

**2012**

**A Project Report on Ratio  
Analysis with reference to  
Genting Lanco Power Ltd.**

YOUR NAME

7/10/2012

## **CERTIFICATE**

This is to certify that Mr. J . YOUR NAME has successfully completed the project work titled **“RATIO ANALYSIS”** in partial fulfillment of requirement for the award of POST GRADUATION DIPLOMA IN BUSINESS MANAGEMENT prescribed by the COLLEGE NAME.

This project is the record of authentic work carried out during the academic year (2006 – 2008).

## **DECLARATION**

I YOUR NAME hereby declare that this project is the record of authentic work carried out by me during the academic year 2006 – 2008 and has not been submitted to any other University or Institute towards the award of any degree.

**Signature of the student**

## **ACKNOWLEDGEMENT**

I am very much obliged and indebted to **Mr. LIM KIM BAK**, General Manager of Genting Lanco Power (India) Private Limited for his approval and valuable suggestions to take up the project.

I also extend my gratitude to **Mr. B. V. Jayaram**, Manager Finance, Commercial and Administration for his approval and valuable suggestions to take up the project in Genting Lanco Power (India) Private Limited.

I express my deep sense of gratitude to **Mr. Ravi Seshagiri Rao** Accounts Officer Finance, Commercial and Administration for his valuable suggestions, consistent help and personal interest during my project work.

I am also thankful to **Mr. B. Vimal kumar**, Accountant Trainee for his support and suggestions during the project.

I am very pleased to express my deep sense of gratitude to **Mr. R. RAMACHANDRA NAIK Associate professor** for his consistent encouragement. I shall forever cherish my association with her for exuberant encouragement, perennial approachability, absolute freedom of thought and action I have enjoyed during the course of the project.

*Chapter - 1*

# **INTRODUCTION**

## **Introduction**

**Financial Management** is the specific area of finance dealing with the financial decision corporations make, and the tools and analysis used to make the decisions. The discipline as a whole may be divided between long-term and short-term decisions and techniques. Both share the same goal of enhancing firm value by ensuring that return on capital exceeds cost of capital, without taking excessive financial risks.

*Capital investment decisions* comprise the long-term choices about which projects receive investment, whether to finance that investment with equity or debt, and when or whether to pay dividends to shareholders. Short-term corporate finance decisions are called *working capital management* and deal with balance of current assets and current liabilities by managing cash, inventories, and short-term borrowings and lending (e.g., the credit terms extended to customers).

Corporate finance is closely related to managerial finance, which is slightly broader in scope, describing the financial techniques available to all forms of business enterprise, corporate or not.

## **Role of Financial Managers:**

The role of a financial manager can be discussed under the following heads:

1. Nature of work
2. Working conditions
3. Employment
4. Training, Other qualifications and Advancement
5. Job outlook
6. Earnings
7. Related occupations

Let us discuss each of these in a detailed manner.

## **NEED OF THE STUDY**

1. The study has great significance and provides benefits to various parties whom directly or indirectly interact with the company.
2. It is beneficial to management of the company by providing crystal clear picture regarding important aspects like liquidity, leverage, activity and profitability.
3. The study is also beneficial to employees and offers motivation by showing how actively they are contributing for company's growth.
4. The investors who are interested in investing in the company's shares will also get benefited by going through the study and can easily take a decision whether to invest or not to invest in the company's shares.



## **OBJECTIVES**

The major objectives of the resent study are to know about financial strengths and weakness of LANCO through **FINANCIAL RATIO ANALYSIS**.

**The main objectives of resent study aimed as:**

To evaluate the performance of the company by using ratios as a yardstick to measure the efficiency of the company. To understand the liquidity, profitability and efficiency positions of the company during the study period. To evaluate and analyze various facts of the financial performance of the company. To make comparisons between the ratios during different periods.

## **OBJECTIVES**

1. To study the present financial system at Genting Lanco.
2. To determine the Profitability, Liquidity Ratios.
3. To analyze the capital structure of the company with the help of Leverage ratio.
4. To offer appropriate suggestions for the better performance of the organization

## **METHODOLOGY**

The information is collected through secondary sources during the project. That information was utilized for calculating performance evaluation and based on that, interpretations were made.

### **Sources of secondary data:**

1. Most of the calculations are made on the financial statements of the company provided statements.
2. Referring standard texts and referred books collected some of the information regarding theoretical aspects.
3. Method- to assess the performance of the company method of observation of the work in finance department in followed.

## LIMITATIONS

1. The study provides an insight into the financial, personnel, marketing and other aspects of LANCO. Every study will be bound with certain limitations.
2. The below mentioned are the constraints under which the study is carried out.
3. One of the factors of the study was lack of availability of ample information. Most of the information has been kept confidential and as such as not assed as art of policy of company.

Time is an important limitation. The whole study was conducted in a period of 60 days, which is not sufficient to carry out proper interpretation and analysis.

*Chapter – 2*

**POWER INDUSTRY**

## INDUSTRY PROFILE

ELECTRICITY is one of the vital requirements in the over all development of the economy and is therefore, appropriately called the **‘Wheel of Development’**. In fact, the power sector has played a dominant role in the socio-economic development of the county. As a convenient versatile and relatively cheap form of energy it plays a crucial role in agriculture, transport, industry and domestic sector. Hence power has all along remained in the priority list of Indian planners and plan outlays have reflected this aspect. The outlays for power sector have been around 19% of the total outlays for the public sector in various plan periods.

There has been a spectacular increase in the installed generating capacity of electricity in the country. Starting with a capacity of about 1360MW at the time of independence,

Despite tremendous increase in the availability of power since independence there is acute power shortage gap between demand and supply. The per capita consumption of power in the country is very low as compared to the position in the developed countries. Power is a key input for economic growth has as direct relationship with the national productivity as also the overall economy of the country.

There has been diversification of the sources of generation in terms of hydel, thermal and nuclear sources. The share of hydel in the total generating capacity had drastically come down and that of thermal had shown noticeable increase. Another significant change is the increasing share of Central sectors in recent years.

The share of the thermal element in the installed generating capacity, which is also predominantly coal-based, shows a steady increase. Thus, the relatively cheaper and a more desirable change in terms of a higher share of hydel source, which is renewable, have not materialized.

## **POWER SCENARIO**

The power sector is at cross roads today. There is a chronic power shortage in the country mainly attributable to demand of power continuously outstripping the supply.

## **HYDEL POWER**

In the present global energy context, there are certain aspects, which have acquired a new significance. The development of hydropower has to be given a major thrust in the current decade. We still have large untapped hydro power potential, but its development has slowed down on account of lack of financial resources, interstate rivalry, inefficiency of certain state electricity boards, variations in the course of the monsoons etc. a concerted effort is imperative to overcome the hurdles and enlarge the share of the hydro power generation in the country. This will help not only in tapping a renewable resource of energy, but will provide essentially needed peaking support to thermal power generation with the pattern of demand for electricity. Since the planners' initial enthusiasm about the large hydel projects has waned somewhat, India will do well to take recourse to the Chinese pattern of micro and mini hydel projects wherever the terrain is suitable.

### **MINI HYDEL PLANTS:**

There are a number of states in the Country where mini hydel projects can be set up at comparatively lower investments to supplement other sources of energy. According to reliable estimates the total potential of mini-hydel plants all over the country is around 5000MW. This includes 2,000MW in hilly areas at “high heads and low discharge” points and 300MW at “low heads and low Discharge” points. Particular drops and irrigation systems.

### **THERMAL POWER:**

Thermal units have emerged as the largest source of power in India. But unfortunately, the progress of power generation in this sector has not been marked by any new breakthrough. At present stress continues to be laid on thermal power station because of shorter construction time. Using better project management techniques is shortening the construction period for these plants. It has been possible to improve overall efficiency of thermal plant by using gas turbines in conjunction with conventional steam turbines.

The union government has, in order to step up central generation in the country, established super thermal power Station in different regions. The National Thermal power Corporation (NTPC) was established in 1975 with the object of planning, promoting and organizing integrated development of thermal power in the country.

## **GEO POWER SYSTEM**

Geo Power System is a natural air-conditioning system for residential and commercial premises, using geothermal energy available beneath the ground surface at a depth of 5 meters. It is intelligently designed to ventilate the interiors to all corners and to effectively enhance the internal conditions by removal of formaldehyde which is harmful to ones health. This system provides natural environment-like conditions to oneself, increases house life and protects the environment.

## **NUCLEAR ENERGY:**

The planners, right from the beginning understood the importance of nuclear energy in meeting the country's long-term energy needs. Recognizing that nuclear technology would be subject to a progressively restrictive technology central regime and also that the long term strategies for exploitation of the country's vast thorium resources are bound to be some what different from those of most other countries engaged in nuclear power development, tremendous emphasis was placed on achieving self reliance in technology development. This policy has yielded rich dividends and today one can proudly use the realization of indigenous capability in all aspects of the nuclear fuel cycle.

## **OCEAN ENERGY:**

The long standing proposal to tap non-conventional source of ocean energy for power generation is expected to get a fillip with a joint team of the Tamilnadu electricity Board and the Ocean Energy Cell of Indian Institute of Technology, Madras commending the offer of the U.S.



based firm sea solar power (SSP) to set up 6 Ocean Thermal Energy Conversion (OTEC) plants of 100 MW capacities each along the Tamilnadu Coast for serious consideration and recommending the setting up of one plant to begin with at Kulasekarpatnam area.

### **WIND ENERGY:**

Wind energy is fast emerging as the most cost-effective source of power as it combines the abundance of a natural element with modern technology. The growing interest in wind power technology can be attributed not only to its cost effectiveness but also to other attractive features like modularity, short project gestation and the non-polluting nature of the technology. In India, the exercise to harness wind energy includes wind pumps, wind battery chargers, stand alone wind electric generators and grid connected wind farms. The department of non-conventional energy sources (DNES) in association with state agencies has been responsible for creating and sustaining interest in the field.

### **SOLAR ENERGY:**

It is believed that with just 0.1 per cent of the 75,000 trillion kWh of solar energy that reaches the earth, planet's energy requirement can be satisfied. Electricity can be generated with the help of solar energy through the solar thermal route, as well as directly from sunlight with the help of Solar PhotoVoltaic (SPV) technology. SPV Systems are being used for lighting, water pumping, and telecommunications and also for village

size power plants in rural areas. SPV systems are being used to provide lighting under the National Literacy mission, refrigeration for vaccine storage and transport under the National immunization programme, drinking water and power for telecommunications. Indian railways have been using this technology for signaling.

### **PROBLEMS:**

The power sector in India is beset with a number of problems. They relate to delays in the formulation and implementation of various projects, poor utilization of capacity, bottlenecks in the supply of coal to thermal station, and its poor quality, faulty distribution and transmission arrangements and bad planning leading to an injudicious hydel thermal mix. Ecological problems are also vexing this sector.

Hurdles in environmental clearances tend to slow down completion of power projects. Compensatory afforestation and land acquisition have proved to be major bottlenecks in the clearance of power projects. The main problem faced in the case of environmental clearances is the shortage of land for compensatory afforestation. While project authorities are prepared to invest funds in afforestation land, the state governments are not able to provide the required land. The Government has proposed to set up a task force to look into clearances for power projects and speed up the clearances.

*Chapter – 3*

*OVERVIEW OF*  
**LANCO GROUP**

**PROFILE OF GENTING LANCO POWER (INDIA) PRIVATE**  
**LIMITED**  
**(OPERATIONS & MAINTENANCE COMPANY FOR LANCO**  
**KONDAPALLI POWER PRIVATE LIMITED)**

Genting Lanco Power (India) Private Limited is a subsidiary of Genting group of companies based at Kuala Lumpur, Malaysia. Genting group has its presence in diversified fields like Power, Plantations, Paper & Packaging, Entertainment, Resorts & Hotels, Property development, Cruise liners, e Commerce, Oil and Gas.

Genting group is Malaysia's leading multinational corporation and one of Asia's best-managed companies with over 36,000 employees globally. The group is renowned for its strong management leadership, financial prudence and sound investment discipline.

The combined market capitalization of the group is about US \$9 billion. The operating revenue for the group for the year 2007 is US \$1.53 billion.

Genting Lanco Power (India) Private Limited has entered in to a 15 years Operations and Maintenance Agreement with Lanco Kondapalli Power Private Limited, who are the owners of the 368 MW gas fired combined cycle power plant at kondapalli.

Genting Lanco Power (India) Private Limited has its registered office at Lanco Kondapalli Power Plant, Kondapalli IDA, and Krishna District.

## **LANCO GROUP PROFILE**

LANCO Group, headquartered in Hyderabad, India is one of the leading business houses in South India. It has an asset base of US \$ 450 million and a turnover of more than US \$ 300 million. With operational experience in power plants based on Gas, Biomass and Wind and an operating capacity of 509 MW, LANCO is heading for a capacity of 2500 MW and an asset base of US \$ 2.5 billion by the year 2010.

Lanco is a well-diversified group with activities like power generation, engineering and construction, manufacturing, Information technology (IT), and property development. Lanco group is striving to Empower, Enable and Enrich partner, business associates and to be the chosen vehicle for growth for stakeholders and source of inspiration to the society. The group is recognized as a leading player in the Indian economic scenario with operation in USA and UK. LANCO also has presence in Civil Construction, Property Development, Manufacturing of Pig Iron & Ductile Iron Spun Pipes and Information Technology. LANCO's overall growth is attributed to its technical, Commercial and managerial skills, which is appreciated by its International partners – Commonwealth Development Corporation (ACTIS/Globules) of the United Kingdom, Genting Group of Malaysia and Doosan of Korea.

## **OBJECTIVES**

1. To provide basic amenities for the rural poor.
2. To save arts of historical relevance which are on the verge of extinction.
3. To develop integrated programmes for the differently abled.
4. To encourage fresh talent in the area of sports.
5. To take up other humanitarian activities.
6. the substantial part of the power requirement.

## **QUALITY POLICY**

We are committed to continually improve the quality of our performance through the application of our Quality policy.

1. Utilizing Commercial, Engineering and Human Resources, to Minimize Risks to Personnel, Plant & Equipment and Maximize plant Availability for Generation of Power.
2. Providing the best policies level of commercial performance for the benefit of all Stake Holders.
3. Implementing prudent utility practices and providing Healthy and Excellent Working Environment in all Disciplines of Engineering and Business as documented in the Quality System.
4. Treating all staff & families fairly and with respect while encouraging personnel growth.

## **COMPANY HIGH LIGHTS**

1. 368.144 MW combined cycle power plant under build – operate – own arrangement with the state government.
2. The single largest investment in Andhra Pradesh, by any Andhra Pradesh based group.
3. Power purchase agreement firmed with AP TRANSCO for 15 years.
4. Eco – friendly, adhering to highest standards of safety and conversion of natural resources.
5. The first project cleared by Central Electricity Authority (CEA) under the international competitive Bidding (ICB) route for power projects in India.
6. The first of the ICB power projects in India to achieve financial closure and complete construction in shortest possible time.
7. One of the lowest evacuations costs to AP TRANSCO.
8. The first private sector power project to receive disbursement of finance from Power Finance Corporation limited, India.
9. The shortest construction time in the private sector
10. Location advantages include:
  - a) Proximity to National and state Highway
  - b) Just 1.5 km from fuel storage facility of Hindustan Petroleum Corporation limited.
  - c) Close to the river Krishna and up stream of the Prakasam Barrage ensuring perennial water supply.
  - d) Adjacent to 220 kWh Substation of AP TRANSCO.

*Chapter – 4*

***RATIO ANALYSIS***



# **RATIO ANALYSIS**

## **FINANCIAL ANALYSIS**

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm and establishing relationship between the items of the balance sheet and profit & loss account.

Financial ratio analysis is the calculation and comparison of ratios, which are derived from the information in a company's financial statements. The level and historical trends of these ratios can be used to make inferences about a company's financial condition, its operations and attractiveness as an investment. The information in the statements is used by

- Trade creditors, to identify the firm's ability to meet their claims i.e. liquidity position of the company.
- Investors, to know about the present and future profitability of the company and its financial structure.
- Management, in every aspect of the financial analysis. It is the responsibility of the management to maintain sound financial condition in the company.

## **RATIO ANALYSIS**

The term “Ratio” refers to the numerical and quantitative relationship between two items or variables. This relationship can be exposed as

- Percentages
- Fractions
- Proportion of numbers

Ratio analysis is defined as the systematic use of the ratio to interpret the financial statements. So that the strengths and weaknesses of a firm, as well as its historical performance and current financial condition can be determined. Ratio reflects a quantitative relationship helps to form a quantitative judgment.

## **STEPS IN RATIO ANALYSIS**

- The first task of the financial analysis is to select the information relevant to the decision under consideration from the statements and calculates appropriate ratios.
- To compare the calculated ratios with the ratios of the same firm relating to the past or with the industry ratios. It facilitates in assessing success or failure of the firm.

- Third step is to interpretation, drawing of inferences and report writing conclusions are drawn after comparison in the shape of report or recommended courses of action.

## **BASIS OR STANDARDS OF COMPARISON**

Ratios are relative figures reflecting the relation between variables. They enable analyst to draw conclusions regarding financial operations. The use of ratios as a tool of financial analysis involves the comparison with related facts. This is the basis of ratio analysis. The basis of ratio analysis is of four types.

- Past ratios, calculated from past financial statements of the firm.
- Competitor's ratio, of the some most progressive and successful competitor firm at the same point of time.
- Industry ratio, the industry ratios to which the firm belongs to
- Projected ratios, ratios of the future developed from the projected or pro forma financial statements

## **NATURE OF RATIO ANALYSIS**

Ratio analysis is a technique of analysis and interpretation of financial statements. It is the process of establishing and interpreting various ratios for helping in making certain decisions. It is only a means of understanding of financial strengths and weaknesses of a firm. There are a number of ratios which can be calculated from the information given in the financial statements, but the analyst has to select the appropriate data and calculate only a few appropriate ratios. The following are the four steps involved in the ratio analysis.

- Selection of relevant data from the financial statements depending upon the objective of the analysis.
- Calculation of appropriate ratios from the above data.
- Comparison of the calculated ratios with the ratios of the same firm in the past, or the ratios developed from projected financial statements or the ratios of some other firms or the comparison with ratios of the industry to which the firm belongs.

## **INTERPRETATION OF THE RATIOS**

The interpretation of ratios is an important factor. The inherent limitations of ratio analysis should be kept in mind while interpreting them. The impact of factors such as price level changes, change in accounting policies, window dressing etc., should also be kept in mind when attempting to interpret ratios. The interpretation of ratios can be made in the following ways.

- Single absolute ratio
- Group of ratios
- Historical comparison
- Projected ratios
- Inter-firm comparison

### **GUIDELINES OR PRECAUTIONS FOR USE OF RATIOS**

The calculation of ratios may not be a difficult task but their use is not easy. Following guidelines or factors may be kept in mind while interpreting various ratios are

- Accuracy of financial statements
- Objective or purpose of analysis
- Selection of ratios
- Use of standards
- Caliber of the analysis

## **IMPORTANCE OF RATIO ANALYSIS**

- Aid to measure general efficiency
- Aid to measure financial solvency
- Aid in forecasting and planning
- Facilitate decision making
- Aid in corrective action
- Aid in intra-firm comparison
- Act as a good communication
- Evaluation of efficiency
- Effective tool

## **LIMITATIONS OF RATIO ANALYSIS**

- Differences in definitions
- Limitations of accounting records
- Lack of proper standards
- No allowances for price level changes
- Changes in accounting procedures
- Quantitative factors are ignored
- Limited use of single ratio

- Background is over looked
- Limited use
- Personal bias

## **CLASSIFICATIONS OF RATIOS**

The use of ratio analysis is not confined to financial manager only. There are different parties interested in the ratio analysis for knowing the financial position of a firm for different purposes. Various accounting ratios can be classified as follows:

1. Traditional Classification
2. Functional Classification
3. Significance ratios

### **1. Traditional Classification**

It includes the following.

- Balance sheet (or) position statement ratio: They deal with the relationship between two balance sheet items, e.g. the ratio of current assets to current liabilities etc., both the items must, however, pertain to the same balance sheet.
- Profit & loss account (or) revenue statement ratios: These ratios deal with the relationship between two profit & loss account items, e.g. the ratio of gross profit to sales etc.,

- Composite (or) inter statement ratios: These ratios exhibit the relation between a profit & loss account or income statement item and a balance sheet items, e.g. stock turnover ratio, or the ratio of total assets to sales.

## **2. Functional Classification**

These include liquidity ratios, long term solvency and leverage ratios, activity ratios and profitability ratios.

## **3. Significance ratios**

Some ratios are important than others and the firm may classify them as primary and secondary ratios. The primary ratio is one, which is of the prime importance to a concern. The other ratios that support the primary ratio are called secondary ratios.

## **IN THE VIEW OF FUNCTIONAL CLASSIFICATION THE RATIOS ARE**

1. Liquidity ratio
2. Leverage ratio
3. Activity ratio
4. Profitability ratio



*Chapter – 5*

***DATA ANALYSIS***

## LIQUIDITY RATIO

### 1. CURRENT RATIO

(Amount in Rs.)

<b>Current Ratio</b>			
<i>Year</i>	<i>Current Assets</i>	<i>Current Liabilities</i>	<i>Ratio</i>
2003	58,574,151	7,903,952	7.41
2004	69,765,346	31,884,616	2.19
2005	72,021,081	16,065,621	4.48
2006	91,328,208	47,117,199	1.94
2007	115,642,068	30,266,661	3.82

### **Interpretation**

As a rule, the current ratio with 2:1 (or) more is considered as satisfactory position of the firm.

When compared with 2006, there is an increase in the provision for tax, because the debtors are raised and for that the provision is created. The current liabilities majorly included Lanco Group of company for consultancy additional services.

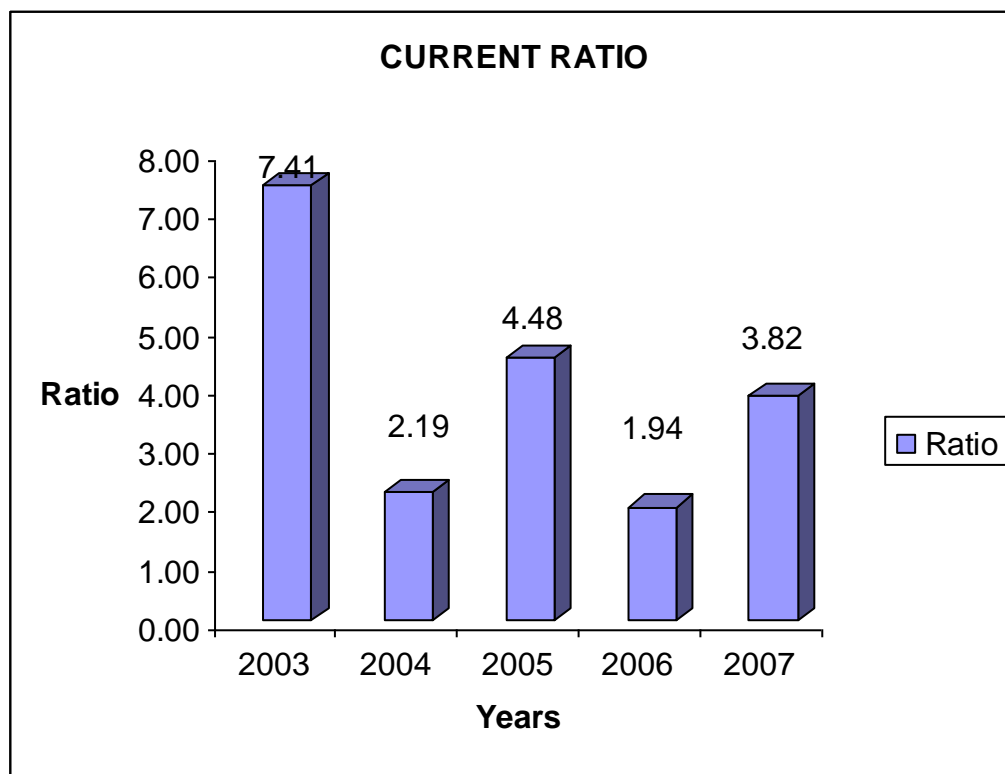
The sundry debtors have increased due to the increase to corporate taxes.

In the year 2006, the cash and bank balance is reduced because that is used for payment of dividends. In the year 2007, the loans and

advances include majorly the advances to employees and deposits to government. The loans and advances reduced because the employees set off their claims. The other current assets include the interest attained from the deposits. The deposits reduced due to the declaration of dividends. So the other current assets decreased.

The huge increase in sundry debtors resulted an increase in the ratio, which is above the benchmark level of 2:1 which shows the comfortable position of the firm.

## GRAPHICAL REPRESENTATION



## 2. QUICK RATIO

(Amount in Rs.)

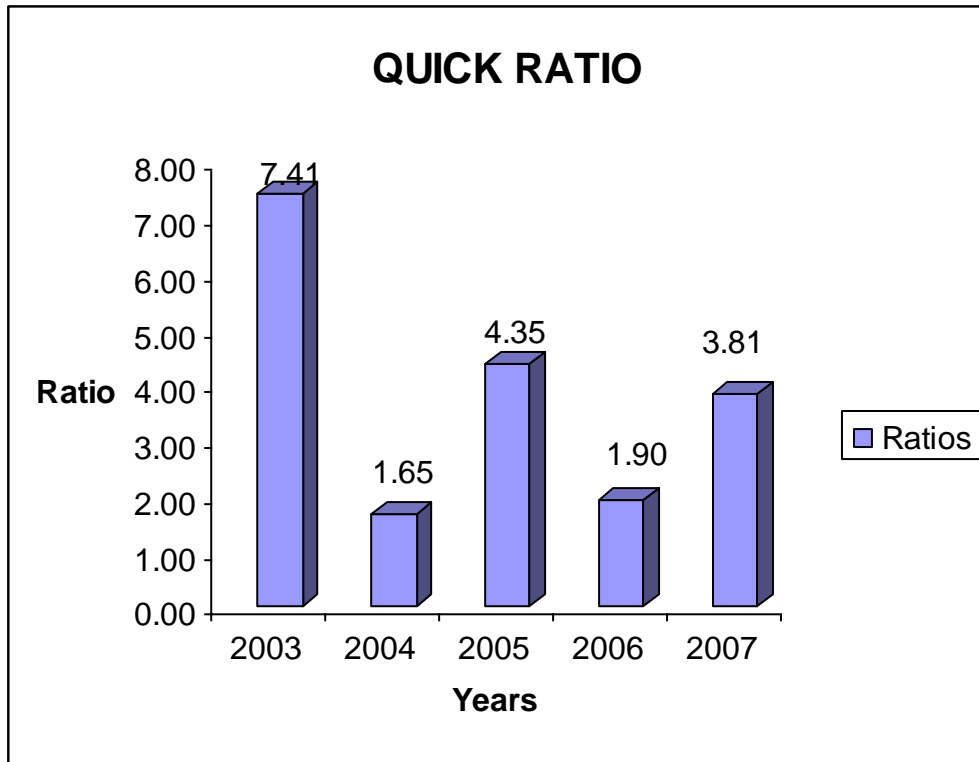
<b>Quick Ratio</b>			
<i>Year</i>	<i>Quick Assets</i>	<i>Current Liabilities</i>	<i>Ratio</i>
2003	58,574,151	7,903,952	7.41
2004	52,470,336	31,884,616	1.65
2005	69,883,268	16,065,620	4.35
2006	89,433,596	47,117,199	1.9
2007	115,431,868	30,266,661	3.81

### Interpretation

Quick assets are those assets which can be converted into cash within a short period of time, say to six months. So, here the sundry debtors which are with the long period does not include in the quick assets.

Compare with 2006, the Quick ratio is increased because the sundry debtors are increased due to the increase in the corporate tax and for that the provision created is also increased. So, the ratio is also increased with the 2006.

## GRAPHICAL REPRESENTATION



### 3. ABSOLUTE LIQUIDITY RATIO

(Amount in Rs.)

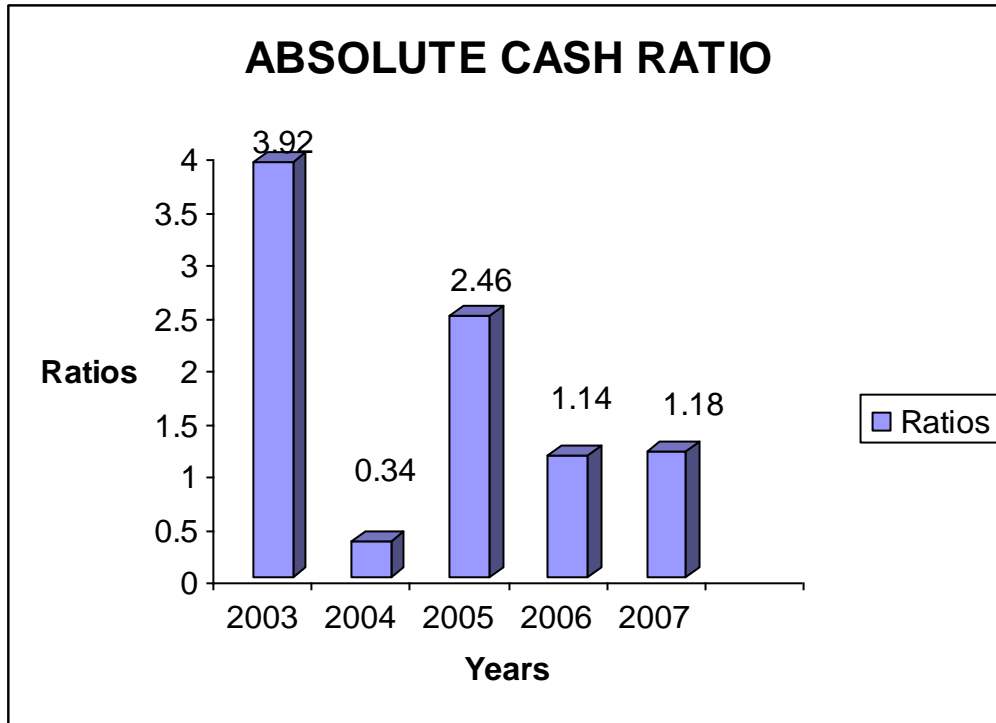
<b>Absolute Cash Ratio</b>			
<i>Year</i>	<i>Absolute Liquid Assets</i>	<i>Current Liabilities</i>	<i>Ratio</i>
<b>2003</b>	31,004,027	7,903,952	3.92
<b>2004</b>	10,859,778	31,884,616	0.34
<b>2005</b>	39,466,542	16,065,620	2.46
<b>2006</b>	53,850,852	47,117,199	1.14
<b>2007</b>	35,649,070	30,266,661	1.18

#### **Interpretation**

The current assets which are ready in the form of cash are considered as absolute liquid assets. Here, the cash and bank balance and the interest on fixed assets are absolute liquid assets.

In the year 2006, the cash and bank balance is decreased due to decrease in the deposits and the current liabilities are also reduced because of the payment of dividend. That causes a slight increase in the current year's ratio.

## GRAPHICAL REPRESENTATION



## LEVERAGE RATIOS

### 4. PROPRIETARY RATIO

(Amount in Rs.)

<b>Proprietary Ratio</b>			
<i>Year</i>	<i>Share Holders Funds</i>	<i>Total Assets</i>	<i>Ratio</i>
<b>2003</b>	67,679,219	78,572,171	0.86
<b>2004</b>	53,301,834	88,438,107	0.6
<b>2005</b>	70,231,061	89,158,391	0.79
<b>2006</b>	56,473,652	106,385,201	0.53
<b>2007</b>	97,060,013	129,805,102	0.75

#### **Interpretation**

The proprietary ratio establishes the relationship between shareholders funds to total assets. It determines the long-term solvency of the firm. This ratio indicates the extent to which the assets of the company can be lost without affecting the interest of the company.

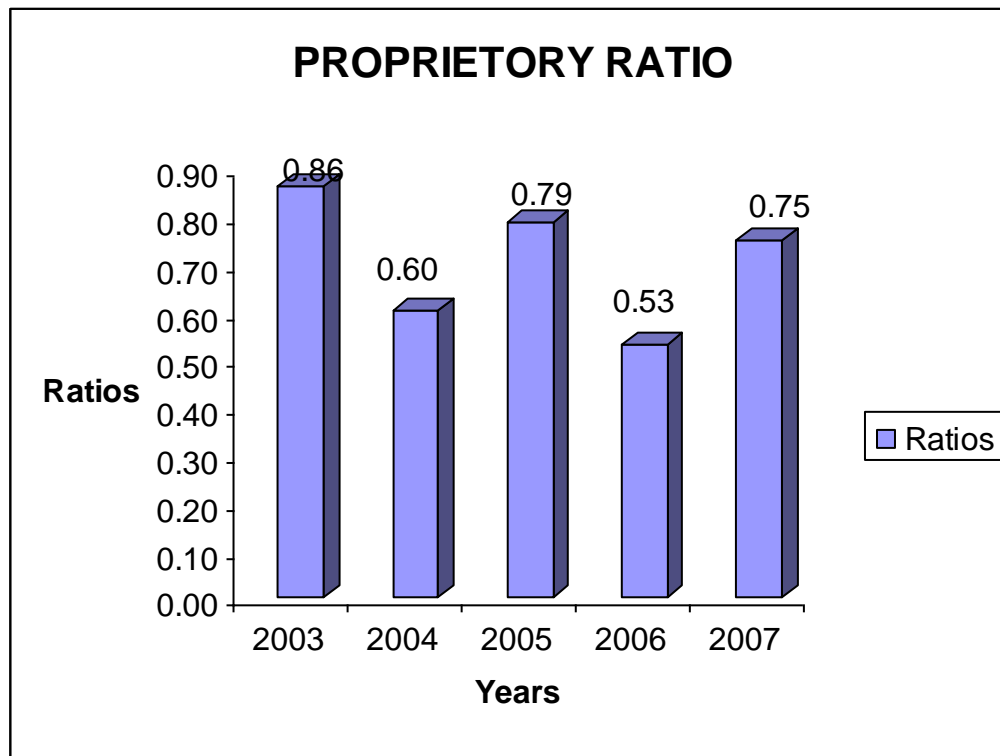
There is no increase in the capital from the year 2004. The share holder's funds include capital and reserves and surplus. The reserves and surplus is increased due to the increase in balance in profit and loss account, which is caused by the increase of income from services.

Total assets, includes fixed and current assets. The fixed assets are reduced because of the depreciation and there are no major increments in



the fixed assets. The current assets are increased compared with the year 2006. Total assets are also increased than precious year, which resulted an increase in the ratio than older.

## GRAPHICAL REPRESENTATION



## ACTIVITY RATIOS

### 5. WORKING CAPITAL TURNOVER RATIO

(Amount in Rs.)

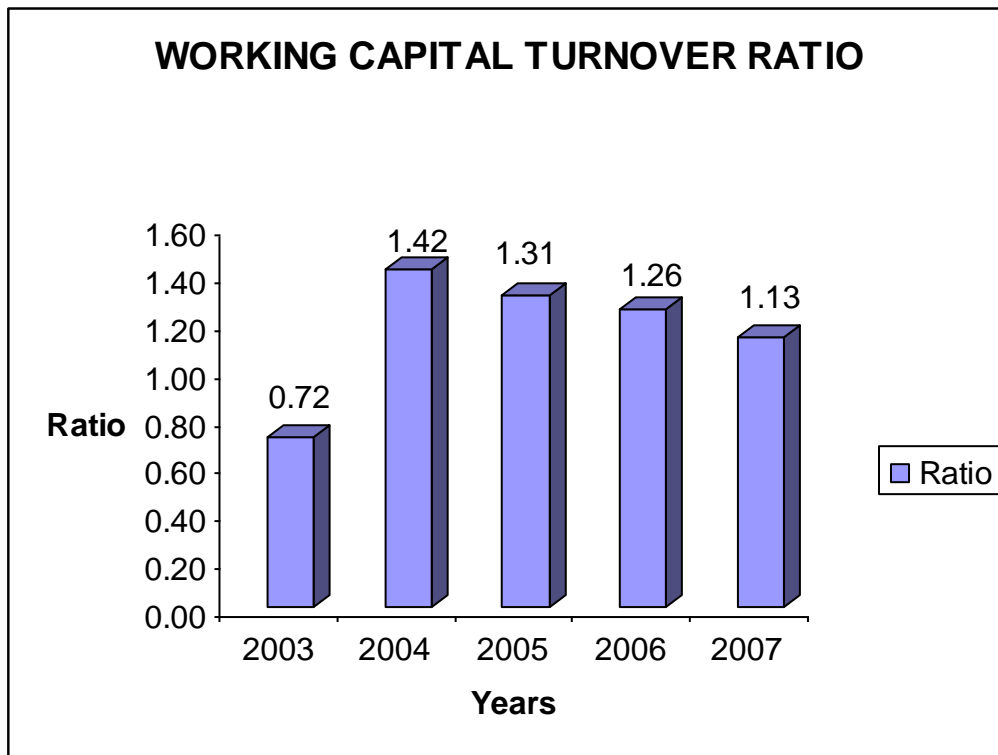
<b>Working Capital Turnover Ratio</b>			
<i>Year</i>	<i>Income From Services</i>	<i>Working Capital</i>	<i>Ratio</i>
2003	36,309,834	50,670,199	0.72
2004	53,899,084	37,880,730	1.42
2005	72,728,759	55,355,460	1.31
2006	55,550,649	44,211,009	1.26
2007	96,654,902	85,375,407	1.13

#### **Interpretation**

Income from services is greatly increased due to the extra invoice for Operations & Maintenance fee and the working capital is also increased greater due to the increase in from services because the huge increase in current assets.

The income from services is raised and the current assets are also raised together resulted in the decrease of the ratio of 2007 compared with 2006.

## GRAPHICAL REPRESENTATION



## 6. FIXED ASSETS TURNOVER RATIO

(Amount in Rs.)

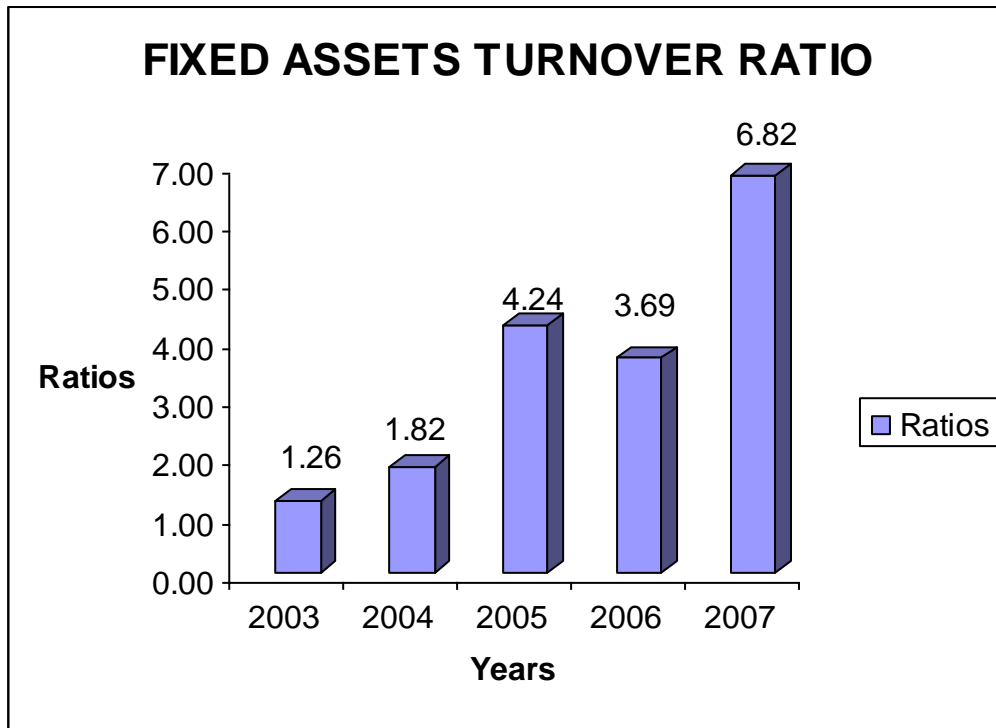
<b>Fixed Assets Turnover Ratio</b>			
<i>Year</i>	<i>Income From Services</i>	<i>Net Fixed Assets</i>	<i>Ratio</i>
2003	36,309,834	28,834,317	1.26
2004	53,899,084	29,568,279	1.82
2005	72,728,759	17,137,310	4.24
2006	55,550,649	15,056,993	3.69
2007	96,654,902	14,163,034	6.82

### Interpretation

Fixed assets are used in the business for producing the goods to be sold. This ratio shows the firm's ability in generating sales from all financial resources committed to total assets. The ratio indicates the account of one rupee investment in fixed assets.

The income from services is greaterly increased in the current year due to the increase in the Operations & Maintenance fee due to the increase in extra invoice and the net fixed assets are reduced because of the increased charge of depreciation. Finally, that effected a huge increase in the ratio compared with the previous year's ratio.

## GRAPHICAL REPRESENTATION



## 7. CAPITAL TURNOVER RATIO

(Amount in Rs.)

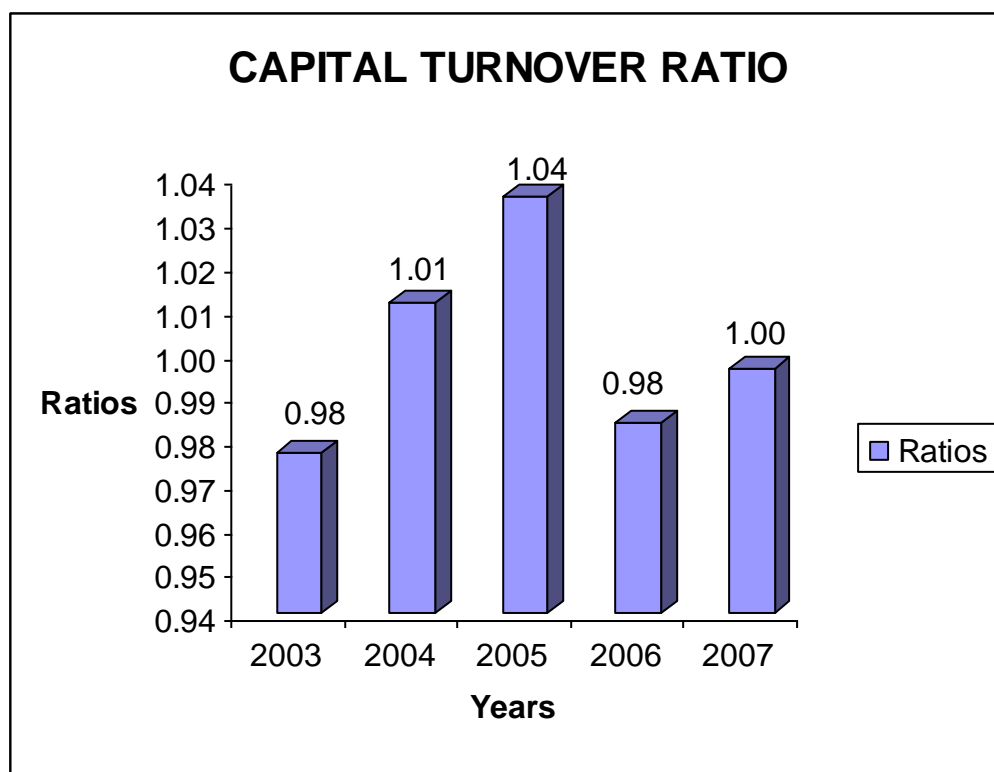
<b>Capital Turnover Ratio</b>			
<i>Year</i>	<i>Income From Services</i>	<i>Capital Employed</i>	<i>Ratio</i>
<b>2003</b>	36,309,834	37,175,892	0.98
<b>2004</b>	53,899,084	53,301,834	1.01
<b>2005</b>	72,728,759	70,231,061	1.04
<b>2006</b>	55,550,649	56,473,652	0.98
<b>2007</b>	96,654,902	97,060,013	1.00

### Interpretation

This is another ratio to judge the efficiency and effectiveness of the company like profitability ratio.

The income from services is greaterly increased compared with the previous year and the total capital employed includes capital and reserves & surplus. Due to huge increase in the net profit the capital employed is also increased along with income from services. Both are effected in the increment of the ratio of current year.

## GRAPHICAL REPRESENTATION



## 8. CURRENT ASSETS TO FIXED ASSETS RATIO

(Amount in Rs.)

<b>Current Assets To Fixed Assets Ratio</b>			
<i>Year</i>	<i>Current Assets</i>	<i>Fixed Assets</i>	<i>Ratio</i>
2003	58,524,151	19,998,020	2.93
2004	69,765,346	18,672,761	3.74
2005	72,021,081	17,137,310	4.20
2006	91,328,208	15,056,993	6.07
2007	115,642,068	14,163,034	8.17

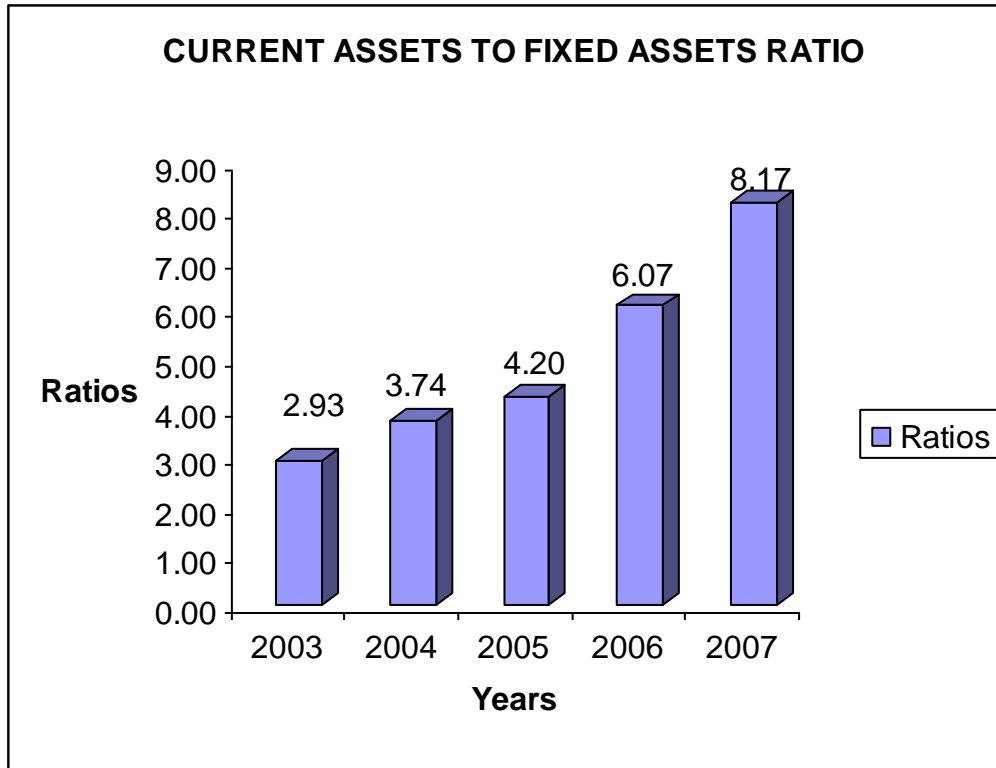
### Interpretation

Current assets are increased due to the increase in the sundry debtors and the net fixed assets of the firm are decreased due to the charge of depreciation and there is no major increment in the fixed assets.

The increment in current assets and the decrease in fixed assets resulted an increase in the ratio compared with the previous year



## GRAPHICAL REPRESENTATION



## PROFITABILITY RATIOS

### GENERAL PROFITABILITY RATIOS

#### 9. NET PROFIT RATIO

(Amount in Rs.)

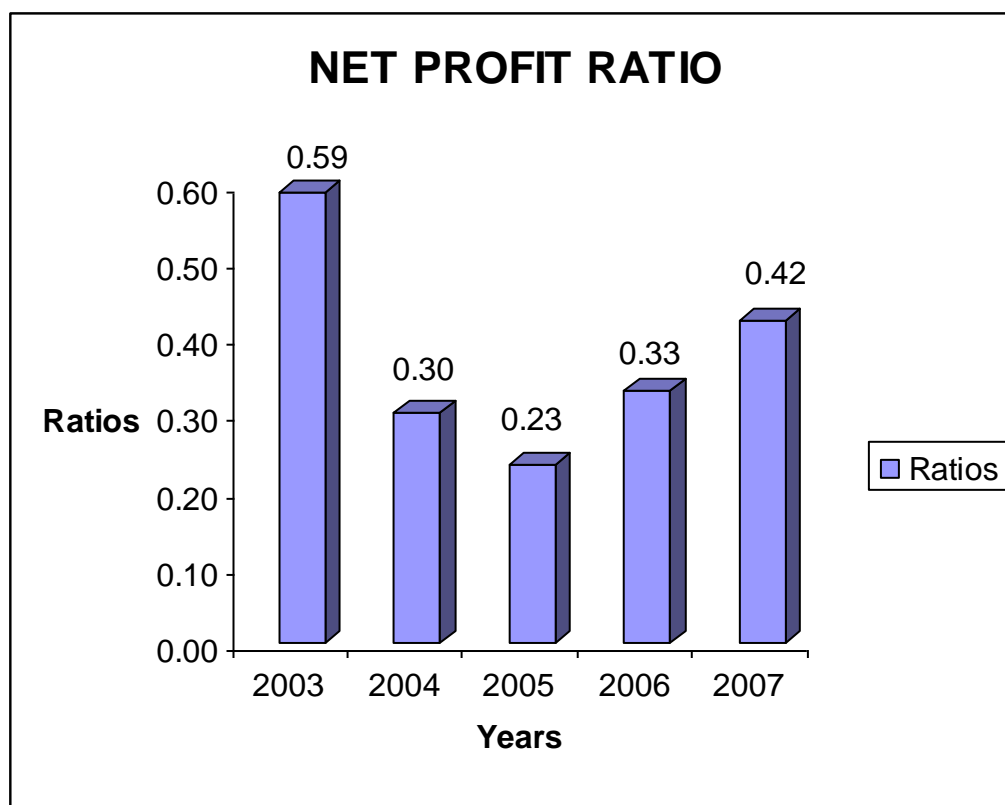
<b>Net Profit Ratio</b>			
<i>Year</i>	<i>Net Profit After Tax</i>	<i>Income from Services</i>	<i>Ratio</i>
2003	21,123,474	36,039,834	0.59
2004	16,125,942	53,899,084	0.30
2005	16,929,227	72,728,759	0.23
2006	18,259,580	55,550,649	0.33
2007	40,586,359	96,654,902	0.42

#### **Interpretation**

The net profit ratio is the overall measure of the firm's ability to turn each rupee of income from services in net profit. If the net margin is inadequate the firm will fail to achieve return on shareholder's funds. High net profit ratio will help the firm service in the fall of income from services, rise in cost of production or declining demand.

The net profit is increased because the income from services is increased. The increment resulted a slight increase in 2007 ratio compared with the year 2006.

## GRAPHICAL REPRESENTATION



## 10. OPERATING PROFIT

(Amount in Rs.)

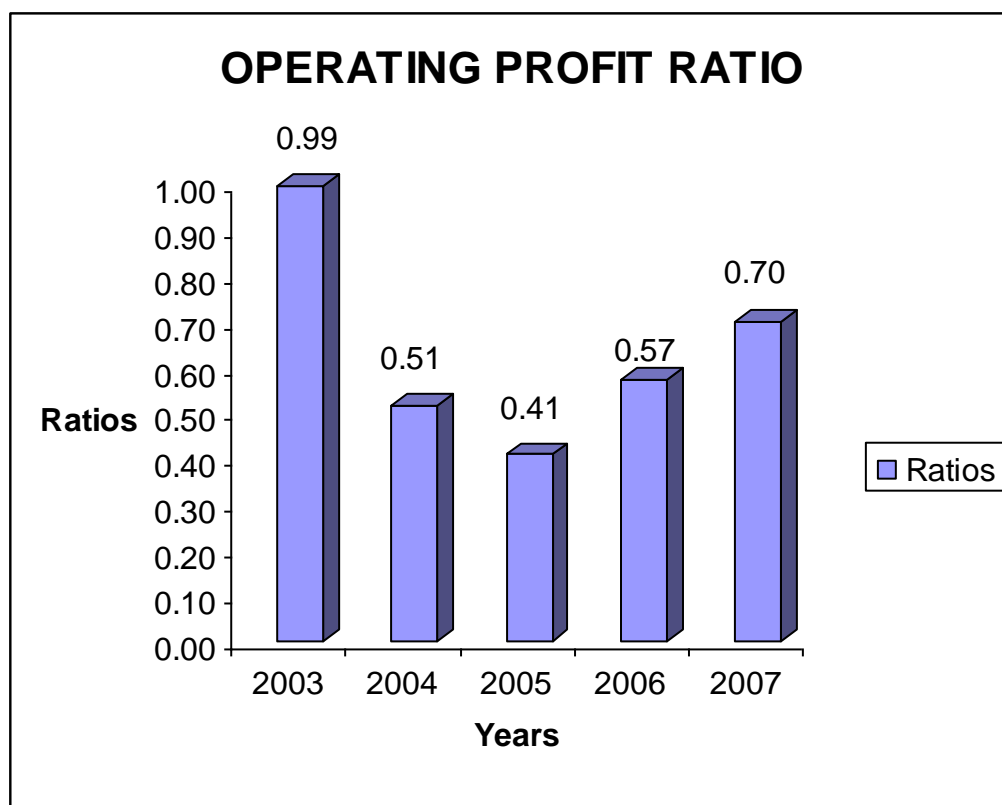
<b>Operating Profit</b>			
<i>Year</i>	<i>Operating Profit</i>	<i>Income From Services</i>	<i>Ratio</i>
2003	36,094,877	36,309,834	0.99
2004	27,576,814	53,899,084	0.51
2005	29,540,599	72,728,759	0.41
2006	31,586,718	55,550,649	0.57
2007	67,192,677	96,654,902	0.70

### Interpretation

The operating profit ratio is used to measure the relationship between net profits and sales of a firm. Depending on the concept, it will decide.

The operating profit ratio is increased compared with the last year. The earnings are increased due to the increase in the income from services because of Operations & Maintenance fee. So, the ratio is increased slightly compared with the previous year.

## GRAPHICAL REPRESENTATION



## 11. RETURN ON TOTAL ASSETS RATIO

(Amount in Rs.)

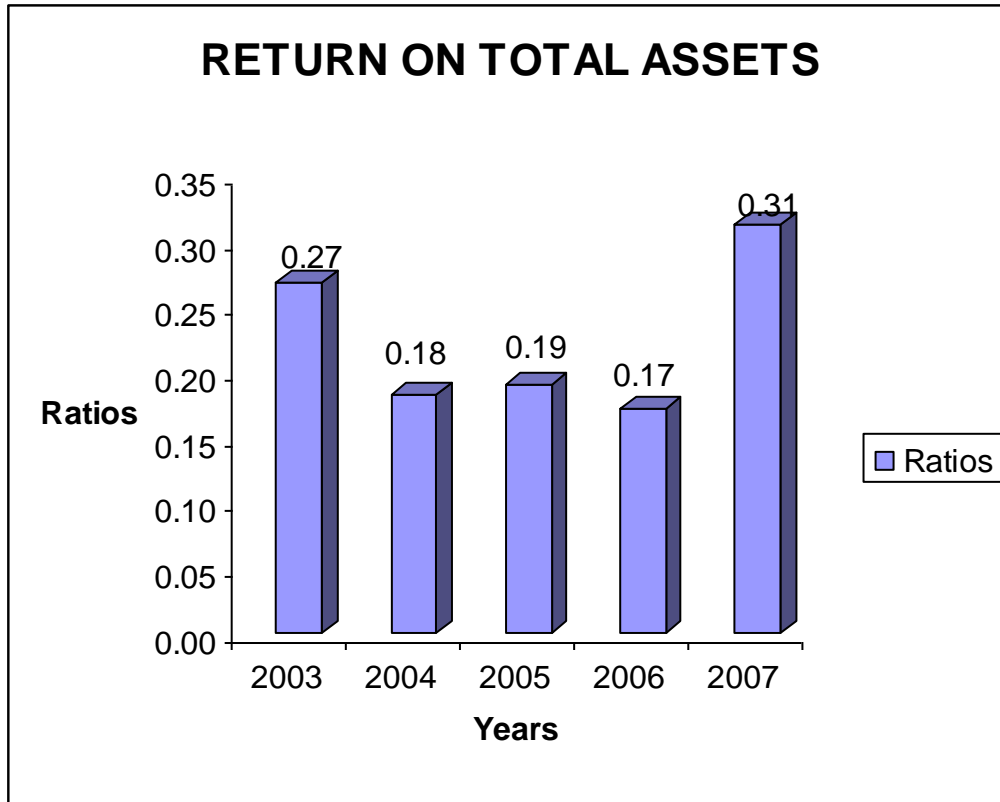
<b>Return on Total Assets Ratio</b>			
<i>Year</i>	<i>Net Profit After Tax</i>	<i>Total Assets</i>	<i>Ratio</i>
2003	21,123,474	78,572,171	0.27
2004	16,125,942	88,438,107	0.18
2005	16,929,227	89,158,391	0.19
2006	18,259,580	106,385,201	0.17
2007	40,586,359	129,805,102	0.31

### Interpretation

This is the ratio between net profit and total assets. The ratio indicates the return on total assets in the form of profits.

The net profit is increased in the current year because of the increment in the income from services due to the increase in Operations & Maintenance fee. The fixed assets are reduced due to the charge of depreciation and no major increments in fixed assets but the current assets are increased because of sundry debtors and that effects an increase in the ratio compared with the last year i.e. 2006.

## GRAPHICAL REPRESENTATION



## 12. RESERVES & SURPLUS TO CAPITAL RATIO

(Amount in Rs.)

<b>Reserves &amp; Surplus To Capital Ratio</b>			
<b>Year</b>	<b>Reserves &amp; Surplus</b>	<b>Capital</b>	<b>Ratio</b>
<b>2003</b>	65,599,299	2,079,920	31.54
<b>2004</b>	34,582,554	18,719,280	1.85
<b>2005</b>	51,511,781	18,719,280	2.75
<b>2006</b>	37,754,372	18,719,280	2.02
<b>2007</b>	78,340,733	18,719,280	4.19

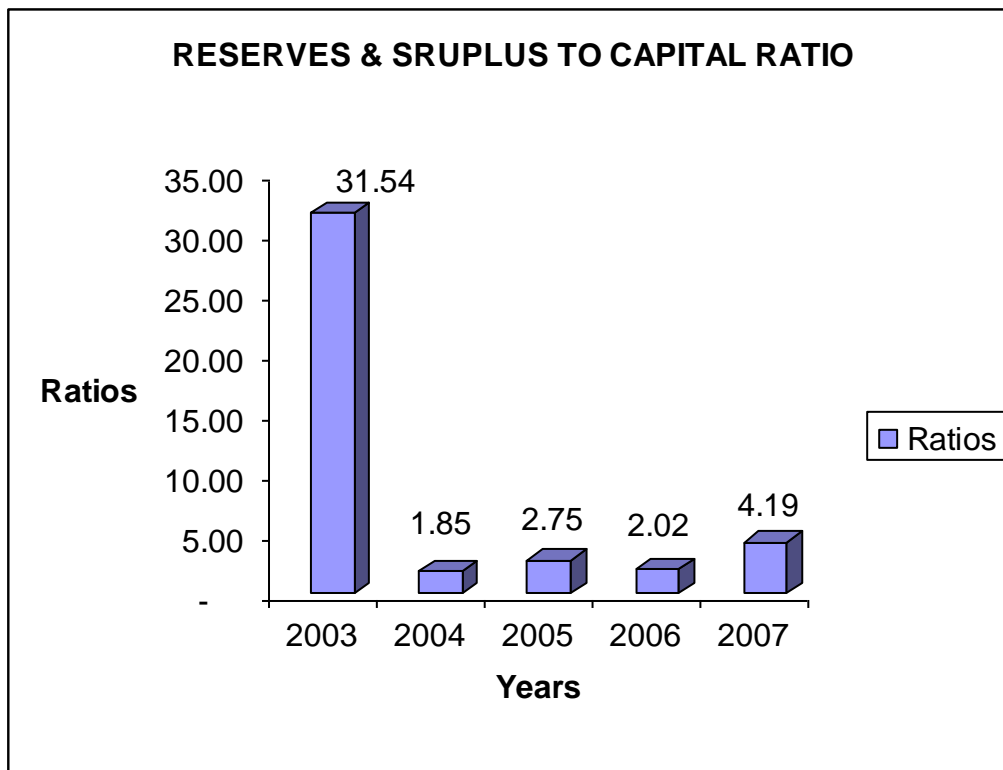
### Interpretation

The ratio is used to reveal the policy pursued by the company a very high ratio indicates a conservative dividend policy and vice-versa. Higher the ratio better will be the position.

The reserves & surplus is decreased in the year 2006, due to the payment of dividends and in the year 2007 the profit is increased. But the capital is remaining constant from the year 2004. So the increase in the reserves & surplus caused a greater increase in the current year's ratio compared with the older.



## GRAPHICAL REPRESENTATION



## OVERALL PROFITABILITY RATIOS

### 13. EARNINGS PER SHARE

(Amount in Rs.)

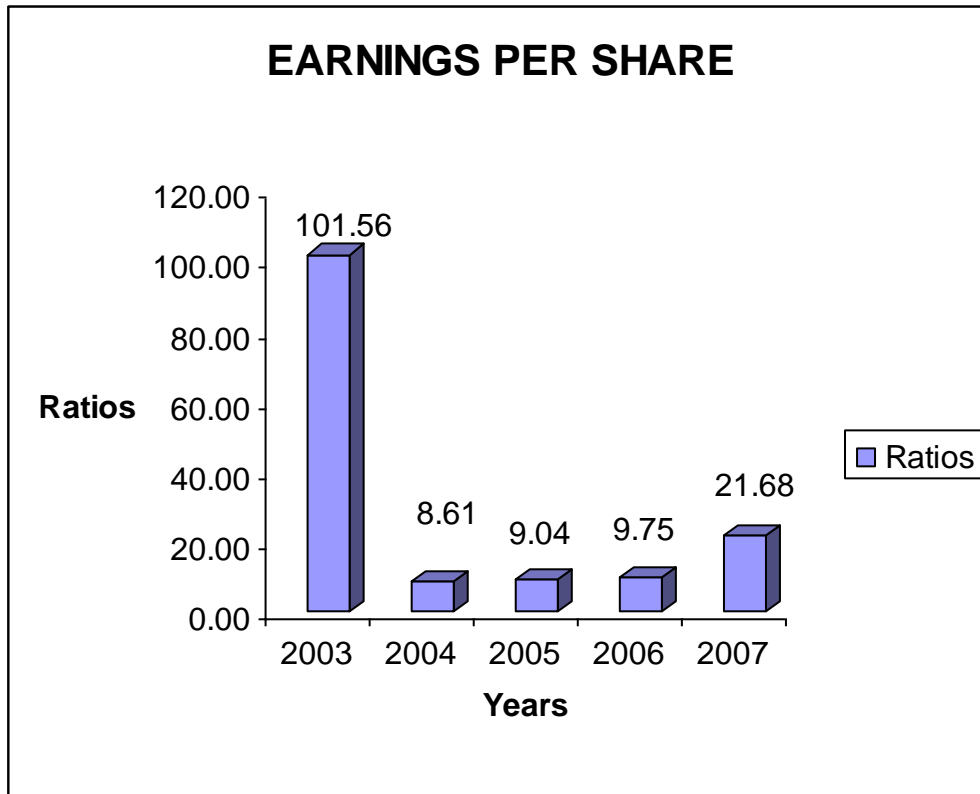
<b>Earnings Per Share</b>			
<i>Year</i>	<i>Net Profit After Tax</i>	<i>No of Equity Shares</i>	<i>Ratio</i>
2003	21,123,474	207,992	101.56
2004	16,125,942	1,871,928	8.61
2005	16,929,227	1,871,928	9.04
2006	18,259,580	1,871,928	9.75
2007	40,586,359	1,871,928	21.68

#### **Interpretation**

Earnings per share ratio are used to find out the return that the shareholder's earn from their shares. After charging depreciation and after payment of tax, the remaining amount will be distributed by all the shareholders.

Net profit after tax is increased due to the huge increase in the income from services. That is the amount which is available to the shareholders to take. There are 1,871,928 shares of Rs.10/- each. The share capital is constant from the year 2004. Due to the huge increase in net profit the earnings per share is greaterly increased in 2007.

## GRAPHICAL REPRESENTATION



## 14. PRICE EARNINGS (P/E) RATIO

(Amount in Rs.)

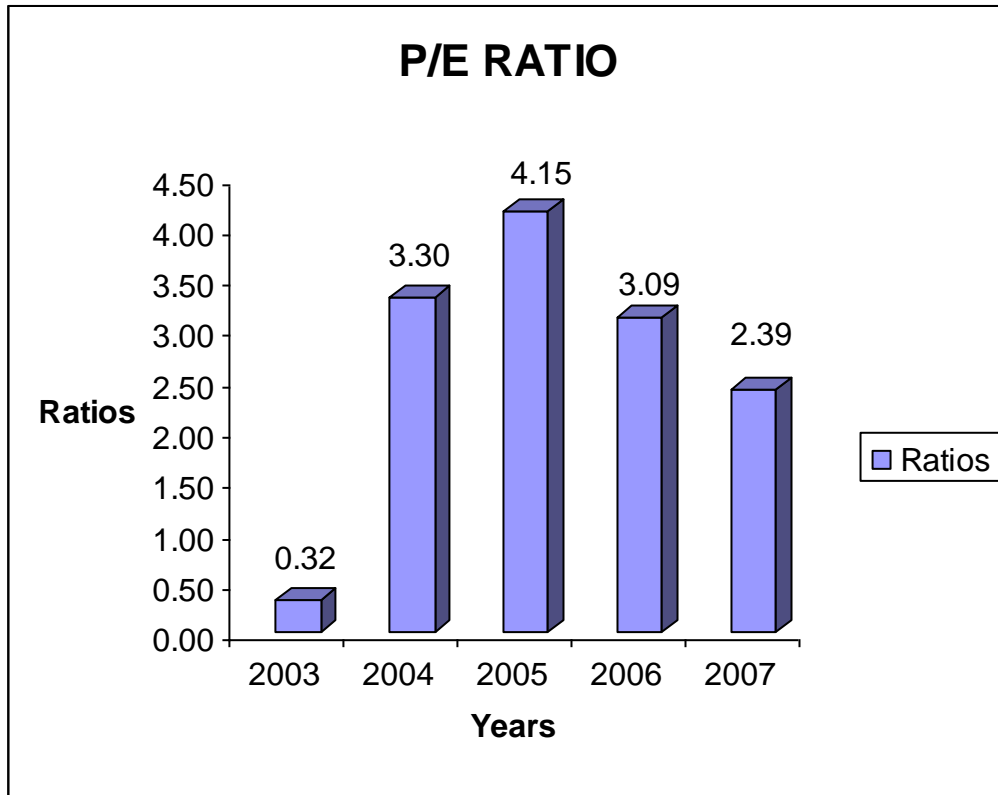
<b>Price Earning (P/E) Ratio</b>			
<i>Year</i>	<i>Market Price Per Share</i>	<i>Earnings Per Share</i>	<i>Ratio</i>
2003	32.54	101.56	0.32
2004	28.47	8.61	3.30
2005	37.52	9.04	4.15
2006	30.17	9.75	3.09
2007	51.85	21.68	2.39

### Interpretation

The ratio is calculated to make an estimate of application in the value of share of a company.

The market price per share is increased due to the increase in the reserves & surplus. The earnings per share are also increased greaterly compared with the last year because of increase in the net profit. So, the ratio is decreased compared with the previous year.

## GRAPHICAL REPRESENTATION



## 15. RETURN ON INVESTMENT

(Amount in Rs.)

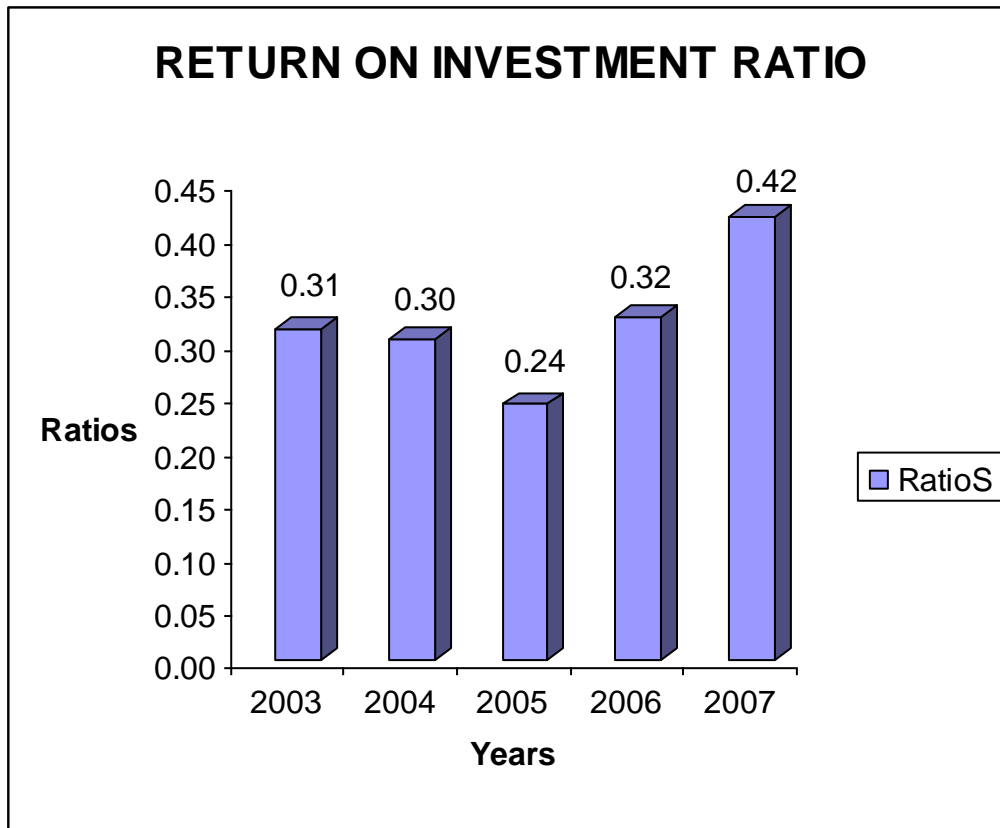
<b>Return on Investment</b>			
<i>Year</i>	<i>Net Profit After Tax</i>	<i>Share Holders Fund</i>	<i>Ratio</i>
<b>2003</b>	21,123,474	67,679,219	0.31
<b>2004</b>	16,125,942	53,301,834	0.3
<b>2005</b>	16,929,227	70,231,061	0.24
<b>2006</b>	18,259,580	56,473,652	0.32
<b>2007</b>	40,586,359	97,060,013	0.42

### Interpretation

This is the ratio between net profits and shareholders funds. The ratio is generally calculated as percentage multiplying with 100.

The net profit is increased due to the increase in the income from services and the shareholders funds are increased because of reserve & surplus. So, the ratio is increased in the current year.

## GRAPHICAL REPRESENTATION



*Chapter – 7*

***FINDINGS, SUMARRY & CONCLUSION***



## **FINDINGS OF THE STUDY**

1. The current ratio has shown in a fluctuating trend as 7.41, 2.19, 4.48, 1.98, and 3.82 during 2003 of which indicates a continuous increase in both current assets and current liabilities.
2. The quick ratio is also in a fluctuating trend through out the period 2003 – 07 resulting as 7.41, 1.65, 4.35, 1.9, and 3.81. The company's present liquidity position is satisfactory.
3. The absolute liquid ratio has been decreased from 3.92 to 1.18, from 2003 – 07.
4. The proprietary ratio has shown a fluctuating trend. The proprietary ratio is increased compared with the last year. So, the long term solvency of the firm is increased.
5. The working capital increased from 0.72 to 1.13 in the year 2003 – 07.
6. The fixed assets turnover ratio is in increasing trend from the year 2003 – 07 (1.26, 1.82, 4.24, 3.69, and 6.82). It indicates that the company is efficiently utilizing the fixed assets.
7. The capital turnover ratio is increased form 2003 – 05 (0.98, 1.01, and 1.04) and decreased in 2006 to 0.98. It increased in the current year as 1.00.
8. The current assets to fixed assets ratio is increasing gradually from 2003 – 07 as 2.93, 3.74, 4.20, 6.07 and 8.17. It shows that the current assets are increased than fixed assets.

9. The net profit ratio is in fluctuation manner. It increased in the current year compared with the previous year from 0.33 to 0.42.
10. The net profit is increased greaterly in the current year. So the return on total assets ratio is increased from 0.17 to 0.31.
11. The Reserves and Surplus to Capital ratio is increased to 4.19 from 2.02. The capital is constant, but the reserves and surplus is increased in the current year.
12. The earnings per share was very high in the year 2003 i.e., 101.56. That is decreased in the following years because number of equity shares are increased and the net profit is decreased. In the current year the net profit is increased due to the increase in operating and maintenance fee. So the earnings per share is increased.
13. The operating profit ratio is in fluctuating manner as 0.99, 0.51, 0.41, 0.57 and 0.69 from 2003 – 07 respectively.
14. Price Earnings ratio is reduced when compared with the last year. It is reduced from 3.09 to 2.39, because the earnings per share is increased.
15. The return on investment is increased from 0.32 to 0.42 compared with the previous year. Both the profit and shareholders funds increase cause an increase in the ratio.

## **SUMMARY**

- 1) After the analysis of Financial Statements, the company status is better, because the Net working capital of the company is doubled from the last year's position.
- 2) The company profits are huge in the current year; it is better to declare the dividend to shareholders.
- 3) The company is utilising the fixed assets, which majorly help to the growth of the organisation. The company should maintain that perfectly.
- 4) The company fixed deposits are raised from the inception, it gives the other income i.e., Interest on fixed deposits.

## **CONCLUSION**

The company's overall position is at a good position. Particularly the current year's position is well due to raise in the profit level from the last year position. It is better for the organization to diversify the funds to different sectors in the present market scenario.

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- [www.ercap.org](http://www.ercap.org)
- [www.wikipedia.com](http://www.wikipedia.com)
- [www.nwda.gov.in](http://www.nwda.gov.in)

## APPENDIX

### Balance sheet as on 31<sup>st</sup> March 2007

(Amount in Rs.)

Particulars	2006 - 07	2005 - 06
<b>SOURCES OF FUNDS :</b>		
<b>1) SHAREHOLDERS' FUNDS</b>		
(a) Capital	18,719,280	18,719,280
(b) Reserves and Surplus	78,340,733	37,754,372
	97,060,013	56,473,652
<b>2) DEFERRED TAX LIABILITY</b>	2,478,428	2,794,350
<b>TOTAL</b>	99,538,441	59,268,002
<b>APPLICATION OF FUNDS :</b>		
<b>1) FIXED ASSETS</b>		
(a) Gross Block	31,057,596	29,767,979
(b) Less: Depreciation	16,894,562	14,710,986
(c) Net Block	14,163,034	15,056,993
<b>2) CURRENT ASSETS, LOANS AND ADVANCES</b>		
(a) Sundry Debtors	80,712,804	37,856,420
(b) Cash and Bank Balances	34,043,520	51,690,326
(c) Other Current Assets	152,228	857,753
(d) Loans and Advances	733,516	923,709
	115,642,068	91,328,208
<b>LESS : CURRENT LIABILITIES AND PROVISIONS</b>		
(a) Liabilities	21,596,916	38,591,265
(b) Provisions	8,669,745	8,525,934
	30,266,661	47,117,199
<b>NET CURRENT ASSETS</b>	85,375,407	44,211,009
<b>TOTAL</b>	99,538,441	59,268,002

## Profit and Loss Account for the period ended on 31<sup>st</sup> March 2007

(Amount in Rs.)

Particulars	2006 - 07	2005 - 06
<b>I. INCOME</b>		
Income from Services	96,654,902	55,550,649
Other Income	2,398,220	2,285,896
<b>TOTAL</b>	99,053,122	57,836,545
<b>II. EXPENDITURE</b>		
Administrative and Other Expenses	81,334,750	75,599,719
	81,334,750	75,599,719
Less: Expenditure Reimbursable under Operations and Maintenance Agreement	49,474,305	49,349,892
<b>TOTAL</b>	31,860,445	26,249,827
<b>III. PROFIT BEFORE DEPRECIATION AND TAXATION</b>	67,192,677	31,586,718
Provision for Depreciation	2,183,576	2,279,917
<b>IV. PROFIT BEFORE TAXATION</b>	65,009,101	29,306,801
Provision for Taxation		
- Current	24,292,000	10,680,440
- Deferred	(315,922)	(67,359)
- Fringe Benefits	446,663	434,140
<b>V. PROFIT AFTER TAXATION</b>	40,586,359	18,259,580
Surplus brought forward from Previous Year	26,699,257	44,951,851
<b>VI. PROFIT AVAILABLE FOR APPROPRIATIONS</b>	67,285,617	63,211,431
Transfer to General Reserve	-	4,495,185
Interim Dividend Rs.15 per equity Share (2005- NIL)	-	28,078,920
Provision for Dividend Distribution Tax	-	3,938,069
<b>VII. BALANCE CARRIED TO BALANCE SHEET</b>	67,285,617	26,699,257

Earnings Per Share - Basic & Diluted

22

10