A

PROJECT REPORT

ON

"RATIO ANALYSIS"

AT

INDIAN RAYON

(A UNIT OF ADITYA BIRLA NUVO LTD)

VERAVAL (GUJARAT)

SUBMITTED TO TILAK MAHARASHTRA UNIVERSITY

IN PARTIAL FULFILLMENT OF 2 YEARS FULL TIME COURSE

MASTER OF BUSINESS ADMINISTRATION

(MBA)

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(Batch 2008-10)

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MAHARASHTRA COSMOPOLITAN EDUCATION SOCIETY'S

PAI INTERNATIONAL CENTRE FOR MANAGEMENT

EXCELLENCE

CAMP- PUNE-411001

CERTIFICATE

This is certify that KAAT RAFIK OSMAN BHAI student of PAI international centre for management excellence, Maharashtra Cosmopolitan Education society, Pune has completed his field work report on the topic of RATIO ANALYSIS AT INDIAN RAYON (A UNIT OF ADITYABIRLA NUVO LTD) VERAVAL(GUJARAT) and has submitted the field work report in partial fulfillment of MBA of the college for the academic year 2008-2010.

He has worked under our guidance and direction. The said report is based on bonafide information.

Project guide name	Prof. R Ganesan
Designation	Director

PAI INTERNATIONAL CENTRE

FOR

MANAGEMENT EXCELLENCE

Maharashtra Cosmopolitan Education Society

DECLARATION

I hereby declare that project titled "**RATIO ANALYSIS**" is an original piece of research work carried out by me under the guidance and supervision of prof. R Ganesan. The information has been collected from genuine &authentic sources. The work has been submitted in partial fulfillment of the requirement of MBA to our college.

Place: Signature:

Date: Name of the students:

ACKNOWLEDGEMENT

"Perseverance inspiration and motivation have always played a key role in success of any venture". I hereby express my deep sense of gratitude to all the personalities involved directly and indirectly in my project work.

I would thank to God for their blessing and my parents also for their valuable suggestion and support in my project report.

With immense pleasure, I would like to express my thanks to Miss. SHRADHA MEHTA (HR Department), **project guide** for having given me this privilege of working under him and completing this study.

I would also like to thank UDAY SIR (Share Department) who has helped me during this project directly or indirectly.

Last but not the least; I would like to express my sincere gratitude to Somiya madam and other faculty members who have taught me in my entire MBA curriculum and our Director Prof.R.GANESAN who has always been a source of guidance, inspiration and motivation. However, I accept the sole responsibility for any possible errors of omission and would be extremely grateful to the readers of this project report if they bring such mistakes to my notice.

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INTRODUCTION

INTRODUCTION

- After preparation of the financial statements, one may be interested in knowing the position of an enterprise from different points of view. This can be done by analyzing the financial statement with the help of different tools of analysis such as ratio analysis, funds flow analysis, cash flow analysis, comparative statement analysis, etc. Here I have done financial analysis by ratios. In this process, a meaningful relationship is established between two or more accounting figures for comparison.

- Financial ratios are widely used for modeling purposes both by practitioners and researchers. The firm involves many interested parties, like the owners, management, personnel, customers, suppliers, competitors, regulatory agencies, and academics, each having their views in applying financial statement analysis in their evaluations. Practitioners use financial ratios, for instance, to forecast the future success of companies, while the researchers' main interest has been to develop models exploiting these ratios. Many distinct areas of research involving financial ratios can be discerned. Historically one can observe several major themes in the financial analysis literature. There is overlapping in the observable themes, and they do not necessarily coincide with what theoretically might be the best founded areas.

- Financial statements are those statements which provide information about profitability and financial position of a business. It includes two statements, i.e., profit & loss a/c or income statement and balance sheet or position statement.

- The income statement presents the summary of the income earned and the expenses incurred during a financial year. Position statement presents the financial position of the business at the end of the year.

- Before understanding the meaning of analysis of financial statements, it is necessary to understand the meaning of ‘analysis’ and ‘financial statements’.

- ❖ Analysis means establishing a meaningful relationship between various items of the two financial statements with each other in such a way that a conclusion is drawn. By financial statements, we mean two statements- (1) profit & loss a/c (2) balance sheet. These are prepared at the end of a given period of time. They are indicators of profitability and financial soundness of the business concern.

- ❖ Thus, analysis of financial statements means establishing meaningful relationship between various items of the two financial statements, i.e., income statement and position statement

- ❖ **Parties interested in analysis of financial statements**

Analysis of financial statement has become very significant due to widespread interest of various parties in the financial result of a business unit. The various persons interested in the analysis of financial statements are:-

- ➢ **Short- term creditors**

They are interested in knowing whether the amounts owing to them will be paid as and when fall due for payment or not.

- ➢ **Long –term creditors**

They are interested in knowing whether the principal amount and interest thereon will be paid on time or not.

- ➢ **Shareholders**

They are interested in profitability, return and capital appreciation.

- ➢ **Management**

The management is interested in the financial position and performance of the enterprise as a whole and of its various divisions.

- ➢ **Trade unions**

They are interested in financial statements for negotiating the wages or salaries or bonus agreement with management.

- **Taxation authorities**

These authorities are interested in financial statements for determining the tax liability.

- **Researchers**

They are interested in the financial statements in undertaking research in business affairs and practices.

- **Employees**

They are interested as it enables them to justify their demands for bonus and increase in remuneration.

You have seen that different parties are interested in the results reported in the financial statements. These results are reported by analyzing financial statements through the use of ratio analysis.

COMPANY PROFILE

➢ COMPANY PROFILE

❖ ADITYA BIRLA GROUP- An overview

Type	Private Conglomerate/Listed Companies.
Founded	1960s
Headquarters	Mumbai, India
Key people	Kumar Mangalam Birla (Chairman)
Industry	Metals and several others.
Products	Aluminium, Copper, Cement, Fertilizer, Textile, Fibre, etc.
Revenue	▲ $24 billion
Employees	100,000+
Subsidiaries	Several.
Website	http://www.adityabirla.com/

- The Aditya Birla group is one of the India's largest business houses, operating in 15 countries. it has 16 manufacturing unit in India as well as overseas (Thailand, Indonesia, Malaysia, Philippians, Egypt, and Canada) and international trading operation spanning Singapore, ,united kingdom, united states, south Africa ,Tanzania ,Myanmar ,and Russia.

- With all united accredited with ISO 9002 certificate and nine of them ISO 14001 certified, the group is committed to being a global benchmark group.

- The group reaches out to the core sector in India like cement, textile, aluminum, fertilizer, power, telecommunication, industrial chemical, insulators and financial services.

- The Aditya Birla group is a dominant player in all its areas of operation:

- A world leader in viscose staple fiber(VSF)
- A non-ferrous metals power house:

  (I) one of the asias largest integrated aluminum procedure, and among the most cost-efficient.

  (ii) Fastest growing copper company in Asia
- World's largest single location producer of palm oil
- Third largest producer of insulators
- Fourth largest producer of carbon black in world
- Among the ten largest producer of cement
- The second largest producer of viscose filament yarn(VFY) in India
- The second largest producer of carbon black in India
- Life insurance joint venture, Birla sun life insurance company ltd, is India's second largest private sector insurance company.
- Insulators joint venture with bila NGK insulators pvt.ltd is India's largest and world's third largest producer of insulators.
- Emerging player in high growth IT services and BPO secto**r.**

Group companies

- Grasim Industries Ltd.
- Hindalco Industries Ltd.
- Aditya Birla Nuvo Ltd.
- UltraTech Cement Ltd.

Indian companies

- PSI Data Systems
- Aditya Birla Minacs Worldwide Limited
- Essel Mining & Industries Ltd
- Idea Cellular Ltd.
- Aditya Birla Insulators
- Aditya Birla Retail Limited
- Aditya Birla Chemicals (India) Limited

International companies

Thailand

- Thai Rayon
- Indo Thai Synthetics
- Thai Acrylic Fibre
- Thai Carbon Black
- Aditya Birla Chemicals (Thailand) Ltd.
- Thai Peroxide

- **Philippines**

:: Indo Phil Group of companies

:: Pan Century Surfactants Inc.

- **Indonesia**

:: PT Indo Bharat Rayon

:: PT Elegant Textile Industry

:: PT Sunrise Bumi Textiles

:: PT Indo Liberty Textiles

:: PT Indo Raya Kimia

- **Egypt**

:: Alexandria Carbon Black Company S.A.E

:: Alexandria Fiber Company S.A.E

- **China**

:: Liaoning Birla Carbon

:: Birla Jingwei Fibres Company Limited

:: Aditya Birla Grasun Chemicals (Fangchenggang) Ltd.

- **Canada**

:: A.V. Group

- **Australia**

:: Aditya Birla Minerals Ltd.

- **Laos**

:: Birla Laos Pulp & Plantations Company Limited

- **North and South America, Europe and Asia**

:: Novelis Inc.

- **Singapore**

:: Swiss Singapore Overseas Enterprises Pte Ltd. (SSOE)

➢ Joint ventures

:: Birla Sun Life Insurance Company

:: Birla Sun Life Asset Management Company

:: Birla Sun Life Distribution Company Limited

:: Tanfac Industries Limited

❖ ADITYA BIRLA NUVO LTD- An overview

- Aditya Birla Nuvo Ltd, a diverse conglomerate with a dozen businesses in its fold, is part of the US $29.2 billion Aditya Birla Group. Be it revenue, profitability, market capitalisation or corporate social responsibility, the Aditya Birla Group has a strong corporate track record of success, enterprise, values and sustainability practices. The Group is in the league of Fortune 500 and is all poised to ride on the global surge of newer business opportunities through acquisitions and expansions.
- Aditya Birla Nuvo, propelled by an intellectual capital of over 37,000 people, provides dynamic career opportunities in a growth-oriented environment through continuous learning and cross-functional exposure in various streams. The company has an interesting mix of businesses under its fold ranging from textiles, carbon black, and insulators to IT, BPO, telecom, retail, asset management and financial services.

- **Our Vision**

To be a premium global conglomerate with a clear focus on each business.

- **Our Mission**

To deliver superior value to our customers, shareholders, employees and society at large

- **Our Values**

- Integrity
- Commitment
- Passion
- Seamlessness
- Speed

❖ More information on Aditya Birla Nuvo's businesses and brands:

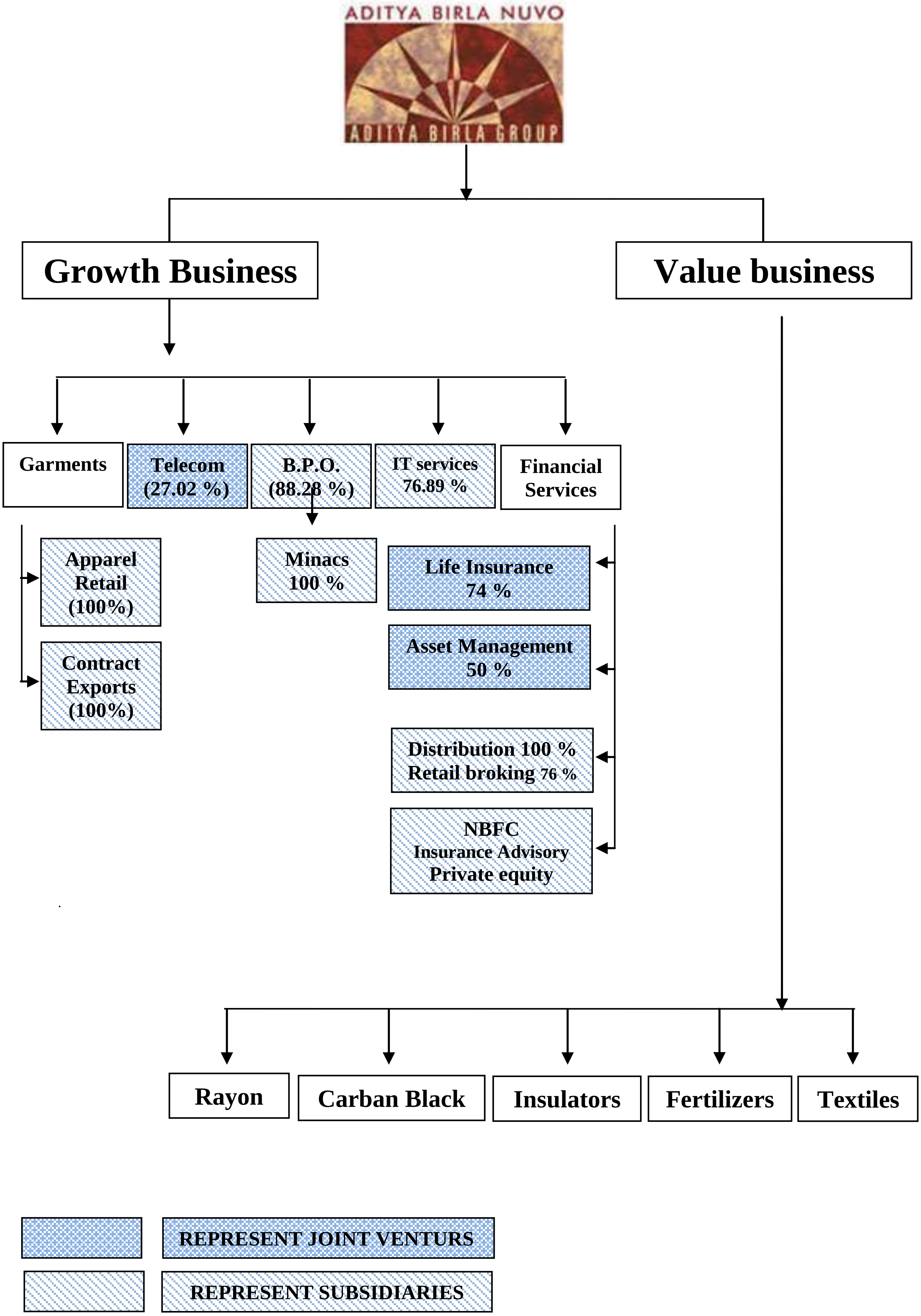
- Viscose Filament Yarn — Indian Rayon
- Garments — Madura Garments
- Carbon Black — Hi-Tech Carbon
- Agri solutions — Indo Gulf Fertilizers
- Textiles — Jaya Shree Textiles
- Insulators — Aditya Birla Insulators

❖ Subsidiaries

- Life Insurance — Birla Sun Life Insurance Company Limited (JV with Sun Life Financial Inc of Canada)
- Business Process Outsourcing — Aditya Birla Minacs Worldwide Limited
- Software services — PSI Data Systems Limited
- Financial services — Birla Global Finance Company Limited, Birla Insurance Advisory and Broking Services Limited, Birla Sun Life Distribution Company Limited, Apollo Sindhoori Capital Investments Limited, Aditya Birla Capital Advisors Private Limited
- Garments — Madura Garments Lifestyle Retail Company Limited, Peter England Fashions and Retail Limited

❖ Joint ventures

- Telecom — Idea Cellular Limited
- Asset management — Birla Sun Life Asset Management Company Limited


ADITYA BIRLA NUVO
ADITYA BIRLA GROUP
Growth Business
Value business
Garments
Telecom (27.02 %)
B.P.O. (88.28 %)
IT services 76.89 %
Financial Services
Apparel Retail (100%)
Contract Exports (100%)
Minacs 100 %
Life Insurance 74 %
Asset Management 50 %
Distribution 100 %
Retail broking 76 %
NBFC
Insurance Advisory
Private equity
Rayon
Carban Black
Insulators
Fertilizers
Textiles
REPRESENT JOINT VENTURS
REPRESENT SUBSIDIARIES

❖ Manufacturing capacity and distribution network

Business-wise capacity			
As on	_	31 March 2008	31 March 2009
Manufacturing capacity		_	_
Viscose filament yarn	MTPA	16,400	16,400
Caustic soda	MTPA	82,125	91,250
Insulators	MTPA	38,800	38,800
Carbon black	MTPA	2,30,000	2,30,000
Flax yarn	Spindles	15,340	15,084
Worsted yarn	Spindles	25,548	25,548
Wool combing	Cards	6	7
Linen fabric	Looms	107	106
Urea (Reassessed installed capacity)	MTPA	8,64,600	8,64,600
Telecom			
Idea Cellular subscriber base	Million nos.	24	43.02
Branded Garments			
Garments retail space	Lakhs sq ft	5.1	7.9
Exclusive brand outlets	Nos	252	346
Life Insurance			
Branches	Nos	339	600
Direct selling agents ('000)	Nos	115	166
Asset Management			
Branches	Nos	78	115
Agents (000's)	Nos	17.5	29
Distribution			
Branches	Nos	36	44
Retail Broking			
Branches	Nos	-	1077
BPO			
Seats	Nos	9,089	8,326
Employees	Nos	12,908	11,621
_			

- **As a leading player, Aditya Birla Nuvo ranks as:**

  - India's second largest producer of viscose filament yarn (VFY)
  - The country's largest premium branded apparel company
  - The second largest producer of carbon black in India
  - Largest manufacturer of linen fabric in India
  - Among the most energy efficient fertiliser plants
  - India’s largest and the world’s fourth largest producer of insulators

- **Among Aditya Birla Nuvo’s joint ventures and subsidiary companies are:**

  - Idea Cellular Limited, the fifth largest mobile telephony service provider in India
  - Birla Sun Life Insurance, one of the leading life insurance companies in India
  - Birla Sun Life Asset Management, one of the leading asset management companies in India
  - Aditya Birla Minacs Worldwide Limited, among the top four BPO players in India and among the top 15 globally

❖ **BOARD OF DIRECTORS**

1	**Mr. Kumar Mangalam Birla, Chairman**
2	**Mrs. Rajashree Birla**
3	**Mr. H. J. Vaidya**
4	**Mr. B. L. Shah**
5	**Mr. P. Murari**
6	**Mr. B. R. Gupta**
7	**Ms. Tarjani Vakil**
8	**Mr. S. C. Bhargava**
9	**Mr. G. P. Gupta**
10	**Mr. Rakesh Jain**
11	**Mr. Vikram Rao**
12	**Mr. K. K. Maheshwari**
13	**Mr. Adesh Gupta**
14	**Dr. Bharat K. Singh**

❖ INDIAN RAYON

❖ HISTORY AND DEVELOPMENT

- The late Prime Minister Lal bhadur shastri laid the foundation stone of Indian rayon and industries ltd. It was in corporated on the 26th September 1956 under the company act of 1956 and the company was getting the commencement certificate on 13th feb.1958.

- 13th April 1963 and on the same day company took its trial production.

- Shree moraji vidya one of the leading industrialist of Gujarat with a view manufacture viscose filament yarn(VFY)IN collaboration with von-kohorn international of USA started this organization.

- Once a sick company and virtually on the verge of closure was taken over by shree Aditya Vikram Birla in 1966,who believed consolidation,expantion and diversification, because of his believed and sincerity toward work the company has not only turned around but has also made up strong market position today. By 1975 the jayshree textiles has merged with Indian rayon. The Indian rayon industries ltd. Is public ltd.

- **LOCATION**

Indian rayon unit is located at VERAVAL, in district of junagadh on NH-8 approx. 185 kms.from.the place is 1 meter above sea level. The internal land, popularly known as ‘prabhas kshitra’ the out ridge of veraval, which has religious radius of approx. 5.5kms envelope lord somnath temple, the bhalka Tirth and triveni

➢ VISION

- To be preferred choice of customer in premium segment of viscose filament yarn global market and benchmarked chlor alkali producer while remaining committed to the interests of all stack holders.

➢ MISSION

- To produce viscose filament yarn to meet the expectations of customers in premium segment.
- To achieve minimum cost of production through innovation, development & involvement of employees and vendors.
- To maintain clean, safe and pollution free environment.

❖ COMPANY POLICY

- Company is committed to be the preferred choice of customers while taking care of interests of all stakeholders. They are also committing to abide by applicable legal and other requirements and ensure continual improvements in all spheres of activities. They also adopt world class manufacturing practices and maintain a high morale of employees.

❖ SAFETY POLICY

- Company is committed to ensure safety, health and clean environment for our employees. The necessary organizational set up such as safety department and committee to promote the awareness shall be maintained. Training programme and seminars and seminars to promote safety activities will be conducted regularly. Regular safety audits will be carried out with the help of internal and external agencies and remedial measures implemented. Company gives a due weight age to health and safety while selecting plant, equipment, machinery and placement of personal safety performance of the factory will be a part of their annual report.

❖ ENVIRONMENTAL POLICY

- Company believes that preservation of environment is essential for the survival of our business, employees, society and surroundings. They achieve it with the involvement of our workforce, vendors, customers and neighbourhood. Through:

  - ✓ Compliance with relevant laws and regulations.
  - ✓ Efficient use of available resources.
  - ✓ Adoption of eco friendly technologies.
  - ✓ Education and sustained efforts of continual improvements.
  - ✓ Safe, clean and healthy work practice.
  - ✓ Commitment to prevent air and water pollution by adopting appropriate technology and practices.

❖ BRIEF PROFILE OF THE COMPANY

- The rayon plant located at VERAVAL is an ISO 9002 and ISO 14001 certified plant. The main product of the rayon plant is viscose filament yarn apart from chemical sulphuric acid, carbon-di sulphide, which are both consumed in-house and sodium sulphuric which is a by-product.

- The total production is as follows:

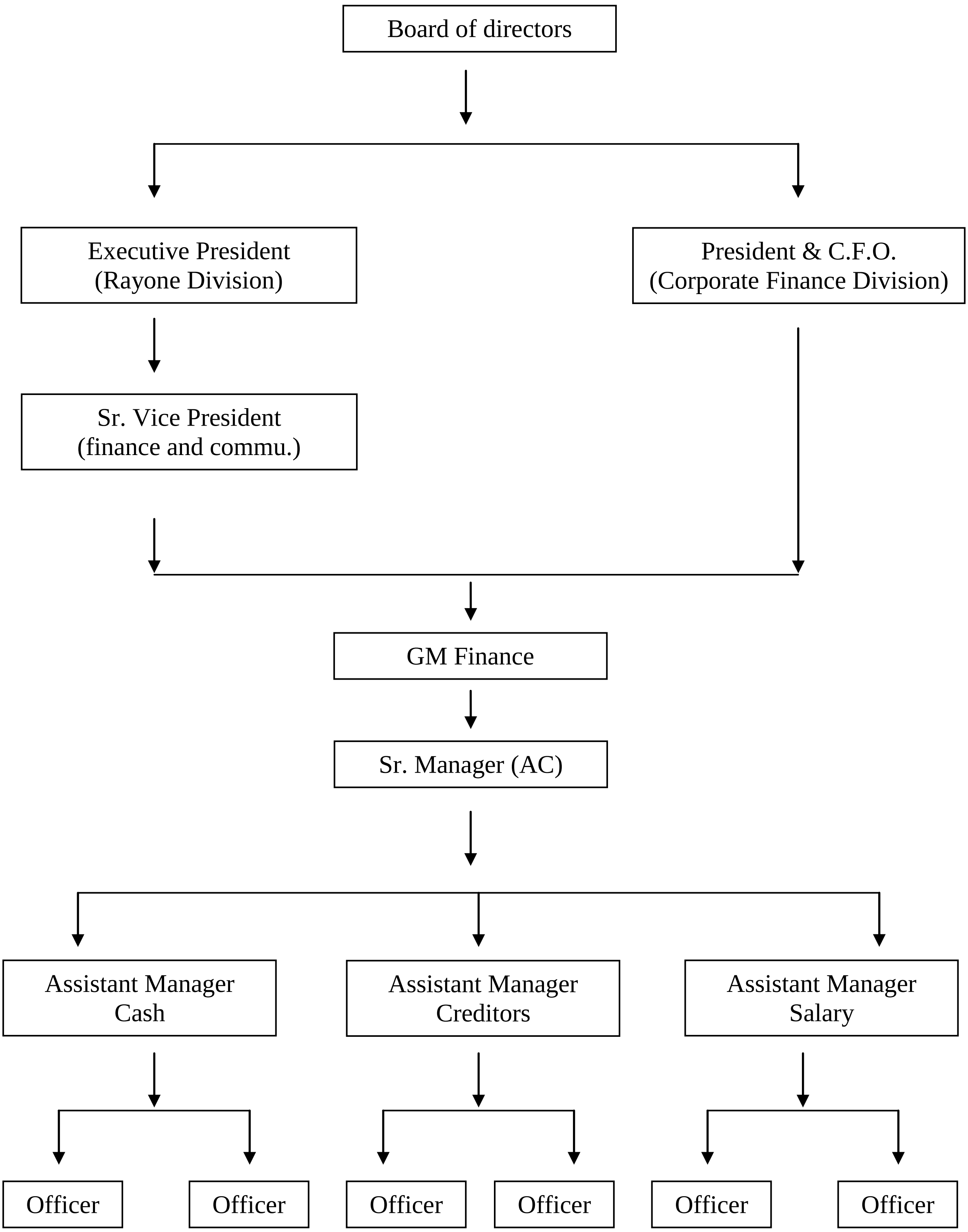
  Pot spun yarn: - 41.5 TDP
  Continuous spun yarn: - 5.00 TDP
  Exports constitute about 17% of total turnover.

- INDIAN RAYON COMPANY, VERAVAL is a public ltd company. It is a large-scale industry. It is a capital oriented unit because automatic machineries done all the works. It can be called heavy industry because the systems of heavy industries are seen like capital investment is very huge production cycle and installation of heavy and costly machineries the work of the unit has been divided into 42 departments.

❖ PRODUCTS OF INDIAN RAYON

Name of the product	**End users of final product**	**Raw material**
Viscose filament yarn	Apparel, home furnishing, slipovers, industrial uses	Pulp, caustic soda, acid, carbon di sulphide, zinc
Carbon disulphide	Rubberchemicals, agrochemicals, pesticides, pharma, viscose	charcaol
Sodium sulphate	Glass industries, paper, textile, dyes, gum	By product
Sulphuric acid	Fertilizers, intermediates, viscose, dyes, chemicals	Sulphur
Caustic acid lye	Paper, alumina, viscose, fibre, soaps & detergents, drugs, demineralization dyes & intermediates and other chemicals	Salt, coal
Liquid chlorine	Organic & inorganic chemicals, paper, HCL, PVC, CPW etc.	
Hydraulic acid	DM water plant, pickling of steel, phosphoric acid, synthetic rutile, ossein, DCP, calcium chloride	

ORGANISATION SRTUCTURE OF FINANCIAL DEPARTMENT



RATIO ANALYSIS

❖ RATIO ANALYSIS

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Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. To do this compare your ratios with the average of businesses similar to yours and compare your own ratios for several successive years, watching especially for any unfavorable trends that may be starting. Ratio analysis may provide the all-important early warning indications that allow you to solve your business problems before your business is destroyed by them.

The Balance Sheet and the Statement of Income are essential, but they are only the starting point for successful financial management. Apply Ratio Analysis to Financial Statements to analyze the success, failure, and progress of your business.

Importance of financial statement analysis in an organization.

In our money-oriented economy, Finance may be defined as provision of money at the time it is needed. To everyone responsible for provision of funds, it is problem of securing importance to so adjust his resources as to provide for a regular outflow of expenditure in face of an irregular inflow of income.

1. The profit and loss account (Income Statement).
2. The balance sheet

In companies, these are the two statements that have been prescribed and their contents have been also been laid down by law in most countries including India.

There has been increasing emphasis on

(a) Giving information to the shareholder in such a manner as to enable them to grasp it easily.

(b) Giving much more information e.g. funds flow statement, again with a view to facilitating easy understanding and to place a year results in perspective through comparison with post year results.

(c) The directors report being quite comprehensive to cover the factors that have been operating and are likely to operate in the near future as regards to the various functions of production, marketing, finance, labour, government policies, environment in general.

Financial statements are being made use of increasingly by parties like Bank, Governments, Institutions, and Financial Analysis etc. The statement should be sufficiently informative so as to serve as wide a curia as possible.

The financial statement is prepared by accounts based on the activities that take place in production and non-production wings in a factory. The accounts convert activities in monetary terms to the help know the position.

- **Uses of Financial Statement Analysis.**

The main uses of accounting statements for; -

Executives : - To formulate policies.

Bankers : - To establish basis for Granting Loans.

Institutions \ Auditors : - To extend Credit facility to business.

Investors : - To assess the prospects of the business and to know whether they can get a good return on their investment.

Accountants : - To study the statement for comparative purposes.

Government Agencies: - To study from an angle of tax collection duty levee etc.

BALANCE SHEET

❖ BALANCE SHEET

The Balance sheet shows the financial status of a business. The registered companies are to follow part 1 of schedule VI of company's \ act 1956 for recording Assets and Liabilities in the Balance Sheet.

Format of Balance Sheet as prescribed by companies Act.

Liabilities	**Assets**
Share Capital	Fixed Assets
Reserve &Surplus	Investments
Secured loans	Current Assets, Loan
Unsecured Loans	Advances
Current Liabilities & provision	Misc. Expenditures & Losses

Liabilities: -

Liabilities defined very broadly represent what the business entity owes to other.

Share capital: -

There are two type of share capital: -

Equity Capital
Preference Capital

- Equity Capital represents the contribution of the owners of the firm.
- Preference capital represents the contribution of preference shareholders and the dividend rate payable on it is fixed.

Reserve & Surplus: -

Reserve & Surplus are profits, which have been retained by the firm reserves, are two types, revenue Reserve and Capital Reserve.

Revenue Reserve represents accumulated retained earnings from the profits of normal business operations. Capital reserve arises out of gains, which are not related to normal business operations.
Surplus is the balance in the profit and loss account, which has not been appropriated to any particular reserve account. Reserve and surplus along with equity capital represent Owner s equity.

Secured Loans: -

These denote borrowings of the firm against which specific securities have been provided. The important components of secured loans are debentures, loans from financial institutions and loans from commercial banks.

Unsecured Loans: -

These are borrowing of the firm against which no specific security has been provided. The major components of unsecured loans are fixed deposits, loans and advances from Promoters, Inter-Corporate borrowings and unsecured loans from Banks.

Current Liabilities and Provision: -

Current Liabilities and Provision as per the classification under the companies Act, Consists of the Following amounts due to the suppliers of goods and services brought on credit, Advance payments received, accrued expenses. Unclaimed dividends, Provisions for taxed, Dividends, Gratuity, Pension etc.

Assets: -
Assets have been acquired at a specific monetary cost by the firm for the conduct of its operation.

Fixed Assets: -

These assets have two characteristics. They are acquired for use over relatively long period for carrying on the operations of the firm and they are ordinarily not meant for resale.
Examples for fixed assets are land, building, plant, Machinery, patent & Copyrights.

Investments: -

These are financial securities owned by the firm. Some investments represent long-term commitments of funds. Usually those are the equity shares of other firms held for income and control purpose. Other investments are short term in nature and are rightly classified under current assets for managerial purpose.

Current Assets, Loans and Advances: -

This category consists of cash and other resources, which get converted into cash during the operating cycle of the firm current assets, are held for a short period of time as against fixed assets, which are held for relatively longer periods. The major component of current Assets are: cash, debtors, inventories, loans and advances and pre-paid expenses.

Miscellaneous expenditure and losses: -

The consist of two items miscellaneous expenditure and losses miscellaneous expenditure represent outlays such as preliminary expenses and pre-operative expenses, which outlays such as preliminary expenses which have not written off loss is shown on the right hand side (Assets side) of the balance sheet.

❖ BALANCE SHEET (Rs in crores)

SOURCES OF FUNDS	Schedule	As At 31-Mar-2006	As At 31-Mar-2007	As At 31-Mar-2008	As At 31-Mar 2009
Shareholders' Funds:					
Share Capital	1	59.89	93.31	95.01	95.01
Share Warrants		23.61	-	377.41	377.41
Reserves & Surplus	2	2124.11	3031.24	3551.32	3649.24
		2207.61	3124.55	4023.74	4121.66
Loan Funds:					
Secured Loans	3	1084.21	2071.62	1856.72	2217.07
Unsecured Loans	4	479.36	760.21	886.70	2282.14
		1563.57	2831.83	2743.42	4499.21
Deferred Tax Liabilities		167.70	174.08	200.31	180.24
Total Funds Employed		3938.88	6130.46	6967.47	8801.11
APPLICATION OF FUNDS					
Fixed Assets:					
Gross Block	5	2461.81	2653.15	3111.78	3290.16
Less: Accumulated Depreciation		1448.74	1548.90	1680.89	1813.95
Net Block		1013.07	1104.25	1430.89	1476.21
Capital Work-in-Progress		122.45	203.88	70.73	128.78
		1135.52	1308.13	1501.62	1604.99
Investments	6	1675.79	3849.39	4054.17	5712.39
Current Assets, Loans & Advances:					
Interest Accrued on Investments		-	0.15	0.82	-
Inventories	7	526.33	475.26	776.60	747.60
Sundry Debtors	8	415.44	595.99	760.98	887.23
Cash & Bank Balances	9	20.32	22.74	97.15	89.81
Loans & Advances	10	664.18	332.18	476.50	532.57
		1626.27	1426.32	2112.05	2257.21
Less: Current Liabilities & Provisions	11				
Current Liabilities		424.78	393.73	566.89	677.04
Provisions		73.92	59.65	133.48	96.44
		498.70	453.38	700.37	773.48
Net Current Assets		1127.57	972.94	1411.68	1483.73
Total Funds Utilised		3938.88	6130.46	6967.47	8801.11

TYPES OF RATIOS

- **TYPES OF RATIOS**

1. Liquidity ratios
2. Turnover Ratios
3. Leverage Ratios
4. Profitability Ratios

1. Liquidity ratios:-

Liquidity refers of the ability of a firm to meet its obligation in the short run, usually one year or when they become duration for payment.

A proper balance between liquidly and profitability is required for efficient Financial Management.

Liquidity ratios are based on the relationship between current assets the sources for meeting short-term obligation and current liabilities.

The ratios, which indicate the liquidity of a firm, are: -

A. Current Ratio.
B. Acid test Ratio.
C. Net working capital.

A. **Current Ratio.**

The current Ratio is the ratio of current liabilities it is calculated as: -

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

The current assets include cash and Bank Balance, Marketable securities, Bills, Receivable, Inventories, Loans and advances, Advances Payment and prepaid expenses.

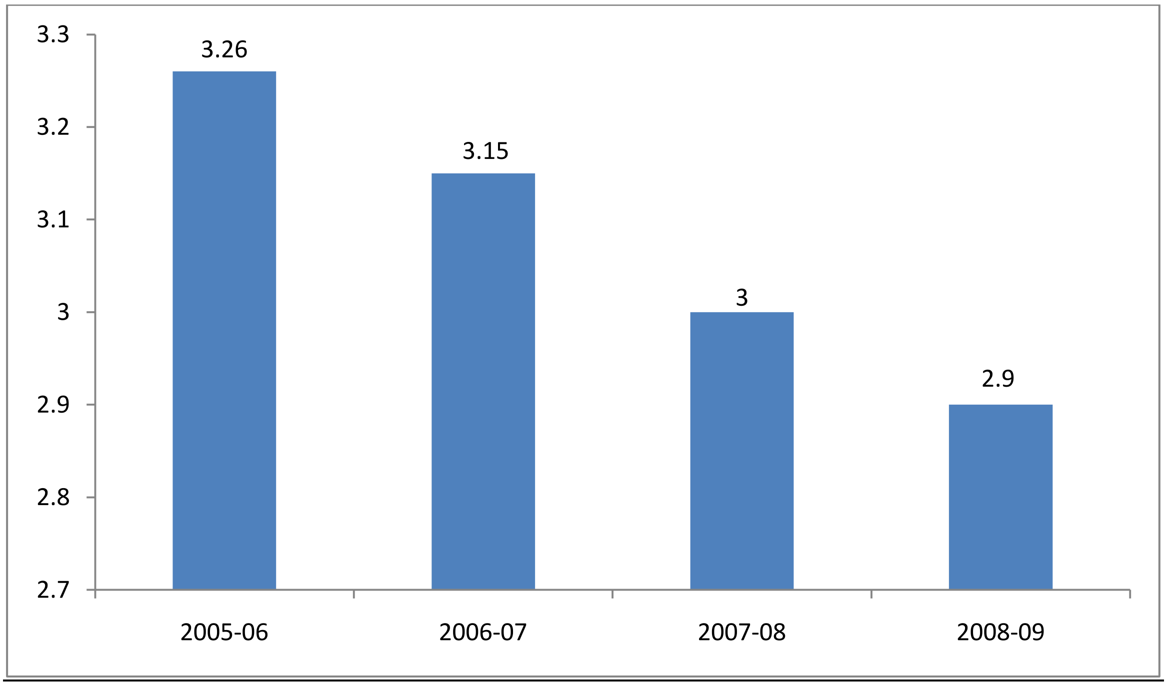
The current liabilities include creditors, bills payable bank overdraft short-term loans, outstanding expense & income tax payable, unclaimed divided and proposed dividend.

Te current ratio measures the ability of the firm to meet its current liabilities. The current assets get converted into cash into the operational cycle of the firm and provide the fund needed to pay current liabilities. The higher the ratio, to ward off.

❖ Calculation of current ratio with diagram

Particulars	2005-06	2006-07	2007-08	2008-09
Current assets	1626.27	1426.32	2112.05	2257.21
Current liabilities	498.70	453.38	700.37	773.48
Current ratio	3.26	3.15	3.0	2.9

❖ Diagram



B.QUICK RATIO

The Quick Ratio is sometimes called the "acid-test" ratio and is one of the best measures of liquidity. It is figured as shown below:

$$\text{QUICK RATIO} = \frac{\text{current assets – inventories}}{\text{Current liabilities – bank over draft}}$$

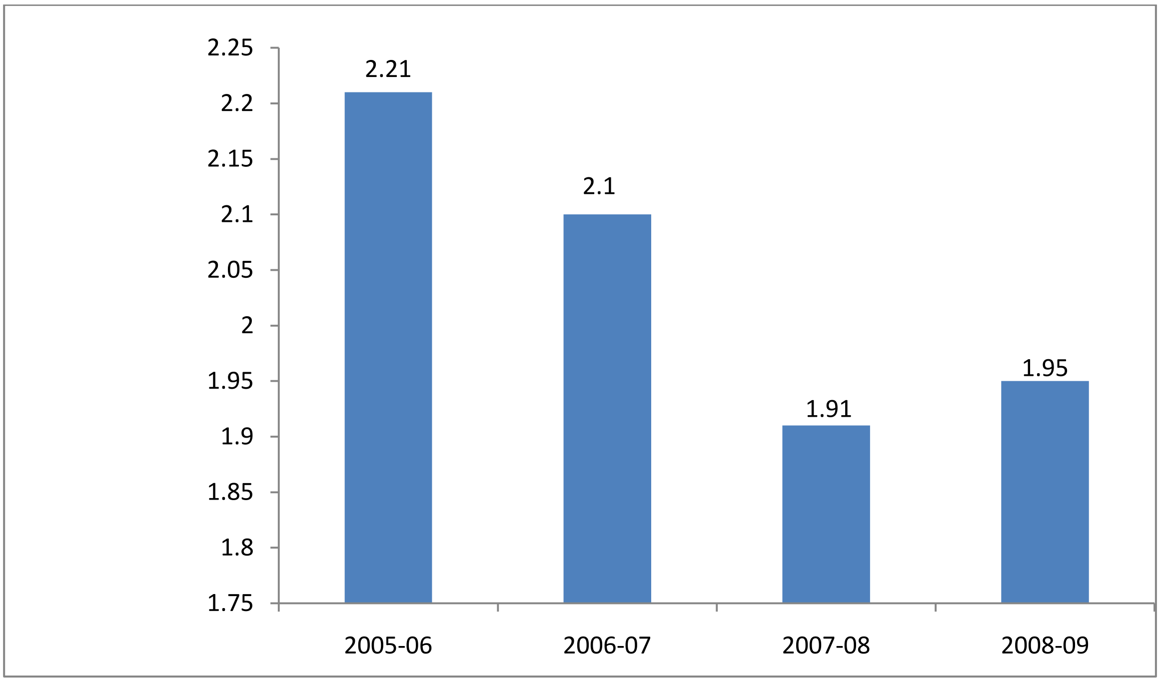
The Quick Ratio is a much more exacting measure than the Current Ratio. By excluding inventories, it concentrates on the really liquid assets, with value that is fairly certain. It helps answer the question: "If all sales revenues should disappear, could my business meet its current obligations with the readily convertible `quick' funds on hand?"

An acid-test of 1:1 is considered satisfactory unless the majority of your "quick assets" are in accounts receivable, and the pattern of accounts receivable collection lags behind the schedule for paying current liabilities.

- **Calculation of quick ratio with diagram**

Particulars	2005-06	2006-07	2007-08	2008-09
Liquid assets	1099.94	951.06	1335.45	1509.61
liquid liabilities	498.70	453.38	700.37	773.48
Current ratio	2.21	2.10	1.91	1.95

- **Diagram**



C. Working capital turnover ratio

Working capital refers to the investment by the company in short terms assets such as cash, marketable securities. Net current assets or net working capital refers to the current assets less current liabilities.

Symbolically, it means,

Net Current Assets = Current Assets Current Liabilities.

Definitions of Working Capital:

The following are the most important definitions of Working capital:

1) Working capital is the difference between the inflow and outflow of funds. In other words it is the net cash inflow.

2) Working capital represents the total of all current assets. In other words it is the Gross working capital, it is also known as Circulating capital or Current capital for current assets is rotating in their nature.

3) Working capital is defined as the excess of current assets over current liabilities and provisions . In other words it is the Net Current Assets or Net Working Capital

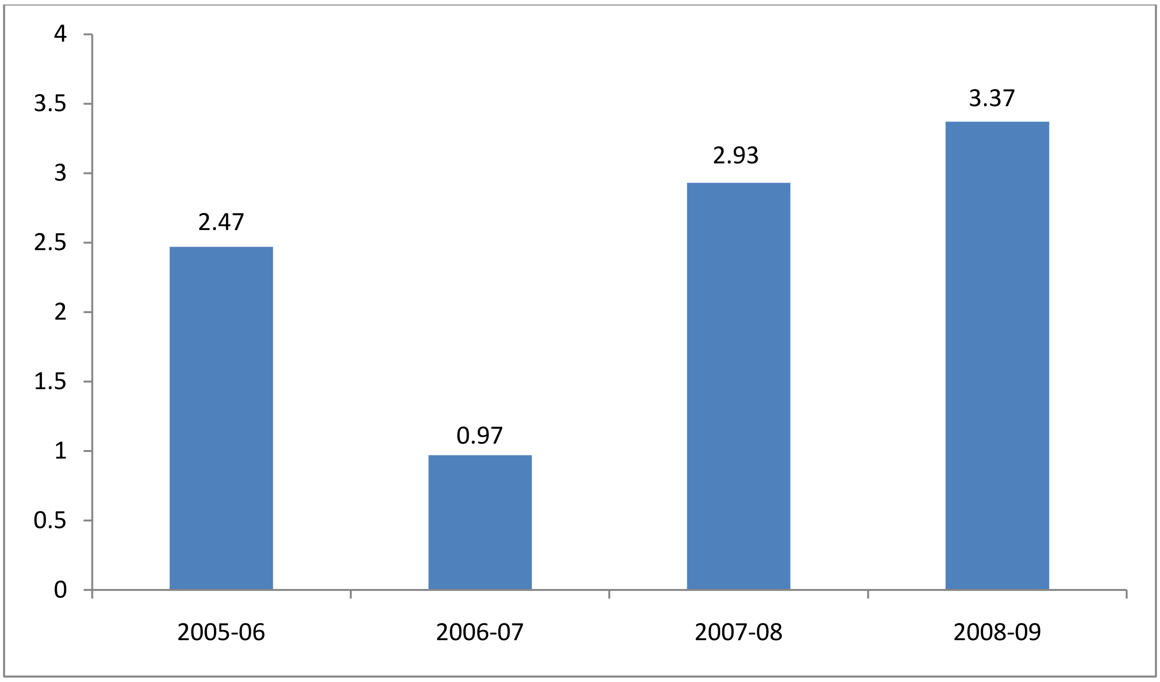
It is calculated as,

Woking capital turnover ratio = Sales / Working capital

- **CALCULATION OF WORKING CAPITAL TURN OVER RATIO WITH DIAGRAM**

Particulars	2005-06	2006-07	2007-08	2008-09
sales	2786.39	3577.9	4137.52	5001.04
Working capital	1127.57	3672.94	1411.68	1483.73
W.C.T. O. ratio	2.47	0.97	2.93	3.37

* **Diagram**



2. TURN OVER RATIOS

Turnover Ratios are also referred to as Activity ratio or Assets Management ratios. This ratio establishes relationship between the level of activity represented by sales or cost of goods sold and levels of various assets.

A. INVENTORY TURN OVER RATIO

This Ratio is computed by dividing net sales by inventory

Thus,

$$\text{Inventory Turnover ratio} = \frac{\text{Net sales}}{\text{Average Inventory}}$$

The numerator of this ratio is the net sales for the year and the denominator is the Inventory balance at the end of the year.

This ratio is deemed to reflect the efficient the management of inventories and vice versa.

This statement need not be always true. A low level of inventory may cause a higher inventory turnover ratio.

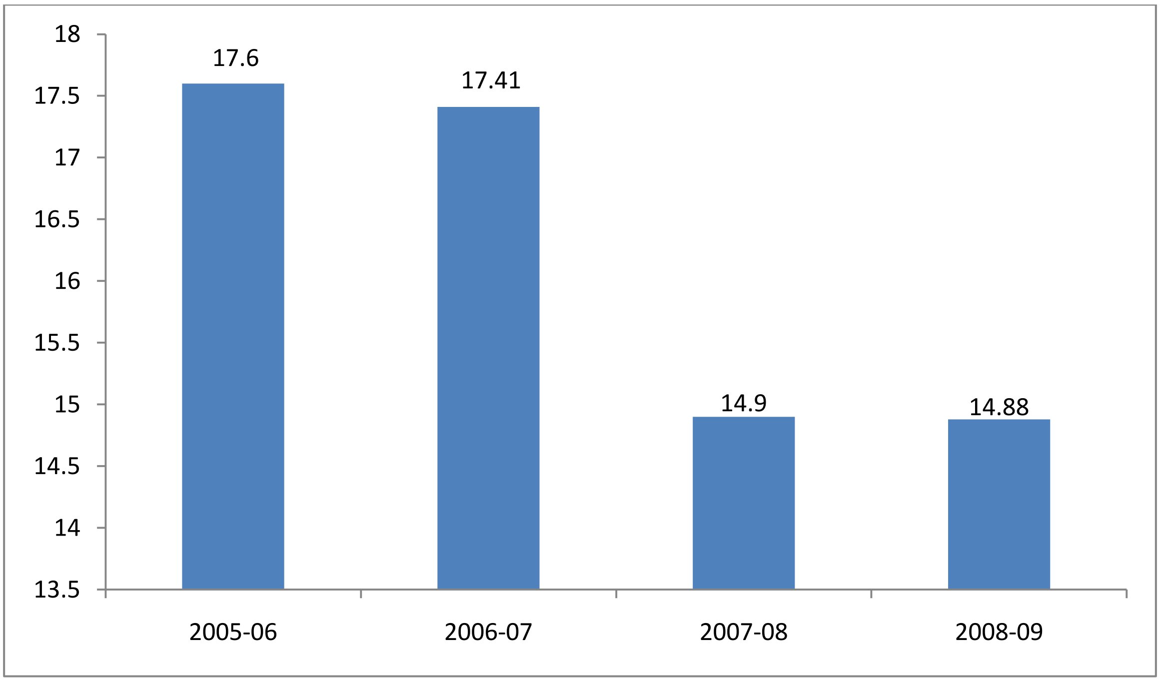
It might be argued that the inventory turnover ratio may be

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

❖ **Calculation of inventory turnover ratio with diagram**

Particulars	2005-06	2006-07	2007-08	2008-09
Sales	2786.39	3577.89	4137.52	5001.04
Average inventory	158.37	205.45	277.61	336.12
Inventory T.O. ratio	17.6	17.41	14.90	14.88

- **Diagram**



B. DEBTORS TURNOVER RATIO

The debtor s turnover ratio is determined by dividing the net credit sales by average debtors outstanding during the year.

Therefore

Debtors turnover ratio = $\frac{\text{Net credit sales}}{\text{Average debtors}}$

NOTE;- Here there is no specification about net credit purchase and average debtors
So, assume that (net credit sales = net sales)
(Average debtors = debtors)

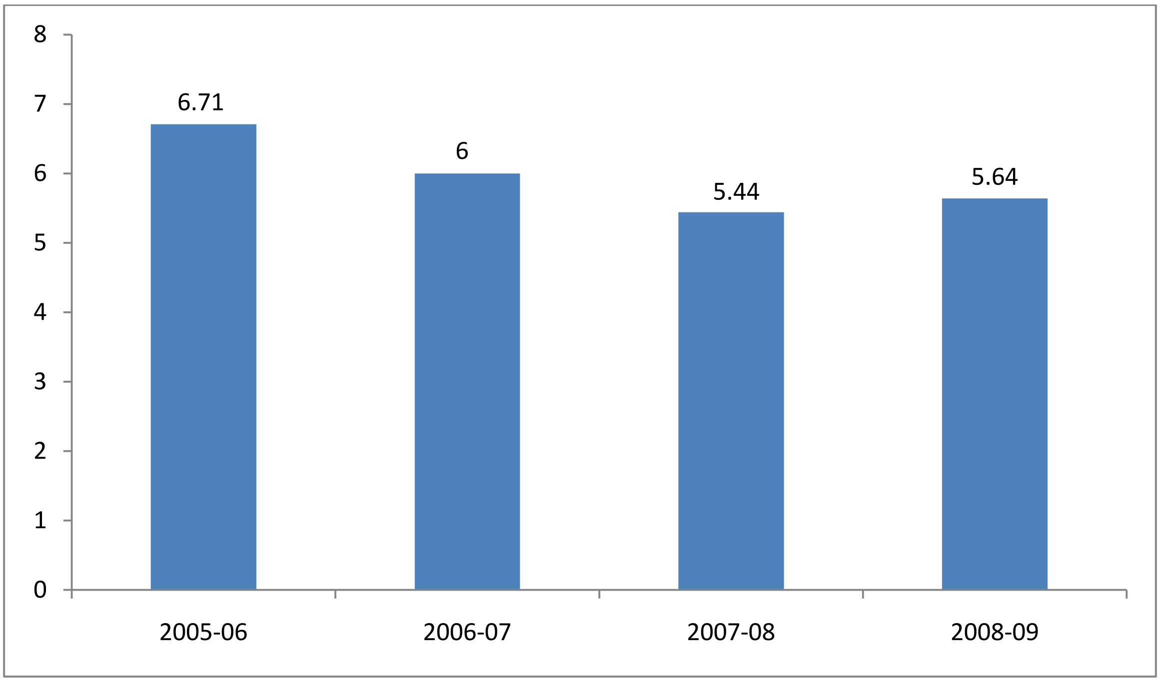
The main function of this ratio is to measure how rapidly debts are collected.

A high ratio is indicative of shorter time lag between credit sales and cash collection/
A low ratio indicates that debts are not being collected rapidly.

- **Calculation of debtors turnover ratio with diagram**

Particulars	2005-06	2006-07	2007-08	2008-09
Net sales	2786.39	3577.89	4137.52	5001.04
Debtors	415.44	595.99	760.98	887.23
Debtors T.O. ratio	6.71	6	5.44	5.64

❖ **Diagram**



C.CREDITORS TURN OVER RATIO

Creditor's turnover ratio is a rate between net purchase and average amount of creditor Outstanding during the year.

$$\text{Creditors turnover ratio} = \frac{\text{Net credit purchases}}{\text{Average of creditors}}$$

Average creditors = Average of creditors outstanding at the Beginning and at the end of the year.

A low turnover ratio reflects liberal terms granted by suppliers, while a high turnover ratio shown that accounts are settled rapidly.

The creditor's turnover ratio is an important tool as a firm can reduce its requirement of current assets by relying on suppliers creditors.

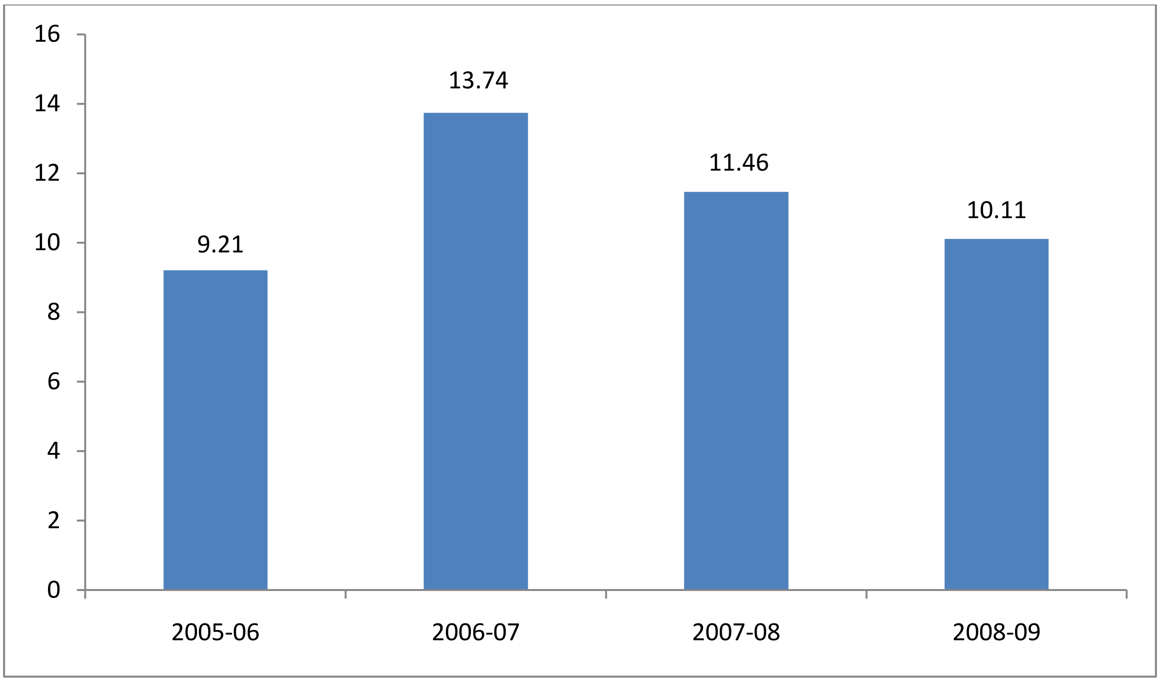
The intent to which trade creditors are willing to wait for payment can be approximated by the creditors turnover ratio.

NOTE;- Here, there is no specification about net credit purchase and average of creditors, So, let assume that, (net credit purchase = Net Purchase)
(Average of creditors = creditors)

- **Calculation of creditors turnover ratio with diagram**

Particulars	2005-06	2006-07	2007-08	2008-09
Net Purchase	2447.75	3190.45	3781.72	4690.67
Creditors	265.88	232.19	330.01	463.94
Creditors T.O. ratio	9.21	13.74	11.46	10.11

- **Diagram**



3. LEVERAGE or CAPITAL STRUCTURE RATIO

These ratios refer to the use of debt finance long term solvency of the firm can be examined by using leverage or capital ratios.

The leverage ratio or capital structure ratio can be defined as the financial ratios which throw light on the long term solvency of a firm reflected in its ability to assure the long term creditors with regards to.

1. Periodic payment of interest during the period of loan.
2. Repayment of Principe on maturity or in predetermined instalments at due dates.

A. DEBT-EQUITY RATIO

This ratio reflects the relative claims of creditors and share holders against the assets of the firm, debt equity ratios establishment relationship between borrowed funds and owner capital to measure the long term financial solvency of the firm. The ratio indicates the relative proportions of debt and equity in financing the assets of the firm.

It is calculated as follows

Debt equity ratio = Debt / Equity

The debts side consist of all liabilities (that include short term and long term liabilities) of the firm. The equity side consists of new worth (plus) preference capital.

The lower the debt equity ratio the higher in the degree of protection enjoyed by the creditors.

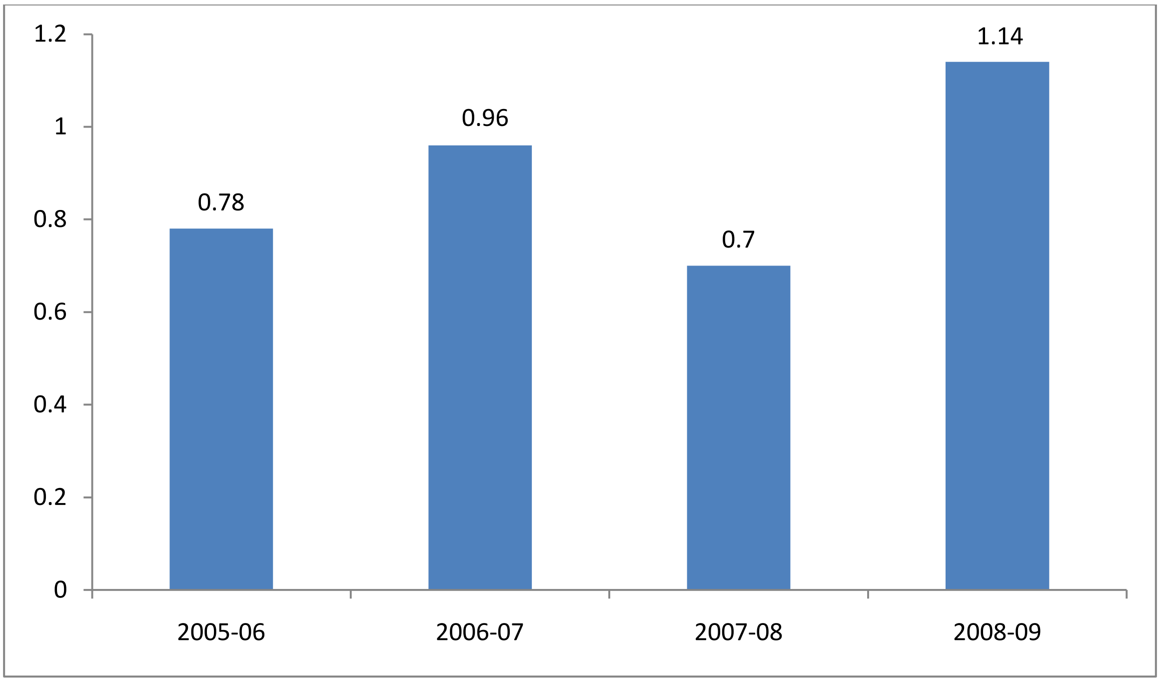
The debt equity ratio defined by the controller of capital issue, debt is defined as long term debt plus preference capital which is redeemable before 12 years and equity is defined as paid up equity capital plus preference capital which is redeemable after 12 years.

The general norm for this ratio is 2:1. on case of capital intensive industries as norms of 4:1 is used for fertilizer and cement industry and a norms of 6:1 is used for shipping units.

- **Calculation of debt-equity ratio with diagram**

Particulars	2005-06	2006-07	2007-08	2008-09
Debt	1731.27	3005.91	2943.73	4679.45
Equity	2207.61	3124.55	4023.74	4121.66
Debt-equity ratio	0.78	0.96	0.7	1.14

- **Diagram**



B. DEBT – ASSET RATIO

The debit asset ratio establishes a relationship between borrowed funds and the assets of firm.

It is calculated as:

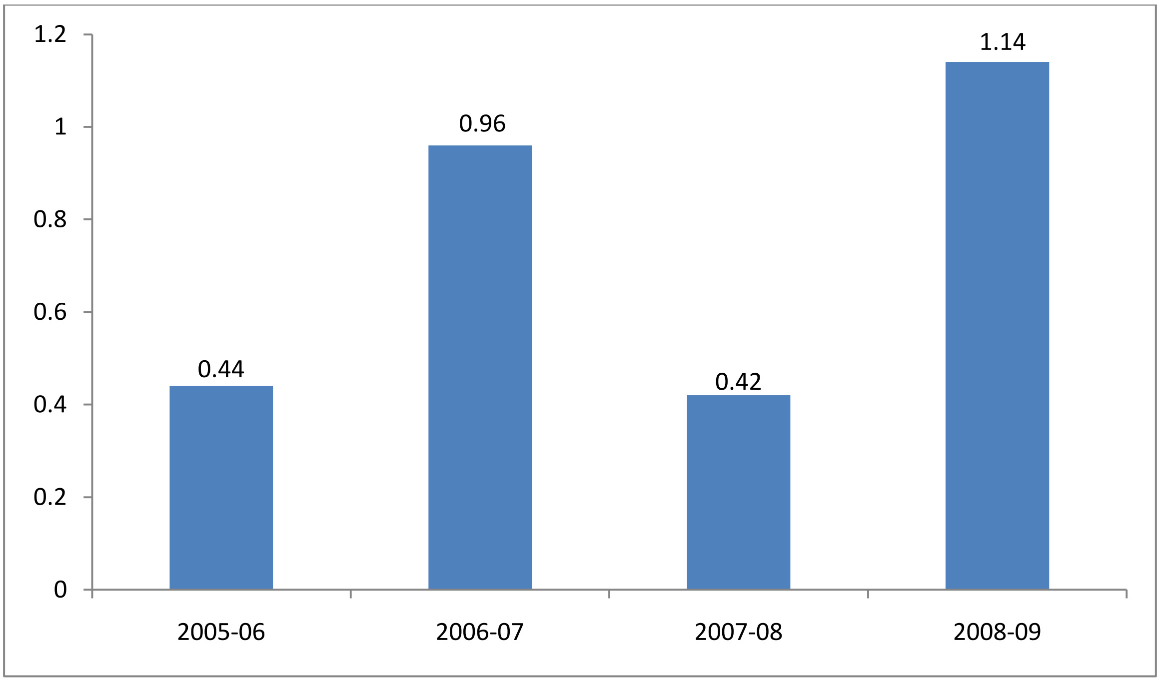
$$\text{Debt Asset Ratio} = \frac{\text{Debt}}{\text{Asset}}$$

Debt includes all liabilities. Short term as well as long term and the assets include the total of all the assets (the balance sheet total)

- **Calculation Of Debt – Asset Ratio With Diagram**

Particulars	2005-06	2006-07	2007-08	2008-09
Debt	1731.27	3005.91	2943.73	4679.45
Asset	3938.88	6130.46	6967.47	4121.66
Debt- asset ratio	0.44	0.96	0.42	1.14

- **Diagram**



C. INTEREST COVERAGE RATIO

This ratio is also known as Time interested Earned ratio This ratio measures the debt servicing of capacity of a firm in so far as fixed interest on long term loan is concerned. Interest coverage ratio determined by dividing the operating profits or earnings before interest and taxes by fixed interest charges on loans.

It is calculated as

$$\text{Interestest coverage Ratio} = \frac{\text{Earning Before Interest \&Taxes (EBIT)}}{\text{Debt Interest}}$$

The EBIT is used in the numerator of this ratio because the ability of a firm to pay interest is not affected by tax payment as interest on debt fund in a tax deductible expenses.

The ratio apparently measure the margin of safety the firm enjoys with the respect to its interest burden.

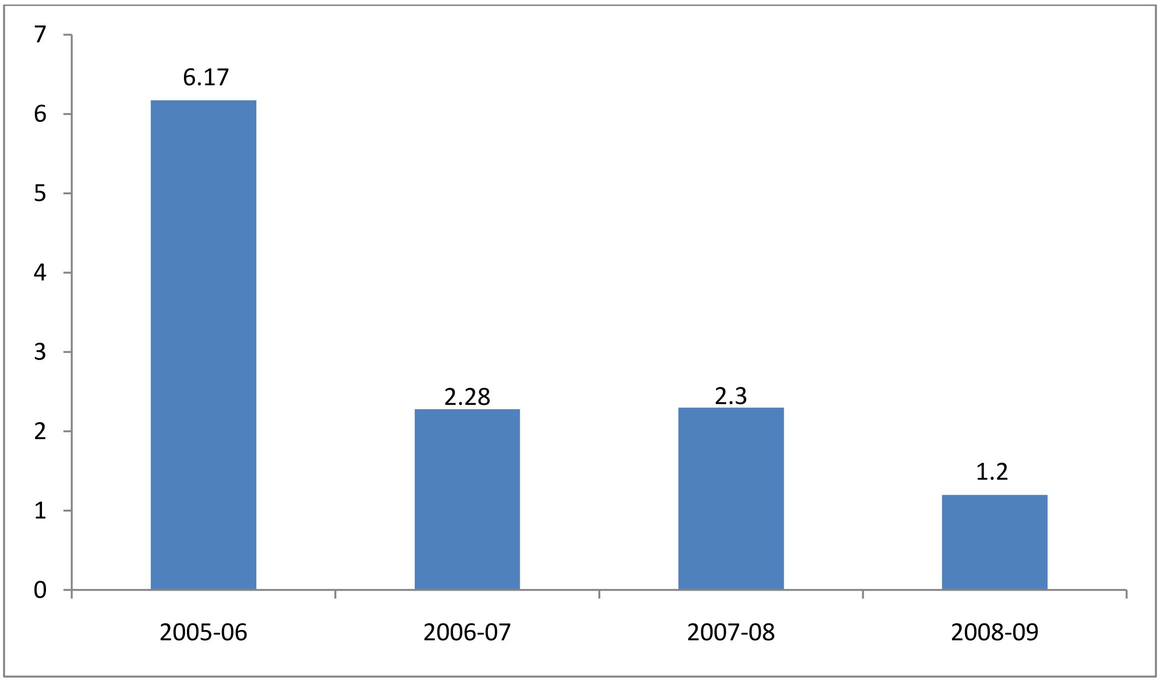
A high interest coverage ratio implies that the firm can easily meet its interest burden even if EBIT decline.

A low interest coverage ratio results in financial embarrassment when EBIT declines. This ratio is not appropriate measures of interest coverage because the source of interest payment is cash flow before interest and taxes, not EBIT.

❖ **calculation of interest coverage ratio with diagram**

Particulars	2005-06	2006-07	2007-08	2008-09
EBIT	387.60	432.63	454.93	328.26
Debt interest	62.78	189.83	197.72	274.43
Interest coverage ratio	6.17	2.28	2.3	1.20

- **Diagram**



4. PROFITABILITY RATIO

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

Some examples of profitability ratios are profit margin, return on assets and return on equity. It is important to note that a little bit of background knowledge is necessary in order to make relevant comparisons when analyzing these ratios.

For instances, some industries experience seasonality in their operations. The retail industry, for example, typically experiences higher revenues and earnings for the Christmas season. Therefore, it would not be too useful to compare a retailer's fourth-quarter profit margin with its first-quarter profit margin. On the other hand, comparing a retailer's fourth-quarter profit margin with the profit margin from the same period a year before would be far more informative.

A. OPERATING MARGIN

A ratio used to measure a company's pricing strategy and operating efficiency. Operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc. A healthy operating margin is required for a company to be able to pay for its fixed costs, such as interest on debt. It Is Also known as "operating profit margin."

Calculated as:

$$\text{Operating Margin} = \frac{\text{Operating Income}}{\text{Net Sales}}$$

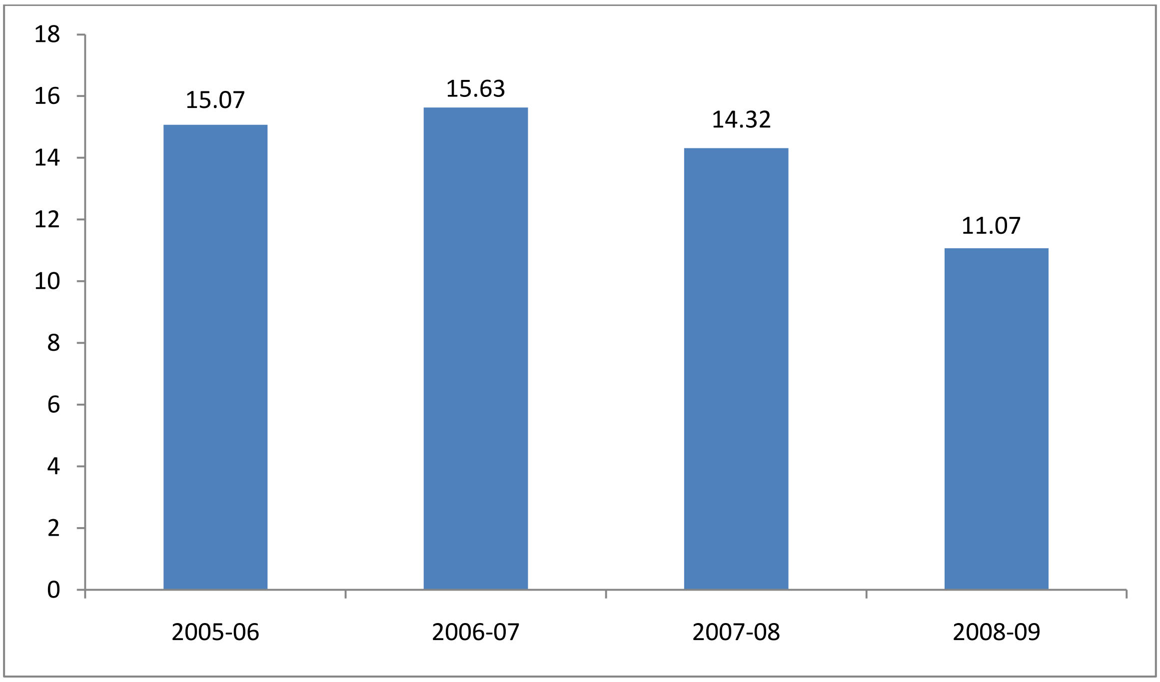
Operating margin gives analysts an idea of how much a company makes (before interest and taxes) on each dollar of sales. When looking at operating margin to determine the quality of a company, it is best to look at the change in operating margin over time and to compare the company's yearly or quarterly figures to those of its competitors. If a company's margin is increasing, it is earning more per dollar of sales. The higher the margin, the better.

For example, if a company has an operating margin of 12%, this means that it makes $0.12 (before interest and taxes) for every dollar of sales. Often, nonrecurring cash flows, such as cash paid out in a lawsuit settlement, are excluded from the operating margin calculation because they don't represent a company's true operating performance.

- ❖ Calculation Of Operating Margin With Diagram

Particulars	2005-06	2006-07	2007-08	2008-09
Opearting income	420.01	559.3	592.3	553.7
Net sales	2786.39	3577.9	4137.52	5001.04
Ratios	15.07%	15.63%	14.32%	11.07%

❖ Diagram



B. GROSS PROFIT MARGIN

Gross profit can be defined as the difference between net sales and cost of goods sold. Gross margin profit ratio is also known as gross margin gross profit margin ratio is calculated by dividing gross profit by sales.

Gross profit margin ratio = gross profit/Net sales

Net sales-cost of goods sold.

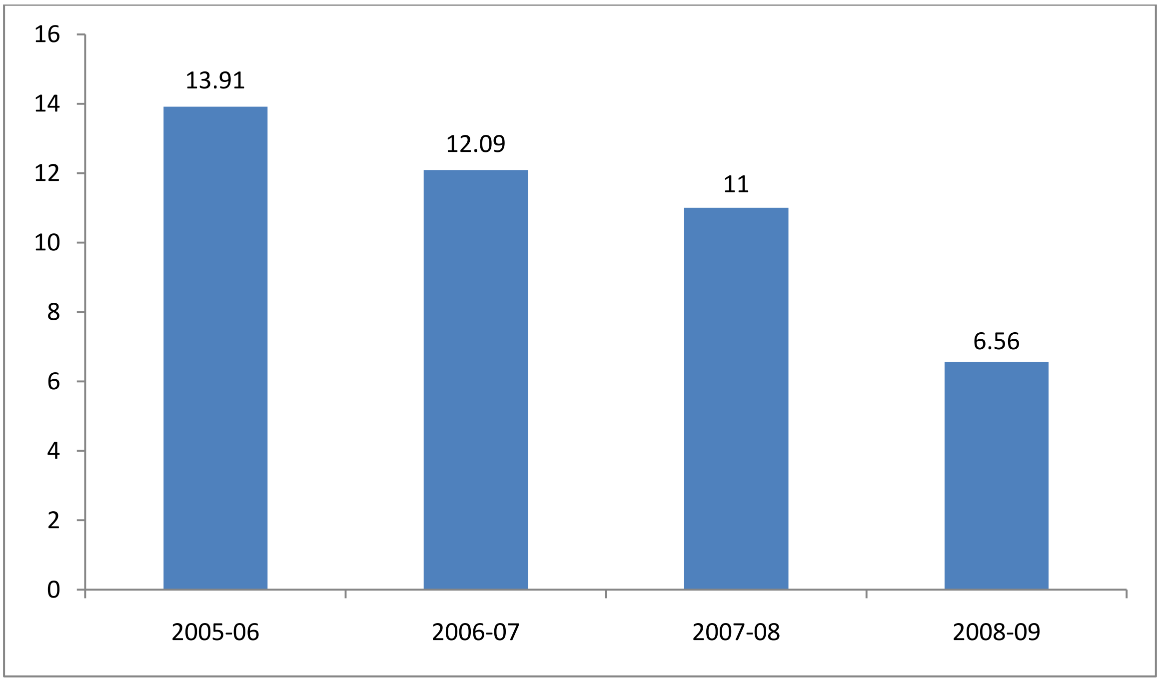
The gross profit margin ration shows the margin left after meeting manufacturing cost. The ratio also measures.

The efficiency of production as well as pricing. The Gross profit to sales is a sign of good management s as it implies that the cost of production of the firm is relatively low. A high ratio may also imply of a higher sales rise without a corresponding increase in the cost of goods sold.

❖ **Calculation of gross profit margin with diagram**

Particulars	2005-06	2006-07	2007-08	2008-09
Gross profit	387.60	432.6	454.93	328.26
Net sales	2786.39	3577.9	4137.52	5001.04
Ratios	13.91%	12.09%	11%	6.56%

❖ **Diagram**



C. NET PROFIT MARGIN

The Net Profit Margin Ration determines the between Net profit and sales of business firm. This relationship is also known as net margin. This ratio shows the earning left for shareholder (both equity and preference) as percentage of Net sales.

Net Margin Ratio measures the overall efficiency of production, Administration selling, Financing, pricing and Tase Management.

Thus,

Net profit Margin Ratio: Net Profit/Net Sales

A high Net profit Margin indicates adequate return to the owners as well as enable a firm to withstand adverse economic conditions when selling price is decanting, cost of production is rising and demand for product is falling.

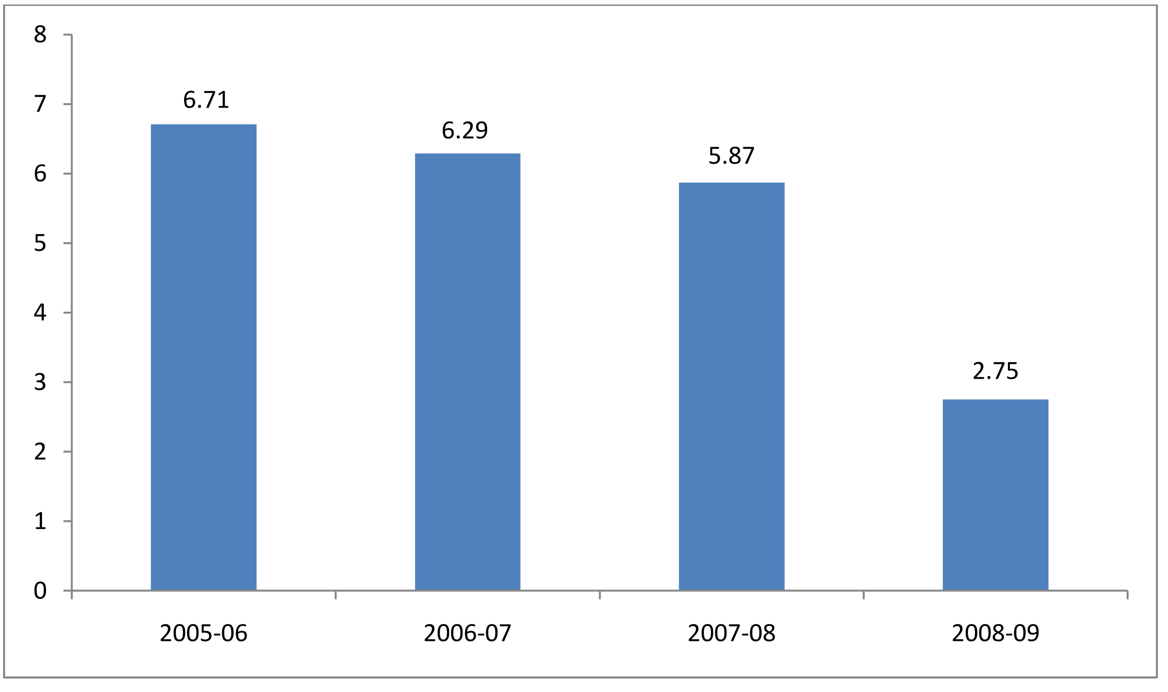
A low Net Profit Margin has opposite implications. A firm with low net profit margin can earn a high rate of return on investment it has a higher inventory turnover.

Jointly considering gross and net profit margin provides a valuable understanding of the cost and profit structure of the firm and enables the analyst to identity the source of business efficiency of inefficiency.

- Calculation of net profit margin with diagram

Particulars	2005-06	2006-07	2007-08	2008-09
Net profit	186.93	225	243.07	137.43
Net sales	2786.39	3577.9	4137.52	5001.04
Ratios	6.71%	6.29%	5.87%	2.75%

- Diagram



D. EARNING PER SHARE

The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.

Calculated as:

$$EPS = \frac{\text{Net Profit Available To Equity-Holders}}{\text{Number Of Ordinary Shares Outstanding}}$$

When calculating, it is more accurate to use a weighted average number of shares outstanding over the reporting term, because the number of shares outstanding can change over time. However, data sources sometimes simplify the calculation by using the number of shares outstanding at the end of the period.

Diluted EPS expands on basic EPS by including the shares of convertibles or warrants outstanding in the outstanding shares number.

Earnings per share are generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

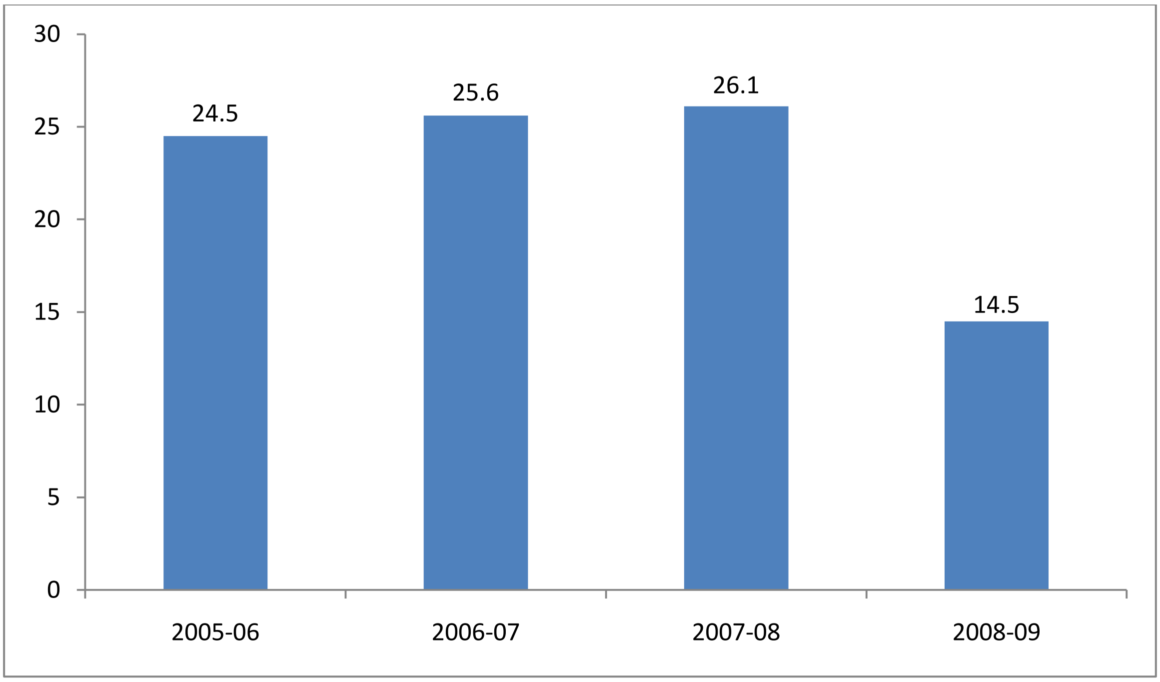
For example, assume that a company has a net income of $25 million. If the company pays out $1 million in preferred dividends and has 10 million shares for half of the year and 15 million shares for the other half, the EPS would be $1.92 (24/12.5). First, the $1 million is deducted from the net income to get $24 million, and then a weighted average is taken to find the number of shares outstanding (0.5 x 10M+ 0.5 x 15M = 12.5M).

An important aspect of EPS that's often ignored is the capital that is required to generate the earnings (net income) in the calculation. Two companies could generate the same EPS number, but one could do so with less equity (investment) - that company would be more efficient at using its capital to generate income and, all other things being equal, would be a "better" company. Investors also need to be aware of earnings manipulation that will affect the quality of the earnings number. It is important not to rely on any one financial measure, but to use it in conjunction with statement analysis and other measures.

❖ Calculation of EPS with diagram

Particulars	2005-06	2006-07	2007-08	2008-09
EPS	24.5	25.6	26.1	14.5

❖ Diagram



E. PRICE EARNINGS RATIO

PE ratio is closely related to the earnings yield/earnings price ratio. It is actually the reciprocal of the latter. This ratio is computed dividing the market price of the shares by the EPS. Thus,

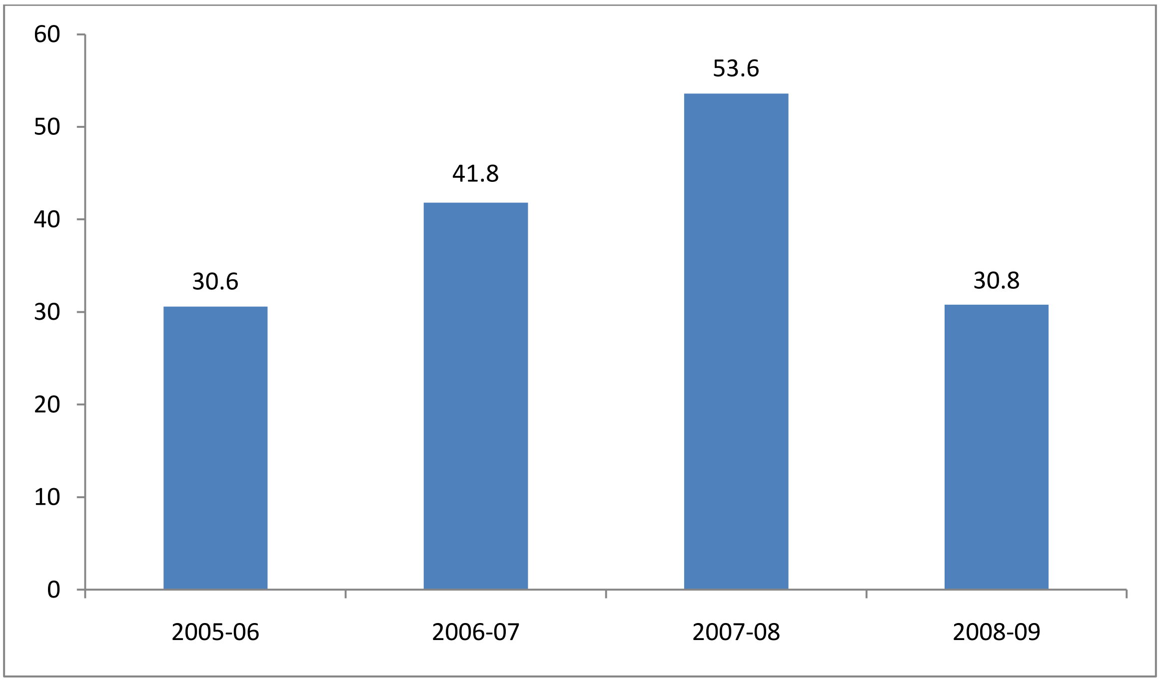
$$\text{PE ratio} = \frac{\text{Market Price of Share}}{\text{EPS}}$$

The PE ratio reflects the price currently being paid by the market for each rupee of currently reported EPS. In other words, the P/E ratio measures investors' expectations and the market appraisal of the performance of a firm. In estimating the earnings, therefore, only normally sustainable earnings associated with the assets are taken into account. That is, the earnings are adjusted for income from, say, discontinued operations and extraordinary items as well as many other items not expected to occur. This ratio is popularly used by security analysts to assess a firm's performance as expected by the investors.

❖ Calculation of PE ratio with diagram

Particulars	2005-06	2006-07	2007-08	2008-09
Ratios	30.6	41.8	53.6	30.8

❖ Diagram



OBJECTIVES

❖ **OBJECTIVES**

Analysis of financial statements is an attempt to assess the efficiency and performance of an enterprise. For that there are some objectives which are described as under.

1. EARNING CAPACITY OR PROFITABILITY

The overall objective of a business is to earn a satisfactory return on the funds invested in it. Financial analysis helps in ascertaining whether adequate profits are being earned on the capital invested in the business or not. It also helps in knowing the capacity to pay the interest and dividend.

2. COMPARATIVE POSITION IN RELATION TO OTHER FIRMS

The purpose of financial statements analysis is to help the management to make a comparative study of the profitability of various firms engaged in similar business. Such comparison also helps the management to study the position of their firm in respect of sales expenses, profitability and using capital.etc.

3. EFFICIENCY OF MANAGEMENT

The purpose of financial statement analysis is to know that the financial policies adopted by the management are efficient or not. Analysis also helps the management in preparing budgets by forecasting next year's profit on the basis of past earnings. It also helps the management to find out shortcomings of the business so that remedial measures can be taken to remove these shortcomings.

4. FINANCIAL STRENGTH

The purpose of financial analysis is to assess the financial potential of business. Analysis also helps in taking decisions;

(a) Whether funds required for the purchase of new machinery and equipments are provided from internal resources of business or not.

(b) How much funds have been raised from external sources.

5.SOLVECNY OF THE FIRM

The different tools of analysis tells us whether the firm has suffucient funds to meet its short-term and long-term liabilities or not.

IMPORTANCE

❖ IMPORTANCE

Ratio analysis is an important technique of financial analysis. It is a means for judging the financial health of a business enterprise. It determines and interprets the liquidity,solvency,profitability,etc. of a business enterprise.

- It becomes simple to understand various figures in the financial statements through the use of different ratios. Financial ratios simplify, sumarise, and systemise the accounting figures presented in financial statements.

- With the help of raito analysis, comparision of profitability and financial soundness can be made between one industry and another. Similarly comparision of current year figures can also be made with those of previous years with the help of ratio analysis and if some weak points are located, remidial masures are taken to correct them.

- If accounting ratios are calculated for a number of years, they will reveal the trend of costs, sales, profits and other important facts. Such trends are useful for planning.

- Financial ratios, based on a desired level of activities, can be set as standards for judging actual performance of a business. For example, if owners of a business aim at earning profit @ 25% on the capital which is the prevailing rate of return in the industry then this rate of 25% becomes the standard. The rate of profit of each year is compared with this standard and the actual performance of the business can be judged easily.

- Ratio analysis discloses the position of business with different viewpoint. It discloses the position of business with liquidity viewpoint, solvency view point, profitability viewpoint, etc. with the help of such a study, we can draw conclusion regardings the financial health of business enterprise.

ADVANTAGES

&

LIMITATIONS

❖ <u>**ADVANTAGES**</u>

Ratio analysis is an important and age-old technique of financial analysis. The following are some of the advantages of ratio analysis:

1. **Simplifies financial statements**: It simplifies the comprehension of financial statements. Ratios tell the whole story of changes in the financial condition of the business.
2. **Facilitates inter-firm comparison**: It provides data for inter-firm comparison. Ratios highlight the factors associated with successful and unsuccessful firm. They also reveal strong firms and weak firms, overvalued and undervalued firms.
3. **Helps in planning**: It helps in planning and forecasting. Ratios can assist management, in its basic functions of forecasting. Planning, co-ordination, control and communications.
4. **Makes inter-firm comparison possible**: Ratios analysis also makes possible comparison of the performance of different divisions of the firm. The ratios are helpful in deciding about their efficiency or otherwise in the past and likely performance in the future.
5. **Help in investment decisions**: It helps in investment decisions in the case of investors and lending decisions in the case of bankers etc.

❖ LIMITATIONS

The ratios analysis is one of the most powerful tools of financial management. Though ratios are simple to calculate and easy to understand, they suffer from serious limitations.

1. **Limitations of financial statements**: Ratios are based only on the information which has been recorded in the financial statements. Financial statements themselves are subject to several limitations. Thus ratios derived, there from, are also subject to those limitations. For example, non-financial changes though important for the business are not relevant by the financial statements. Financial statements are affected to a very great extent by accounting conventions and concepts. Personal judgment plays a great part in determining the figures for financial statements.
2. **Comparative study required**: Ratios are useful in judging the efficiency of the business only when they are compared with past results of the business. However, such a comparison only provide glimpse of the past performance and forecasts for future may not prove correct since several other factors like market conditions, management policies, etc. may affect the future operations.
3. **Problems of price level changes**: A change in price level can affect the validity of ratios calculated for different time periods. In such a case the ratio analysis may not clearly indicate the trend in solvency and profitability of the company. The financial statements, therefore, be adjusted keeping in view the price level changes if a meaningful comparison is to be made through accounting ratios.
4. **Lack of adequate standard**: No fixed standard can be laid down for ideal ratios. There are no well accepted standards or rule of thumb for all ratios which can be accepted as norm. It renders interpretation of the ratios difficult.
5. **Limited use of single ratios**: A single ratio, usually, does not convey much of a sense. To make a better interpretation, a number of ratios have to be calculated which is likely to confuse the analyst than help him in making any good decision.
6. **Personal bias**: Ratios are only means of financial analysis and not an end in itself. Ratios have to interpret and different people may interpret the same ratio in different way.
7. **Incomparable**: Not only industries differ in their nature, but also the firms of the similar business widely differ in their size and accounting procedures etc. It makes comparison of ratios difficult and misleading.

CONCLUSION

❖ CONCLUSION

- Ratios make the related information comparable. A single figure by itself has no meaning, but when expressed in terms of a related figure, it yields significant interferences. Thus, ratios are relative figures reflecting the relationship between related variables. Their use as tools of financial analysis involves their comparison as single ratios, like absolute figures, are not of much use.

- Ratio analysis has a major significance in analysing the financial performance of a company over a period of time. Decisions affecting product prices, per unit costs, volume or efficiency have an impact on the profit margin or turnover ratios of a company.

- Financial ratios are essentially concerned with the identification of significant accounting data relationships, which give the decision-maker insights into the financial performance of a company.

- The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm’s position and performance.

- The first task of financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statements. The second step is to arrange the information in a way to highlight significant relationships. The final step is interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of selection, relation and evaluation.

- Ratio analysis in view of its several limitations should be considered only as a tool for analysis rather than as an end in itself. The reliability and significance attached to ratios will largely hinge upon the quality of data on which they are based. They are as good or as bad as the data itself. Nevertheless, they are an important tool of financial analysis.

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