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CHAPTER 1 - DESIGN OF THE STUDY

1.1 INTRODUCTION

Finance is considered as the life blood of business organization.It is the master key which provides acess to all resource for being employed in manufacturing and merchandising activities.It is a fact that business needs finance to make more money.Financial management is that managerial activity which is concerned with planning and controlling of firms financial resources. The subject of financial management is a greater importance to both acadamics and practicing managers.the managers are interested in this subject because the most critical decisions of a business enterprise are very closely related to finance,and an understanding of theory of financial management provides them with conceptual and analytical insights to make those decisions successfully.

The Indian Forging Industry has emerged as a major contributor to the manufacturing sector of the Indian Economy. The industry was previously more labour intensive, but now with increasing globalization it is becoming more capital intensive.The small-scale units too are increasing their capital investment to keep pace with the increasing demand especially in the global markets as also broadening the areas of demand for forgings.

BFPL started its operations in 1985 to cater to requirement of cold forged products for automotives and general engineering industries. Mr. Anil Haridas, who is the Managing Director of Bill Forge Private Limited, started Bill Forge Private Limited

Bill Forge Private Limited is indulged itself in manufacturing Cold forged and machined components up to 1000gm. Base materials include Aluminum, low and medium carbon steels and alloy steels.This study was taken up to analyse and interpret the financial activities of BFPL relating their business activities and performance of the company.

1.2. STATEMENT OF THE PROBLEM

Analysis of financial performance is one of the major requirements for planning. BFPL being a private limited, it is very crucial to analyze its performance because, it is required by shareholders, management, creditors, employees and trade unions as they are interested to know the financial soundness of the company.

The study has carried out to find the overall financial position and performance of BFPL and to identify the factors responsible for increase or decrease in the items of balance sheet and income statements and also to suggest necessary remedial measures.

The project analyzes the financial performance of BFPL by taking 5 years into consideration from 2007 – 2011 on the basis of comparative financial statements, trend analysis and ratio analysis, by using balance sheet and income statements of the company.

1.3. OBJECTIVES OF THE STUDY

The study was carried out keeping in mind the following objectives

1. To study the financial performance of the company in the last 5 years

2. To analyse the factors responsible for the performance efficiency of the company.

1.4 COLLECTION OF DATA

Study was mainly based on secondary data .secondary data was collected from financial statements of the company,annual reports,books,journals and magazines.

1.5 TOOLS FOR ANALYSIS

To study the performance analysis of BFPL various types of ratios were used

- Liquidity ratio
- Leverage ratio
- Activity or efficiency ratio
- Profitability ratio

1.6 PERIOD OF THE STUDY

The study was undertaken for 5 years from 2006-07 to 2010-11.

1.7 SCOPE OF THE STUDY

Scope of the study was confined to profitability efficiency and capital structure of the company for this purpose profitability ratios such as gross profit ratio,net profit ratio were ascertained.To study the long term

solvency of the business debt-equity ratio,debt-asset ratio etc were calculated.To study the short term solvency,current ratio,quick ratio and turnover ratios were calculated.

1.8 LIMITATIONS OF THE STUDY

- The study is limited for a period of 5 years.
- The study is based on the secondary data such as published annual report of the company. The accuracy of calculations depends very much as the information found in the balance sheet.
- Time constraint is another limitation.
- A comparative study has not been made

CHAPTER 2 - INDUSTRY PROFILE

2.1 INDUSTRY PROFILE:

The Indian Forging Industry has emerged as a major contributor to the manufacturing sector of the Indian Economy.The composition of the Indian forging industry can be categorized into four sectors - large, medium, small and tiny. As is the case world over, a major portion of this industry is made up of small and medium units/enterprises (SMEs). The industry was previously more labour intensive (it is estimated that this industry provides direct employment to about 38000 people), but now with increasing globalization it is becoming more capital intensive. The total investment in the large and medium sectors is estimated to be around US$600 million. The small-scale units too are increasing their capital investment to keep pace with the increasing demand especially in the global markets as also broadening the areas of demand for forgings. Many of them are now suppliers to Original Equipment Manufacturers (OEMs) in the automobile sector also, which speaks volumes about efforts at technology and quality up gradation.Today, India’s forging Industry not only meets almost the entire domestic demand of forgings, but is also a large exporter and is making a significant contribution to India's exportThe Indian forging industry has shown a commendable performance by registering export growth of almost 30%. The major markets are USA, Europe, China etc. However, not more than 20 to 25 manufacturing units are engaged in direct exports.

There have been many success stories of AIFI member companies. Bharat Forge Ltd, the country's largest exporters increased export in 2002-03.

2.2 Company Profile:

BFPL started its operations in 1985 to cater to requirement of cold forged products for automotives and general engineering industries. Mr. Anil Haridas, who is the Managing Director of Bill Forge Private Limited, started Bill Forge Private Limited. It has employees of around 500, of whom fifty percent of employees are recruited on contract basis, remaining fifty percent of employees are employed by the company side. They have well organized company structure, which is dedicated to the work of their company. Bill Forge Private Limited has been certified to ISO/TS 16949 during 2004.

Bill Forge Private Limited is registered with Duns and Bradstreet. At present there are about 60 suppliers, of whom 23 are ISO9001 certified.

2.3 Customers of Bill Forge Private Limited:

As Bill Forge Private Limited manufactures products for motorbikes and trucks; these products have high demand in India and abroad, as there is ever-increasing motorbikes and trucks. It has customers in domestic market and international market.

2.4 VISION

A world-class supplier, satisfying Customers, shareholders and employees.

2.5 MISSION

Continuously innovate and develop products and services to meet the needs of the society helping business partners find cost saving solutions

and improvements that enhance growth.

2.6 VALUES

- Be a part of the team
- Encourage and nurture ideas
- Have passion for excellence
- There is no substitute for Hard work
- Tell the truth
- Be fair and respect the individual
- Keep your commitments
- Continue learning
- Listen, Empower and Share

2.7 QUALITY POLICY

Total customer satisfaction is their goal, by providing quality products, keeping safety, costs and timely deliveries as key elements, which they will achieve through their dedicated team and ongoing continuous improvements.

2.8 SPECIALIZATIONS

2.8.1 Cold Forge

They manufacture a wide range of precision forgings to the required tolerance levels desired by their customers. There extensive range in this segment includes ferrous as well as non-ferrous forgings.

2.8.2 Universal Joints and Yokes

Driveline parts, which constitute one of their key products, cater to the large and small applications of auto, industrial and agricultural segments

2.8.3 Sheet metal parts

From washers, caps and Retainers to sophisticated Flat Springs made on multi stage progressive dies with auto feeding. In fact, they'll engineer what you want.

2.8.4 Exacting quality standards:

The ISO 9002 Certification, the QS 9000 Certification and the TS 16949 Certification…. for them, that's still not enough. They're continuously raising the bar.

2.8.5 continuous improvement

Their products are exported to demanding customers across the globe – people who actually have the world to choose from. When you like them, rely on Bill Forge, you are assured of a partnership with a company, which is constantly striving to add value to your business. Through precision engineering, international quality products and on-the-dot delivery

2.8.6 Software Development – ERP.

In order to have sustained competitive advantage and decrease time to market, Bill Forge launches development of ERP package. This is developed using Visual Basic 6 as front-end application and MS-SQL

2000 Server as database. This software covers all the areas in a typical manufacturing environment - CRM, Engineering and Product Data Management, Material and Production Planning, Purchasing and SRM, Inventory, Warehousing and Transportation Management, Plant Maintenance, Tool Engineering and Design, Accounting, Costing and Controls. It is a fully integrated pack with all necessary protection.

There is a vital element, which they add to every component they manufacture it is called Continuous Improvement.

The expertise of Bill Forge is so strongly established, that their clients include all Japanese collaborated two and four Wheeler manufacturers in India and North American Auto majors. Their range is comprehensive - steering column components, sheet metals parts and transmission parts. We export universal joints, transmission parts and also into manufacture of non-ferrous parts for some of the world's largest computer hardware manufacturers.

2.9 Product Profile:

2.10 Products of Bill Forge Private Limited:

Bill Forge Private Limited is indulged itself in manufacturing Cold forged and machined components up to 1000gm. Base materials include Aluminum, low and medium carbon steels and alloy steels.

2.11 Applications of their produced products

- Transmission products for passenger cars and trucks.
- Drive shaft components for passenger cars and trucks.
- Engine components for motorbikes and passenger cars.
- Steering column components for motorbikes and passenger cars.
- Aluminum forgings for computer industry.
- Various sheet metal parts for automotive industry.

2.12 Manufacturing facilities of BFPL:

Bill Forge Private Limited has the following manufacturing facility available with it, it has production unit where in all these manufacturing items/machines installed with a well utilization of the space available to them. They have also taken a keen interest of their workers safety while installing their production unit, which is a worker friendly.

Manufacturing facility
Cold Forging (450 tons)
High Speed metal cutting
Annealing, Normalizing
Sealed Quench Furnaces for carburizng
Shot Blasting.
Bonderizing
Grinding
Broaching

Major substances used in manufacturing the products are as follows:

Aluminum
Grinding wheel
H6Cl
MOS2/Graphite powder
Fuel
Hydraulic and coolant oil

2.13 Managing Committee

/A team of professionals having vast experience in the Capital Market, Information Technology and the Financial Service Industry manages BFPL Financial Services Limited. The Managing Committee consists of:

1. Managing Director.
2. Director Operations.
3. General Manager Finance.
4. Management Representative.
5. GM – Business development & Engineering

2.14 DEPARTMENTS

There are seven departments in BFPL. They are:

- Finance
- Operations
- Purchase
- Quality Analysis
- Production
- Human Resource &Administration
- Systems

- **FINANCE**: The function of the finance department is to take care of formulation of financial reports, submitting them to the auditor, sending it to the share holders, budgeting, managing the pay inn's and pay out's etc.,.

- **OPERATIONS**: Operations departments' main function is to take care of the trading in the organization. Operations department also takes care of the responsibility of executing all the policies and procedures in the organization.

- **PURCHASE**: Purchase departments' main function is to take care of inventory of raw materials required for the production department so that the production goes smoothly. Raw materials such as, direct material and indirect material.

- **QUALITY ANALYSIS**: The quality analysis department looks after the quality of the products produced by the organization, so that at the end of the quality analysis defect free products are supplied to their customers. Quality of the product is evaluated at various stages like met – lab, forging, grinding, inspection, engineering calibration and so on.

- **PRODUCTION:** The function of the production department is to take care of the production activities of BFPL. Usually following activities are processed in the production department, which are as follows

- **Engineer - Forging**: Here first the material is heated to a red-hot temperature, and then it is rolled through the rollers to obtain the required shape.

- **Heat treatment**: It is combination of heating and cooling operations carried out on a metal or alloys in the solid state so as to produce a microstructure and hence the desired properties.

- **Grinding**: This operation is required to remove unwanted projections, etc and to obtain a finished surface.

- **Maintenance**: Here the maintenance means looking after the machines, tools used in the operations so that they are good condition to perform well without any breakdown during the operations.

- **Tool Room**: Here they take care that they have adequate tools for different operations and also they take care that they are in good condition to use.

- **Packing**: The packing is done in such a way that the product is not affected by while transporting to the destination of their customers.

- **HUMAN RESOURCE & ADMINISTRATION**:

The function of the Human Resource department is to look the recruitment, selection, counseling, training, placement and promotion. Administration department involves all the top-level management, which takes care of farming policies, in the organization. It also takes care of the expenses and incomes in the organization.

- **SYSTEMS**: The function of the systems department is to take care of the up gradation to the recent technology so that they can offer the best services to the customers.

CHAPTER 3 - ANALYSIS AND INTERPRETATION

The most important task of a financial manager is to interpret the financial ratios the ratio analysis is the most powerful tool in the hands of any product management as it offers immediately on insight in to the working of the corporate enterprises. It is the process of establishing the financial ratios about the trend in terms of its financials can draw inferences.Ratio analysis is a powerful tool of financial analysis a ratio is defined as the indicated quotient of two mathematical expressions and as the relationship between to or more things. In financial analysis a ratio is used as a benchmark for evaluating the financial positions and performances of a firm the absolute accounting figures respected in the financial statements do not provide a meaningful understanding of the performance and position of a firm. The relationship between two or more accounting figures groups is called a financial ratio.Ratios help to summarize large quantities of financial data and to make qualities judgment about the firm's financial performance.

Types of Ratios:

Several ratios calculated from the accounting data, can be grouped into various classes according to financial activity or function to be evaluated. As stated earlier, the parties interested in financial analysis are short and long term creditors, owners and management. Short-term creditor's main interest is in the liquidity position or the short-term solvency of the firm. Long-term creditors, on the other hand, are more interested in the long-term solvency and profitability of the firm. Similarly, owners concentrate on the firm's profitability and financial condition.

Management is interested in evaluating every aspect of the firm's performance. They have to protect the interest of all parties and see that the firm grows profitably. In view of the requirements of ratios, we may classify them into the following four important categories:

- **LIQUIDITY RATIOS**
- **LEVERAGE RATIOS**
- **ACTIVITY RATIOS**
- **PROFITABILITY RATIOS**

3.1 LIQUIDITY RATIO:

Liquidity ratios measure the ability of the firm to meet its current obligations. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements: but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity, will result in a poor creditworthiness, loss of creditors confidence or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad idle assets earn nothing. The firm's funds will be unnecessarily tied up in current assets. There fore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

3.1.1 Current Ratio:

This ratio establishes a relationship between current assets and current liabilities. The objectives of computing this ratio are to measure the ability of the firm to meet its short-term obligations and to reflect the short-term financial strength/solving of a firm. In other words the objective is to measures the safety

margins available for short-term indicators. This ratio is expressed as under:

$$\textbf{Current Ratio} = \frac{\textbf{Current Assets}}{\textbf{Current Liabilities}}$$

Current ratio of 2:1 is considered to be satisfactory.

Table:- 3.1.1 Current Ratio

Year	Current assets	Current liabilities	Ratio
2006-07	86363	66107	1.306
2007-08	87035	59398	1.465
2008-09	72179	56417	1.279
2009-10	84976	84602	1.004
2010-11	142773	138205	1.033

Source :-Financial Statements for 2006-07 to 2010-11

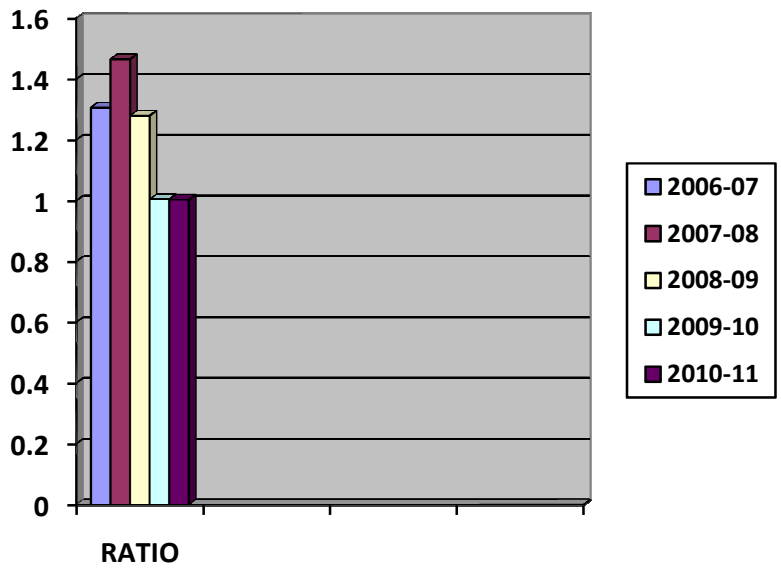

Figure 3.1.1:-current ratio

It was found that BFPL had maintained a lesser current ratio than the standard of 2:1. The above table shows that current ratio for the years 2006-07 to 2010-11 are 1.306, 1.465, 1.279, 1.004 and 1.033 respectively there had been a proportionate decrease in the current assets over current liability. It was found that the company was not able to meet its obligations within time, because of under utilization of capital.

3.1.2 Quick ratio:

Quick ratio is the more severe and stringent test of a firm's ability to meet its current obligation. It is wise to keep liquid assets at least equal to current liabilities. This ratio is also known as liquid ratio/acid test ratio. This ratio is usually expressed as a pure ratio i.e 1:1. This ratio may be expressed as under.

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

Table 3.1.2:- Quick Ratio

Year	Quick assets	Current liabilities	Ratio
2006-07	55369	66107	0.837
2007-08	60978	59398	1.026
2008-09	51506	56417	0.912
2009-10	54609	84602	0.645
2010-11	97844	138205	0.707

Source :- financial statements for 2006-07 to 2010-11

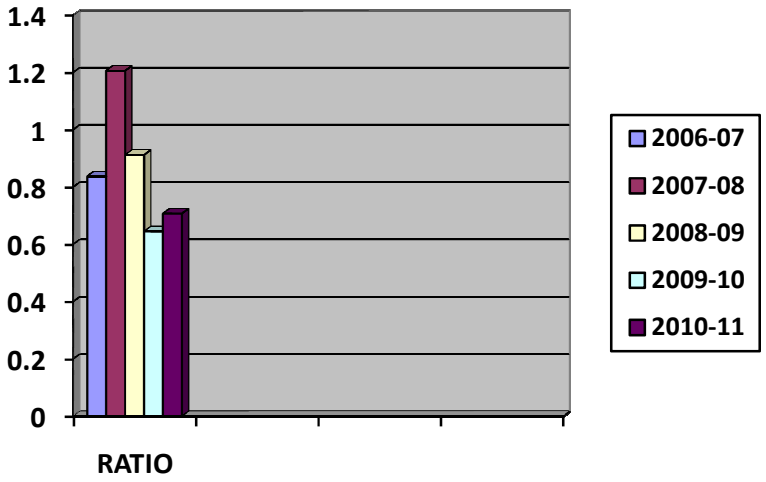

Figure 3.1.2:-quick ratio

In the above table quick assets include current assets loans and advances less inventory. And quick liabilities include current liabilities less bank over draft. It was inferred from the above table that quick ratio for the year 2006-07 to 2010-11 are 0.837, 1.026, 0.912, 0.645, and 0.707 respectively.it indicates that the quick assets are not adequate to meet the current liabilities in all the five years except for 2007-08. In the year 2007-08 the quick ratio shows a better position of 1.03.

3.2 Leverages ratios:

Financial leverage refers to the use of debt finance .While debt capital is a cheaper source of financing, it is also a riskier source of finance .Leverage ratios help in assessing the risk arising from the use of debt capital.In order to analyse the long term solvency of the company debt asset ratio,debt equity ratio and proprietory ratio were used.

3.2.1 Debt Equity ratio:

Debt equity ratio is calculated to know the extent of outsiders' funds and shareholder funds used in acquiring the assets for a firm. In other words, it is calculated to measure the relative claims of outsiders and owners against the assets of a firm it is also called as external - internal equity ratio or debt to net worth ratio. It is shown as

$$\textbf{Debt Equity Ratio} = \frac{\textbf{Total Debt}}{\textbf{Net Worth}}$$

Table:- 3.2.1 Debt Equity Ratio:

Year	Total debt	Net worth	Ratio
2006-07	**150564**	104736	1.437
2007-08	**159360**	136679	1.165
2008-09	**309924**	141527	2.189
2009-10	**469284**	141527	3.315
2010-11	**779208**	141527	5.505

Source financial statements for 2006-07 to 2010-11

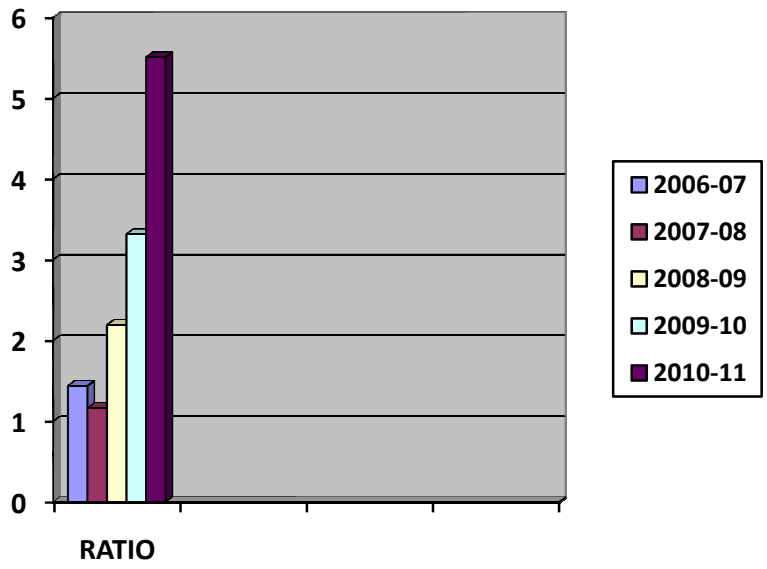

Figure 3.2.1:-Debt Equity ratio

From the above analysis the debt equity ratio is more than the standard ratio of 1:1 in all the last three years. This is an indication that the financial structure of the concern is weak and so the stake of the long-term creditors is relatively more ie; a lower ratio is generally viewed as favourable from long term creditors and the same low ratio may be taken as quite unsatisfactory by the shareholders because they find neglected opportunity for using low-cost outsiders fund to acquire fixed assets that could earn a high return.

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3.2.2 Proprietary Ratio:

Proprietary ratio is the ratio of shareholders funds to total assets. It is also called as “net worth to total assets” ratio or “equity ratio”. It serves as a measure of long-term solvency.This ratio must follow a standard of 1:3 that is one-third of the assets minus current liabilities should be acquired by shareholders funds and the other two thirds of assets should be financed by outsiders funds.it focuses the attention on general financial strength of the company..It is shown as:

$$\textbf{Proprietary Ratio} = \frac{\textbf{Net Worth (Share Holders Fund)}}{\textbf{Total assets}}$$

Table 3.2.2 :- Proprietory Ratio

Year	Share holders funds	Net assets	Ratio
2006-07	104736	255300	0.410
2007-08	136673	266462	0.512
2008-09	141527	242509	0.583
2009-10	141527	191367	0.739
2010-11	141527	184270	0.768

Source :-Financial Statements for 2006-07 to 2010-11

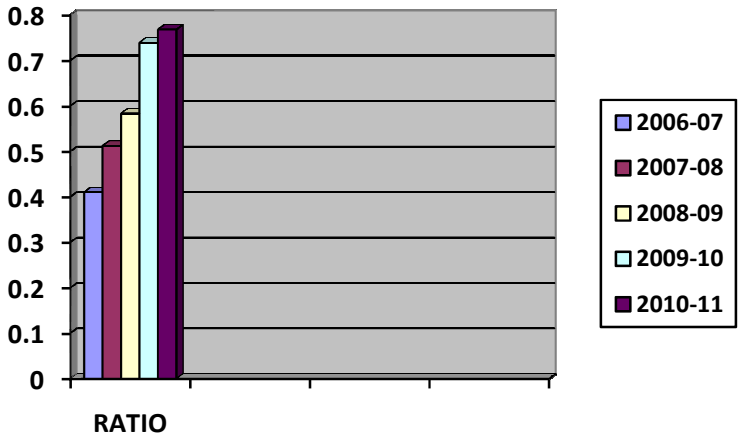

Figure 3.2.2:-proprietary ratio of BFPL

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The proprietary ratio is an index of the amount of proprietors fund invested in the total assets of a concern. Higher the ratio better is the long-term solvency position of the company.From the year 2006-07 to 2010-11the ratio shows an increasing trend. This ratio indicates the extent to which the assets of the company can be lost without affecting the interest of creditors of the company.

3.3 Activity or efficiency ratio:

Activity ratios are employed to evaluate the efficiency with which the firm manage and utilize its assets .These ratios are also called turnover ratios because they indicates the speed with which assets are being turned over into sales. Activity ratios thus involve a relationship between sales and assets which generally indicate that how the assets are effectively being managed.

3.3.1 Inventory turnover ratio:

Inventory turnover ratio indicates the efficiency of the firm in producing and selling its products and measures how fast the inventory is moving through the firm and generating sales.the higher the ratio the more is the efficiency with which the finished stock is rapidly turned over into sales.a lower inventory turn over ratio is not desirable because it reveals the accumulation of obsolete stock,or carrying of too much stock.This ratio is calculated as under.

$$\textbf{Inventory Turn Over Ratio} = \frac{\textbf{Cost of Goods Sold}}{\textbf{Average Inventory}}$$

$$\text{Average stock} = \frac{\text{Opening Stock} + \text{Closing Stock}}{2}$$

The inventory conversion period indicates the number of days taken to convert inventories into sales.

Inventory Conversion Period =
(Stock Velocity) $\frac{\textbf{Number of Days in a Year}}{\textbf{Inventory Turnover Ratio}}$

Table3.3.1:- Inventory Turn Over Ratio of BFPL:

Year	Cost of goods sold	Avg. inventories	Ratio	Conversion period
2006-07	140718	29529	4.765	77
2007-08	130593	28525	4.578	80
2008-09	139089	23365	5.952	61
2009-10	212499	25520	8.326	44
2010-11	326090	37648	8.661	42

Source:-financial statements for 2006-07 to 2008-09

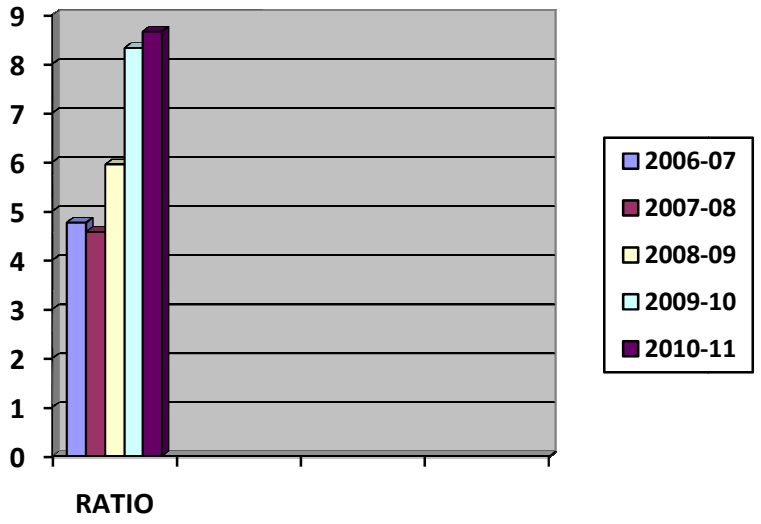

Figure 3.3.1:-Inventory Turn Over ratio

It was found that inventory turnover ratio for the years 2006-07 and 2007-08 do not show a satisfactory position .During the same period the inventory conversion period are also very high. Since from 2008-09 to 2010-11 inventory turnover ratio shows an increasing trend and the conversion period shows a declining trend . The low inventory turnover ratio of BFPL also indicates that, it was failed to improve its efficiency in manufacturing and selling of products. The inventory conversion period of BFPL has decreased from 77 days to 42 days.

3.3.2 Debtors turnover ratio:

The debtor turnover ratio is calculated to measure the efficiency of credit promotion policy and credit collection policy. Debtors turnover ratio indicates the speed with which the debtors are turned over during the year. It is expressed in number of times the average debtors are turned over during a year. Average collection period represents the average number of days for which a firm has to wait before their receivables are converted into cash. The ratio can be calculated as under.

$$\textbf{Debtors Turn Over Ratio} = \frac{\textbf{Net Annual Credit Sales}}{\textbf{Trade Debtors}}$$

$$\textbf{Average Collection Period} = \frac{\textbf{Number of Working Days/Months}}{\textbf{Debtors Turn Over Ratio}}$$

Table3.3.2:- Showing Debtors Turn Over Ratio:

Year	Net credit sales	Trade debtors	Ratio	Collection period
2006-07	187663	30858	6.081	**59**
2007-08	181370	35551	5.101	**70**
2008-09	200910	23878	8.414	**43**
2009-10	300763	23793	12.640	**28**
2010-11	397609	43869	9.063	**40**

Source:-Financial Statements for 2006-07 to 2010-11

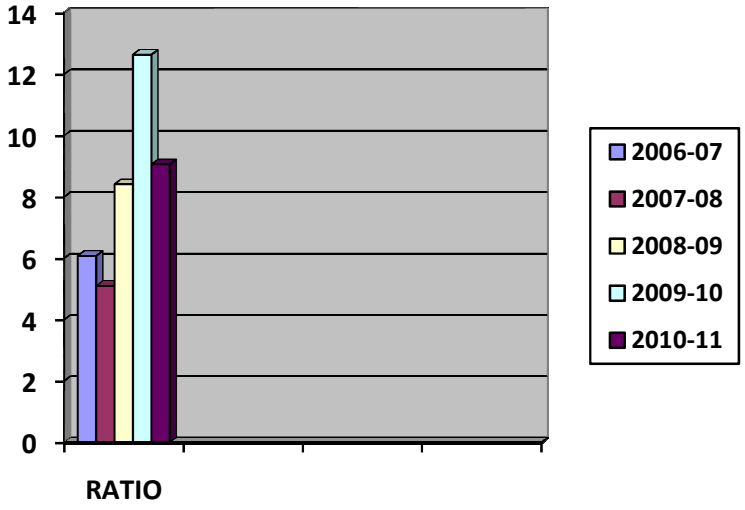

Figure 3.3.2:-debtors turn over ratio

It was inferred that from the analysis the debtors turnover ratio was high and there was a slight variation between all the 5 years. This was because of increase in sales and also in debtors. The debtor turnover ratios for the years 2006-07 to 2010-11 are 6.081, 5.101, 8.414, 12.640 and 9.063 respectively. Average collection period during the years 59, 70, 43, 28 and 40 measures the quality of debtors, since it measures the rapid

growth with which money is colleted from them. Average collection period implies prompt payment by the debtors'. Here collection period is decreased from 59 days to 40 days..

3.3.3 Fixed assets turnover ratio:

This ratio measures the efficiency of the assets used.This ratio shows how well the fixed assests are being used to generate sales in the business.the ratio is important in case of manufacturing concerns because sales are produced not only by the use of current assets but also by amount invested in fixed assets.the higher the ratio ,better is the performance.on other hand ,a low ratio indicates that the fixed assets are not efficiently utilized. This ratio can be calculated as under:

$$\textbf{Fixed Assets Turn Over Ratio} = \frac{\textbf{Net Sales}}{\textbf{Net Fixed Assets}}$$

Table 3.3.3:- Fixed Assets Turn Over Ratio of BFPL:

Year	Net Sales	Net Fixed assets	Ratio
2006-07	187663	136486	1.374
2007-08	181370	128070	1.416
2008-09	200910	119378	1.682
2009-10	300763	107006	2.810
2010-11	397609	102792	3.868

Source:-financial statement for 2006-07 to 2010-11

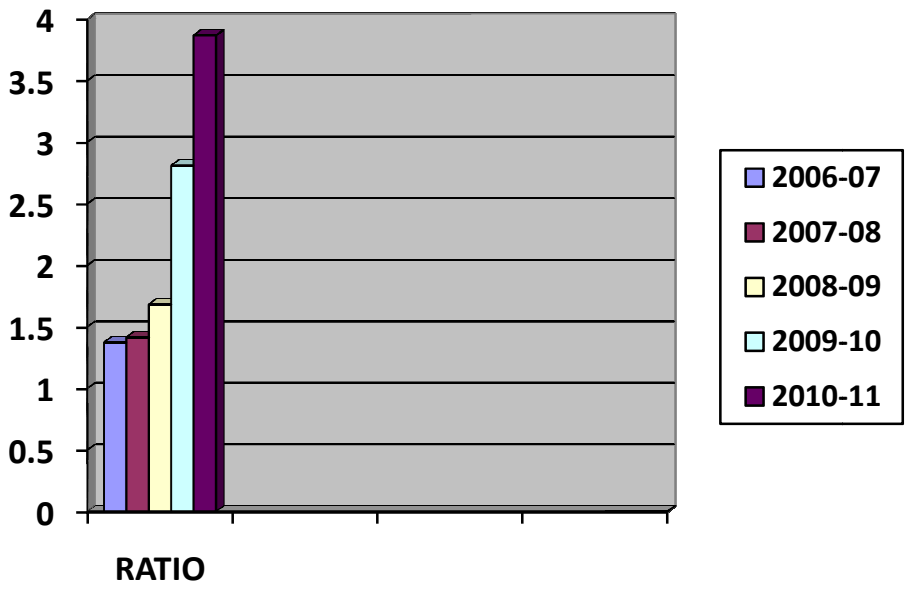

Figure 3.3.3:-Fixed AssetsTurn over ratio

It was inferred that from the analysis the fixed assets turnover ratio was less than the 5 times for the years of 2006-07 to 2010-11 are 1.374, 1.416, 1.682, 2.81, and 3.868 respectively. A high ratio indicates efficient utilization of fixed assets.

3.4 Profitability ratio

Profitability reflects the final result of business operations profitability rate on are calculates operations efficiency of its company.

3.4.1 Gross profit ratio:

The gross profit margin ratio reflects the efficiency with which management produces each unit of product. This ratio indicates the average speed between the cost of goods sold and sales revenues.Higher

the ratio ,the better it is .A lower ratio indicates unfavourable trend in the form of reduction in selling prices not accompanied by proportionate decrease in cost of goods or increase in cost of production. This ratio can be calculated as under:

$$\textbf{Gross Profit Ratio} = \frac{\textbf{Gross Profit}}{\textbf{Net Sales}}$$

Table3.4.1 Gross Profit Margin Ratio of BFPL:

Year	Gross Profit	Sales	Ratio
2006-07	46945	187663	0.250
2007-08	50773	181370	0.279
2008-09	61821	200910	0.307
2009-10	88264	300763	0.293
2010-11	71519	397609	0.179

Source:-financial statements for 2006-07 to 2010-11

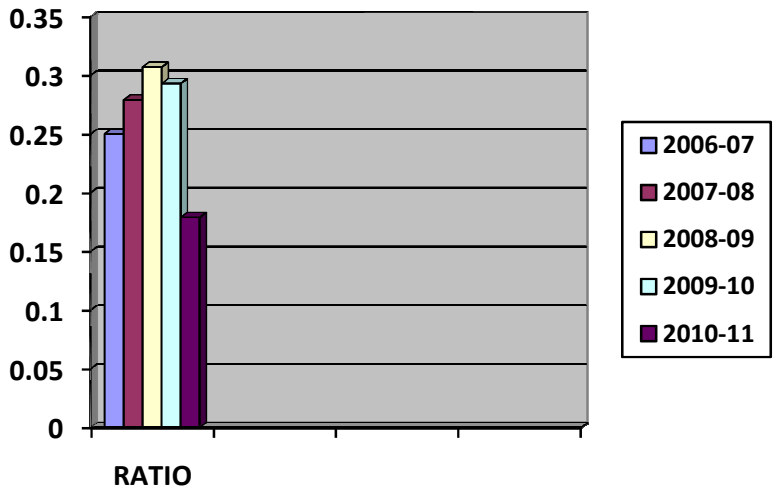

Figure 3.4.1:-Gross Profit ratio of BFPL

In above situation the gross profit margin of the firm contributes to decrease in 2009-10 is 29.3% and in the year 2010-11 it further decreased to 17.9% but in the year 2006-07 to 2008-09 it has been increasing year by year from 25% in 2006-07, 27.9% in 2007-08, 30.7% in 2008-09 and gradually decreased to 29.3% in 2009-10 and to 17.9% in 2010-11 the gross profit ratio indicates the extent to which selling price of goods per unit may decline without resulting in losses on operation of firm.

This ratio reveals the efficiency of the firm since gross profit is the difference between the sales and consumption of expenditure should cut down the operating expenses in order to increase gross profit, otherwise it eats the gross profit.

3.4.2 Net profit ratio:

Net profit is obtained when operating expenses interest and taxes are subtracted from the gross profit.

Net profit margin ratio establishes a relationship between net profit and sales. It indicates management's efficiency in manufacturing administering and selling the products.This ratio is the overall measure of the firm's ability to turn each rupee sales into net worth. This ratio also indicates the firm's capacity to withstand adverse economic conditions.higher the ratio ,the better it is because it gives an idea of improved efficiency of the concern.This ratio is calculating as under

$$\textbf{Net Profit Ratio} = \frac{\textbf{Net Profit after Tax}}{\textbf{Net Sales}}$$

Table3.4.2 :-Net Profit Ratio of BFPL:

Year	Net profit	Sales	Ratio
2006-07	(27147)	187663	0
2007-08	(14074)	181370	0
2008-09	2376	200910	0.011
2009-10	25372	300763	0.084
2010-11	17465	397609	0.043

Source:-financial statements for 2006-07 to 2010-11

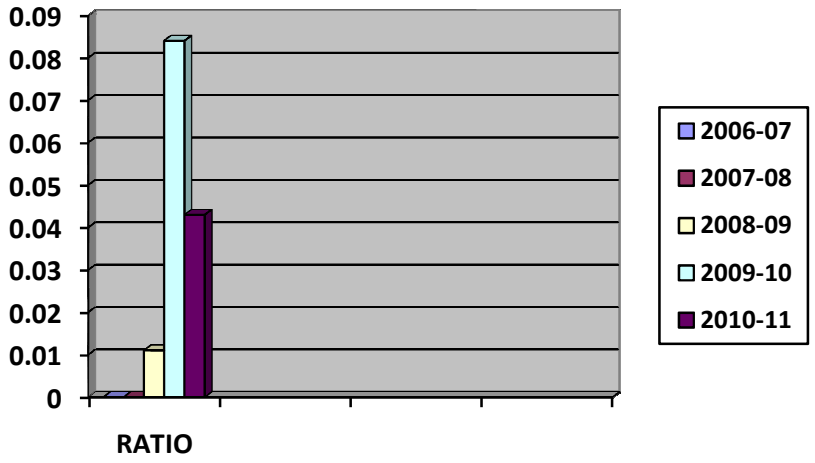

Figure 3.4.2:-Gross Profit ratio

From the above table we can infer that the operating cost of BFPL was drastically high because of that the company was getting decrease in the operational profit and net profit ratio even though the company earns maximum gross profit ratio the BFPL has net profit ratio was high in 2009-10 i.e.8.4% it was decreased to 4.3% in 2010-11. But in 2006-07 and 2007-08 the company was under loss. The expense like consumption

of fuel and chemicals and administrative expenses and managerial remuneration was increased by year to year. Though the sales has increased over the years but net profit has decreased simultaneously, so the firm needs to implement the steps to plan its high profitability and to maintain sound financial position

3.4.3 Return on equity capital:

Equity shareholders are the true owners of the company. They bear more risk. They are entitled to get their share of divided only after the payment of risk. They are entitled to get their share of dividend only after the payment of fixed dividend to preference shareholders. Therefore the dividend payable to a equity shareholders varies depending upon the quantum of profits available to them. High return on equity capital attracts more investments. It was calculated to establish relationship between net profit available to equity shareholders and equity share capital. It is expressed as:

$$\textbf{ROEC} = \frac{\textbf{Net Profit after Tax – Preference Dividend}}{\textbf{Paid-up Equity Share Capital}}$$

Table3.4.3:- Return on Equity Capital of BFPL:

Year	Net profit	Equity capital	Ratio
2006-07	-27147	62163	0
2007-08	-14074	81123	0
2008-09	2376	84000	**0.028**
2009-10	25372	84000	**0.302**
2010-11	17465	84000	**0.207**

Source financial statements for 2006-07 to 2010-11

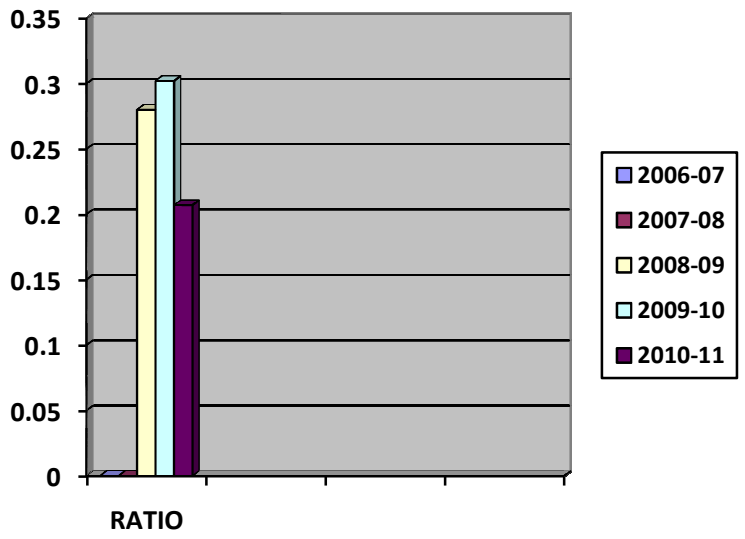

Figure 3.4.3:-Return on Equity Capital of BFPL

During the year 2006-07 and 2007-08 the company suffers loss. A return on equity capital of BFPL was more in the year 2009-10 i.e.0.302 and gradually decreased to 0.207 in 2010-11. As the expenses like consumption of fuel chemical administrative expenses managerial remuneration was increased compared to following years. Due to these expenditures the return on equity capital is less.

3.4.4 Earning per share (EPS)

EPS is very useful to know whether the earning capacity of the company is improved or declined by facilitation comparisons of EPS of a company with similar other companies. It is a small variant of return of equity capital.

Table3.4.4 :- Equity Earning per share of BFPL:

Year	Net profit	No of equity shares	Ratio
2006-07	-27147	62163	0
2007-08	-14074	81123	0
2008-09	2376	8400	**0.282**
2009-10	25372	8400	**3.020**
2010-11	17465	8400	**2.079**

Source:-financial statements for 2006-07 to 2010-11

$$\textbf{Earning Per Share} = \frac{\textbf{Net Profit after Tax}}{\textbf{No. of Equity Shares}}$$

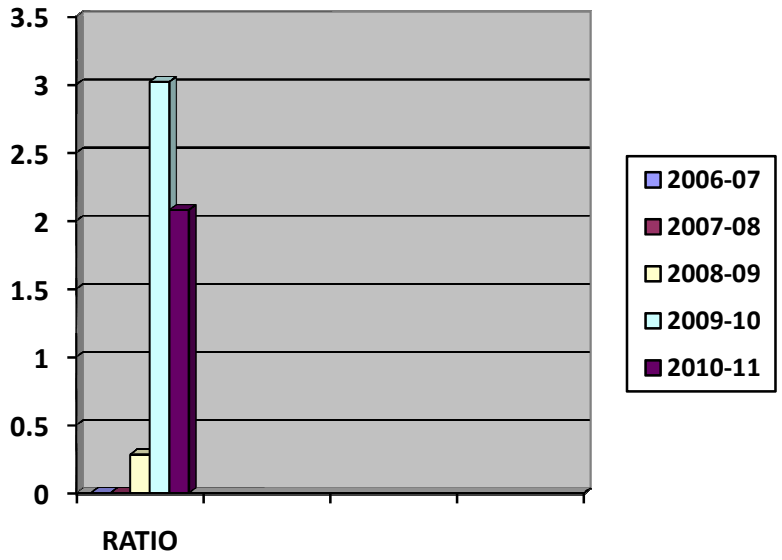

Figure3.4.4:-Equity Earning per Share of BFPL

It was inferred from the above table that earnings per share throws light on the performance of the company. It is a basis for calculating return on equity shareholders funds. As seen from the above table BFPL has suffered from negative EPS of Rs 0.436 in 2006-07, decreased to Rs. 0.173 in 2007-08.

In the year 2008-09 it increased to Rs. 0.282 and Rs 3.02 in 2009-10, in the last year 2010-11 it decreased to Rs. 2.079 due to the decrease in the net profit of the company as compared to the previous year.

CHAPTER 4- FINDINGS AND SUGGESTIONS

It is necessary to point out the strength and weakness of the company after making analytical study. Financial Performance will reveal the strength and weakness of an organization with regard to the ratio analysis it was found that:

- Current assets have been fluctuating in decreasing rate over current liabilities. This shows that liquidity position of BFPL is unsatisfactory.

- Quick ratio is lower than the standard of 1:1 except in the year 2007-08, which shows that the BFPL's quick assets are not able to meet current liabilities.

- Proprietary ratio is more than the standard of 0.5 except for the year 2006-07, which shows the companies better long-term solvency position.

- Inventory turn over ratio for the first three years was less than the standard of 8 times of inventory turn over. But since 2009-10 it had more than the standard of 8 times, which shows the satisfactory status of the company.

- Gross profit margin ratio at the initial three years it was increasing proportionately, but for the later years it decreases substantially.

- Net profit margin ratio was nil for two years due to heavy losses, but subsequent two years it increases to some extent, but in last year slightly come down.

Suggestions

The management must achieve the targets by utilizing both current assets and current liabilities in a proper way.

- The company should try to improve its efficiency regarding to the management of inventories.
- The company should utilize cash resources to the optimum, else the liquidity position will be affected.
- The company should minimize its borrowings so as to avoid the risk of debt burden.
- Since there is too much dependency on outsiders funds, it would be best for the company to increase its capital base through issue of more shares to general public.
- Though the working capital position is favorable the management still give more attention to improve the efficiency of the working capital and operational result. This will lead to improvement of profit earning capacity and reduction of bank borrowings.
- Fixed Assets used for a long period of time must be sold off charging with less depreciation to increase the value of asset to meet the expected liability.

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ANNEXURE

Table:- 1

BALANCE SHEET (5 Years)

(Rs'000)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
I. Sources of funds					
1) Share holder fund					
a) Capital	104736	136679	141527	141527	141527
b) Refers and surplus	0	0	0	0	0
2) Loan funds					
a) Secured loans	141768	127383	100502	13840	17676
b) Unsecured loans	8796	2400	480	36000	25067
Total	**255300**	**266462**	**242509**	**191367**	**184270**
II application of fund					
1) Fixed asset (net block)	136486	128070	119378	107006	102792
2) Deferr Tax Asset - Net	40	40	12683	16267	17129
3) Current assets loans and advances					
a) Inventories	30994	26057	20673	30367	44929
b) Sundry debtors	30858	36551	23878	23793	43869
c) Cash & bank balance	4859	6062	10064	8562	30929
d) Other Current Assets	1650	1284	708	358	888
d) Loans & advances	18002	17081	16856	21896	22158
Total (2)	86363	87035	72179	84976	142773
4) Current liabilities and provision					
a) Current liabilities	65730	58979	55814	84212	127411
b) Provisions	378	419	603	390	10794
TOTAL (3)	66107	59398	56417	84602	138205
Net current assets	20256	27636	15762	373	4567
Miscellaneous	2110	3496	2886	1293	477
Profit and Loss Account	96408	107220	91800	66428	59305
TOTAL	**255300**	**266462**	**242509**	**191367**	**184270**

Table:- 2

Income Statement of BFPL (5 Years)

(Rs in '000)

Year	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Net sales	187663	181370	200910	300763	397609
Less: cost of goods sold	140718	130593	139089	212499	326090
Gross profit	46945	50773	61821	88264	71515
Less: operating expenses	63693	51534	49017	45101	40998
Operating income	(16748)	(761)	12804	43163	30521
Add: other income	956	588	665	7549	2774
EBDIT	(15792)	(173)	13469	50712	33295
Less: depreciation	11033	10690	10720	10406	10117
EBIT	(26825)	(10863)	2749	40306	23178
Less: interest	0	0	0	18517	7192
Profit for the year	(26825)	(10863)	2749	21789	15986
Prior period expenses / income (Net)	(316)	57	(6)	6	624
EBT	(27141)	(10806)	2743	21795	16610
Provision for tax:					
Deferred tax	0	3262	361	3584	862
Wealth tax	6	6	6	7	7
Profit after tax	(27147)	(14074)	2376	25372	17465