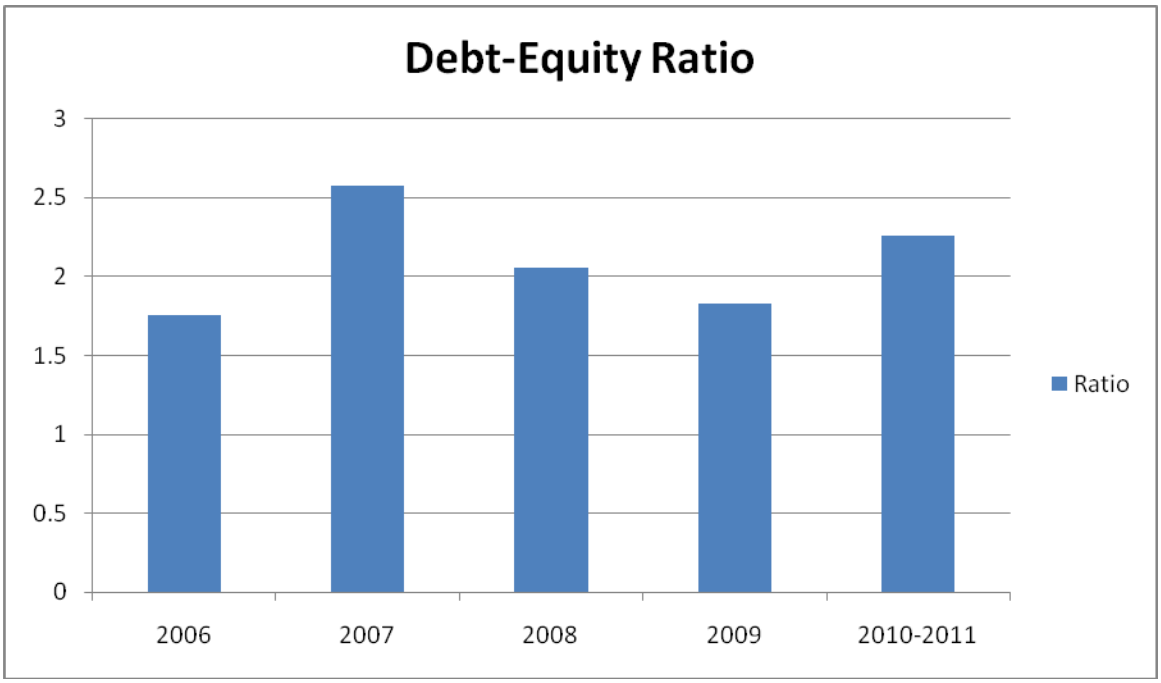

Figure 4. Graph of Debt-Equity Ratio

Interpretation:

The above table reveals that the Debt equity ratio over the period of 5 years is more than 1, but the standard norm is 1. From the ratios it was found that the outsiders' funds are greater than the shareholders funds. So, the company has to pay more interest to the outsiders and there is less possibilities for the trading on equity.

2. PROPRIETARY RATIO :

This ratio establishes the relationship between Shareholders funds to Total assets of the firm. The ratio of proprietors' funds to total funds is an important tool for determining the long term solvency of the firm. The components of this ratio are Shareholders' funds and Total assets.

$$\text{Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$$

TABLE 5

PROPRIETARY RATIO

(Rs in lakhs)

Year	Shareholders' Funds	Total Assets	Ratio (%)
2006	40509.67	128849.57	31.44
2007	40339.53	155962.19	25.91
2008	65651.44	198874.50	33.01
2009	80597.63	218620.65	36.87
2010-2011	70061.72	199611.20	35.1

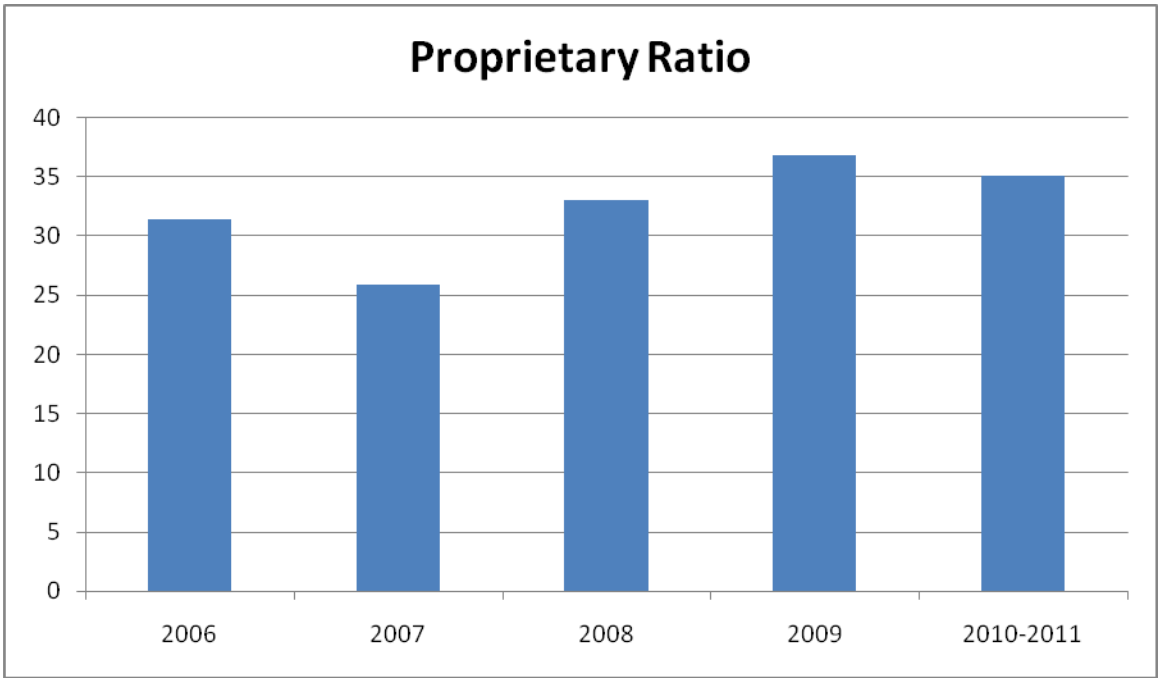

Figure 5. Graph of Proprietary Ratio

Interpretation:

From the above table it is inferred that the proprietary ratio of the company is in lower percentages. This shows that the share of the shareholders' in the total capital is lower. So the long term solvency of the firm is not in satisfactory level.

3. FIXED ASSETS TO NET WORTH FUND

The ratio establishes the relationship between fixed assets and shareholders' funds , i.e., share capital plus reserves, surpluses and retained earnings.

$$\text{Fixed assets to net worth fund} = \frac{\text{Fixed Assets}}{\text{Shareholders' funds}} * 100$$

TABLE 6

FIXED ASSETS TO NET WORTH FUND

(Rs in lakhs)

Year	**Fixed Assets**	**Shareholders' Funds**	**Ratio**
2006	50607.07	40509.67	124.93
2007	52452.47	40339.53	130.03
2008	84794.46	65651.44	129.16
2009	120001.93	80597.63	148.89
2010-2011	115113.70	70061.72	164.30

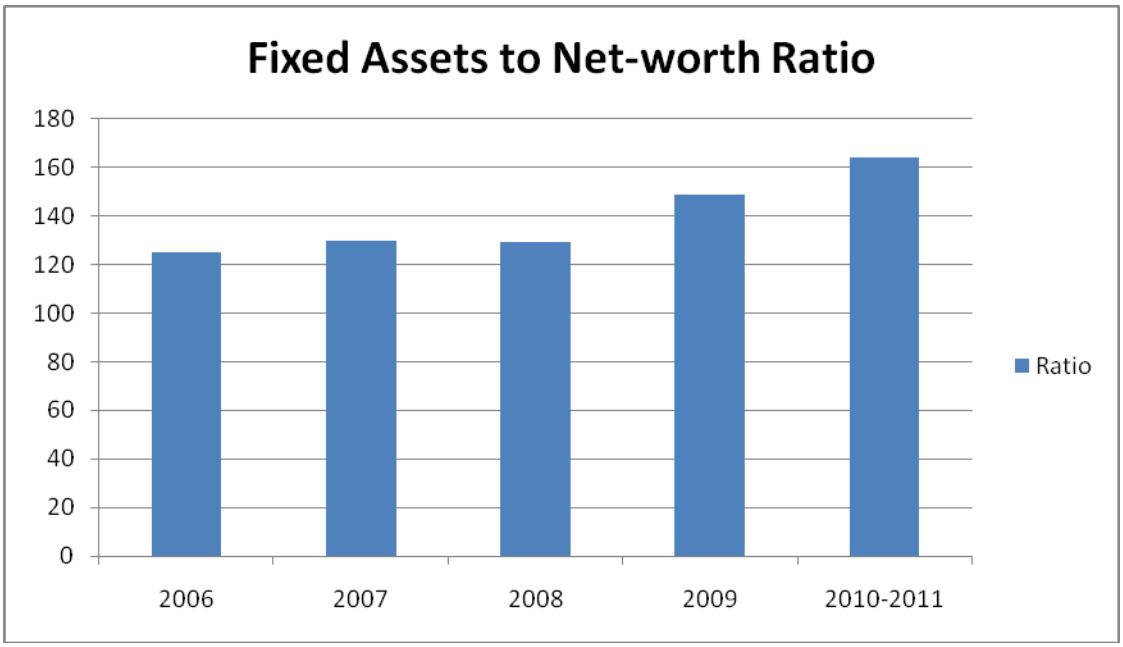

Figure 6. Graph of Fixed Asset to Net worth Ratio

Interpretation:

From the table it is interpreted that the fixed assets to net worth fund ratio for the period of 5 years from 2006-2011 exceeds 100%, it implies that the owners' funds are not sufficient to finance the fixed assets and the firm has to depend on the outsiders to finance the fixed assets.

4) **RATIO OF CURRENT ASSETS TO PROPRIETORS' FUND**

This ratio is calculated by dividing the total of current assets by the amount of shareholders' funds. The ratio indicates the extent to which the proprietors' funds are invested in current assets.

$$\text{Current assets to proprietors' funds ratio} = \frac{\text{Current assets}}{\text{Proprietors' funds}} * 100$$

TABLE 7

RATIO OF CURRENT ASSETS TO PROPRIETORS' FUNDS

(Rs in lakhs)

Year	Current Assets	Shareholders' Funds	Ratio
2006	72215.30	40509.67	178.27
2007	62233.94	40339.53	154.28
2008	57407.71	65651.44	87.44
2009	82406.77	80597.63	102.24
2010-2011	63539.96	70061.72	90.69

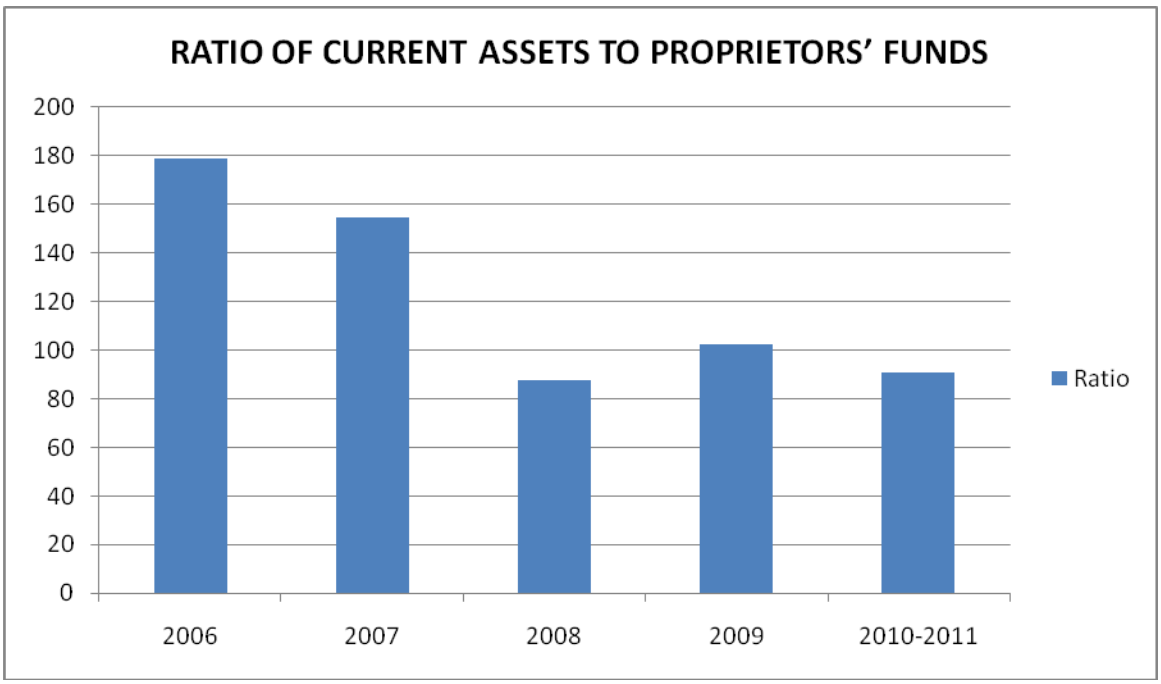

Figure 7. Graph of current Asset to Proprietor Ratio

Interpretation:

From the above table it is inferred that the current assets to proprietors' funds ratio for the period of 5 years from 2006-2011 shows that the owners funds are sufficient to meet the current assets.

RETURN ON CAPITAL EMPLOYED:

Return on capital employed establishes the relationship between profits and capital employed. The term capital employed refers to the total of investments made in a business and can be defined in a number of ways. Net capital employed comprises the total assets less its current liabilities.

$$\text{Return on Capital Employed} = \frac{\text{Net Profit}}{\text{Net Capital Employed}} * 100$$

TABLE 8

RETURN ON CAPITAL EMPLOYED

(Rs in lakhs)

Year	**Net Profit**	**Net Capital Employed**	**Ratio**
2006	9528.04	118172.29	8.06
2007	3011.23	142863.70	2.11
2008	(7955.08)	167499.74	(4.75)
2009	10348.64	185276.71	5.59
2010-2011	(9985.89)	157270.98	(6.35)

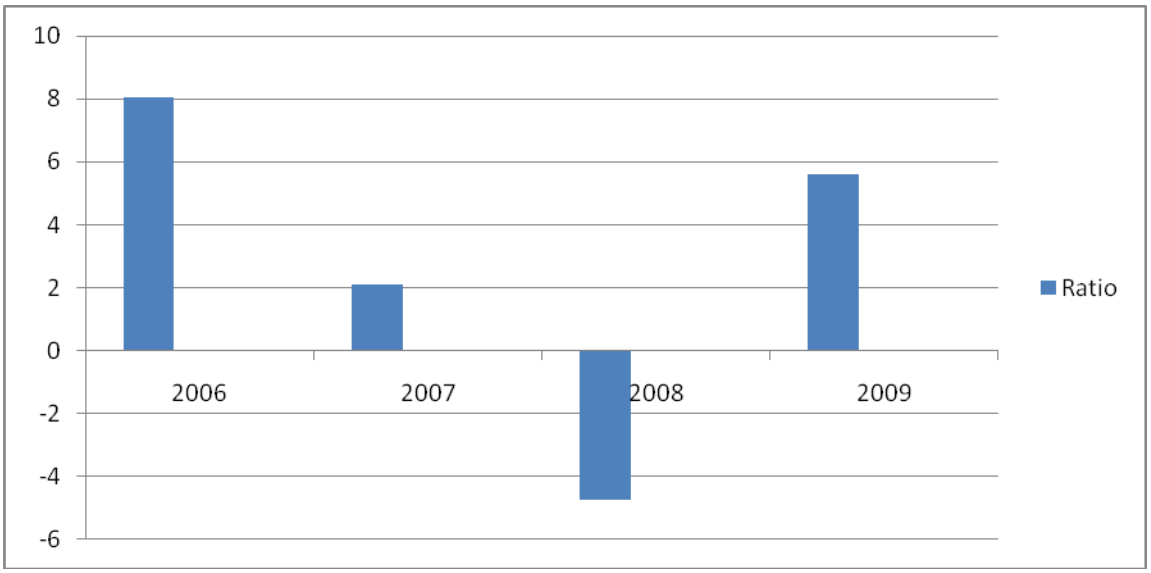

Figure 8. Graph of Return on Capital employed

Interpretation

From the table it is interpreted that the ratio is decreasing and mostly in negative, so productivity during the period is low.

C) ACTIVITY RATIOS:

Activity ratios measure the efficiency or effectiveness with which a firm manages its resources or assets. These ratios are also called turnover ratios because they indicate the speed with which assets are converted or turned over into sales. It involves the relationship between the sales and assets.

The following turnover ratios can be calculated to judge the effectiveness of asset:

1. INVENTORY/STOCK TURNOVER RATIO
2. DEBTORS/RECEIVABLES TURNOVER RATIO
3. WORKING CAPITAL TURNOVER RATIO
4. FIXED ASSETS TURNOVER RATIO

1. INVENTORY TURNOVER RATIO

This ratio indicates the number of times the inventory has been converted into sales during the period. Thus it evaluates the efficiency of the firm in managing its inventory. The ratio is calculated as sales / average inventory. The purpose of this ratio is to see whether only the required minimum funds have been locked up in inventory.

$$\text{Stock Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Stock}}$$

TABLE 9

INVENTORY TURNOVER RATIO

(Rs in lakhs)

Year	**Cost of Goods Sold**	**Average Stock**	**Ratio(Times)**
2006	47128.24	6435.66	7.32
2007	42177.34	6359.07	6.63
2008	56522.81	6224.78	9.08
2009	103982.66	11571.42	8.99
2011	160435.95	16457.61	9.75

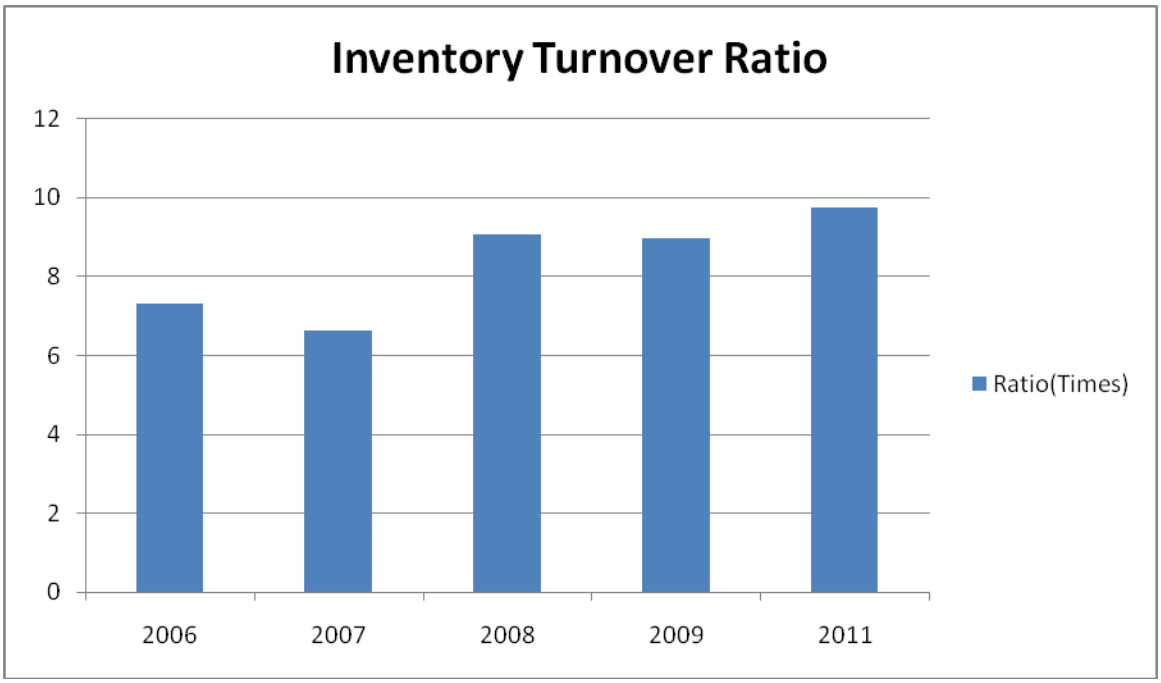

Figure 9. Graph of Inventory Turnover Ratio

Interpretation:

From the table it is inferred that stock turnover ratio is high due to replacing the stock in small lots and efficiency of the firm in managing the inventory is also low.

2. DEBTORS TURNOVER RATIO

Debtors Turnover ratio indicates the velocity of debt collection of firm. It indicates the number of times average debtors are turned over during a year. This ratio can be calculated by Total sales by balance of debtors.

$$\text{Debtors Turnover Ratio} = \frac{\text{Credit Sales}}{\text{Average Accounts Receivable}}$$

TABLE 10

DEBTORS TURNOVER RATIO

(Ra in lakhs)

Year	Sales	Average Accounts Receivable	Ratio
2006	89601.78	6497.49	13.79
2007	76651.73	2509.41	30.55
2008	118884.98	2758.07	43.10
2009	140435.07	5974.07	23.51
2011	216394.71	12979.03	16.67

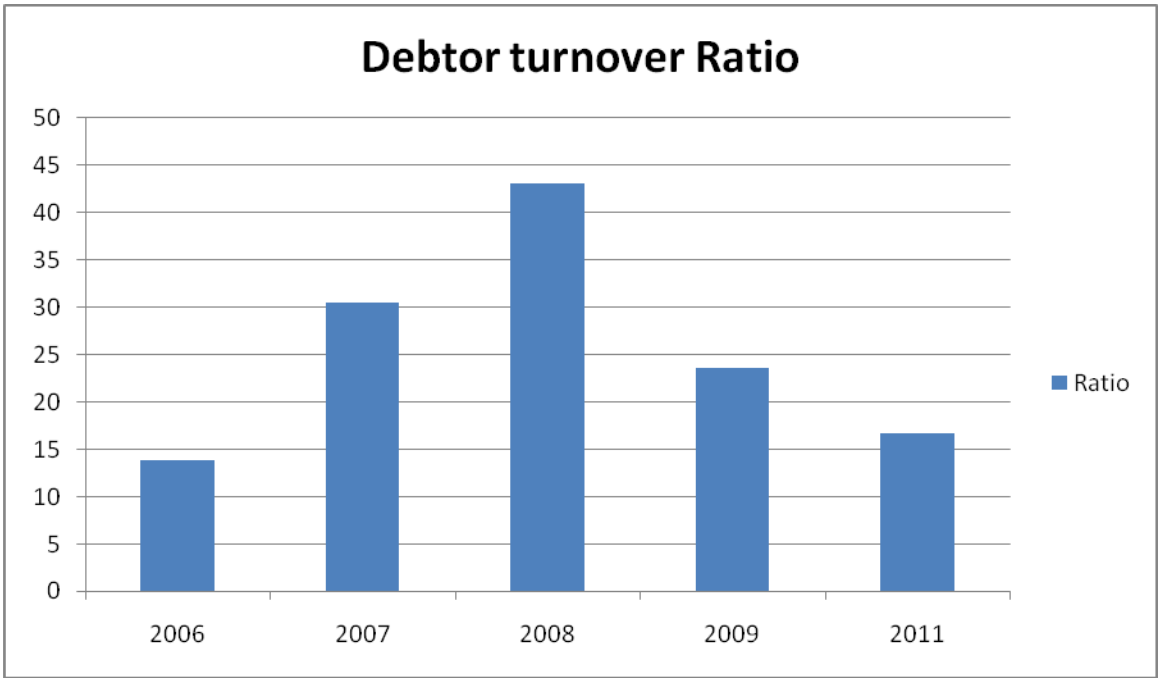

Figure 10. Graph of Debtor Turnover Ratio

Interpretation:

From the table it is interpreted that the debtors turnover ratio is high as it indicates the company is efficient in collecting the debts.

3. WORKING CAPITAL TURNOVER RATIO:

Working capital turnover ratio indicates the velocity of the utilization of net working capital. This ratio indicates the number of times the working capital is turned over in the course of a year. This ratio measures efficiency with which the working capital is being used in the firm.

$$\text{Working Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Working Capital Employed}}$$

TABLE 11

WORKING CAPITAL TURNOVER RATIO

(Rs in lakhs)

Year	Sales	Working Capital	Ratio
2006	89601.78	61538.02	1.46
2007	76651.73	49135.45	1.56
2008	118884.98	26032.95	4.57
2009	140435.07	49062.83	2.86
2011	216394.71	21199.74	10.21

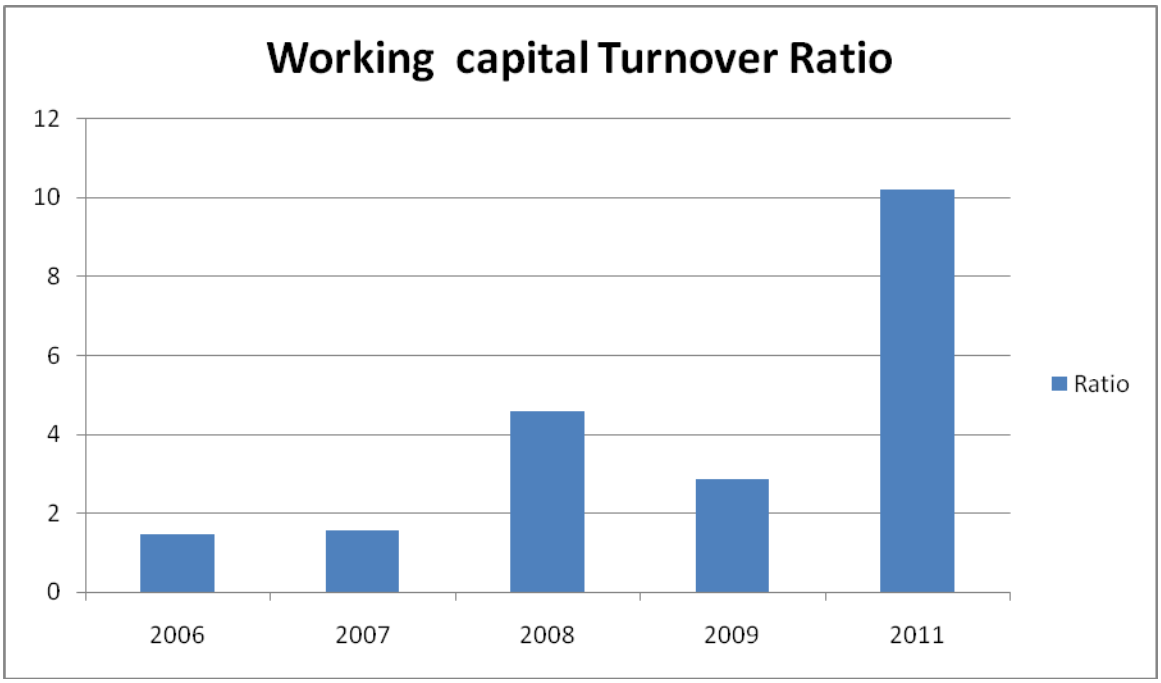

Figure 11. Graph of Working Capital Turnover Ratio

Interpretation:

From the table it is inferred that the working capital is higher only in 2011 and lower in the remaining years, so overall it indicates that the firm has inefficient utilization of working capital.

FIXED ASSETS TURNOVER RATIO:

Fixed assets turnover ratio indicates the extent to which the investments in fixed assets contribute towards sales.

$$\text{Fixed Turnover Ratio} = \frac{\text{Sales}}{\text{Fixed Assets}}$$

TABLE 12

FIXED ASSETS TURNOVER RATIO

(Rs in lakhs)

Year	Sales	Fixed Assets	Ratio
2006	89601.78	50607.07	1.77
2007	76651.73	52452.47	1.46
2008	118884.98	84794.46	1.40
2009	140435.07	120001.93	1.17
2011	216394.71	115113.70	1.88

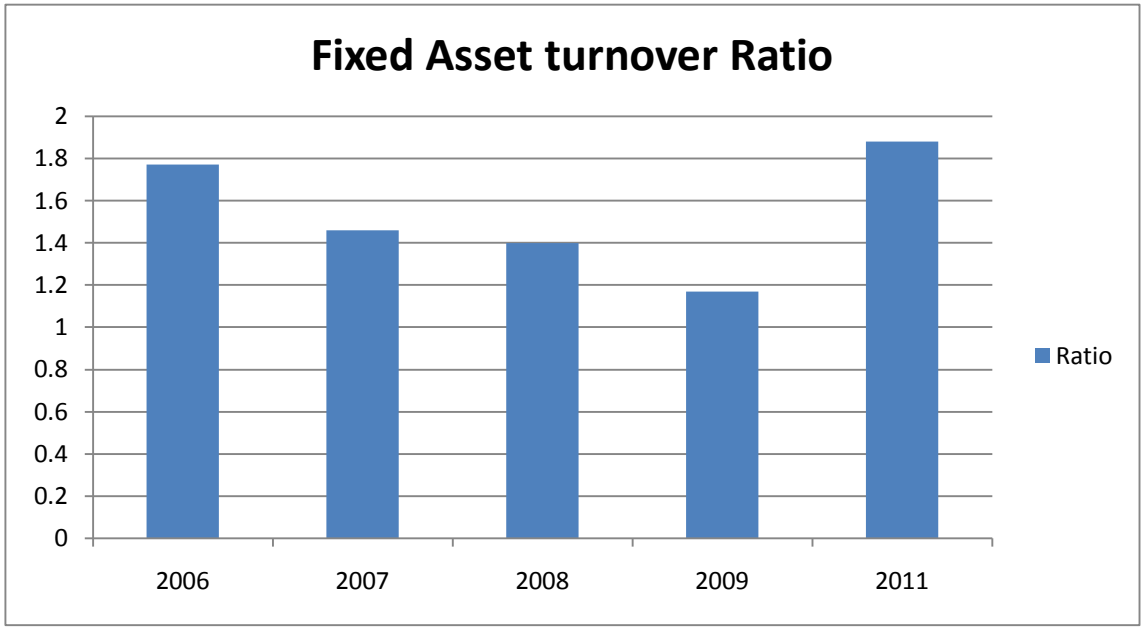

Figure 12. Graph of Fixed Asset turn over Ratio

Interpretation:

From the above table it is interpreted that the fixed assets turnover ratio is low which indicates there is inefficiency in the utilization of the funds.

D) PROFITABILITY RATIO

In the income statement, there are four levels of profit or profit margins - gross profit, operating profit, and net profit. The term "margin" can apply to the absolute number for a given profit level and/or the number as a percentage of net sales/revenues. Profit margin analysis uses the percentage calculation to provide a comprehensive measure of a company's profitability on a historical basis (3-5 years).

1) Gross Profit margin

2) Net Profit margin

3) Operating Profit margin

1) GROSS PROFIT MARGIN

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

TABLE 13

GROSS PROFIT MARGIN

(Rs in lakhs)

Year	Gross Profit	Sales	Ratio
2006	10747	89601.78	12%
2007	43520	76651.73	57%
2008	-44200	118884.98	-37%
2009	15497	140435.07	11%
2011	-49210	216394.71	-23%

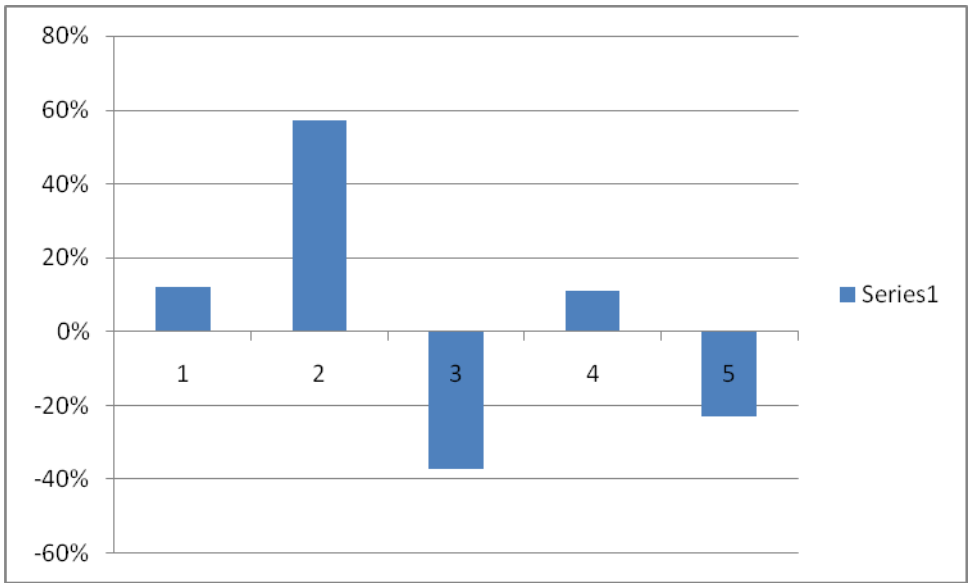

Figure 13. Graph of Gross profit Ratio

Interpretations

The gross profit of the company is high during the period of 2007.But during the period of 2008 and 2011; there is loss in the performance. The Gross profit represents the profit obtained for the cost of certain revenue.

2) NET PROFIT MARGIN

$$\text{Net profit margin} = \frac{\text{Net Income}}{\text{Net sales}}$$

TABLE 14

NET PROFIT MARGIN

(Rs in lakhs)

Year	Net Profit	Sales	Ratio
2006	85160	89601.78	86%
2007	44700	76651.73	58%
2008	-22830	118884.98	-19%
2009	10483	140435.07	7%
2011	-99790	216394.71	-46%

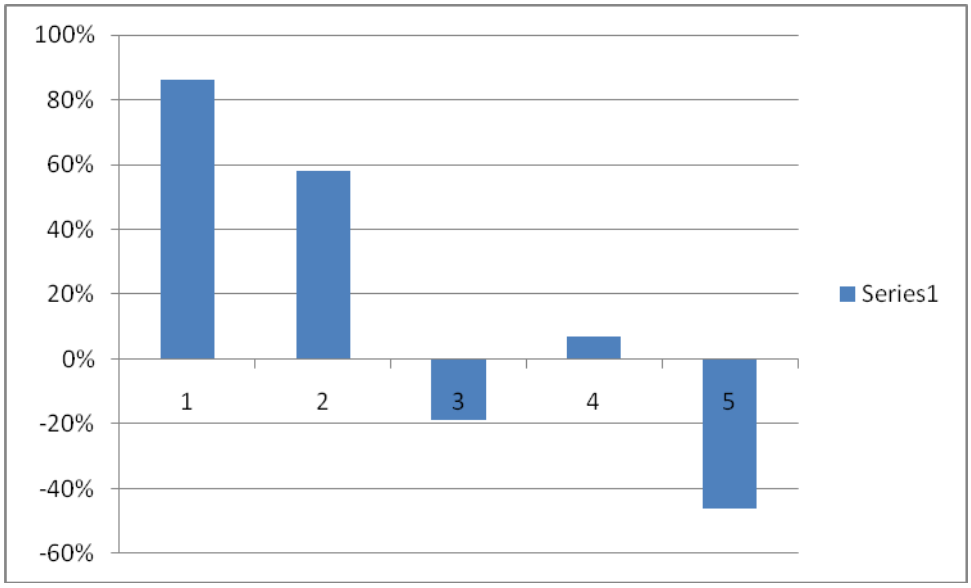

Figure 14. Graph of Net profit Ratio

Intrepretations

This table shows that the profit obtained after all the expenses. The net profit is more during the period of 2006 and decreases over the period.There is in the company in the year of 2011 as well as in 2008.

3) OPERATING PROFIT MARGIN

$$\text{Operating profit margin} = \frac{\text{Operating Profit}}{\text{Net sales}}$$

TABLE 15

Operating PROFIT MARGIN

(Rs in lakh)

Year	Operating Profit	Sales	Ratio
2006	19273	89601.78	22%
2007	14485	76651.73	19%
2008	11842	118884.98	10%
2009	20247	140435.07	14%
2011	14234	216394.71	7%

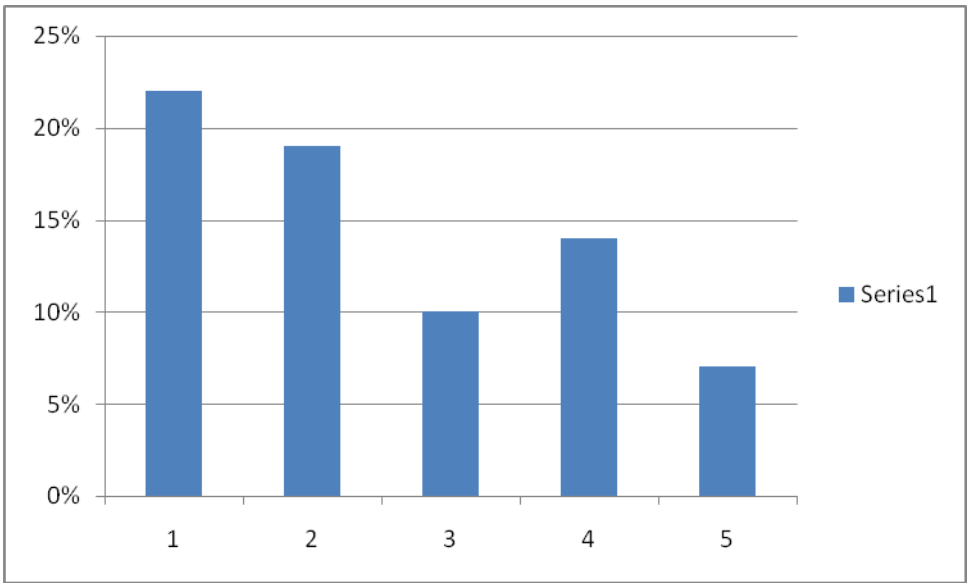

Figure 15. Graph of Operating profit Ratio

Intrepretations

This table shows that the profit obtained after all the expenses. The operating profit is more during the period of 2006 and decreases over the period.

5. FINDINGS, SUGGESTIONS AND CONCLUSIONS

5.1. FINDINGS

During 2006 to 2011, the current ratio was relatively medium which is an indication that the firm is liquid and has the ability to pay its current obligations. But the current ratio is decreasing that represents the liquidity position of the firm is not good and the firm shall not be able to pay its current liabilities in time without facing difficulties.

It is inferred that acid test ratio that liquid ratio is also decreasing in the same way as current ratio which means company was unable to meet the current claims and inability to take advantage of cash discounts and other rewards for prompt payment. During the year 2006, there are enough assets to meet the liabilities. But in the subsequent year it is in reduced.

From the graph it is clear that the acid test ratio for the financial year 2010-2011 is reduced when compared to the previous year value. Though it is reducing that absolute liquid ratio is higher than the standard norm (0.5:1), so it is quite satisfactory.

The table reveals that the Debt equity ratio over the period of 5 years is more than 1, but the standard norm is 1. From the ratios it was found that the outsiders' funds are greater than the shareholders funds. So, the company has to pay more interest to the outsiders and there is less possibilities for the trading on equity.

From the above table it is inferred that the proprietary ratio of the company is in lower percentages. This shows that the share of the shareholders' in the total capital is lower. So the long term solvency of the firm is not in satisfactory level.

From the table it is interpreted that the fixed assets to net worth fund ratio for the period of 5 years from 2006-2011 exceeds 100%, it implies that the owners' funds are not sufficient to finance the fixed assets and the firm has to depend on the outsiders to finance the fixed assets.

From the table it is inferred that the current assets to proprietors' funds ratio for the period of 5 years from 2006-2011 shows that the owners funds are sufficient to meet the current assets.

From the table it is interpreted that the ratio is decreasing and mostly in negative, so productivity during the period is low.

From the table it is inferred that stock turnover ratio is high due to replacing the stock in small lots and efficiency of the firm in managing the inventory is also low.

From the table it is interpreted that the debtors turnover ratio is high as it indicates the company is efficient in collecting the debts.

From the table it is inferred that the working capital is higher only in 2011 and lower in the remaining years, so overall it indicates that the firm has inefficient utilization of working capital.

The gross profit of the company is high during the period of 2007.But during the period of 2008 and 2011; there is loss in the performance. The Gross profit represents the profit obtained for the cost of certain revenue.

This table shows that the profit obtained after all the expenses. The operating profit is more during the period of 2006 and decreases over the period.There is in the company in the year of 2011 as well as in 2008.

5.2. SUGGESTIONS

- It is suggested that the company should maintain current assets as it can meet the obligations to meet its current liabilities.
- It is better to identify surpluses which can be invested to earn interest.
- Investment in accounts receivable or inventory, increasing or advancing receipts, or looking to outside sources of cash, such as a short-term loan, to fill the cash flow gaps.

5.3 CONCLUSION

The financial performance of the Sakthi Sugars is analyzed for the years 2006 – 2010. Through various key performance indicator ratios suggested by Reserve Bank of India, the data is analyzed and concluded that the Company is performing satisfactorily in terms of Operating profit,cash ratio.

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