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EXECUTIVE SUMMARY

The project report on “A study on financial Performance based on Ratio Analysis” is studied in the “Patel Shanti Steel Pvt Co, LTD Goushala Road Raichur” for a period of two months as summer in plant training. Patel Shanti Steel Pvt Co, Ltd(PSSPL), was established in the year of 1998. Company located at Yarmars, Raichur 584 101. Raichur’s 1st steel production.

It was a great experience to undergo summer-in-plant training on “A study on financial Performance based on Ratio Analysis” at “Patel Shanti Steel Company”. During the study I found that the company is carrying its activity in producing steel. The company managers have co-operated me a lot in completing my summer-in-plant training. They have given me all the information that I need for my study.

In this report the effort is made to know the financial position of the PSSPL Company. process to identify the financial performance of a firm by properly establishing the relationship between the items of balance sheet and profit or loss account. Thus, we can say that, Financial Analysis is a starting point for making plans before using any sophisticated forecasting and planning.
Purpose of the study:
A company’s balance sheet and profit & loss accounts are valuable information sources for identifying risk taking and assessing risk management effectiveness. Although amounts found on these statements do not provide valuable insights of performance so ratio analysis is required for determining good or bad performance of company and also for determining its causes. The study includes the calculation of different financial ratios. It compares four years financial statements of the company to know its performance in these different years.

Scope of the study
The scope of the study is limited to financial aspects of PSSPL Company.

Objectives
- To know the financial performance of the organization.
- To study financial position of PSSPL based on different ratios.
- To determine the profitability and liquidity of the company through ratios analysis.
- To compare the present and previous years performance of PSSPL Company.

Methodology

Data Collection method
- Primary Data: The information Collected from Personnel Interaction with manager and other staff.
- Secondary: Annual reports of PSSPL Company

Measurement technique/ Statistical tool
- Accounting ratio
- Financial statement of the company
FINDINGS

1) The current ratio of the company has been increased from 0.58 to 2.97, to 5.17 from the 2005, 2006 and 2007 respectively. & it decreased to 3.93 in year 2008. Current ratio is on par with the standard ratio, so it is favorable to the company.

2) Debt equity ratio of the company has been decreased to 3.06, 1.54, 1.26, and 1.11 respectively from 2005 to 2008. It is favorable to the company.

3) The proprietary ratio of the company has been increased by 0.14, 0.34, 0.40 & 0.40 respectively from 2005 to 2008. The ratio is very low; it is unfavorable to the company.

4) The interest coverage ratio has been continuously decreased by year to year i.e. 3.56, 2.76, 3.23, 2.86 respectively from 2005 to 2008. It shows that lower the ratio less safe to the long-term creditors.

5) The inventory turnover ratio of the company has been decreased continuously i.e. 2.12, 1.50, 1.17 & 1.78 respectively from 2005 to 2008. So, it is not favorable to the company.

6) Working capital turnover ratio of the company is negative i.e. -7.09 in the year 2005 & in 2006 it can recovered the negative & also excessive in times & it decreased to 5.76, 4.69, and 3.31 from 2006 to 2008. The decrease of working capital ratio is unfavorable to the company because it shows the inefficient utilization of working capital.

7) The return on capital employed has been decreased by 248.78, 126.64, 127.40 & 131.52 from 2005 to 2008. The company is not utilizing the capital in efficient manner.
SUGGESTIONS

1. The company needs to increases interest turnover ratio by utilizing the recurring fund and the profit retentions; it is more safe to the long-term creditors.
2. The company needs to maintain good inventory turnover ratio by increasing the sales.
3. The company needs to increase the working capital turnover ratio for efficient utilization of the working capital.
4. The company needs to increase the return on capital employed ratio for efficient utilization of capital.
CONCLUSION

Financing is the backbone of the progress of any company. Therefore a financial ratio has its impact on the management. Ratios give the clear picture of financial condition of the company.

The areas which were assigned to me were all key areas of the finance divisions which also include different departments & functions. The profitability position of the company is very good because, the cost of production is low & selling price is high. The company has minimum debt in the capital structure, it doesn’t have financial risk.

By the ratio analysis I conclude that, overall financial performance of the company is satisfactory & operating performance in the terms utilization of various assets is good.
INTRODUCTION

PROFILE OF THE COMPANY

ORGANISATION STRUCTURE
INTRODUCTION:

Backed by 10 years of experience in steel re-rolling, PATEL SHANTI STEELS PVT. LTD is the Raichur’s 1st steel production unit with an existing annual production of more than 4000 tons per annum.

Production started in March-1998, initially, because of unavailability of power. The production was stated by using Generator sets, using Diesel as fuel and continued for initial two years, after that power was available, later generator set were disposed off and regular production continued.

Initial years of company raw material were concerned because of recession period 1998-2001. The company would get raw materials (M.S Billets) from only USP Plant and Jindal Vijaynagar Steel Ltd. But from 2002 onwards the above said materials got comparatively costly and company could not afford to buy from them profitably. Hence it stated buying small T Bars. The company production steel bars has been upgraded by Thermo Mechanical Treatment (TMT) processes to the Bureau of Indian Standards (BIS). The necessary Research and Development facility has been setup and clearance are being obtained.

With the BIS up gradation, the company hopes to increase it production to 50% more than the existing level of production.

Overview of Company Business:

M/s.Patel Shanti Steel Pvt Limited (the “Company”) is an private company. The Company is presently involved in the business of manufacturing Steel Bars, which is used in the Construction of Multistoried Buildings, Dams, bridges, flyovers, and power plants as a basic reinforcement material. The Company is manufacturer of TMT Bars. The Company is using the “Tempcore Process”, which is the most advanced technology worldwide for manufacturing TMT Steel Bars. The Company’s products meet IS 1786-2008 specifications.

The main manufacturing facility of the Company is situated at Bhiwadi (Karnataka). The Plant Capacity is 4500 Metric Tonnes per annum.

All these plants are using US Technology which makes Steels Bars.
The company has a network of more than 150 distributors and dealers spread across the State of Karnataka.

PROFILE OF THE COMPANY

Name of the company: - PATEL SHANTI STEEL PVT LTD
Reg. Office Address: - 12-7-77, Goushala Road Raichur-584102
Factory Location: - Survey No. 259/28, 8th km, Yegnoor Village, Hyderabad Road, Raichur Growth Center, Raichur - 584102.
PAN No.: - AADCP6628H
Status: - Private Limited Company
Tin No.: - 29880042693
PRODUCT PROFILE:-

TMT Steel Bars

TMT Bars used in diversified construction requirements. Our manufactured Thermo Mechanically Treated Steel Bars exhibit high bend ability and re-bend ability features due to due to lower carbon content and higher elongation. Excellent yield and ductility characteristics of our Building TMT Steel Bars make them perfect to use at earthquake zones.

TMT Bars are made at our state-of-the-art plant and under the close supervision of frontline engineers and metallurgists.

The Construction TMT Bars are passed through a highly controlled in-line process of hardening and tempering during hot rolling. Prior to passing through the finishing stand, Ribbed Bars undergo specially designed water-based cooling systems. The cooling system transforms the outer surface to marten site, while the core remains comparatively hot and austenitic. The composite structure has so formed high yield strength and excellent ductility characteristics.

Chemical Composition:-

Chemicals Unit IS: 1786 (Fe 415)
Carbon % 0.30 max.
Sulphur % 0.060 max.
Phosphorus % 0.60 max.
S&P % 0.110 max.

Mechanical Composition
Mech Properties Unit IS: 1786 (Fe 415)
Yield Stress N/mm² 415 min
Tensile Strength N/mm² 10% over YS
Elongation %min 14.5min.
TMT Bars Features:-

Excellent Bond Strength:-
The rib pattern of TMT Bars has been specially designed to ensure excellent bounding between the bar and the surrounding concrete. These ribs are uniform and concrete due to cutting by automated machines. Thus the bond strength is 100-200% higher than the M.S Plain Bars and convectional CTD Bars.

Excellent Weld Ability:-
TMT Bar has far more superior weld ability than convectional CTD Bars. Due to its low carbon content, it can be butt- welded or lap-welded using ordinary retile coated electrodes of matching strength.

Super Bend Ability:-
The tough outer surface and the ductile core of I TMT Bars make it extra high ductile and bendable than reinforcement Steel Bars.

Highly Resistant Against Corrosion:
Our premium product TMT is manufactured by thermo mechanical treatment processes with no tensional residual stresses on the Bars. This results in superior corrosion resistance characteristics than conventional Bars.

Dimensional Tolerances:-
Agree Bar confirms to the IS: 1786 standard laid for dimensional tolerances and has section weight generally lower than found on other bars.

More Economical:-
Agree manufactured TMT Bars are new generation high strength bars with usable yield strengths in excess than required to meet Fe-415 grade and ARE - 1786 standard. It helps our Agree Bars take higher stress levels, resulting in less consumption of our Steel Bars than other conventional Bars. Thus, it helps in saving the valuable money of our clients and avoiding unnecessary loads on the structure.
Standard sizes TMT Fe415 bars as per BIS:-

<table>
<thead>
<tr>
<th>Section (mm)</th>
<th>Nominal Weight (kg/meter)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>0.395</td>
</tr>
<tr>
<td>10</td>
<td>0.617</td>
</tr>
<tr>
<td>12</td>
<td>0.888</td>
</tr>
<tr>
<td>16</td>
<td>1.580</td>
</tr>
<tr>
<td>20</td>
<td>2.470</td>
</tr>
</tbody>
</table>

PATEL SHANTI STEEL PVT LTD manufactures following quality of steel bars:

CTD BARS:-
Cold Twisted Deformed Bars having high strength and proof stress produced by High Speed Rolling and precision cold twisting.

TMT BARS:-
Our TMT bars are Thermo-Mechanically treated for high yield strength. The process involves the rapid quenching of hot bars through a series of water jets after they come out of the last rolling mill stand. The bars are cooled allowing the core and surface temperatures to equalize. The bar core cools down slowly to turn into a ferritepearlite aggregate.

TMT Bars:-
TMT bars are Thermo-Mechanically treated for high yield strength. The process involves the rapid quenching of hot bars through a series of water jets after they come out of the last rolling mill stand. The bars are cooled allowing the core and surface temperatures to equalize. The bar core cools down slowly to turn into a ferritepearlite aggregate.

The company is using the Temporal Process, the most advanced technology worldwide for manufacturing TMT bars in private sector after Tata Iron and Steel Corporation Limited. For determining better quality monitoring of the different layers of the TMT bars at the micro level, the company uses Micro Structure Analysis.
The salient features of these product are:

- High strength
- High ductility
- Bending and re-bending
- Weld ability
- Corrosion Resistant Characteristics
- High Temperature Resistant
- Dimensional Tolerance
- Seismic Resistance Properties

Product Specifications
Trademark Tempcore TMT
Grades : TMT Grade Fe 415, Fe500
Diameter :8,10,12,16,20,25 mm
Standard Length 5.5 meters to 13 meters.

Mechanical Properties of the product and Comparison with Indian Standard

<table>
<thead>
<tr>
<th>PROPERTIES/COMPOSITION</th>
<th>BIS INDIA (IS : 1786)</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPANY’s TMT</td>
<td></td>
</tr>
<tr>
<td>For Grade Fe 415</td>
<td></td>
</tr>
</tbody>
</table>

MECHANICAL PROPERTIES

- Proof Stress 415 N/mm² 450 N/mm²
- Tensile Strength 485 N/mm² 530 N/mm²
- Elongation 14.50% 20%
- Bend Test Up to 22 mm-3D
A study on financial Performance based on Ratio Analysis at Patel Shanti Steel Private Ltd, RAICHUR

CHEMICAL COMPOSITION (%)

<table>
<thead>
<tr>
<th></th>
<th>For Grade Fe- 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon</td>
<td>0.30 Max.</td>
</tr>
<tr>
<td>Sulphur</td>
<td>0.060 Max.</td>
</tr>
<tr>
<td>Phosphorous</td>
<td>0.060 Max.</td>
</tr>
<tr>
<td>S+P</td>
<td>0.110 Degree Max.</td>
</tr>
<tr>
<td>Mn</td>
<td>-----</td>
</tr>
<tr>
<td>Si</td>
<td>-----</td>
</tr>
</tbody>
</table>

MECHANICAL PROPERTIES

<table>
<thead>
<tr>
<th></th>
<th>For Grade Fe- 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proof Stress</td>
<td>500N/mm2</td>
</tr>
<tr>
<td>Tensile Strength</td>
<td>545N/mm2</td>
</tr>
<tr>
<td>Elongation</td>
<td>12%</td>
</tr>
<tr>
<td>Bend Test</td>
<td>Upto 22mm-4D</td>
</tr>
</tbody>
</table>
The company's organizational chart is formed in a hierarchical way, where the hierarchy starts with the "Managing Director". Then in the next level of hierarchy two "Directors" are there. After Director, "Factory Manager" leads to the next level which is further divided into four department namely "Marketing Manager", "Financial Manager", "Production Manager", "Human Resource Manager". Where each department is further divided into assistant managers and helpers which helps the upper level of the organization to work effectively and efficiently. Hence the organizational chart shows the structure of the company and the flow of authority between different levels.
**Boards of Directors:**

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Director</td>
<td>Mr. Shivji Patel</td>
</tr>
<tr>
<td>1st. Director</td>
<td>Mr. Mohanlal Patel</td>
</tr>
<tr>
<td>2nd. Director</td>
<td>Mr. Lalji Patel</td>
</tr>
<tr>
<td>Factory Manager</td>
<td>Mr. Shamlal</td>
</tr>
<tr>
<td>Marketing Manager</td>
<td>Mr. Bhim Rao</td>
</tr>
<tr>
<td>Assistant Marketing Manager</td>
<td>Mr. Mallikarjun</td>
</tr>
<tr>
<td>Finance Manager</td>
<td>Mr. Vinay Patel</td>
</tr>
<tr>
<td>Assistant Finance Manager</td>
<td>Mr. Mukesh Vyas</td>
</tr>
<tr>
<td>Production Manager</td>
<td>Mr. Ravji Patel</td>
</tr>
<tr>
<td>Assistant Production Manager</td>
<td>Mr. Puans Solanki</td>
</tr>
<tr>
<td>Human Resource Manager</td>
<td>Mr. Shamlal</td>
</tr>
</tbody>
</table>
FUNCTIONS OF VARIOUS DEPARTMENTS

The company consists of four departments namely Production, Finance, Administration & Marketing and Human Resource Management. The company of 48 permanent staff and there are some 5-10 more who work on a daily wage basis. Every employee who joins the company for the first time has to undergo a probation period for one year. The employee will be under observation during this period. If the director board is satisfied with the performance, he will be made permanent. The permanent staff members are entitled for provident fund, gratuity, employee state insurance, house rent allowance. The daily wage basis employees are entitled for shift allowance. During the peak seasons the company works round the clock with two shifts. The normal office working hours are from 9.00 to 14.00 hrs and 15.00 hrs to 19.00 hrs. The working shifts is of 6(six) hrs of two shifts.
MARKETING DEPARTMENT:

Marketing occupies an important position in the organization of any business unit. Marketing functions are not limited to the functions of buying and selling but they include all function necessary to satisfy the customer such as financing, storage, risk bearing and after sales services etc. Marketing is a vital connecting link between the producer and the customer.

Functions:-

Target Customer:-
Target customer are small dealers vending in Taluks and small villages and house constructing customers.

Market Research:-
Market Research are determined by the feedback by their dealers and walk-in customers.

Present Market Situation:
The demand situation is slack due to general slowdown on the export front and there by due to a slowdown general Indian economy. However due to agricultural production the rural demand is intact and therefore demand situation is not totally hopeless and the production is some-how seems to be picking up due to the seasonal demand.

Major Competitor:-
Major Competitor are from outside the state steel producers because there is very less production as the local electricity power rate is very high, so there is minimum production allover the state(being electricity is the major cost in the production of steel), naturally the goods comes from out of the state for local demand within the state.

Market Segmentation:-
About 50% from city and other 50% from near by rural markets.
Market Target:

Target Market is our own district(Raichur), because delivery to other places involves higher transportation charges and hence less profitable.

Positioning:

The main strategy is to produce only economically viable production that is produce only such extant which is viably saleable.

Sales Promotion:

For sales promotion, suitable incentives in kind are being offered to the dealer and as well as direct customer, so that the sales volume is maintained at the optimum level.

Just like:
1. Quantity discount.
2. Price discount.
3. Better credit facility to credit worthy dealer and customers.
4. FOR delivery.

General economic and business conditions:

The demand for company products is dependent on general economic conditions in India and may affect if there are changes in business conditions in our country.

Demand:

The demand for company products viz. Steel, Cement, SS Pipes and POP is a derived demand, meaning that it is dependent upon the state and condition of the infrastructure, construction and housing industry. company have a very well diversified customer base which obviates dependence on any major Customer. company have further sought to expand company customer base. The prospects and earnings growth of the customers company serve will have an impact on company ability to generate sales.
Competition:

Selling prices of company products may be affected if competition intensifies, including as a result of increased capacity of Competitors or company competitors adopt aggressive pricing strategies in order to gain market share or new competitors enter the markets we serve.

Raw Material Prices:

Raw materials i.e Steel Ingots, Sponge Iron and M.S. Scrap constitute a major portion of company total expenses. Fluctuations in the cost of these raw materials may alter company cost structure and affect profitability. Historically, we have been able to pass on increases in raw material costs to company customers but company cannot assure you that in future also company will be able to do so.

Other Factors:

Company results of operations are dependent upon company success in managing company inventories. Company have to schedule out production process and procurements according to delivery schedule of customers. Any change in schedule may affect company operation in short run.

Demand Forecasting:

The company expects the demand revival in the third quarter of this year following the government realized finance through various schemes for enhancing construction activities. We have appointed special representative to study the demand from various segment of the industry and various customers putting up houses.
Human Resource Department:

Human Resource Department is a department for the effective management of personnel at work. Human Resources management is the sense of planning organizing and controlling the various operating functions of processing, developing, maintaining and utilizing the labor process for the purpose of contributing a lot towards the accomplishment of major goals of the organization.
FUNCTIONS:-

1. Recruitment & Selection.
2. Performance Appraisal.
3. Compensation.
5. Manpower Planning.

HUMAN RESOURCE POLICY:-

1. Patel Shanti Steel recognizes that its people are the primary source of its competitiveness.
2. It will pursue management practices designed to enrich the quality of life of its employees, develop their potential and maximize their productivity.
3. Patel Shanti Steel will strive continuously to foster a climate of openness, mutual trust and teamwork.

MANPOWER PLANNING:-

The present strength of the Company is 60 employees.

S.No. Name of Department Number of Employees

1. Technical & Administration Staff at 10
2. Administration, Marketing and Finance at Registered Office 08
Total 108.

The Company also employs contract labour for its manufacturing facility at Raichur, 25 Karnataka
RECRUITMENT AND SELECTION:-

There is no recruitment from last few years in Patel Shanti Steels Pvt Ltd Due to heavy computerization, mechanisms, and modern technologies. Preference is given to son(s) of workman.
They require much lesser manpower as there is centralized management.

PERFORMANCE APPRAISAL:-

Performance appraisal assesses an individual's performance against previously agreed work objectives. Performance appraisal is normally carried out once a year. They assess key result areas of their employees, workers and supervisors. Since it is a joint responsibility of the individual and the supervisor; every individual in PSSPL are co prime to each other.

It also enables management to compare performance and potential between employees and subordinates of the same rank. Rating of employees is done by their performances. It is given as per ranks very good, average, and average to medium and below average.

TRAINING AND DEVELOPMENT:-

• Safety is a high priority area. Several movements to inculcate a culture of safety have been practiced, but the Company needs to do more to prevent accidents and improve its safety record.
• They are trained to know the changes in environment, market, and in steel prices.
• They also get training of problem solving techniques, conflict management, etc.
COMPENSATION PLANNING:-

• It depends on financial capabilities.
• Yearly increments are given.
• Compensation for inflation is common for all employees. (flat rates)
• It is decided by union and management where various demands are negotiated.
• It is paid as per other industries.
• Individual performance bonus is also given.

MAINTAINING COMMUNICATION WITH EMPLOYEES:

Communication is maintained through various communication channels such as:
• Notices
• Circulars
• Calling forums
• Correspondents
• Functional departmental meetings, ETC.
FINANCIAL DEPARTMENT

FINANCIAL DEPARTMENT:-

It is finance, which brings together various segments of an organization and transforms them into an integrated whole so that it may function smoothly and move in the direction of achieving the organizational goal. Finance Manager is the top authority in Finance Department. He has equal rights and responsibilities as compared to the Managing Director of the Company in general matters.

Director himself handles finance department covering both purchase and sales as price of steel very volatile, changing almost every day. Therefore they have make bulk purchase at the time of lower price and make sales as and when appropriate.

Capital Structure of the Company

Capital structure or composition of capital or pattern of securities or the security mix is a major aspect of financial planning. Once the finance manager has determined the firm’s financial requirements and his next task is to see that there are fund in hand. The capital comes in many forms long term and short term Loans, secured and unsecured debtors, share contribution etc. The decision upon the ratio of these securities into total capitalization is to decide the capital structure.

Working Capital:

Short Term Funds:- Working Capital generally taken care of by cash credit facility extended by SBI to the extend of 1.5 crores.

Long Term Funds:- Now, there been a long term slow down due to international financial crisis, there is no proposal to invest further as of now. If economic revival takes place in future, fund can be raise through Equity, Bank funds, Private Equity.

Financial Plan:-

General financial plan is not done on a regular basis due to volatility of prices, all decisions regarding purchases and sales is done by market on daily basis.
Financial Position:-
Current financial position of the organization is quite stable.

Report to Government Agencies:-
1. The usual financial reports are always required for excise department, VAT department and lending Banks.
2. Report to PCB Boards (Pollution Control Boards).

Tax Policies and procedures:-
Tax policies and procedures are observed with the consultant CA's.

Insurance Cover:-
Regular insurance is covered for the value average stock held at the factory.

Cost of Unit of Product:-
Cost of product is approximately Rs. 3600 per ton inclusive of all taxes and expenses.
1. Coal – Rs. 700.
2. Power – Rs. 750.
4. Labour – Rs. 600.
6. Tax and Interest – Rs. 650.

Financials:-
As of 31st March 2008 total turnover including other income was Rs. 12.51 Crores and net profit after tax was Rs. 9.7 Lackhs.
Accounting Policies

1. **Basis of Accounting:** Financial statement is prepared under the historical cost convention and on annual basis.

2. **Fixed Assets:** Fixed Assets are stated at their historical and less accumulated depreciation there own. The cost of fixed assets comprises their acquisition cost and any attributable of bringing the asset to its working conditions. The cost of self-constructed fixed assets comprise those costs that are related directly to the specific assets and overheads consistently allocated at predetermined percentage of direct salaries and wages.

3. **Valuation of Inventories:-**
   a. Raw Material, stores & Spares, Packing Material, Fuel, Stock in process are valued at cost
   b. Finished goods are valued at cost or realizable value whichever is less.
   c. Waste & scrap and Runner & Riser are valued at realizable value.

4. **Sales:-**
   Sales are stated net of sales returns.

5. **CENVAT:-**
   Cenvat claimed on Plant & Machinery is reduced from the cost of Plant & Machinery. Cenvat claimed on purchases of raw materials and other materials reduced from the cost of such materials.

6. **PROVISION FOR CURRENT AND DEFFERED TAX:-**

   Provision for current tax is made after taking into consideration benefits admissible under the provision of income tax Act, 1961. Deferred tax resulting from “timing difference” between book profit and taxable profit is accounted for using the tax rates and laws that have been enacted or substantively enacted as on the date of balance sheet. The deferred tax liability is recognized and carried forward only to the extent that there is a reasonable certainty that the same will be realized in future.
Company’s Future Business strategy:-

Company has taken a conscious decision to develop and enlarge its business operations by adopting Franchise route. The Franchisee markets the Products at its own using Marketing network of PSSPL and paying the Company Royalty on sales per tonne basis/per bag/percentage. Company have plans to establish our own Stock Yards at various strategic locations and materials required for these yards will be sourced from the nearby Franchisees, who are manufacturers of PSSPL Steel TMT/ CTD Bars.

The Company will derive following benefits of this strategy:

- Company would be able to increase its profitability by increased turn-around cycle of available resources.
- Company would be able to derive benefits of handling large volumes.
- Company would get Royalty payments from the Franchisees for use of PSSPL brand.
- PSSPL proposes to establish the stockyards in leased properties. It is proposed to acquire land at a suitable location.

Each stockyard would be managed by a team of 5-6 people.
Financial Department Chart

- Director
  - Finance Manager
    - Asst. Finance Manager
      - Financial Executives
PRODUCTION DEPARTMENT

Production Process Chart:

1. Raw Materials (M S Ingots)
   - Charged in Re-heating Furnace
2. Roughing Mill
   - (Ingot 4” reduced to 2”)
3. Finishing Mill
   - (2” to reduced to required finishing size)
4. TMT Treatment Plant
5. Cooling Bed
6. Cutting and sizing
7. Bending and Staking
8. Finished Goods
   - (8mm, 10mm, 12mm, 16mm, 20mm TMT Bars)
PROCESS FLOW CHART FOR PRODUCTION OF STEEL BARS:-

M.S. Ingot:-

Sponge iron and Mild Steel Scrap is fed into induction furnace for melting at the temp of 1550 degree Celsius. Suitable quantity of Ferro Alloys i.e. Ferro Silicon, Ferro manganese, aluminum sorts etc are added as per required chemical composition. The melted scrap is tapped from induction furnace to C.I. Moulds for manufacturing M.S. Ingot by bottom

TMT Tempcore Bars:-

The Tempcore process is the best process for the production of high quality rebar’s because it replaces costly alloy elements like Vanadium and Niobium with low cost raw material. It results in high mechanical properties, excellent weld ability, excellent ductility & bend ability. It imparts high strength to the bar using the latest technique of Thermo Mechanical Treatment (TMT).

Steel billets are heated in a Reheating Furnace and rolled through a sequence of rolling stands, which progressively reduce the billet to the final size and shape of the reinforcing bar. According to Tempcore process, the bar leaving the final stand is submitted to a special heat treatment involving three stages.

Quenching Stage:-

The first stage consists of a drastic water cooling applied to the bar as it leaves the last finishing stand. The efficiency of the water cooling equipment used at this stage has to be as high as to produce a very hard cooling, on the bar surface, faster than the critical rate to form the martensite so as to obtain a surface layer of crude martensite while core remains austenite.
Tempering Stage:-

In the second stage the bar leaves the water quenching line and is exposed to air. The heat flux from the still hot core reheats the quenched by conduction and the martensite formed in the first stage is thus subjected to self tempering giving a structure called “Tempered Martensite” which is strong and tough. The core is still austenitic at this stage.

Final Cooling stage:-

The third stage of “Atmospheric Cooling” occurs on the cooling bed, where the austenitic core is transformed to a ductile ferrite pearlier core. Thus, the final structure consists of a combination of strong outer layer of tempered martensite and a ductile core of ferrite-partite.
Structure of Production and Operation:

- Production
  - Asst. Production/supervisor
    - Foreman
      - Operation Manager
      - Fitter Operation
        - Helpers
      - Work shop
        - Electricity
          - Electricity
            - Asst. Electrtion
        - Turner
          - Roller Finisher
            - Helper
            - Store Manager
      - Production Worker
        - Roughing Mill
          - 6 Workers
        - Finishing Mill
          - 8 Workers
      - Materials
        - Raw Materials
          - 4 Workers
        - Finish Goods
          - 24 Workers
Production Department Chart

Director

Production Manager

Asst. Production Manager

Foreman

Fitter

Helper
Sources of Raw-Materials:-
Ingots are procured from various private manufacturers (furnaces) from different states, like Goa, Maharashtra, Andhra Pradesh and within Karnataka itself.

Water:-
Water consumption for TMT & Mill Cooling and for domestic purpose consumption is met from a bore well tube well within the factory premises. Water is recirculated and re-used.

Power:-
The Company sources Power from GESCOMM, through dedicated high voltage feeder lines and do not have alternate source of electricity for manufacturing facilities.

Evaluate of Suppliers:-
Demanding upon the quality supplied by various private manufacturers and best prices offered by them.

Suppliers Evaluation and Rating Mechanism:-
Usually evaluation is done in-house by quality material received from him and best prized offered by him; these are only criteria for evaluation and rating mechanism.

Usual Ordering Practice:-
During these time of economic slowdown of lower demand, ordering is done only when the inventory is of minimum requirement (i.e., 10 tons.)

Purchase:-
Around 4200 tons per annum.

Production Capacity:-
Production capacity is about 6000 ton per annum, usually single shift is operated because of lower demand.
Schedule of Working Hours:-

Schedule is from 7am to 7pm with intermittent interval of one hour after each hour of work for all workers, that mean effectively each worker works for only 6 hours during 7am to 7pm.

Typical Mechanism/ Technology Used:-

1. Roughing Stands:-
   Where in 7 passes are taken up for rolling down the materials from 100mm sq to 35mm sq.

2. Finishing Stands:-
   Where in 7 to 9 passes are under taken up for rolling down to finishing size of materials from 35mm sq to finishing size (i.e., 8mm, 10mm, 12mm, 14mm, 16mm, 20mm.)

3. Technology Used:-
   Jet therm technology is used for TMT Bars.
SWOT Analysis

(Strength, Weakness, Opportunity, Threat)

Strength:-

1. Company is using “Tempcore Process” which is the most advanced technology worldwide for the manufacturing of the Thermo Mechanical Treatment bars. As the plants are based on the upgraded Automatic US Technology, the speed of the plant is 32 seconds for manufacturing of Thermo Mechanical Treatment Bars.

2. The company has a network of more than 175 dealers and distributors spread across the state.

3. The Thermo Mechanical Treatment bars manufactured in the factory according to standard of Indian Standard(IS) 1786:2008. In making Thermo Mechanical Treatment bars US technology is used. The company’s name is Jet Therm.

4. The company has talented, skilled and qualified man power to look after different activities at various levels in the organization.

5. The company provides adequate training to staff to keep them updated on all issues related to our Industry.

6. Raw material is locally available within the boundary of 200 kms.

7. The company has a Skilled Manpower.

8. The company has its own trading shop and has experience of 3 decades.

9. Company produces quality product at reasonable prices which has competitive of the company.

10. Direct Marketing helps company to deal directly with the customers to know their needs and satisfaction.
WEAKNESS:-
1. Fluctuation in raw material prices results in fluctuation in daily prices of the product.
2. Labour shortage and communication problem with labour.
3. High cost of production compared to giant producers like Tata, SAIL (Steel Authority of India Limited).
4. Irregularity of power supply stops the production process and leads to the idle machine time, idle workforce as there is no power backup.

OPPORTUNITIES:-
1. The major raw material is available within the boundary of 200 kms, so that company can compete easily with the bigger player as the cost of production is very less.
2. Beside the factory about 2000 acres has been allotted towards development of growth centre, because of this all development activity needs heavy quantity of steel. Obviously they will buy from nearby manufacturing only.
3. Company can make use of full capacity of production by providing good maintenance of machines and proper power supply.
4. Company should create good dealers distribution network to make a good hold and a large market share for its product.
5. Company can reduce its cost of production due to high productivity.

THREATS:-
1. Emerging big player & hence there is competition in the market.
2. Steel prices are depends globally, so sometimes it affects the availability of raw material and it is not possible to make a large stock of raw material due to daily fluctuation in price.

The Company Vision
To be the first choice of customers through leadership in quality and services and achieve sustainable growth through backward integration.

The Company Mission
To constantly strive to meet or exceed customers' needs and expectations by staying ahead of competition with innovative ideas and add super-value to all customers.
Introduction to topic:

When we observed the financial statement comprising the balance sheet and profit or loss account is that they do not give all the information related to financial operations of firm, they can provide some extremely useful information to the extent that the balance sheet shows the financial position on a particular date in terms of structure of assets, liabilities and owner’s equity and profit or loss account shows the results of operation during the year. Thus the financial statements will provide a summarized view of the firm. Therefore in order to learn about the firm the careful examination of an valuable reports and statements through financial analysis or ratio is required.

Meaning and Definition

Ratio analysis is one of the powerful techniques which are widely used for interpreting financial statements. This technique serves as a tool for assessing the financial soundness of the business. It can be used to compare the risk and return relationship of firms of different sizes. The term ratio refers to the numerical or quantitative relationship between two items/variables.

The idea of ratio analysis was introduced by Alexander Wall for the first time in 1919. Ratios are quantitative relationship between two or more variables taken from financial statements.

Ratio analysis is defined as, “the systemic use of ratio to interpret the financial statement so that the strength and weakness of the firm as well as its historical performance and current financial condition can be determined.

In the financial statement we can find many items are co-related with each other for example current assets and current liabilities, capital and long term debt, gross profit and net profit, purchase and sales etc.

Importance of the ratio analysis

As a tool of financial management, ratios are of crucial significance. The importance of the ratio analysis lies in the fact that it presents facts on a comparative basis and enables the drawing of inference regarding the performance of a firm. Ratio analysis is relevant in assessing the performance of a firm in respect of the following aspects
1. Liquidity Position

With the help of ratio analysis conclusion can be drawn regarding the liquidity position of the firm. The liquidity position of the firm would be satisfactory if it is able to meet its current obligation when they become due. A firm can be said to have the ability to meet its short term liabilities if it has sufficient liquidity funds to pay the interest on its short maturing debts usually within a year as well as to repay the principal.

2. Long term solvency

Ratio analysis is equally useful for assessing the long term viability of a firm. This aspect of the financial position of a borrower is of concern to long term creditor, security analysts and the present and potential owners of a business. The long term solvency is measured by the leverage/capital structure profitability ratio which focus on earning power and operating efficiency. Ratio analysis reveals the strength and weakness of the firm in this respect.

3. Operating efficiency

Yet another dimension of the usefulness of the ratio analysis, relevant from the viewpoint of the management, is that it throws light on the degree of the efficiency in the management and utilization of its assets. The various activity ratios measure this kind of operational efficiency. In fact, the solvency of a firm is, in the ultimate analysis, dependent upon the sales generated by the use of its assets-total as well as its components.

4. Overall profitability

Unlike the outside parties which are interested in one aspect of the financial position of a firm, the management is constantly concerned about the overall profitability of the enterprise. That is, they are concerned about the ability of the firm to meet its short term as well as long term obligations to its creditors, to ensure a reasonable return to its owners and secure optimum utilization of the assets of the firm. This is possible if an integrated view is taken and all the ratios are considered together.
5. Inter-firm comparison

Ratio analysis not only throws the light on the financial position of a firm but also serves as a stepping stone to remedial measures. This is made possible due to inter-firm comparison and comparison with the averages. A single figure of a particular ratio is meaningless unless it is related to some standard or norm. One of the popular techniques to compare the ratio of the firm with the industry average. It should be reasonably expected that the performance of a firm should be in broad conformity with that of the industry to which it belongs. An inter-firm comparison would demonstrate the firm’s position vis-à-vis its competitors.

6. Trend analysis

Finally, ratio analysis enables a firm to take the time dimension into account. In other words, whether the financial position of a firm is improving or deteriorating over the years. This is made possible by the use of the trend analysis. The significance of a trend analysis of the ratio lies in the fact that the analyst can know the direction of movement, that is, whether the movement is favorable or unfavorable.
ADVANTAGES AND DISADVANTAGES OF RATIO ANALYSIS

Advantages

- **Simplifies financial statements**: Ratio Analysis simplifies the comprehension of financial statements. Ratios tell the story of changes in financial condition of the business.

- **Makes intra firm comparison possible**: Ratio analysis also makes possible comparison of the performance of different division of the company. The ratio helpful in deciding about their efficiency.

- **Helps in planning**: Ratio Analysis helps in planning and forecasting over period of time a company develops certain norms that may indicates future success/failure. If relationship changes in firms data over different time periods. The ratio may provide clues on trends and future problems.

- **Liquidity position**: With the help of ratio analysis conclusions can be drawn regarding liquidity position of the company. The liquidity position of a company could be satisfactory if it is able to meet its current obligations when they become due.

- **Long term solvency**: Ratio analysis equally useful for assessing the long-term financial viability of a firm. The long-term solvency is measured by the leverage/capital structure and profitability ratios, which focus on earning power and operating efficiency.

- **Facilitates inter firm comparison**: Ratio analysis provides data for inter company comparison. Ratio highlights the association with successful and unsuccessful firms. They also reveal strong and weak companies, overvalued and undervalued company’s.
Disadvantages

Ratio analysis is a widely used tool of financial analysis. Yet, it suffers from various limitations. The operational implication of this is that while using ratios, the conclusion should not be taken on their face value. Some of the limitation which characterize ratio analysis are

1. Difficulty in comparison

One serious limitation of ratio analysis arises out of the difficulty associated with their comparability. One technique that is employed is interfirm comparison. But such comparisons are vitiated by different procedures adopted by various firms. The difference may relate to

- Difference in the basis of inventory valuation
- Different depreciation methods (i.e. straight line vs. written down basis)
- Estimated working life of the assets, particularly of plant and equipment
- Amortization of intangible assets like goodwill, patents and so on.
- Amortization of deferred revenue expenditure such as preliminary expenditure and discount on issue of shares
- Capitalization of lease
- Treatment of extraordinary items of income and expenditure and so on

Secondly, apart from different accounting procedures, companies may have different accounting periods, implying differences in the composition of the assets, particularly the current assets. For these reasons, the ratios of two firms may not be strictly comparable.

2. Impact of inflation

The second major limitation of the ratio analysis as a tool of financial analysis is associated with price level changes. This, in fact is a weakness of the traditional financial statement which are based on historical cost. An implication of this feature of the financial statement as regards ratio analysis is that assets acquired at different periods are, in effect, shown at different prices in the balance sheet, as they are not adjusted for changes in the price level. As a result, ratio analysis will not yield strictly comparable and therefore, dependable results.
3. Conceptual Diversity

Yet another factor which affects the usefulness of ratios is that there is difference of opinion regarding the various concepts used to compute the ratios. There is scope for diversity of opinion as to what constitutes shareholders’ equity, debt, asset, profit and so on. Different firms may use these terms in different senses or the same firm may use them to mean different things at different times.

Reliance on a single ratio for a particular purpose may not be a conclusive indicator. For instance, the current ratio alone is not an adequate measure of short-term financial strength; it should be supplemented by the acid test ratio, debtors turnover ratio and inventory and inventory turnover ratio to have a real insight into the liquidity aspect.

3. Types of Ratios:

The ratios can classified in the following broad main groups:
1. Liquidity ratios.
2. Capital structure or leverage ratio
3. Turnover ratios.
4. Profitability ratios.
5. Expenses ratios.

1. Liquidity Ratios:

Liquidity of the company means its ability to meet its current and short term obligations when they become due for payment. It reflects the short financial strengths and solvency of a company. The short term creditors of the company are interested in the short solvency or liquidity of the company. But, from the point of utilization of funds liquidity or excess of it may end with the funds lying idle. Hence, a proper balance between the two contradictory requirements i.e. liquidity and profitability is required for the efficient financial management.

The following are the some ratios, which give indication about the liquidity of the company. These ratios are as follows.
* Current Ratio:

The current ratio is the ratio of current assets to the current liabilities. It is calculated by dividing current assets by current liabilities.

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

The current assets of the company represent such assets, which can be converted into cash within a short time or period which is normally not exceeding one year and includes cash and bank balances, marketable securities, inventory of raw materials, work in process and finished goods, net debtors, bills receivable. Similarly, total of current liabilities includes short-term liabilities namely trade debtors, bills payable, outstanding expenses, etc.

The current ratio is a measure of short-term solvency of the company. It indicates the rupee of current assets available for each rupee of current liability. The higher the current ratio, the larger the amount of rupees available per rupee of current liability and the greater the safety of the short-term creditors.

A high ratio indicates better liquidity position. But, it should be noted that very high current ratio is indicative of ineffective utilization of current assets due to high amount of fund locked in high level of current assets (i.e., generally a high amount of inventory). The norm for this ratio is 2:1 which means even if 50% of the current assets are available for the liquidation; it can meet the current liabilities. The high ratio is also possible when the long-term sources of funds are available for financing the part of the current assets. This avoids the embarrassing situations where the short obligations can be met due to temporary liquidity crunch.

This is due to low reliance on short-term funds, a standard norm of the current ratio depends on the type of the industry as this govern the level of current assets requirements (e.g., public utility companies have low requirement of the current assets while the whole-sellers require high level of current assets.

* Acid Test Ratio:

This ratio tries to overcome the defect of the current ratio. This ratio considers the qualitative aspects of the current assets. It projects relatively clear picture than the current ratio. This distinguishes the relative liquidity of different current assets. This is called quick ratio, as
it is a measurement of a company’s ability to pay off its current liabilities. The acid test ratio is ratio of quick current assets and quick current liabilities.

\[
\text{Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Quick Liabilities}}
\]

The quick assets refer to current assets, which can be converted into cash immediately. It excludes the inventory from the current assets, which are the most liquid assets. To get converted into cash the inventory should be converted into the debtors first and then into cash, unless it sold on cash basis the norm for this ratio is 1:1. This ratio provides check on the liquidity position of the company. It is more rigorous and penetrating test for the liquidity position of a company. Similarly to the current ratio, changes from industry to industry.

2. Leverage or Capital Structure Ratios:

The long term creditors would judge the soundness of a firm on the basis of the long term financial strength measured in terms of its ability to pay the interest regularly as well as repay installment of the principal on due debts or in lump-sum at the time of maturity. The long term solvency of a firm can be examined by using leverage or capital structure ratios. Those ratios are as follows;

* **Debt Ratio:** This is a ratio between total debts and total assets.

\[
\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100
\]

This ratio represents contribution of the outside fund in the total assets of a company. It shows the proportion of total assets financed by the outside funds. A low ratio is desirable from point of view of creditors as there is a sufficient margin of safety is available to them. The creditors are at higher risk, when this ratio is on the higher side. This may be due to over valuation of the assets or due to the method of charging depreciation on the assets.

**Debt-Equity Ratio:** This ratio represents relation between borrowed funds and owners equity capital is a popular measure of long term solvency of a firm. The relationship of the debt equity ratio shown by:
Debt-Equity Ratio = Long term debt / shareholders equity

The equity ratio is an important tool of financial analysis to apprise financial structure of the firm. It has important viewpoint of the debt holders, owners and the firm itself. What is the relationship between debt & equity? There can not be rigid rule. It will depend upon circumstances, prevailing practices, type & size of the business, nature of the industry and degree of risk involved and so on. For example, firm’s having a stable income or a firm producing basic products can afford to have a higher (i.e. 3:2 better).

* Proprietors Ratio:
This ratio shows proportion of total assets financed by the owners’ fund. A high ratio indicates that the debt is not being exploited to get the benefit of the trading on equity. In general a company should have moderate ratio.

Proprietary Ratio = proprietor’s funds/Total Assets

* Interest Coverage Ratio:
This ratio measures the debt – servicing capacity of a firm in so far as fixed interest on long term loan is concerned.

Interest Coverage Ratio = EBIT / Interest

This ratio, as the name suggests, shows how many times the interest charges are covered by the EBIT out of which they will be paid. The larger coverage, the greater ability of the firm to handle fixed charged liabilities. And low is danger signal the firm is using excessive debt.

3. Turnover or Activity Ratios:
The Turnover Ratio or Activity ratios are concerned with measuring the efficiency in asset management. Hence some times these ratios are also called as efficiency or asset utilization ratios, these ratios reflect the management efficiency in utilization of the company’s assets vis a vis its operations.

The speed and rapidity with which the assets are utilized to generate sales show the efficiency with which assets are used. The greater the rate of turnover or equal. These
ratios are the test of relationship between sales (or cost of goods sold) and various assets of company. Depending on various types of assets there are various types of activities ratios.

* **Inventory or stock turnover ratio**: -

It is computed by dividing the cost of goods sold by the average inventory.

\[
\text{Inventory Turnover Ratio} = \frac{\text{cost of goods sold}}{\text{average inventory}}
\]

The cost of the goods sold can also be computed as net sales less gross profit. The average inventory is computed as the simple average of the opening stock and closing stock of the inventory. This ratio indicates number of times inventory is replaced during the year. In case of seasonal industries, the average can be computed by taking simple average for opening stock of a month for a year, which will smoothen out fluctuating in the inventory. In some cases if the data is not easily available, then this ratio can be calculated by dividing the net sales by closing inventory.

In general, a high inventory turnover ratio is better, as it shows the efficient management of inventory. But, a very high inventory turnover ratio can be an indicative of under investment in a very low level of inventory. A very low level of inventory serious implications. It will adversely effect the production due to “out of stock” situation which in turn effect the ability of a company to meet customer demand. Conversely a very low inventory turnover ratio is also not good as this indicates excessive inventory or over investment. In inventory due to this funds are blocked in excessive inventory, which may impose serious problem in working capital management.

The inventory turnover ratio can also be expressed in terms of days or months of cost of goods sold.

\[
\text{Inventory Holding period} = \frac{365}{\text{Inventory Turnover Ratio}}
\]

**Net Asset Turnover Ratio**: Net asset is also called capital employed. It is calculated by dividing net assets divide by net sales.

\[
\text{Net Asset Turnover Ratio} = \frac{\text{Net sales}}{\text{Net Assets}}
\]
A study on financial Performance based on Ratio Analysis’’ At Patel Shanti Steel Private Ltd, RAICHUR

* **Working Capital Turnover Ratio:** A firm may also like to reduce net current assets to net sales. It may compute working turnover by dividing net sales by the net working capital

\[
\text{Working Capital Turnover Ratio} = \frac{\text{Net sales}}{\text{Net working capital}}
\]

Higher ratio indicates efficiency of using working capital to maximize the sales and vice-versa. But too high ratio indicates shortage of working capital of firm. The reciprocal of this ratio indicates that the availability of working capital on one rupee of sales.

* **Creditors Turnover Ratio:**

   This ratio is the ratio between purchases and creditors outstanding. The creditors turnover ratio as follows-

   \[
   \text{Creditors turnover Ratio} = \frac{\text{Purchases}}{\text{Average Creditors}}
   \]

   A low ratio reflects liberal credit terms granted by the suppliers, while a high ratio shows that accounts are settled rapidly. It is important ratio for analysis, as company can reduce its requirement of working capital by relying on supplier’s credit.

   This ratio can be expressed as the accounts payable period in terms of days or months.

   \[
   \text{Account Payable Period} = \frac{360}{\text{Creditors Turnover Ratio}}
   \]

   This ratio shows the extent to which the trade creditors are willing to wait for payment. The velocity of creditor (i.e. accounts payable period) on higher side reflects better negotiation for the credit period. The velocity of creditors should be compared with the credit period received from the suppliers. This should shows the efficiency of the management in negotiation for the credit terms

4. **Profitability Ratio:**
The management of a company or the company itself is naturally interested to measure operating efficiency. Also, the owners invest their funds in the company in the expectation of reasonable return to its share holders depends on the profits earned by it. Profitability an important measure of efficiency. It also indicates the acceptance of the public the product and its effectiveness in the market. Also, the profits provide the money for the repayment of the incurred to finance the project, expansion programme and other related activities. The profitability ratios help in measuring the profitability of the company. Various types of such ratios are explained below,

* Gross profit Margin: Gross profit margin represents the relation between the profits and sales.

\[
\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100
\]

Gross profit is the result of the relation between prices, sales value and cost. Any changes in these will affect the gross profit. A high gross profit margin is the of good management. As it implies that the cost of goods itself might have reduced.

* Operating Profit Margin: This ratio measures the relationship between operating profit and sales.

\[
\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100
\]

The operating profit means the profit before the interest and taxes and before considering the effect of non trading transactions. (This may also be considered as after interest and tax) PAT/EBIT. This ratio indicative management ability to operate the business so that it should be sufficient to take care of the cost borrowed funds and the margin of reasonable compensation should be left for the owners.

* Net Profit Margin: This ratio measures the relationship between and profit after tax and net sales

\[
\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100
\]
The profit tax is the total profit (i.e. including operating profit and non operating) after interest and tax. This ratio indicates the percentage of the net sales left after paying the interest and taxes. This includes the amount available for the apportionment to its owners for providing their capital at risk.

The high net profit margin should ensure adequate return to the owners as well as enable company to withstand adverse economic conditions and selling price declining, the cost of production is rising and the demand product is falling.

* **Return On Capital Employed:** It is the indicator of relationship between net profit and total assets (capital employed).

\[
\text{Return On Capital Employed} = \frac{\text{Earnings After Tax}}{\text{Average Total Assets}}
\]

This gives the return on total assets employed. But it throws no light on the profitability of the different sources of funds, which finance the total assets.

* **Return On Equity:** In this ratio profitability measures by dividing the net profit after taxes by the average shareholders equity. The average shareholders equity includes equity, reserves and surplus excluding miscellaneous expenditure.

\[
\text{Return On Equity} = \left(\frac{\text{Net Profit After Taxes}}{2}\right) \times 100 / \text{Average Net Profit}
\]

Here the term capital employed includes the owners fund and the long term funds and long term sources of funds. The higher the ratio, more the efficient use of capital employed. It is very significant for the analysis purpose as it return total long term funds that can be compared with individual cost of capital to evaluate the efficiency of the different sources of long term funds.

5. **Expenses Ratios:**

It is computed by dividing sales. There are various expense ratios

\[
\begin{align*}
\text{Administration Expenses Ratio} &= \frac{\text{Administration Expenses}}{\text{Net sales}} \times 100 \\
\text{Selling Expenses Ratio} &= \frac{\text{Selling Expenses}}{\text{Net sales}} \times 100
\end{align*}
\]
In case of lower ratio is favorable while higher one is unfavorable
DESIGN OF THE STUDY

Title of the project
“A Study of Financial Performance Based On Ratio Analysis” at PSSPL Company.

Statement of the problem
Ratios are very useful to draw the conclusion so management wants to know what are the factor contributing for the future growth and also wants to maintain the same in the longer run and also improve the profitability and liquidity of the organization.

Research problem
To know the financial performance of the organization through ratio analysis, by comparing years financial performance of the company.

Purpose of the study
A company’s balance sheet and profit & loss accounts are valuable information sources for identifying risk taking and assessing risk management effectiveness. Although amounts found on these statements does not provide valuable insights of performance so ratio analysis is required for determining good or bad performance of company and also for determining its causes. The study includes the calculation of different financial ratios. It compares four years financial statements of the company to know its performance in these different years.

Scope of the study
The scope of the study is limited to financial aspects of PSSPL Company.

Objectives
- To know the financial performance of the organization.
- To study financial position of PSSPL based on different ratios.
- To determine the profitability and liquidity of the company through ratios analysis.
- To compare the present and previous years performance of PSSPL Company.
Methodology

Data Collection method

• Primary Data: The information collected from Personnel Interaction with manager and other staff
• Secondary: Annual reports of PSSPL Company

Measurement technique/ Statistical tool

• Accounting ratio
• Financial statement of the company
1. Liquidity Ratios

**Current Ratio**: The current ratio is the ratio of current assets to the current liabilities. It is calculated by dividing current assets by current liabilities.

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

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<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Current Assets Amt in RS</th>
<th>Current Liabilities Amt in RS</th>
<th>Ratio</th>
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<td>2008-09</td>
<td>49,637,413.00</td>
<td>12,616,200.00</td>
<td>3.93</td>
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</table>

**Interpretation**: As conventional rule, current ratio of 2:1 or more is considered satisfactory. The current ratio of the company is increased by 0.58 to 2.97 to 5.17 in the year of 2005-06 to 2007-08 respectively & it decreased 3.93 in 2008-09. by observing all four years there was highest ratio 5.17 in the year 2007-08 & company will have adequate funds to pay its current liabilities. In 2005-06 the current ratio is too low i.e. 0.58 it indicates that inadequate working capital. The highest ratio indicates that the company is ideal investment in assets.
Quick Ratio:- It is the ratio between quick or liquid assets & liquid liabilities. It is a measurement of a company’s ability to pay off its current liabilities.

**Quick Ratio = Liquid Assets / Liquid Liabilities**

Liquid Assets = Current Assets – Stock & Prepaid Expenses

Liquid Liabilities = Current Liabilities – Bank Overdraft

### Table 1.2

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Liquid Assets Amt in RS</th>
<th>Liquid Liabilities Amt in RS</th>
<th>Ratio</th>
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<tbody>
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<td>2006-07</td>
<td>79,32,184.00</td>
<td>951,85,09.00</td>
<td>0.83</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>70,71,810.00</td>
<td>547,42,99.00</td>
<td>1.26</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>3,13,41,416.00</td>
<td>1,26,16,200.00</td>
<td>2.48</td>
</tr>
</tbody>
</table>

### Chart 1.2

**Quick Ratio**

**Interpretation:** Generally quick ratio of 1:1 is considered to represent a satisfactory Current financial condition of the company. The quick ratio of the company is continuously
increased by 0.16 to 1.83 to 1.26 to 2.48 from the year of 2005 to 2008 respectively. By observing 4 years ratio, company has sound financial position.

2. Capital structure or leverage Ratios:

Total Debt Ratio: The ratio represents contribution of the outside fund in the total assets of a company.

Total Debt Ratio = Total Debt / Total Assets *100

Total debt = Long term debt
Total Assets = Fixed Assets + Current Assets

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Total Debt Amt in RS</th>
<th>Total Assets *100 Amt in RS</th>
<th>Ratio in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>3,86,02,127.00</td>
<td>8,97,19,892.00</td>
<td>43.02</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>4,72,72,580.00</td>
<td>8,80,85,255.00</td>
<td>53.66</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>4,24,03,012.00</td>
<td>8,22,71,402.00</td>
<td>51.54</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>4,47,08,044.00</td>
<td>9,84,07,066.00</td>
<td>45.43</td>
</tr>
</tbody>
</table>

Interpretation: The ratio shows the proportion of total debt in the capital structure. Total debt ratio of the company is increased by 43.02 to 53.66 to 51.54 to 45.43 from 2005-06 to
A study on financial Performance based on Ratio Analysis™ At Patel Shanti Steel Private Ltd, RAICHUR

2007-08 respectively. By observing 4 years ratio, the company having maximum debt in the capital structure.

**Debt-Equity Ratio**: This ratio represents the relation between borrowed funds & owners equity capital. It is a popular measure of long solvency of a firm.

**Debt-Equity Ratio** = long term Debt / Shareholders Equity

Long-term Debt = Debenture & Other long term debt (Mortgages + Bonds)
Shareholders Equity = Share Capital + Reserves & surplus

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Long term Debt Amt in RS</th>
<th>Shareholders Equity Amt in RS</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>3,86,02,127.00</td>
<td>1,26,00,998.00</td>
<td>3.06</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>4,72,72,580.00</td>
<td>3,06,90,592.00</td>
<td>1.54</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>4,24,03,012.00</td>
<td>3,35,00,987.00</td>
<td>1.26</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>4,47,09,041.00</td>
<td>4,00,70,485.00</td>
<td>1.11</td>
</tr>
</tbody>
</table>

**Chart 2.2**

**Debt-Equity Ratio**

**Interpretation**: The debt-equity ratio indicates the margin of safety to the creditors. The debt equity ratio of the company is continuously decreased by year to year i.e. 3.06 to 1.54 to 1.26
to 1.11 from 2005-06 to 2008-09 respectively by observing 4 years ratio, the company has high ratio i.e. 3.06 in 2005-06

**Proprietary Ratio:** The Ratio indicates the relationship between proprietary funds & total assets.

**Proprietary Ratio = Proprietor’s fund / Total Assets**

Proprietor’s fund = Share Capital + Reserves & Surplus.

Total Assets = Current assets + Fixed Assets

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Proprietor’s fund Amt in RS</th>
<th>Total Assets Amt in RS</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>1,26,00,998.00</td>
<td>8,97,19,892.00</td>
<td>0.14</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>3,06,90,592.00</td>
<td>8,80,85,255.00</td>
<td>0.34</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>3,35,00,987.00</td>
<td>82,27,1402.00</td>
<td>0.40</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>4,00,70,485.00</td>
<td>9,84,07,066.00</td>
<td>0.40</td>
</tr>
</tbody>
</table>

**Chart 2.3**

![Proprietary Ratio Chart](image)
Interpretation: This ratio indicates the percentage of shareholders contribution in total assets. Proprietary ratios of the company is continuously increased for 4 years i.e. 0.14 to 0.34 to 0.40 to 0.40 in the year 2005-06 to 2008-09 respectively. Higher ratio indicates a secured position to creditors & a low ratio indicates greater risk to creditors. By observing 4 years ratios in 2007-08 & 2008-09 the company has high ratio i.e. 0.40, it indicates that sound position of the company.

Interest coverage Ratio: This Ratio measures the debt-servicing capacity of a firm in so far as fixed interest on long term loan is concerned.

Interest Coverage Ratio = EBIT / Interest

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>EBIT Amt in Rs</th>
<th>Interest Amt in Rs</th>
<th>Ratio in times</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>1,02,83,300.00</td>
<td>28,86,729.00</td>
<td>3.56</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>1,46,58,300.00</td>
<td>52,98,999.00</td>
<td>2.76</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>1,46,58,300.00</td>
<td>45,28,534.00</td>
<td>3.23</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>1,46,58,300.00</td>
<td>51,24,781.00</td>
<td>2.86</td>
</tr>
</tbody>
</table>

Chart 2.4
**Interpretation**: Interest coverage ratio is measuring of solvency of the firm in paying the interest. The interest coverage ratios of the company is continuously increased & decreased in 4 years i.e. 3.76 to 2.76 to 3.23 to 2.86 in the year 2005-06 to 2008-09 respectively. The highest ratio 3.76 in 2005-06.
3. Turnover or activity Ratio:-

**Inventory Turnover Ratio:** This ratio is used for measuring the profitability. It is computed by dividing the Net sales by average inventory.

\[ \text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory}} \]

Cost of goods sold = O/S + Pur + Direct Exp – C/S

Avg Inventory = Opening Stock + Closing Stock / 2

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Cost of goods sold Amt in RS</th>
<th>Average inventory Amt in RS</th>
<th>Ratio in times</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>3,31,45,386.00</td>
<td>1,15,85,642.00</td>
<td>2.12</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>1,61,42,122.00</td>
<td>1,07,01,095.00</td>
<td>1.50</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>1,08,80,710.00</td>
<td>92,68,920.500</td>
<td>1.17</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>1,91,93,779.00</td>
<td>1,09,81,199.00</td>
<td>1.78</td>
</tr>
</tbody>
</table>

**Chart 3.1**

Interpretation: The ratio indicates how fast inventory is sold. The inventory turnover ratios of the company is continuously decreased for 5 years i.e.2.12 to 1.50 to 1.17 to 1.78 times from 2005-06 to 2008-09 respectively. By observing the above ratios the company having high inventory turnover ratio in 2005-06 as 2.12 times, it indicates that good inventory.
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Net Assets Turnover Ratio:- Net assets is also called capital employed. It is calculated by dividing net assets divide by net sales

Net Assets Turnover Ratio = Net Sales / Net Assets

Net Sales = Sales – Sales Return
Net Assets = Current Assets – Current Liabilities

Table 3.2

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Net Sales Amt in RS</th>
<th>Net Assets Amt in RS</th>
<th>Ratio in times</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>12,59,46,615.00</td>
<td>-1,77,55,317.00</td>
<td>-7.09</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>10,84,77,129.00</td>
<td>1,88,05,206.00</td>
<td>5.76</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>10,73,02,000.00</td>
<td>2,28,37,353.00</td>
<td>4.69</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>12,29,09,228.00</td>
<td>3,70,21,213.00</td>
<td>3.31</td>
</tr>
</tbody>
</table>

Chart 3.2

Interpretation: It is the measure of efficiency in utilization of assets, high ratio indicates better utilization. The assets turnover ratio of the company was in minus in 2005-06 i.e. -7.09 and it increases continue sly i.e. 5.76 to 4.69 to 3.31 respectively. The highest ratio was in the year 2006-07 as 5.76 times, which indicates that the company had generated 5.76 of sales for one rupee of capital employed.
Working Capital Turnover Ratio: It may be computed working turnover by dividing net sales by the net working capital.

Working Capital Turnover Ratio = Net Sales / Net working Capital

Net Sales = Sales – Sales Return
Net Working Capital = Current Assets – Current Liabilities

Table 3.3

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Net Sales Amt in RS</th>
<th>Net Working capital Amt in RS</th>
<th>Ratio in times</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>12,59,46,615.00</td>
<td>-1,77,55,317.00</td>
<td>-7.09</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>10,84,77,129.00</td>
<td>1,88,05,206.00</td>
<td>5.76</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>10,73,02,000.00</td>
<td>2,28,37,352.00</td>
<td>4.69</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>12,29,09,228.00</td>
<td>3,70,21,213.00</td>
<td>3.31</td>
</tr>
</tbody>
</table>

Interpretation: The ratio establishes relation between sales & net working capital. The working capital ratio of company was minus in the year 2005-06 i.e. -7.09 & after it increases continuously i.e 5.76 to 4.69 to 3.31 from 2005-06 to 2008-09 respectively. The highest ratio was 5.76 times in 2006-07, it may be interpreted that the one rupee of net working capital, the company has generated sales of rupees 5.76 & it can be said that its net working capital rotated 5.76 times in that year. High ratio indicates that there is low investment in working capital & there is more profit.
4. Profitability Ratios:

**Gross Profit Ratio**: Gross profit ratio represents the relation between the profit & sales.

**Gross Profit Ratio** = Gross profit / Net Sales *100

Net Sales = Sales – Sales Return

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Gross Profit Amt in RS</th>
<th>Net Sales* 100 Amt in RS</th>
<th>Ratio in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>77,17,055.00</td>
<td>12,59,46,615.00</td>
<td>6.12</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>67,63,625.00</td>
<td>10,84,77,129.00</td>
<td>6.23</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>-7,61,32,588.00</td>
<td>10,73,02,000.00</td>
<td>-70.95</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>1,90,76,147.00</td>
<td>12,29,09,228.00</td>
<td>15.52</td>
</tr>
</tbody>
</table>

**Interpretation**: A high gross profit ratio to sales is sign of good management as it implies that the cost of production is relatively low. The ratios of the company was increased in 2005-06 to 2006-07 respectively i.e. 6.12 to 6.23 & it was decreased in 2007-08 i.e. -70.95 & it was increased in 2008-09 i.e 15.52. By observing 4 years the company has good financial position in 2008-09.
Operating Profit Ratio: This ratio measures the relationship between operating profit & sales.

Operating Profit Ratio = Operating Profit / Net Sales * 100

Net Sales = Sales – Sales Return

Table 4.2

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Operating Profit Amt in RS</th>
<th>Net Sales* 100 Amt in RS</th>
<th>Ratio in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>117702577.00</td>
<td>12,59,46,615.00</td>
<td>93.45</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>99505096.00</td>
<td>10,84,77,129.00</td>
<td>91.72</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>97834075.00</td>
<td>10,73,02,000.00</td>
<td>91.17</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>112833650.00</td>
<td>12,29,09,228.00</td>
<td>91.80</td>
</tr>
</tbody>
</table>

Chart 4.2

Interpretation: Operating profit margin represents the firm’s efficiency in covering operating expenses. A high ratio indicative of firms ability to meet its operating expenses. The operating profit ratios of the company were decreased for 93.45 to 91.72 to 91.17 to 91.80 from 2005-06 to 2008-09 respectively.
Net Profit Margin: This ratio measures the relationship between profit after tax & net sales.

Net Profit Margin = Net Profit / Net sales *100

Net profit = profit after tax
Net Sales = Sales – Sales Return

Table 4.3

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Net Profit Amt in RS</th>
<th>Net Sales* 100 Amt in RS</th>
<th>Ratio in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>29,64,733.00</td>
<td>12,59,46,615.00</td>
<td>2.35</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>43,35,646.00</td>
<td>10,84,77,129.00</td>
<td>3.99</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>28,10,395.00</td>
<td>10,73,02,000.00</td>
<td>2.61</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>65,59,498.00</td>
<td>12,29,80,228.00</td>
<td>5.33</td>
</tr>
</tbody>
</table>

Interpretation: This ratio is the overall measure of the firm's ability to turn each rupee of sales into net profit. The ratios of the company is increased 2.35 to 3.99 to 2.61 to 5.33 from 2005-06 to 2008-09 respectively. The company’s profitability is satisfactory. By seeing 4 years ratio the company has a high ratio indicating that the company will operate its business with sufficient funds.
Return on Capital Employed: It is the indicator of relationship between operating profit & capital employed

Return on Capital Employed = Operating Profit / Capital Employed * 100

Operating profit = Net sales – Operating Expenses

Capital Employed = Net Working Capital + Fixed Assets

Table 4.4

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Operating Profit Amt in RS</th>
<th>Capital Employed *100 Amt in RS</th>
<th>Ratio in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>11,77,02,577.00</td>
<td>4,73,16,178.00</td>
<td>248.75</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>9,95,05,096.00</td>
<td>7,85,68,746.00</td>
<td>126.64</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>9,78,34,075.00</td>
<td>76,797,103.00</td>
<td>127.40</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>11,28,33,650.00</td>
<td>85,790,866.00</td>
<td>131.52</td>
</tr>
</tbody>
</table>

Interpretation: Return on capital employed or return on investment indicates actual amount earned on capital employed. The return on capital employed ratio of the company is decreased for 285.75 to 126.64 to 127.40 to 131.52 from 2005-06 to 2008-08 respectively.
Return on Shareholders Equity: In this ratio profitability measures by dividing the net profit after taxes by the shareholders fund.

\[
\text{Return on Shareholder Equity} = \frac{\text{Net Profit}}{\text{Shareholders fund}} \times 100
\]

Net Profit = Profit after tax
Shareholder fund = Share capital

### Table 4.5

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Net Profit Amt in RS</th>
<th>Shareholders fund Amt in RS</th>
<th>Ratio in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>29,64,733.00</td>
<td>1,02,83,300.00</td>
<td>28.83</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>43,35,646.00</td>
<td>1,46,58,300.00</td>
<td>29.57</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>28,10,395.00</td>
<td>1,46,58,300.00</td>
<td>19.17</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>65,69,498.00</td>
<td>1,46,58,300.00</td>
<td>44.81</td>
</tr>
</tbody>
</table>

### Chart 4.5

Return on Shareholders Equity Ratio

Interpretation: ROE indicates how well the firm has used the resources of owners. The return on equity ratio is increased 28.83 to 29.57 from 2005-06 to 2006-07 & it was decreased by 19.17 in 2007-08.& it was increased by 44.81 in 2008-09. The company earned high rate of
return on equity in the year 2008-09 and also overall position of the return on equity was satisfactory.
5. Expenses Ratios:

**Expenses Ratio:** It is the relationship between expenses to net sales.

**Expenses Ratio Expenses / Net Sales * 100**

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Year</th>
<th>Expenses Amt in RS</th>
<th>Net Sales * 100 Amt in RS</th>
<th>Ratio in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>10,84,056.00</td>
<td>12,59,46,615.00</td>
<td>0.86</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>47,70,237.00</td>
<td>10,84,77,129.00</td>
<td>4.39</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>28,10,395.00</td>
<td>10,73,02,000.00</td>
<td>2.61</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td>65,69,498.00</td>
<td>12,29,09,228.00</td>
<td>5.34</td>
</tr>
</tbody>
</table>

**Chart 5.1**

**Expenses Ratios: Ratio**

**Interpretation:** The expenses ratio was increased for 0.84 to 4.39 to 2.61 to 5.34 from 2005-06 to 2008-09 respectively, it shows that it is favorable for the company.
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Summary of the Ratios:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.Liquidity Ratios</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Ratio</td>
<td>0.58</td>
<td>2.97</td>
<td>5.17</td>
<td>3.93</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>0.16</td>
<td>0.83</td>
<td>1.26</td>
<td>2.18</td>
</tr>
<tr>
<td><strong>2.Leverage Ratios</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Debt ratio</td>
<td>43.02</td>
<td>53.66</td>
<td>51.54</td>
<td>45.43</td>
</tr>
<tr>
<td>Debt – Equity Ratio</td>
<td>3.06</td>
<td>1.54</td>
<td>1.26</td>
<td>1.11</td>
</tr>
<tr>
<td>Proprietary Ratio</td>
<td>0.14</td>
<td>0.34</td>
<td>0.40</td>
<td>0.40</td>
</tr>
<tr>
<td>Int. coverage ratio</td>
<td>3.06</td>
<td>2.76</td>
<td>3.23</td>
<td>2.86</td>
</tr>
<tr>
<td><strong>3.Turnover ratios</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory turnover ratio</td>
<td>2.12</td>
<td>1.40</td>
<td>1.17</td>
<td>1.78</td>
</tr>
<tr>
<td>Net assets turnover ratio</td>
<td>-7.09</td>
<td>5.76</td>
<td>4.69</td>
<td>3.31</td>
</tr>
<tr>
<td>Working capital turnover ratio</td>
<td>-7.09</td>
<td>5.76</td>
<td>4.69</td>
<td>3.31</td>
</tr>
<tr>
<td><strong>Profitability ratios</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross profit ratio</td>
<td>6.12</td>
<td>6.23</td>
<td>-70.95</td>
<td>15.52</td>
</tr>
<tr>
<td>Operating profit ratio</td>
<td>93.45</td>
<td>91.72</td>
<td>91.17</td>
<td>91.80</td>
</tr>
<tr>
<td>Net profit ratio</td>
<td>2.35</td>
<td>3.99</td>
<td>2.61</td>
<td>5.33</td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>248.78</td>
<td>126.64</td>
<td>127.40</td>
<td>131.52</td>
</tr>
<tr>
<td>Return on shareholders fund</td>
<td>28.83</td>
<td>29.57</td>
<td>19.17</td>
<td>44.81</td>
</tr>
<tr>
<td>Expenses ratio</td>
<td>0.86</td>
<td>4.39</td>
<td>2.61</td>
<td>2.61</td>
</tr>
</tbody>
</table>
FINDINGS

1) The current ratio of the company has been increased from 0.58 to 2.97, to 5.17 from the 2005, 2006 and 2007 respectively. & it decreased to 3.93 in year 2008. Current ratio is on par with the standard ratio, so it is favorable to the company.

2) Debt equity ratio of the company has been decreased to 3.06, 1.54, 1.26, and 1.11 from 2005, 2006, 2007 & 2008 respectively. It is favorable to the company.

3) The proprietary ratio of the company has been increased by 0.14, 0.34, 0.40 & 0.40 respectively from 2005, 2006, 2007 & 2008 respectively. The ratio is very low; it is unfavorable to the company.

4) The interest coverage ratio has been continuously decreased by year to year i.e. 3.56, 2.76, 3.23, 2.86, from 2005, 2006, 2007 & 2008 respectively. It shows that lower the ratio less safe to the long-term creditors.

5) The inventory turnover ratio of the company has been decreased continuously i.e. 2.12, 1.50, 1.17 & 1.78 from 2005, 2006, 2007 & 2008 respectively. So, it is not favorable to the company.

6) Working capital turnover ratio of the company is negative i.e. -7.09 in the year 2005 & in 2006 it can recovered the negative & also excessive in times & it decreased to 5.76, 4.69, and 3.31 from 2006, 2007 & 2008 respectively. The decrease of working capital ratio is unfavorable to the company because it shows the inefficient utilization of working capital.

7) The return on capital employed has been decreased by 248.78, 126.64, 127.40 & 131.52 from 2005, 2006, 2007 & 2008 respectively. The company is not utilizing the capital in efficient manner.
SUGGESTIONS

1. The company needs to increase the interest turnover ratio by utilizing the recurring fund and the profit retentions; it is more safe to the long-term creditors.

2. The company needs to maintain good inventory turnover ratio by increasing the sales.

3. The company needs to increase the working capital turnover ratio for efficient utilization of the working capital.

4. The company needs to increase the return on capital employed ratio for efficient utilization of capital.
CONCLUSION

Financing is the backbone of the progress of any company. Therefore a financial ratio has its impact on the management. Ratios give the clear picture of financial condition of the company.

The areas which were assigned to me were all key areas of the finance divisions which also include different departments & functions. The profitability position of the company is very good because, the cost of production is low & selling price is high. The company has minimum debt in the capital structure, it doesn’t have financial risk.

By the ratio analysis I conclude that, overall financial performance of the company is satisfactory & operating performance in the terms utilization of various assets is good.
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