

Chapter 1

INTRODUCTION

Finance is one of the basic foundations of business. It is the master key which provides access to all the resources to be employed in business activities. Finance is defined as the provision of money whenever it is required. The importance of finance cannot be overemphasized. It is indeed, the key to successful business operation. Without proper administrations of finance, no business enterprise can utilize its full potential for growth and success. The three important activities of business enterprises are finance, production and marketing. Out of these finance occupies great importance. Finance function affects other functions of an organization like it affects accounts function as it the accounts are prepared on the basis of finance operations. Like that it affects other functions like production, planning, etc. Only through proper finance management other functions such as production, marketing, etc can be better performed by the managers.

Financial management refers to that part of the management activity which is concerned with the planning and controlling of firm's financial resources. Financial management is an area of financial decision making, harmonizing individual motives and enterprise goals. It deals with finding out various resources for raising funds for the firm which must be economical and suitable for the needs of the firm and should be used for most appropriate use.

The importance of financial management has arisen because of the fact that present day business activities are predominantly carried on company or corporate form of business units which states that ownership is a separate term from the management and also because of increase in size and wide distribution of ownership of organization. The areas like investment decision, financing decision and dividend decision are important parts of financial management. It has very much importance in management decision also. This has increased the importance of financial management in organization.

1.1 Statement of the Problem

Finance is the life blood of the business. The management of finance is an important function of the management as it has a power to convert the condition of an organization to a better stage or vice versa. The good financial management decision and steps of an organization may lead it to a better condition by increasing profitability, reducing wastage, etc. The finance is a term which has a power to reflect on other disciplines like production, accounting, etc. of the organization. So the finance should be efficiently used and its management should be made effectively. The study of financial performance will help the organization to point out their drawbacks and take decisions that may make the condition favourable to them. As the companies are one of the sources of our national income, their sustainability is essential to the nation, so it is very important to know about the financial performance of these companies. It is in this backdrop that the present study has been carried out.

1.2 Scope and Significance of the Study

The present study has been carried out to assess the financial performance of 'KABRA Extrusion Technik Ltd' over a period of five years i.e. from 2006-2007 to 2010-2011. The study covers the important areas of financial management such as liquidity, profitability, efficiency and long-term solvency.

The financial management is indispensable to any organization as it helps in taking sound financial decision and promoting and mobilizing individual and corporate savings. This study will help the investors in taking their investment decisions and also helps to protect their in the company. This study also helps the management to find out its financial weaknesses and also to take appropriate decisions to increase the profitability of the company.

1.3 Objectives of the Study

The main aim of this study is to know about the financial performance of 'KABRA Extrusion Technik Ltd'. More specifically, the study aims at the following objectives:

1. To assess the liquidity of KABRA Extrusion Technik Ltd
2. To assess efficiency of KABRA Extrusion Technik Ltd
3. To assess the profitability KABRA Extrusion Technik Ltd
4. To assess the solvency KABRA Extrusion Technik Ltd

1.4 Methodology

The study is analytical in nature mainly based on secondary data. The secondary data were collected from company records and reports, books, journals, etc. Necessary consultations have also been made with the officials of the company to get their interpretation on the data collected from the books. For data analysis, statistical tools like trend analysis, ratio analysis etc. have been used.

1.5 Period of Study

The study covers a period of five years from 2006-07 to 2010-11.

1.6 Limitations of the Study

The present study has the following limitations:

1. The study is based on secondary data. The inherent limitations of secondary data may also affect the study.
2. The study covers only five years of operation of the company. This period is too short to know the working of a company.
3. The study would have been more meaningful if primary data were collected from the officials of the finance wing of the company.

In spite of the above limitations, maximum care has been taken to make the study more meaningful and purposeful.

1.7 Chapterisation

The study is presented in five chapters:

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|-----------|--|
| Chapter-1 | Introduction |
| Chapter-2 | KABRA Extrusion Technik Ltd. |
| Chapter-3 | Financial performance – A theoretical overview |
| Chapter-4 | Data analysis |
| Chapter-5 | Findings, suggestions and conclusions |

Chapter 2

KABRA EXTRUSION TECHNIK LTD: PROFILE

Incorporated in 1982, Kabra Extrusion Technik (KETL) was set up with the objective of manufacturing twin screw extruder machines, complete with downstream facilities for the manufacture of PVC pipes, profiles, sections and granules in technical collaboration with Batten field Extrusion Technik, Germany. The company commenced commercial production at Vapi in late 1985 and subsequently used its own know-how to start making cheese winders required by the PP/HPPE tape plants. It entered into a technical collaboration with UNICOR Rahn Plastmaschinen, Germany, to manufacture and market corrugators and lay flat machines. Corrugators are used to make corrugators pipes; lay-flat machines find application in drip irrigation. Ever since its public issue in May '89, KETL has shown attractive growth in sales and net profit. The company also set up a plant at Daman to create additional facilities for existing products so as to manufacture machinery for HDPE pipes. This unit went on stream from Feb.'95. KETL has entered into a joint venture agreement with Georg Sahn, Germany, and incorporated Kabra Georg Sahn winders for the manufacture of precision winders for PP/HDPE tapes, for woven sacks. The company also participated in a big way in the Plastindia'97 Exhibition held every three years in New Delhi. KETL having subsidiary of "Kabra George Sahn Winders Ltd" during the year 1998-99. During the year 1999-2000, the company entered into a new collaboration agreement with Battenfeld Extrusionstechnik GmbH, for manufacturing Twin Screw Plastic Extrusion Machinery BEX - 2 series along with post extrusion equipments. The company had issued bonus shares during the financial year 2003-04 and subsequent to the bonus issue, the paid up equity of the company has risen to Rs.6.86 crores. During 2003-04, Kabra Winders Limited ceases to be a subsidiary of the company since the dilution of equity holding from 74.90% to 29.30% in that company

Kabra Extrusionstechnik (KET), a part of Kolsite group is a leading manufacturer of plastic extrusion machinery in India. KET offers a wide range of hi-tech sophisticated single and twin screw extrusion lines for pipes, profiles, pellets, and PO pipelines for HDPE/PPR, teleduct, mono and multilayer blown films etc.

The company has over four decades of rich experience in plastics industry. It has got the coveted 'Two Star Export House' status. The company has won 'Excellence in Export' award five times and also is an ISO 9000 company. KET has been benchmarking in plastics extrusion industry by sophisticated R & D techniques and various processes to cater to the market requirements for low power consumption, high output, maintenance free and user friendly Plastics Extrusion plants and machineries.

KET has a joint venture with global leaders in plastics extrusion machinery viz. Battenfeld Extrusions technik, Germany and American Maplan Corporation, USA. KET is India's leading manufacturer and exporter of Plastics Extrusion Plants and Allied Machineries. KET has over 6,400 installations in 56 countries worldwide.

2.1 Major Product Lines of KET

- i. Twin screw extrusion lines for extrusion of RPVC/ CPVC pipes, PVC profiles & pellets
- ii. Single screw extrusion lines for PO pipes
- iii. Mono layer and Multi layer Blown film lines

2.2 Products Range of KET

- a) Pipe extrusion line:
 - i. PVC Pipes
 - ii. CPVC Pipes
 - iii. PVC Foam Core Pipes
 - iv. Polyolefin Pipes
 - v. PP-R Pipes
 - vi. Downstream

- b) Diverse product lines
 - i. PVC Pelletizing lines
 - ii. PVC Profile lines
 - iii. PVC Mixer cooler
 - iv. Tape Stretching Lines

- c) Monolayer blown film
- d) Multilayer blown film

2.3 Achievements of KET during 2007-2011

- i. KET has been exporting to 61 countries.
- ii. The company has won prestigious 'All India Award for Export Excellence' for the year 2006-07. KET is the first Plastics Extrusion Plants Manufacturer being awarded such an award nationally.
- iii. KET has been performing progressively on financial and market parameters. This fact was authenticated in PlastIndia 2009 when KET received prestigious Plastic on Award for Fastest Growing Enterprise.
- iv. KET has won the prestigious Export Excellence Award (2005-06) for the Sixth Time. This award is conferred upon by Engineering Export Promotion Council for Export Excellence in different product groups.
- v. As recognition of its sustained and excellent export performance, Government of India has accorded it '2 Star Export House Status'.
- vi. An ISO 9000 certified company

2.4 Industry Structure and Developments of KET

The Company is engaged in capital goods sector, manufacturing Plastic Extrusion Machinery, specializing in manufacture of plants to produce a wide range of Plastic Pipes i.e. PVC, HDPE, LDPE, PP, Composite Pipes etc. PVC pipes sector has almost 40% share of total PVC resin business. Pipe extrusion machinery is the largest market and the Company has about 65% share in this segment. The extrusion machinery industry, being linked to plastic consumption, has significant growth potential.

PVC pipes consumption has been recording high double digit volume growth. Traditionally, pipes were used in agriculture and irrigation but are now increasingly used for drinking water and sewage applications. The boom in housing, construction and infrastructure sectors would ensure growth momentum for PVC pipes. HDPE pipes segment is an upcoming growth area with applications in telecom ducting, water supply, irrigation, fuel gas distribution, etc. The company has been manufacturing hi-tech HDPE pipe plants which has significant growth

2.5 Management of KET

Chairman & Managing Director	Shreevallabh G Kabra		
Vice Chairman & M.D.	Satyanarayan G Kabra		
Director (Technical)	Anand S Kabra		
Director	Haridas	S	Sanwal
	Mahavir	Prasad	Taparia
	Yagnesh	B	Desai
	Nihalchand C Chauhan		
Company Secretary	Y D Sanghavi		

2.6 Products and Services of KET

Potential in India. Flexible packaging industry has been growing with focus on Multi-Layer Blown Films (MLF). Applications in lamination, milk and edible oil packing currently contribute 85% of the total market and the boom in organized retailing coupled with rural market penetration is fuelling the demand for MLF.

2.7 Finished Product of KET

- Twin Screw Extruders (Units)
- Spares for Extruders & Winders
- Excise Duty
- Barrels-Extrusion
- Adjustment

2.8 Sector wise Applications of Extrusion Solutions Offered by KET

Kabra Extrusion technik is one of the India's largest manufacturers and exporter of plastic extrusion equipments. A leading player engaged in the production of pipe, profile and blown film machinery, the company commands the overall market share of 50% of organized and 35% of unorganized market based on number of plants.

When we see about the sector wise application of extrusion solutions of KET , the KET has its position in four sectors i.e. in infrastructure, construction, packaging and agriculture.

When we consider infrastructure, we can see that KET helps in drinking water supply, gas transport, drainage pipes supply etc., which have a very important role in the life of the human beings. The large Diameter Double Wall Corrugated HDPE pipes are supplied by KET to deploy infrastructure requirements. While we see the construction sector, the company shows its role in electric conduits, sewerage pipes, plumbing etc., by using Twin Strand Pipeline. In packaging sector, it helps in packaging of FMCG, food and beverage, pharmaceutical and shopping bags etc. the KET mainly focus on machines for all types of pipes used in the agricultural segment including water management and drip irrigation.

Figure 2.1 gives a summary of sector-wise application of KET's extrusion solutions.



Fig. No. 2.1

2.9 Opportunities and Threats

Recognizing Company's capabilities in building global products at competitive costs, the range of plants being exported is steadily increasing.

KET Ltd Company has been awarded with certificate of Export Excellence by the Engineering Export Promotion Council, India for seventh time from financial year 1995-96. As recognition of sustained and excellent export performance, Government of India has accorded "STAR EXPORT HOUSE" status to the Company. Exports of the Company during the year under review were Rs. 78.44 Crores which is about 40.27% of the Annual Sales Turnover.

Technological obsolescence, market conditions, growing competition including imports are considered to be the threats.

2.10 Internal Control System and Adequacy

Management feels that the internal controls in place are sufficient considering the complexity, size and nature of operations of the company. Internal Audit Team consists of well experienced persons, who constantly reviews various aspects of control systems and conducts audit under well laid out audit programmes to ensure effectiveness of the controls. The said internal audit team continuously reviews the control system and undertakes audit of special areas in-depth.

2.11 Company's Philosophy on Code of Governance

The basic philosophy of Corporate Governance of the Company is to achieve business excellence and dedicate itself to increase long-term shareholders value, keep in view the need and interest of all its all stakeholders' viz. customers, shareholders, employees, regulatory bodies, vendors, bankers etc.

2.12 Composition and Size of the Board

The present strength of the board is seven (7) directors. The board comprises of three (3) executive and four (4) non executive directors representing the optimum combination of professionalism, knowledge and business experience. The members of the board are acknowledged as leading industrialist and professionals in their respective fields. The board is headed by Shri S.V. Kabra, Executive Chairman.

The non-executive directors bring independent judgment in the board's deliberations and decisions and constitute more than half of the total number of directors.

2.13 Significant Accounting Policies of KET

A. Basis of Accounting

The financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles under the historical cost conventions.

B. Fixed Assets, Depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes all expenditure necessary to bring the asset to its working condition for its intended use. Borrowing cost attributable to acquisition and installation of fixed assets are capitalized and included in cost of fixed assets.

C. Investments

Long term investments are carried at cost less any permanent diminution in the value (if any), determined separately for each individual statement.

D. Current Assets:

a. Inventories

Raw material, components and work in progress are valued on FIFO basis, at cost or market value whichever is less, and is net of CENVAT & VAT (finished goods are valued at cost or market value, whichever is less & is inclusive of Central excise duty there on). Cost includes cost of conversion and other costs incurred in bringing the inventories at their present location and condition. Cost of conversion for the purpose of valuation of WIP and finished goods includes fixed and variable production overheads incurred in converting the material into their present location and condition.

b. Sundry Debtors, Loans and Advances are stated after making adequate provisions for doubtful debts if any.

E. Revenue Recognition

Revenue comprises sale of plastic processing machines and spare parts, DEPB license, services, labour charges, traded items, interest and dividend. Revenue in respect of sale of goods is recognized at the time of dispatch of goods from factory. Revenue is disclosed exclusive of sales tax, VAT or other taxes, as applicable.

Income from Investment

- i. Dividend income is recognized when the company's right to receive dividend is established.
- ii. Interest is accrued over the period of investment.

F. Foreign Currency Transactions

Transactions in foreign currencies are normally recorded at the exchange rate prevailing on the date on which transaction occurred. Outstanding balances of foreign currency monetary items are reported using the period end rates. Exchange differences arising as a result of the above are recognized as income or expense in the profit and loss account except the following.

In pursuance to notification No.G.S.R 225(E) 31.03.2009 issued by the Ministry of Corporate Affairs for amending accounting Standard 11 "the effect of changes in foreign exchange rates", the company has opted the option of capitalizing foreign exchange gain/ loss on long term foreign currency monetary assets.

G. Payments and Benefits to Employees

- a. Short term employee benefits are recognized as an expense in the profit and loss account of the employee has rendered services.
- b. Post employment and other long term benefits are recognized as an expense in the profit and loss account of the year in which the employee has rendered services. The expense is recognized at the present value of the amounts payable determined using actuarial gains and losses in respect of post employment and other long term benefits are charged to the profit and loss account

H. Operating Lease

Assets acquired on lease where a significant portion of the risks and reward of ownership are retained by the lessor are classified as operating lease. Lease rentals are charged off to the profit and loss account as incurred.

I. Tax Expenses

Current tax is measured after taking into consideration, the deductions and exemptions admissible under the provisions of the Income Tax Act, 1961.

Deferred tax is accounted for by computing the tax effect of timing differences which arise between book profits and tax profits and is accounted for at current rates of tax. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such available tax assets can be realized.

J. Provisions and Contingent Liabilities

The company recognizes a provision when there is a present obligation as a result of a past event that probably requires outflow of resources, which can be reliably estimated. Contingent liabilities are not recognized but are disclosed in notes.

2.14 List of Related Parties and Relationships of KET

A. Subsidiaries & associate companies & promoter companies:

Plastiblends India Ltd., Gloucester Engineering co. Inc.

B. Enterprise over which key management personnel exercise significant influence:

Mahashree Plastic Inds Pvt.Ltd., Kolsite Maschine Fabrik Pvt.Ltd., Kolsite Industries, Maharashtra Plastics & Industries, Maharashtra Plastic Industries, Wonderworld Resorts Ltd., smartech Global Solutions Ltd., Rambalab Ramnaran, Kabra Gloucester Engineering Ltd., Ganges Urethane Pvt. Ltd.

Chapter 3

FINANCIAL PERFORMANCE: A THEORETICAL REVIEW

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation

The practice of managing the effectiveness and efficiency of Finance by aligning people, processes and systems to a common set of goals and objectives is called the financial performance management.

There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt. To analyze the financial performance we have to undertake financial statement analysis.

3.1 Financial Statement

The financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment in time as in the case of balance sheet, or may reveal a series of activities over a given period of time, as in the case of an income statement. Financial statements are prepared on the basis of recorded facts. These statements are prepared for a management and deal with the status of investment in the business and results achieved during the period under review.

Financial statements are considered as the mirror of an organization. Through financial statement a firm can communicate its financial position to the users. This helps them to analyze the strength and weakness of the concern and taken investment

decision. Financial statements are of two types of statements, which are prepared by a concern at the year end. They are:

1. Income Statement

The income statement or trading and profit and loss account is prepared by a business concern in order to know about the profit earned and loss sustained during the period. It explains what has happened to a business as a result of operations between two balance sheet dates.

2. Position Statement

It is commonly known as balance sheet. The position statement or balance sheet is prepared by a concern on a particular date in order to know its financial position. It represents all assets owned by the business at a particular moment of time and the claims or equities of the owners and outsiders against those assets at that time

Financial statements are prepared for the purpose of presenting a periodical review or report by management and deal with the state of investment in business and result achieved during the period under review. They reflect the combination of recorded facts, accounting conventions and personal judgments.

3.2 Financial Statement Analysis

Financial statement analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data. Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statement and a study of trend of these factors as shown in series of statements.

The main function of financial statement analysis is the pin pointing of strength and weakness of a business undertaking by regrouping and analysis of figures contained in financial statement by making comparisons of various components and examines their contents.

Financial statement analysis may be done for a variety of purpose, which may range from a simple analysis of short-term liquidity position of the firm to a comprehensive assessment the strength and weakness of the firm in various areas. It is helpful in assessing corporate excellence, judging credit worthiness, forecasting bond rating, predicting bankruptcy, and assessing market risk. Analysis of financial

statement is of interest to lenders, investors, security analysis, managers, and other. If properly analyzed and interpreted financial statement can provide valuable insight into a firm's performance.

3.3 Objectives of Financial Analysis

- i. To ascertain the operational efficiency of the firm.
- ii. To know about the profitability that the firm can earn.
- iii. To forecast the details about the future of the firm.
- iv. To assess solvency position of the firm.
- v. To analyze the details in the financial statement so that we can interpret the details in it clearly.

3.4 Types of Financial Analysis

Financial analysis can be done on the basis of materials used or on the basis of modus operandi.

On the basis of materials used, financial analysis can be classified into two types:

a. External Analysis

This analysis is done by outsiders and do not have access to detailed internal accounting records of the business firm. These outsiders include investors, potential creditors, government agencies, credit agencies and general public. For financial analysis, these external parties to the firm depend almost entirely on the published financial statements.

b. Internal Analysis

The analysis conducted by person who has access to the internal accounting records of the business firm is known as internal analysis. Such an analysis can therefore be performed by executives and employees of the organization as well as the government agencies, which have statutory powers, vested in them.

On the basis of modus operandi, the financial analysis can be of two types:

a. Horizontal Analysis

Horizontal analysis refers to the comparison of financial data of a company for several years. The figures for this type of analysis are presented horizontally over a number of columns. The figures of various years are compared with standard or base year. A base year is a year chosen as beginning point. This type of analysis is also called 'Dynamic Analysis'.

b. Vertical Analysis

Vertical analysis refers to the study of relationship of various items in the financial statements of one accounting period. In this type of analysis the figures from financial statements of a year are compared with a base selected from the same year's statements. It is also known as 'Static Analysis'. Common size financial statements and financial ratio are the two tools employed in vertical analysis.

3.5 Tools of Financial Statement Analysis

There are different methods were used for extracting the information from financial statement for analyzing financial performance. Some of the important methods used are:

- i. Ratio analysis
- ii. Common size statement
- iii. Comparative analysis
- iv. Trend Analysis

3.6 Ratio Analysis

Ratio analysis is the process of determining and presenting the relationship of items and group of items in the financial statements. It is a means of better understanding of financial strengths and weakness of a firm. Ratio analysis helps in establishing and interpreting various ratios for helping in making certain decisions.

A ratio is an arithmetical relationship between two figures. The figures have to be interrelated otherwise no useful purpose will be served if ratios are calculated between two figures, which are not at all related to each other. Ratio may be classified in a number of ways keeping in view the particular purpose as:

- i. Financial ratio
- ii. Profitability ratio
- iii. Activity ratio
- iv. Stability ratio

Ratio analysis is used as a main tool for analysis and interpretation of financial statement. A ratio is simple arithmetical expression of relationship of one number to another. In simple language ratio is one number expressed in terms of another and can be worked out by dividing one number to another.

Ratios provide due to the financial position of a concern. These are the pointers / indicators of financial strength, soundness, position, weakness of an enterprise. One can draw exact financial position of concern with the help of ratios. It involves four steps: -

1. Selection of relevant data from the financial statement depending upon the objective of the analysis.
2. Calculation of appropriate ratios from the data.
3. Comparison of the calculated ratios with ratios of the same firm in the past, or the ratio developed from the projected financial statements or ratios of some other firms or the comparison of the ratios of the industry to which the firm belongs.
4. Interpretation of ratios.

3.7 Financial Ratio

These ratios are calculated to judge the financial position of the concern from long term as well as short term solvency point of view. These ratios can be divided into two broad categories:

I. Liquidity Ratio

Liquidity refers to the ability of a concern to meet its current obligation as and when these become due. Liquidity ratios compare short term obligations to short term resources available to meet these obligations.

They can be classified as current ratio, quick ratio, cash to current asset ratio, cash to sales ratio, overdue liability ratio, absolute liquid or cash ratio, interval measure or defensive ratio.

II. Stability Ratio

Stability ratio is preparing to know about the long term solvency position of a firm. Stability ratio includes debt equity ratio, proprietary ratio, etc.

3.8 Profitability Ratios

Profitability ratios are finding to know about the profitability position of the company. They can be classified as Gross profit ratio, operating profit ratio, operating ratio, expenses ratio, net profit ratio, return on capital employed ratio, return on equity ratio, return on asset ratio, net profit to net worth ratio, earning per share, owners equity to total assets ratio, etc.

3.9 Activity Ratios

Activity ratio is calculating to know about the efficiency of the company. They can be classified as Inventory turnover ratio, average collection period ratio, working capital turnover ratio, capital turnover ratio, receivable turnover ratio, payable turnover ratio, fixed asset turnover ratio, average payment period.

3.10 Common Size Statements

This statement indicates the relationship of various items with some common item (expressed as percentage of the common item). In common size statements, balance sheet and income statement are shown in analytical percentages. The figures are shown as percentages of total assets, total liabilities and total sales. These statements are also known as 100 percent statement because every individual item is stated as percentage of total 100.

i. Common Size Income Statement

In the common size income statement the sales figure is taken as base and all other figures are expressed as percentage of sales. A significant relationship can be established between items of income statement and volume of sales.

ii. Common Size Balance Sheet

A statement in which balance sheet items are expressed as the ratio of each asset to total assets and ratio of each liability is expressed as ratio of each liability to total liability is called common size balance sheet. The common size balance sheet may be prepared in the following way.

- a. The total assets or liabilities are taken as 100
- b. The individual assets are expressed as percentage of total assets

3.11 Comparative Financial Statements

Comparative Financial Statements are statements of the financial position at different periods of time. The elements of financial position are shown in a comparative form so as to give an idea of financial position at two or more periods. The statements of two or more years are prepared to show absolute data of two or more years, increase or decrease in absolute data in value and in terms of percentages. Comparative statements can be prepared for both income statement and balance sheet.

i. Comparative Income Statement

The income statement gives the result of operations of business. The comparative income statement gives an idea of progress of business over a period of time. The changes in absolute data in money value and percentages can be determined to analyze the profitability of the business.

ii. Comparative Balance Sheet

The comparative balance sheet analysis is a study of the trend of the same items, group of items and computed items in two or more balance sheets of the business enterprise on different dates. The changes in periodic balance sheet items reflect the conduct of a business.

3.12 Trend Analysis

The financial statements may be analyzed by computing trends of series information. This method determines the direction upwards or down wards and involves the computation of the percentage relationship that each statement item bears to the same item in the base year. The information for a number of years is taken up and one year, generally the first year, is taken as a base year. The figures of the base year are taken as 100 and trend ratios for other years are calculated on the basis of the base year.

Chapter 4

DATA ANALYSIS

Financial statements are the result of the accounting process, which begins with recording of transactions. Financial statements are the indicators of two factors : (i) Profitability and (ii) Financial soundness. Financial statements are prepared primarily for decision making. But information provided in the financial statements is not an end in itself and no meaningful conclusions can be drawn from these statements alone. However the information provided in the financial statement is of immense use in making decisions through analysis and interpretation of financial statements. Financial statement analysis is the process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a company's position and performance.

The trend analysis and ratio analysis have been used to assess the performance of KET.

4.1 Trend Analysis

Trend analysis is the first tool that we used to analyze the financial performance of the 'KABRA Extrusion Technik Ltd'. The base year calculation is of the important for trend analysis and it has been taken as 2006-07.

For the purpose of analysis, the trend of the following variables has been worked out:

(a) Equity share capital; (b) Reserves & surplus; (c) Secured loans; (d) Net fixed assets; (e) Investments; (f) Current assets; (g) Gross profit; (h) Net profit; (i) Operating expenses; (j) Operating profit; (k) Sales; (l) Retained earnings; (m) Working Capital.

A. Trend Analysis of Equity Share Capital

Equity share capital is the owner's capital of the company. The equity share holders are the real owners of the company & thus the equity share capital has the last preference in distributing the profits of the company.

Table 4.1: Percentage Change in Equity Share Capital

Year	Equity Share Capital	Percentage Change
2006-2007	7.98	100
2007-2008	7.98	100
2008-2009	7.98	100
2009-2010	7.98	100
2010-2011	15.95	199.87

Source: Annual Report of KABRA Extrusion Technik ltd.

From Table 4.1 we can see that the equity share capital of the KET Ltd. has been increased in the last year. In the last year there is an increase of nearly 200% compared to previous year, 2009-10. In all the other years the equity was Rs. 7.98 crores.

B. Trend Analysis of Reserves and Surplus

These are the reserves maintained the company to meet its contingencies. The amount transferred to reserves and surplus is taken from the other gains.

Table 4.2: Percentage Changes in Reserves & Surplus of KET Ltd.

Year	Reserves and Surplus	Percentage Change
2006-2007	49.53	100
2007-2008	58.44	117.99
2008-2009	64.54	130.30
2009-2010	79.47	160.45
2010-2011	90.82	183.36

Source: Annual Report of KABRA extrusion technik ltd.

From Table 4.2 it is found that reserves and surplus of the KET Ltd is showing an increasing trend throughout the period of the study. The reserves and surplus during 2006-07 was Rs. 49.53 lakhs. It rose to Rs. 90.82 lakhs during 2010-11, i.e. an increase of 183.36%.

C. Trend Analysis of Secured Loan

Secured loan is the loan taken by the company to meet its expenses beyond their capacity. Loan may be taken from the banks, financial institutions or from any other sources. They have to pay a fixed amount of interest.

Table 4.3: Percentage Changes in Secured Loan of KET Ltd.

Year	Secured Loan	Percentage Change
200-2007	5.77	100
2007-2008	6.42	111.27
2008-2009	9.31	161.35
2009-2010	8.08	140.03
2010-2011	7.58	131.37

Source: Annual Report of KABRA extrusion technik ltd.

Table 4.3 depicts that the secured loan of the KET Ltd. is varying in the period of the study. The loan amount increased from Rs. 5.77 crores to Rs.7.58 crores. But in between these years the amount varied i.e. in the year 2008-09 it was Rs. 9.31 crores, which has been decreased to Rs. 7.58 crores in the year 2010-11. In short, the secured loan of the KET Ltd increased by 31.37% in the period of study.

D. Trend Analysis of Net Fixed Assets

These are the assets purchased by the company with its fixed capital. These assets are maintained by the company for its future requirements or to make earnings from that. These are not meant for resale as inventory.

Table 4.4: Percentage Change in Net Fixed Assets of KET Ltd

Year	Net Fixed Assets	Percentage Change
2006-07	37.67	100
2007-08	40.55	107.65
2008-09	41.26	109.53
2009-10	47.78	126.84
2010-11	55.34	146.91

Source: Annual Report of KABRA Extrusion Technik ltd.

Table 4.4 reveals that the net fixed assets of the KET Ltd. are increasing year by year. The fixed assets have been increased by 46.91% during the financial year 2010-11 when compared to year 2006-07 i.e., the base year. But compared to the previous financial year 2009-2010, the fixed assets have been increased by 20.07%.

E. Trend Analysis of Investments

These are the investments made by the company in other company. The company will get interest as remuneration in return of their investment.

Table 4.5: Percentage Change in Investments of KET Ltd

Year	Investments	Percentage Change
2006-2007	10.15	100
2007-2008	10.99	108.28
2008-2009	21.92	215.96
2009-2010	45.55	448.77
2010-2011	41.59	409.75

Source: Annual Report of KABRA extrusion technik ltd.

Table 4.5 reveals that the KET has huge investments in the recent two years compared to previous years. Based on the year 2006-2007, the company has attained an increase by 309.75% in investments during the last year 2010-11. But compared to the previous financial year 2009-2010, the company has a decrease by 39.02% in investment in the year 2010-2011.

F. Trend Analysis of Current Assets

The current assets are those assets which are available to meet the current liabilities or in other words the assets which can be converted in to cash with in a period of one year.

Table 4.6: Percentage Changes in Net Current Assets of KET Ltd

Year	Net Current Assets	Percentage Change
2006-2007	50.59	100
2007-2008	67.26	132.95
2008-2009	62.24	123.03
2009-2010	58.88	116.39
2010-2011	89.53	176.97

Source: Annual report of KABRA extrusion technik ltd.

From Table 4.6 it is noticed that the KET's current asset is showing a fluctuating trend. The current assets show a decreasing trend from the year 2007-08 to 2009-10 i.e. it has been decreased from 132.95% to 116.39%. Then in the year 2010-11 the current assets increase in a large amount i.e. by 76.97% that of the base year 2006-07.

G. Trend Analysis of Sales

Sales are one of the source through which the company can earn revenue. As the sales increases, the revenue of the company or the earnings of the company also increases. The success of the company depends on the sales.

Table 4.7: Percentage Changes in Sales of KET Ltd.

Year	Sales Turnover	Percentage Change
2006-07	125.01	100
2007-08	145.78	116.61
2008-09	153.5	122.79
2009-10	194.8	155.83
2010-11	219.37	175.48

Source: Annual Report of KABRA extrusion technik ltd.

Table 4.7 depicts that the sales of the KET Ltd is showing an increasing trend during the period of study. It is also noticed that there was a rapid increase in sales of Rs. 194.8 crores in the year 2009-10 which increased the sales percentage by 33.04 % from that of the previous year i.e. 2008-09 sale of Rs. 153.5 crores. But on a whole sales have increased by 75.48% in the financial year 2010-11 when compared to the base year 2006-07.

H. Trend Analysis of Operating Expenses

Operating expenses is the expenses that incurred through operating activities. Operating expenses are the selling and administrative expenses.

Table 4.8: Percentage Changes in Operating Expenses

Year	Operating Expenses	Percentage Change
2006-07	13.11	100
2007-08	13.7	104.5
2008-09	15.29	116.63
2009-10	15.33	116.93
2010-11	19.05	145.31

Source: Annual Report of KABRA extrusion technik ltd.

Table 4.8 reveals that operating expenses of the KET Ltd. shows an increasing trend. Although there was a small increase in expenses in the years 2007-08, 2008-09 & 2009-10 i.e., 104.5%,116.63% & 116.93% respectively, in the year

2010-11 there was a huge increase of Rs.19.05 crores in the operating expenses. It has increased by 28.38% in the year 2010-11 than the previous financial year 2009-10. In short, there has been taken place an increase by 45.31% during the period of the study.

I. Trend Analysis of Gross Profit

Gross profit is the overall or total profit of a company. In the gross profit only the cost of production of the company is reduced or considered.

Table 4.9: Percentage Change in Gross Profit

Year	Gross Profit	Percentage Change
2006-07	24.29	100
2007-08	32.52	133.88
2008-09	33.70	138.74
2009-10	49.22	202.63
2010-11	51.59	212.39

Source: Annual Report of KABRA extrusion technik ltd.

Table 4.9 reveals that the gross profit of the KET Ltd is increasing in all the years of the study. Gross profit has been increased in a high rate in the year 2010-11 than the base year 2006-07 i.e., by 112.39%. When compared to the financial year 2009-10, the financial year 2010-11 shows a increasing trend i.e., it has increased by 9.76%. The financial year 2009-10 shows a wide increase in the gross profit of Rs. 49.22 crores when compared to the base year 2006-07 gross profit of Rs. 24.29 crores i.e., by 102.63%. When compared to the previous financial year 2008-09, in the year 2009-10 gross profit has been increased by 63.89%. But the year 2008-09 shows a decrease in gross profit by 4.86% when compared to its previous financial year 2007-08.

J. Trend Analysis of Net Profit

Net profit is the profit after appropriations. This profit is used to pay dividend to equity shareholders. This is the profit after the payment of tax to the government. Net profit is the real profit of a firm or company.

Table 4.10: Percentage Changes in Net Profit

Year	Net Profit	Percentage Change
2006-07	7.26	100
2007-08	14.51	199.86
2008-09	11.70	161.15
2009-10	21.46	295.59
2010-11	25.82	355.65

Source: Annual Report of KABRA extrusion teknik ltd.

From Table 4.10 we can interpret that the net profit of the KET Ltd. shows an increasing trend during the period of study. During the year 2007-08, the net profit has been increased by 99.86%. But in 2008-09, the net profit declined by 38.71% when compared to the previous financial year 2007-08. The financial year 2009-10 showed a greater increase in profit i.e., 295.59%, which is 134.44% more than the net profit of the financial year 2008-09. The financial year 2010-11 had shown a greater increase in net profit i.e., 355.65%. This is the year in which the company attained the great net profit. But when compared to gross profit trend shows in tale no.4.9, the net profit shows different trend in the last year 2010-11. This is due to the changes in tax charges i.e., Tax charged during the last two years was same. So the net profit showed an increasing trend in last two years.

K. Trend Analysis of Operating Profit

Operating profit means the profit that the company gained after bearing operating expenses.

Table 4.11: Percentage Changes in Operating Profit

Year	Operating profit	Percentage Change
2006-07	11.18	100
2007-08	18.82	168.33
2008-09	18.41	164.67
2009-10	33.89	303.13
2010-11	32.54	291.06

Source: Annual Report of KABRA extrusion teknik ltd.

From Table 4.11 the trend of operating profit of the KET Ltd can be interpreted as fluctuating. The operating profit shows the same trend as shown in the Table 4.9, the Table showing the trend percentages of gross profit, as gross profit also shows a fluctuating trend. During the year 2007-08 the operating profit has increased

by 68.33% but in 2008-09, operating profit decreased by 3.66% when compared to the year 2007-08. The year 2009-10 had shown a wide increase in the operating profit i.e., 203.13% when compared to the base year 2006-07. But in the year 2010-11, the operating profit again declined to 291.06% i.e., 191.06% when compared to the base year. This may be due to increase in operating expenses in the year 2010-11.

L. Trend Analysis of Retained Earnings

Retained earnings are those earnings which retained from the earnings available to equity shareholders. The amount of profit retained for the future instead of paying it as dividend to the equity shareholders.

Table 4.12: Percentage Changes in Retained Earnings

Year	Retained Earnings	Percentage Change
2006-07	22.94	100
2007-08	31.11	135.61
2008-09	35.71	155.67
2009-10	49.44	215.52
2010-11	54.77	238.75

Source: Annual Report of KABRA extrusion technik ltd.

From Table 4.12 we can interpret that the KET Ltd keeps a large amount as retained earnings for future which indicates that the company has a large scope in future or it has a greater opportunity in the market. The retained earnings of the company show an increasing trend. Retained earnings have been increased to 238.75% in the year 2010-11 from 135.61% in the year 2007-08. The retained earnings have been increased by 1388.75% in the year 2010-11 when compared to the base year 2006-07.

M. Trend Analysis of Working Capital

Working capital is the capital which a firm needs to meets its day today activities. As working capital of a company increases the fund sufficiency the company to meet its day to day needs also increases.

Table 4.13: Trend Analysis of Working Capital

Year	Working Capital	Percentage Change in Working Capital
2006-07	18.10	100
2007-08	21.29	117.62
2008-09	20.15	111.33
2009-10	2.20	12.15
2010-11	17.43	96.29

Source: Annual Report of KABRA extrusion technik ltd

From Table 4.13 it is noticed that the KET Ltd's working capital is less compared to the base year 2006-07. From the Table we can say the working capital is far less in the year 2009- 10 when compare to other 4 years. The year 2009-10 and 2010-11 shows the decreasing rate when compare to the base year 2006-07. during the year 2009-10 the working capital decreased by 87.87% when compare to the base year 2006-07 & during the year 2010-11 the working capital shown a decrease of 3.71%. The highest working capital reported in the year 2007-08 i.e., 117.62%.

4.2 Ratio Analysis

The second method we used for making analysis of financial statement of KABRA Extrusion Technik Ltd. is the ratio analysis. Ratio analysis means the study of relationship between two items. The ratio analysis is based on the fact that a single accounting figure by itself may not communicate any meaningful information but when expressed as a relative to some other figure, it may definitely provide some significant information. The objective for financial ratios is that all stakeholders can draw conclusions about the: (i) Performance; (ii) Strengths and weakness of a firm; (iii) And can take decisions in relation to the firm.

Calculation of new ratios does not serve any purpose unless several appropriate ratios are analyzed and interpreted. The interpretation needs skill, intelligence and foresightedness. The inherent limitations of ratio analysis should be kept in mind.

- For assessing the liquidity, efficiency, profitability and long term solvency of KET the following ratios have been worked out : (i) Liquidity ratios (ii) Stability ratios (iii) Profitability ratios (iv) Activity ratios

I. Liquidity Ratios

Liquidity ratio helps in measuring short term solvency of a firm. Liquidity refers to the ability of a concern to meet its current obligations as and when these become due. If the firm fails to maintain the liquidity its goodwill will be affected adversely and thus it will lose the creditors' confidence and also may cause to closure of the firm. A very high degree of liquidity is not good for a firm because such a situation represents unnecessarily excessive funds of the firm being tied up in current assets. The liquidity ratios we used for this project are: (i) Current ratio (ii) Quick ratio (iii) Ratio of inventory to working capital.

A. Current Ratio

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio is also known as working capital ratio. This ratio is a measure of general liquidity of a firm and is most widely used to make analysis of a short term position or liquidity of a firm. A ratio equal or near to the rule of thumb of 2:1 is considered to be satisfactory. The two basic components of this ratio are: current assets and current liabilities. Current assets include all those assets including cash which can be easily converted into cash within a period of one year. Current liabilities are those obligations which should be paid of within a period of one year. Thus,

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

Table 4.14: Current Ratio of KET Ltd.

Year	Current Assets	Current Liabilities	Current Ratio
2006-2007	50.59	32.49	1.56
2007-2008	67.26	45.97	1.46
2008-2009	62.24	42.09	1.48
2009-2010	58.88	56.69	1.04
2010-2011	89.53	72.11	1.24
Average			1.36

Source: Annual Report of KABRA extrusion technik ltd.

The current ratio of KET Ltd in all years is below the standard norm of 2:1. Again, Table 4.14 reveals that the current ratio is showing a varying trend in all the years of study. During the year 2006-07 the company has its highest current ratio i.e.,

1.56:1. The lower current ratio represents that the company is not in a good liquidity position. The average current ratio of the firm is only 1.36:1 which is lower than the standard norm.

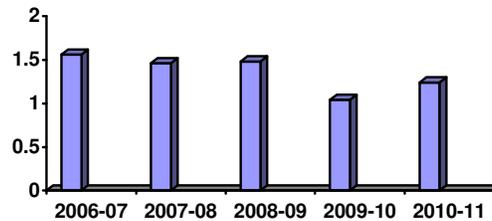


Figure 4.1: Current Ratio

B. Quick Ratio

An asset is said to be liquid if it can be converted into cash within a short period without loss of value. In that sense cash in hand and at bank are the most liquid assets. The other assets that can be included in the liquid assets are bills receivable, sundry debtors, marketable securities and short term or temporary investments. Quick ratio may be defined as the relationship between quick / liquid assets and current / liquid liabilities. Generally a quick ratio of 1:1 is considered to represent a satisfactory current financial position. Prepaid expenses and stock are not taken as liquid assets. This ratio is also an indicator of short term solvency of the company. Thus,

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

Table 4.15: Quick Ratio KET Ltd.

Year	Liquid Assets	Current Liabilities	Quick Ratio
2006-07	16.25	32.49	.50
2007-08	26.21	45.97	.57
2008-09	20.20	42.09	.48
2009-10	16.44	56.69	.29
2010-11	31	72.11	.43
Average			.45

Source: Annual Report of KABRA extrusion technik ltd

From Table 4.15 we can see that KET's quick ratio is far below the rule of thumb 1:1. The highest quick ratio of the company is .57:1 in the year 2007-08, which is less than the rule of thumb and above the average ratio. A low quick ratio represents that the firm's liquidity position is not good. During the year 2006-07, the

company has a liquidity position equal to half of the rule of thumb ie, .50:1. The company has its lowest quick ratio in the year 2009-10 ie. 29:1. During the last year, ie, in 2010-11 the company has a quick ratio of .43:1, which is also very low when compared to the rule of thumb and just below the average ratio. In short we can say that the company has unsatisfactory quick ratio.

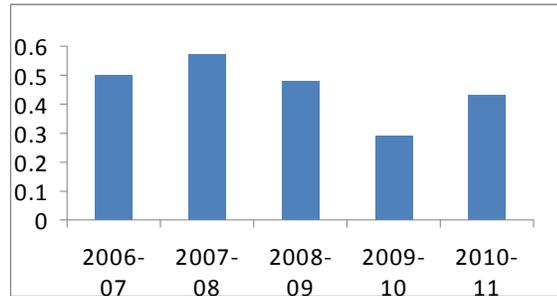


Figure 4.2: Quick Ratio

C. Ratio of Inventory to Working Capital

Inventory to working capital ratio indicates that how much of inventory is there to meet the working capital requirements of the company. It can be calculated as:

$$\text{Ratio of inventory to working capital} = \frac{\text{Inventory}}{\text{Working capital}}$$

Table 4.16: Ratio of Inventory to Working Capital

Year	Inventory	Working Capital	Ratio of Inventory to Working Capital
2006-07	30.19	21.29	1.67
2007-08	35.56	20.15	1.67
2008-09	37.44	20.15	1.86
2009-10	39.12	2.20	17.78
2010-11	54.03	17.43	3.09
Average			5.21

Source: Annual Report of KABRA extrusion teknik ltd

From Table 4.16 we can see that the KET's ratio of inventory to working capital is going on increasing i.e. it shows an increasing trend. The table shows that the company initially had a ratio of 1.67:1 in the year 2006-07, which has been increased to 3.09:1 in the last year 2010-11. As the year 2009-10 shows a sudden

decrease in the working capital, it has affected the ratio. Therefore it cannot be used to compare. In the year 2009-10 the company shows a huge increase in the ratio ie, 17.78:1, which shows that the ratio is unsatisfactory as the high ratio shows that the inventory of the company is in an idle position. This increase may be due to sudden decrease of working capital.

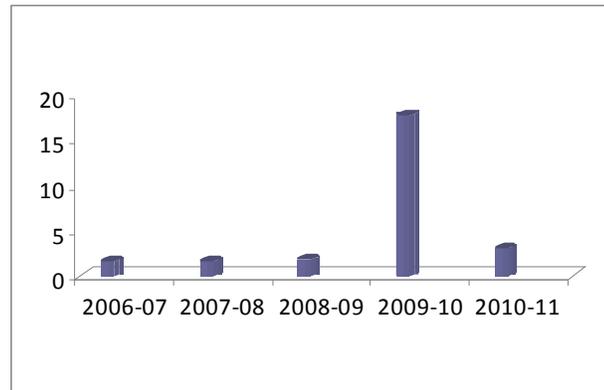


Figure 4.3: Ratio of Inventory to Working Capital

II. Stability Ratios

Stability ratios are those ratios on the basis of which we can know about the company's long term solvency. The long term indebtedness of a firm includes debenture holders, financial institutions providing medium and long term loans and other creditors selling goods on installment basis. The important stability ratios that we used are: (i) debt equity ratio; (ii) proprietary ratio; (iii) solvency ratio

a. Debt- Equity Ratio

Debt- equity ratio also known as external- internal equity ratio, is calculated to measure the relative claim of outsiders and the owners against the firm's assets. The two basic components of the ratio are outsider's funds ie, external equities and shareholder's funds ie, internal equities. Debt- equity ratio is calculated to measure the extent to which debt financing has been used in a business. It measures the extent of equity covering the debt. This ratio is calculated to measure the relative proportions of outsider's funds and shareholders' funds invested in the company. This ratio is determined to ascertain the soundness of long-term financial policies of the company and also known as external – internal equity ratio.

$$\text{Debt equity ratio} = \frac{\text{Long term debts}}{\text{Shareholders' funds}}$$

Table 4.17: Debt- Equity Ratio of KET Ltd.

Year	Debt Funds	Shareholder's Funds	Debt- Equity Ratio
2006-07	8.42	57.51	.146
2007-08	6.42	66.42	.097
2008-09	9.31	72.52	.128
2009-10	8.08	87.45	.092
2010-11	7.58	106.77	.071
Average			.107

Source: Annual Report of KABRA extrusion technik ltd

From Table 4.17 we can interpret that the KET Ltd has a lower debt- equity ratio. The company has shareholder's funds far more than the debt funds. During the year 2006-07 the firm has the greatest debt-equity ratio of .146:1 ie, only 14-15% of the shareholder's funds. The shareholder's funds are increasing but the debt funds of the firm are fluctuating. The year 2006-07 and 2008-09 has the ratio which is greater than average ratio .107:1. The firm has the least debt in the year 2007-08 ie, 6.42 crores and the least debt- equity ratio is in the year 2010-11 ie, .071;1, which is less than 10% of the shareholder's funds. In short we can say that the company has sufficient funds to meet the long term debt.

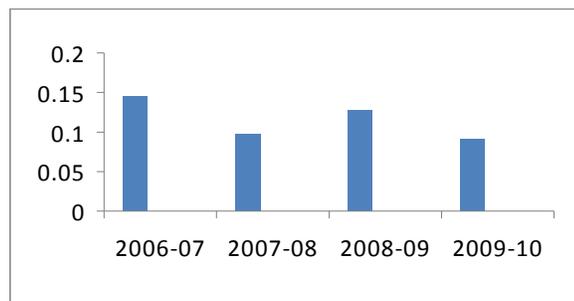


Figure 4.4: Debt- Equity Ratio

b. Proprietary Ratio

Proprietary ratio establishes the relationship between shareholder's funds to total assets of the firm. This ratio is an important to ascertain about the long term solvency of a firm. The components of these ratios are shareholder's funds and total assets. This ratio indicates the extent to which the assets of the company can be lost without affecting the interest of creditors of the company. The higher the ratio better will be the long term solvency of the company. A variant of debt to equity ratio is the

proprietary ratio, which shows the relationship between shareholders funds and total tangible assets.

$$\text{Proprietary ratio} = \frac{\text{Shareholders funds}}{\text{Total assets}}$$

Table 4.18: Proprietary Ratio of KET Ltd

Year	Shareholders Fund	Total Assets	Proprietary Ratio
2006-07	57.51	65.92	.87
2007-08	66.42	72.83	.91
2008-09	72.52	81.82	.89
2009-10	87.45	95.53	.91
2010-2011	106.77	114.35	.93
Average			.90

Source: Annual Report of KABRA extrusion technik ltd

From Table 4.18 we can interpret that the prosperity ratio of the KET Ltd is fluctuating. During the year 2006-07, the company has the least proprietary ratio i.e., .87:1. From the year 2008-09, the ratio shows an increasing trend. From the year 2008-09 to 2010-11, the ratio increased from .89:1 to .93:1. The rising of ratio is a symbol of good long term solvency position of the firm. Therefore the company has a good long term solvency position.

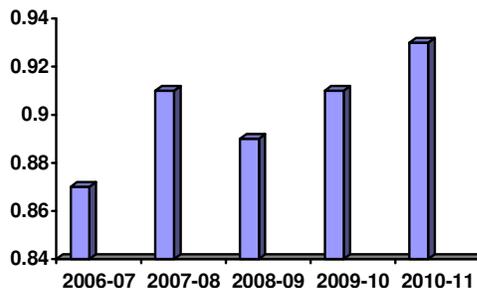


Figure 4.5: Proprietary Ratio

C. Solvency Ratio

This ratio is small variant of equity ratio and can be simply calculated as 100-equity ratio. The ratio indicates the relationship between the total liabilities to outsiders to total assets of a firm.

$$\text{Solvency ratio} = \frac{\text{Total liabilities to outsiders}}{\text{Total assets}}$$

Table 4.19: Solvency Ratio of KET Ltd.

Year	Total Liabilities	Total Assets	Solvency Ratio
2006-07	8.42	65.92	.13
2007-08	6.42	72.83	.09
2008-09	9.31	81.82	.11
2009-10	8.08	95.53	.09
2010-2011	7.58	114.35	.07
Average			.09

Source: Annual Report of KABRA extrusion technik ltd

Table 4.19 reveals that solvency ratio of the KET Ltd from the year 2008-09 shows a decreasing trend. During the year 2008-09 the solvency ratio was .11:1 and it has been decreased to .07:1. The greatest ratio was in the year 2006-07 i.e., .13:1. As the solvency ratio decreases, the long term solvency position of the firm becomes more stable. So we can say that our company also is in a stable long term solvency position.

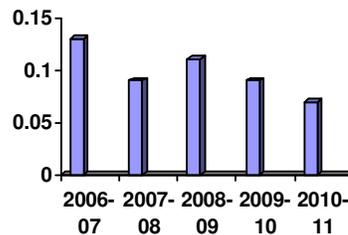


Figure 4.6: Solvency Ratio

III. Profitability Ratios

A business can discharge its obligations to the various segments of the society only through earning of profits. Profits are thus a useful measure of overall efficiency of the business. The profitability ratios are calculated in relation to sales or in relation to investment.

The profitability ratios we used for this project are : (i) Gross profit ratio; (ii) Net profit ratio; (iii) Operating ratio; (iv) Operating profit ratio; (v) Return on capital employed ; (vi) Return on shareholders' fund.

a. Gross Profit Ratio

Gross profit ratio measures the relationship of gross profit to net sales and is usually represented in a percentage. This ratio indicates the extent to which selling price of goods per unit may decline without resulting in losses on operations of a firm.

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} * 100$$

Table 4.20: Gross Profit Ratio of KET Ltd.

Year	Gross Profit	Net Sales	Gross Profit Ratio (%)
2006-07	24.29	125.01	19.43
2007-08	32.52	145.78	22.31
2008-09	33.70	153.50	21.95
2009-10	49.22	194.80	25.27
2010-2011	51.59	219.37	23.52
Average			22.49

Source: Annual Report of KABRA extrusion technik ltd.

Table 4.20 reveals that the gross profit ratio of the KET Ltd. is fluctuating. The period 2006-07 shows the lowest gross profit ratio. During the year 2008-09 the gross profit ratio is 21.95% which is less when compared to the previous year 2007-08 ie, 22.31% and the average ratio of 22.49%. The greatest gross profit ratio was reported in the year 2009-10 ie, 25.27% which is far greater than the average ratio also. But during the last year again the ratio decreased to 23.52%.

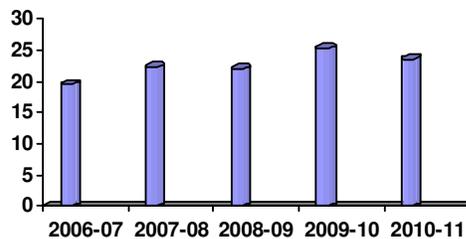


Figure 4.7: Gross Profit Ratio

b. Net Profit Ratio

Net profit ratio establishes a relationship between net profit (after taxes) and sales. This ratio indicates the efficiency of the management in manufacturing, selling, administrative and other activities of the firm and indicates the overall measure of firm's profitability and also indicates firm's capacity to face adverse economic conditions. This ratio explains per rupee profit generating capacity of sales.

$$\text{Net profit ratio} = \frac{\text{Net profit after tax}}{\text{Net sales}} * 100$$

Table 21: Net Profit Ratio of KET Ltd

Year	Net Profit After Tax	Sales	Net Profit Ratio
2006-07	7.26	125.01	5.81
2007-08	14.51	145.78	9.95
2008-09	11.70	153.5	7.62
2009-10	21.46	194.8	11.01
2010-11	25.82	219.37	11.77
Average			9.23

Source: Annual Report of KABRA extrusion technik ltd

From Table 4.21 we can note that from the year 2008-09 the net profit of the KET Ltd goes on increasing. The least net profit is shown in the year 2006-07 ie, 5.81%. But in the year 2007-08 it has been increased to 9.95% which is greater than the average ratio of 9.23%. From the year 2008-09, the net profit ratio shows a rapid increase. In the year 2008-09 net profit ratio was 7.62% and in the year 2009-10 it has been rapidly increased to 11.01% and in the last year also ie, in 2010-11, the net profit ratio shows an increase of .76% that of the previous year 2009-10. As the net profit ratio is increasing, it is said to be satisfactory.

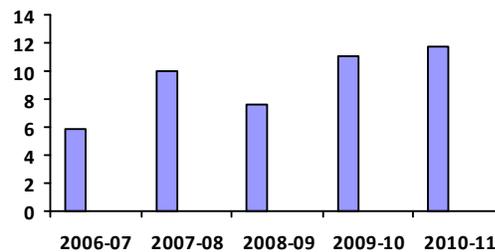


Figure 4.8: Net Profit Ratio

c. Operating Ratio

Operating ratio establishes the relationship between cost of goods sold and other operating expenses in one hand and the sales in other. The two basic elements of this ratio are operating cost and sales. This ratio indicates the percentage of sales that is consumed by operating cost.

$$\text{Operating cost} = \text{operating expenses} + \text{cost of goods sold}$$

$$\text{Operating ratio} = \frac{\text{Operating cost} * 100}{\text{Sales}}$$

Table 4.22: Operating Ratio

Year	Operating Cost	Sales	Operating Ratio
2006-07	113.83	125.01	91.06
2007-08	126.96	145.78	87.09
2008-09	135.09	153.5	88
2009-10	160.91	194.8	82.60
2010-11	186.83	219.37	85.17
Average			86.78

Source: Annual Report of KABRA extrusion technik ltd

From Table 4.22 we can notice that the operating ratio of KET Ltd is fluctuating. The company's operating ratio is not constant. If in the year 2006-07 the ratio was 91.06%, which is the top point, then, in the year 2007-08 it decreases to 87.09%. Then again increases to 88% in 2008-09 and decreases to 82.60% in 2009-10. The ratio of the year 2009-10 and 2010-11 is less than the average ratio of 86.78%. In the last year the ratio was 85.17%. As the ratio is fluctuating it is not satisfactory and the ratio or trend cannot be predicted.

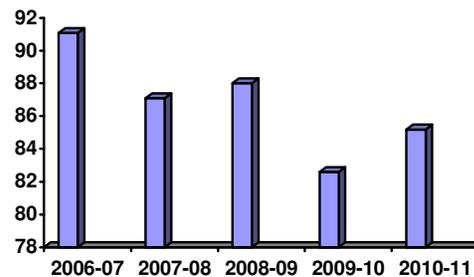


Figure 4.9: Operating Ratio

d. Operating Profit Ratio

Operating profit ratio measures the relationship between operating profit and sales. Operating profit is calculated as follows:

$$\text{Operating profit} = \text{gross profit} - \text{operating expenses}$$

$$\text{Operating profit ratio} = \frac{\text{Operating profit} * 100}{\text{Net sales}}$$

Table 4.23: Operating Profit Ratio of KET Ltd.

Year	Operating Profit	Sales	Operating Profit Ratio
2006-07	11.18	125.01	8.94
2007-08	18.82	145.78	12.91
2008-09	18.41	153.5	11.99
2009-10	33.89	194.8	17.39
2010-11	32.54	219.37	14.83
Average ratio			13.21

Source: Annual Report of KABRA extrusion technik ltd

Table 4.23 reveals that operating profit ratio of KET Ltd is fluctuating. If in one year it increases then in second year it decreases. The highest operating profit ratio is reported in the year 2009-10 ie, 17.39% and the lowest in the year 2006-07 ie, 8.94%. The year 2009-10 and 2010-11 reports the ratio greater than the average ratio. In the last year 2010-11 the operating ratio is only 14.86%, which is less when compared to the financial year 2009-10.

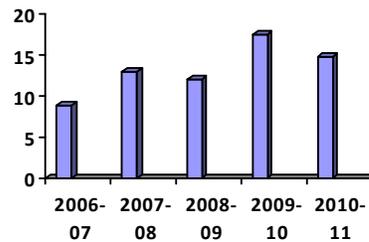


Figure 4.10: Operating Profit Ratio

e. Return on Capital Employed

Return on capital employed establishes relationship between profits and capital employed. This ratio is an indicator of the overall profitability and deficiency of the business. The term capital employed refers to the total of investments made in a business can be defined in a number of ways. In the terms of liabilities approach method:

$$\text{Capital employed} = \text{share capital} + \text{long term debt} - \text{fictitious assets}$$

$$\text{Return on capital employed} = \frac{\text{Operating profit}}{\text{Capital employed}} * 100$$

Table 4.24: Return on Capital Employed

Year	Operating Profit	Capital Employed	Return on Capital Employed
2006-07	11.18	65.92	16.96
2007-08	18.82	72.83	25.84
2008-09	18.41	81.82	22.5
2009-10	33.89	95.33	35.48
2010-11	32.54	114.35	28.46
Average			25.85

Source: Annual Report of KABRA extrusion technik ltd

From Table 4.24 we can see that the return on capital employed ratio of the KET Ltd. is fluctuating. When the return increased in the year 2007-08 by 8.88%, the return decreased by 3.34% in the year 2008-09. When we compared with the average ratio 25.85%, the ratios in the year 2006-07 and 2008-09 are not satisfactory as it has return percentage as 16.96% and 22.5% respectively. The year 2007-08 is just below the average as it has the ratio as 25.84%. the year 2009-10 shows the higher return percentage in all years as 35.48%, which is far above the average percentage also. In the last year the return percentage is reported as 28.46% but is less when compared to the year 2009-10 by 7.02%.

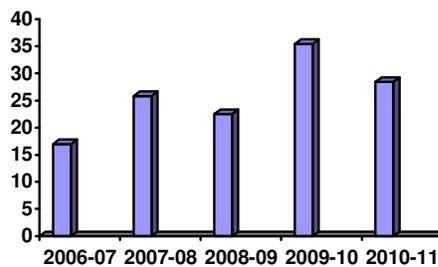


Figure 4.11: Return on Capital Employed

f. Return on Shareholder's Funds

Return on shareholder's funds is the relationship between net profits (after tax) and the proprietor's funds. This ratio is a measure of the percentage of net profit to equity shareholders funds.

$$\text{Return on shareholders' fund} = \frac{\text{Net profit (after interest and tax)} * 100}{\text{Shareholders' funds}}$$

Table 4.25: Return on Shareholder's Funds of KET Ltd.

Year	Net Profit	Shareholder's Funds	Return on Shareholder's Funds
2006-07	7.26	57.51	12.62
2007-08	14.51	66.42	21.84
2008-09	11.70	72.52	16.13
2009-10	21.46	87.45	24.54
2010-11	25.82	106.77	24.18
Average			19.86

Source: Annual Report of KABRA extrusion technik ltd

From Table 4.25 we can analyze that as the trend of return on capital employed, return on shareholder's fund of the KET Ltd. shows the fluctuating trend. During the year 2006-07 the return was 12.62% which has been increased to 21.84% in the year 2007-08. The highest return reported in the year 2009-10 ie, 24.54%. The average return was 19.86% and the year 2006-07 and 2008-09 is only 12.62% and 16.13% respectively. In the last year ie, in 2010-11 it is noted that the return percentage decreased to 24.18% from the percentage of previous year's ie, 2009-10 return of 24.54%. as the return shows decrease and fluctuating trend we can say the return on shareholder's funds ratio is not satisfactory.

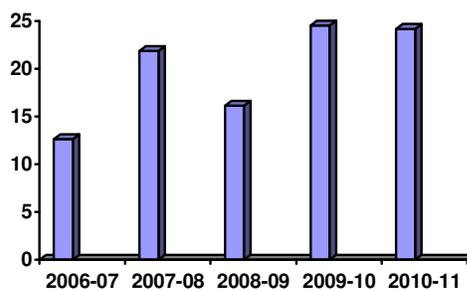


Figure 4.12: Return on Shareholder's Funds

IV. Activity Ratios

Activity ratio measures the efficiency and 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. The important activity ratios that we used are as follows:(i) Inventory turnover ratio; (ii)

Capital turnover ratio; (iii) Working capital turnover ratio; (iv) Total assets turnover ratio; (v) Fixed assets turnover ratio; (vi) Current assets turnover ratio.

a. Inventory Turnover Ratio

This ratio reflects the efficiency of inventory management. A low inventory turnover ratio implies the excess levels of stock than wanted by production and sales activities. This ratio would indicate whether the inventory of the has been efficiently used or not. The purpose is to see whether only the required minimum funds have been locked up in inventory.

$$\text{Inventory turnover ratio} = \frac{\text{Net sales}}{\text{Inventory}}$$

Table 4.26: Inventory Turnover Ratio of KET Ltd

Year	Sales	Inventory	Inventory Turnover Ratio
2006-07	125.01	30.19	4.14
2007-08	145.78	35.56	4.10
2008-09	153.5	37.44	4.10
2009-10	194.8	39.12	4.98
2010-11	219.37	54.03	4.06
Average			4.28

Source: Annual Report of KABRA extrusion technik ltd

From Table 4.26 we can see that the ratio of the KET Ltd. from 2006-07 to 2008-09 shows a decreasing trend and from there comes an increase in the year 2009-10 then again it decreases in 2010-11. The year 2007-08 and 2008-09 shows a constant ratio of 4.10:1. The highest ratio was in the year 2009-10 ie, 4.98:1. When compared to the average ratio the year 2006-07, 2007-08, 2008-09 and 2010-11 is below average. The lowest ratio was in the year 2010-11 ie, 4.06:1. As this ratio shows fluctuation and the last year has the least ratio, the ratio is not satisfactory.

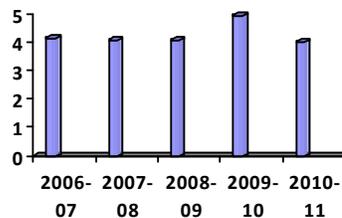


Figure 4.13: Capital Turnover Ratio

b. Capital Turnover Ratio

Capital turnover ratio is the relationship between sales and the capital employed. This ratio as increases it will create a favorable condition to the company. This ratio shows the efficiency of capital employed in the business by computing how many times capital employed in turned-over in a stated period.

$$\text{Capital turnover ratio} = \frac{\text{Net sales}}{\text{Capital employed}}$$

Table 4.27: Capital Turnover Ratio of the KET Ltd

Year	Sales	Capital Employed	Capital Turnover Ratio
2006-07	125.01	65.92	1.89
2007-08	145.78	72.83	2.01
2008-09	153.5	81.82	1.88
2009-10	194.8	95.53	2.04
2010-11	219.37	114.35	1.92
Average			1.95

Source: Annual Reports of KABRA extrusion teknik ltd

From Table 4.27 we can see that the capital turnover ratio of KET Ltd is fluctuating. The year 2006-07, 2008-09 and 2010-11 is below the average point of 1.95. The ratio in the year 2010-11 i.e., 1.92:1 is just below the average. The lowest and highest ratio is reporting in the year 2008-09 and 2009-10 ie, 1.88:1 and 2.04:1 respectively. As the ratio in the year shows a decreasing trend when compared to the previous year 2009-10 and as the ratio is fluctuating we used to say that the point is not satisfactory.

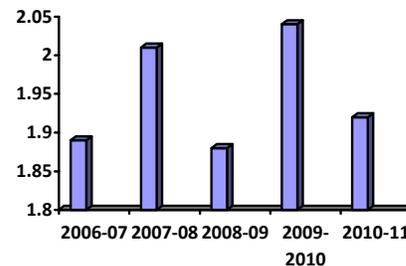


Figure 4.14: Capital Turnover Ratio

c. Working Capital Turnover Ratio

This ratio establishes the relationship between the sales and working capital of the company. Thus,

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

Table 4.28: Working Capital Turnover Ratio

Year	Sales	Working Capital	Working Capital Turnover Ratio
2006-07	125.01	18.10	6.91
2007-08	145.78	21.29	6.85
2008-09	153.5	20.15	7.62
2009-10	194.8	2.20	88.55
2010-11	219.37	17.43	12.59
Average			24.5

Source: Annual Reports of KABRA extrusion teknik ltd

From Table 4.28 we can interpret that the working capital turnover ratio of the KET Ltd. from the year 2007-08 to 2009-10 goes on increasing ie, from 6.85 to 88.55 times. But the sudden increase in the working capital turnover ratio was due to the large amount of decrease caused to the working capital. When we compared to the previous year's ie, 2008-09 the working capital has been decreased from 20.15 crores to 2.20 crores in the year 2009-10. the average working capital turnover ratio is 24.50 which is more than all years except the year 2009-10. the huge amount of average ratio was due to the high amount of working capital turnover ratio in the year 2009-10. The year 2010-11 shows a working capital turnover ratio of 12.59 which is less than the ratio in the year 2009-10 but is greater than the ratio in all other 3 years.

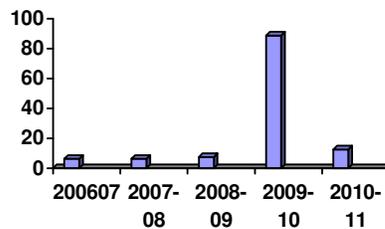


Figure 4.15: Working Capital Turnover Ratio

d. Total assets Turnover Ratio

This ratio shows the relationship between total assets of the concern and sales. A high ratio is an indicator of overtrading of total assets while a low ratio reveals idle capacity.

$$\text{Total assets turnover ratio} = \frac{\text{Net sales}}{\text{Total assets}}$$

Table 4.29: Total Assets Turnover Ratio of KET Ltd.

Year	Sales	Total Assets	Total Assets Turnover Ratio
2006-07	125.01	65.92	1.89
2007-08	145.78	72.83	2.01
2008-09	153.5	81.82	1.88
2009-10	194.8	95.53	2.04
2010-11	219.37	114.35	1.92
Average			1.95

Source: Annual Report of KABRA extrusion technik ltd

From Table 4.29 we can analyze that the ratio of KET Ltd is fluctuating as the capital turnover ratio. In the 2007-08 and 2009-10 the ratio is increasing when compared to their previous years 2006-07 and 2008-09. The highest ratio is reporting in the year 2009-10, while the lowest in the year 2008-09. The year 2007-08 and 2009-10 are the years which have the ratio greater than the average.

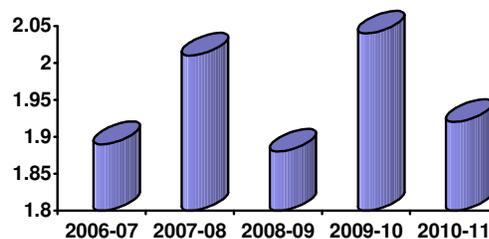


Figure 4.16: Total assets Turnover Ratio

e. Fixed assets Turnover Ratio

This ratio shows how the fixed assets are used to generate sales in the business. Thus,

$$\text{Fixed assets turnover ratio} = \frac{\text{Net sales}}{\text{Total assets}}$$

Table 4.30: Fixed Assets Turnover Ratio of KET Ltd

Year	Sales	Fixed Assets	Fixed Assets Turnover Ratio
2006-07	125.01	37.67	3.32
2007-08	145.78	40.55	3.59
2008-09	153.5	41.26	3.72
2009-10	194.8	47.78	4.08
2010-11	219.37	55.34	3.96
Average			3.73

Source: Annual Report of KABRA extrusion technik ltd

Table 4.30 shows the fixed assets turnover ratio of the KET Ltd. which is in increasing trend from the year 2006-07 to 2009-10 i.e., from 3.32:1 to 4.08:1. But in the last year i.e., in 2010-11 the ratio decreased to 3.96:1 from 4.08:1 of 2009-10. The average ratio 3.73:1 is satisfied by the company from the year 2009-10. In respect of the first 4 years the fixed assets turnover ratio is satisfactory as it is in increasing trend, but in the last year it is not.

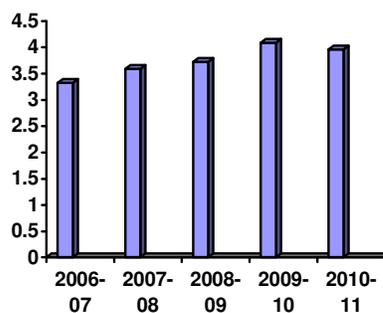


Figure 4.17: Fixed Assets Turnover Ratio

f. Current Assets Turnover Ratio

This ratio shows the relationship between current assets of a concern and sales. The increase in current asset turnover ratio will show a good financial position as well as operating efficiency of the company. So increase in the ratio is a favourable situation for the company. Thus,

$$\text{Current assets turnover} = \frac{\text{Net sales}}{\text{Current assets}}$$

Table 4.31: Current Assets Turnover Ratio of KET Ltd.

Year	Sales	Current Assets	Current Assets Turnover Ratio
2006-07	125.01	50.59	2.47
2007-08	145.78	67.26	2.17
2008-09	153.5	62.24	2.47
2009-10	194.8	58.88	3.31
2010-11	219.37	89.53	2.45
Average			2.57

Source: Annual Report of KABRA extrusion technik ltd.

From Table 4.31 we can see that as the current assets of the KET Ltd. are fluctuating, the current assets turnover ratio is also fluctuating. From the year 2007-08 to 2009-10 the ratio is in increasing trend. But then it decreases. The only year which is above the average is 2009-10 i.e., 3.31:1.

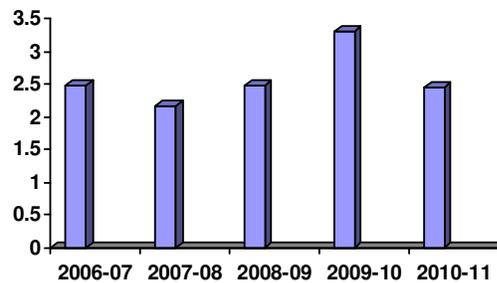


Figure 4.18: Current Assets Turnover Ratio

Chapter 5

FINDINGS SUGGESTIONS AND CONCLUSIONS

Finance is the foundation stone of every business in the present day set up. The success of every business depends upon adequate source of finance. Financial management also referred to as corporate finance or management finance, is broadly concerned with the acquisition and use of company's financial resources.

The project "Financial Performance Analysis of KABRA Extrusion Technik Ltd." has been made to measure the financial performance of the company during the period 2006-07 to 2010-11. The analysis has been done using trend analysis and ratio analysis.

5.1 Findings of the Study

The major findings of the study based on the analysis are summarized as below:

- i. The fixed assets, reserves and surplus, sales, gross profit, operating expenses, net profit and retained earnings shows an increasing trend.
- ii. The current assets, operating profit and secured loans shows fluctuating trend.
- iii. The current ratio and quick ratios of the firm is not up to the standard norm and so it is not satisfactory.
- iv. The debt-equity ratio of the company is showing decreasing trend in the last three years. Therefore it is favorable to the company.
- v. The proprietary ratio of the company shows increasing trend which means the company is in good solvency position.
- vi. The gross profit and operating profit ratio is in fluctuation which is not good for the company.
- vii. The net profit of the company shows an increasing trend in the last three years which shows that the firm is in good position.
- viii. The operating expense ratio fluctuating and shows increase in the last year which is not favorable to the company.

- ix. The returns on capital employed and return on shareholders fund shows decrease in the last year and the ratios are fluctuating. Therefore it will adversely affect the company.
- x. The inventory turnover ratio in the last year is not satisfactory because it is decreasing which means that the inventory is turning over to sales slowly.
- xi. The capital turnover ratio as well as working capital turnover ratio shows the same trend which is not good in long run of the company.
- xii. The fixed asset turnover ratio is also fluctuating. In the last year it decreased but not in high rate. So it will not be a problem now. But in future, if it continues then it will become threat to the company.
- xiii. The current asset also shows the same trend as in the fixed assets. But in current assets, the difference between the last two year's current asset turnover ratios is very large. So it should be cleared without any delay.
- xiv. The company, in the last year issued the bonus shares and reduced its share price from Rs. 10 to Rs. 5. Therefore the earnings per share and the dividend of last year cannot be compared with other years.

5.2 Conclusion

The KABRA Extrusion Technik Ltd is a leading extrusion company manufacturing extrusion machinery and equipment of various industries in India and abroad alike. A strong foundation of ethics and infallible quality has reward it with success. Their 'dedication to technology' has helped them to serve the industry with the best quality extrusion machines and their 'devotion to service' has won them trust amongst their customers across the continents.

The objective of this study was to know about the financial performance of the company. This was made by studying the profitability, liquidity, solvency and efficiency position of the company during the last five years from 2007-2011.

The profitability ratio of the KET is fluctuating in all the years. The main reason for this fluctuation was the increase in operating expenses of the company. But the overall profitability of the company is not so bad.

While assessing the liquidity position of the company we observe that the liquidity ratios of KET are not up to the standard norm. But the company has the

assets sufficient to payoff its current liabilities. Therefore, the company's liquidity position is at normal rate.

The solvency position of a firm i.e., long-term and short-term solvency has been worked out by using the stability and liquidity ratios. Though the liquidity ratio of the KET is not up to the standard, the company has a very high rate stability. As the company has a good long-term solvency position, the insufficiency in the short-term solvency will not affect the company heavily.

Regarding the efficiency of the KET Ltd., though the activity ratios are not satisfactory, its efficiency cannot be questioned in a big vary.

In short, we can say that the company, KABRA Extrusion Technik Ltd is a company with optimum financial utilization and a good financial management and hence its financial performance is good.

5.3 Suggestions

- i. The increase in operating expense will lead to decline in the operating as well as net profit. Therefore, company should take effort to reduce its operating expense by reducing wastage and by optimum utilization of resources.
- ii. The current ratio and quick ratio are not satisfactory as the current liability of the company is high. The company should try to reduce the current liability.
- iii. The company's inventory turnover ratio is not satisfactory as the ratio at last decreases. The company should increase the sale of inventory or invest less in inventory, so that it can increase its inventory ratio.
- iv. The company should try to improve its operational efficiency by maintaining the quality of the product.
- v. The company should take effort to earn more profit to increase the return on capital employed by innovating new products and by promotional activities to increase the sales.
- vi. The company should use its fixed and current assets in optimum so that it can increase the return on assets.

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