PROJECT REPORT ON

AN EFFECTIVE STUDY ON FINANCIAL PERFORMANCE ANALYSIS WITH REFERENCE TO BEMCO HYDRAULICS LIMITED, BELAGAVI.

Project Report Submitted to the Rani Channamma University in Partial Fulfilment of the Requirements for the Award of the Degree of

MASTER OF COMMERCE

Submitted by

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2021-2022

DECLERATION

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I declare that this project report entitled **"AN EFFECTIVE STUDY ON FINANCIAL PERFORMANCE ANALYSIS WITH REFERENCE TO BEMCO HYDRAULICS LTD",** is a record of an independent project work carried out by me in the partial fulfilment of the requirements of the award of the Master's Degree in Commerce by the Rani Channamma University, Belagavi.

The project report has been prepared by me under the guidance of **Mr. Manjunath K,** Assistant Professor, Post Graduate Department of Commerce, Sangolli Rayanna First Grade Constituent College, Rani Channamma University Belagavi.

I have not submitted this project report previously to this University or any other University for the award of any Degree, Diploma or any other similar titles.

Mr. Maaz Shaikh

Date:
Place: Belagavi

SANGOLLI RAYANNA FIRST GRADE CONSTITUENT COLLEGE

Mr. Manjunath K
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CERTIFICATE

This is to certify that **Miss. Maaz Shaikh** Register Number **MC202617** has satisfactorily completed the project work entitled **"AN EFFECTIVE STUDY ON FINANCIAL PERFORMANCE ANALYSIS WITH REFERENCE BEMCO HYDRAULICS LTD"** in partial fulfilment of the requirement for the award of Master's Degree in Commerce by Rani Channamma University, Belagavi for the academic year 2021- 2022.

Mr. Manjunath K

Date:
Place: Belagavi

ACKNOWLEDGEMENT

I am greatly indebted to my guide **Mr. Manjunath K** Assistant Professor, Sangolli Rayanna First Grade Constituent College, Rani Channamma University Belagavi for his inspiring guidance. In spite of his busy schedule, he has been kind enough to spare his valuable time for giving me privilege to work under his guidance.

I take this opportunity to thank **Dr. S S Terdal** Principal, Sangolli Rayanna First Grade Constituent College, Rani Channamma University Belagavi for his continuous support and encouragement in completing the project successfully.

I am also thankful to **Mr. Narayan Ghanti and Mr. Hanumesh Nayak** Faculty of Post Graduate Department of Commerce, Sangolli Rayanna First Grade Constituent College, Rani Channamma University Belagavi for their encouragement and help in carrying out this project work.

I take this opportunity to thank and remember my parents who have motivated and supported me to complete this project successfully.

Last but not the least, I thank all my friends who are with me and who have helped me to complete this project and made me feel that, I am also one among them who can achieve things as we want.

Mr. Maaz Shaikh

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CHAPTER – 1

INTRODUCTION AND RESEARCH DESIGN

CHAPTER:1

INTRODUCTION AND RESEARCH DESIGN

1.1 INTRODUCTION

Finance is the lifeblood and nerve centre of business. As we all know blood is essential for the human body for maintaining life in the same manner finance is very crucial for the smooth running of the business. Hence right from the beginning i.e. generating ideas for business finance is required to promote and establish the business. It becomes very much essential for business firms. The term "Financial Analysis" also known as analysis and interpretation of financial statements; refers to the process of determining the financial strength and weakness of the firm by establishing strategic relationship between the items of balance sheet, profit and loss account and other operative data. Financial performance analysis is process of evaluating the relationship between component parts of financial statement to obtain a better understanding of a firm's position and performance.

Financial statements are the outcome of summarizing process of accounting. They are therefore the sources of information on the basis of which conclusion are drawn about the profitability and the financial position of the concern. These statements report the financial position and operating result of an entire business at the end of the accounting period. The basic purpose of the financial statement is to convey to owners, creditors and the enterprise regarding the growth of the concern. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing or investing purposes. The information in the statements is used by-

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

Financial performance refers to the act of financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process measuring the results of firm's policies and operations in monetary terms.

It is used to measure firms overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt. Various types of financial analysis include:

1. Working capital Analysis
2. Financial structure Analysis
3. Activity Analysis
4. Profitability Analysis

Financial analysis is used to evaluate economic trends, set financial policy, build long terms plans for business activity and identify projects or companies for investment. This is done through the synthesis of financial numbers and data. On the basis of the objectives of financial analysis, the analysis can be classified into two, they are short term analysis and long-term analysis. Short term analysis determines the short-term solvency, liquidity and earning capacity of the business.

The purpose of this analysis is to know whether the business will have adequate funds available for its short-term requirements. This is made on the basis of the current assets and current liabilities available to know the current position of the business. Long term analysis determines the long-term solvency, stability and future earning capacity of the business.

The project tends to know whether a business will be able to earn sufficient amount of rate of return on investments in the long run so as to provide funds for the future growth, expansion, development and modernization of the business. Financial analysis can be defined as a study of relationship between many factors. The objective of financial analysis is the pinpointing of the strength and weakness of a business undertaking by regrouping and analysing of figures and analysing of figures 3 obtained from financial statement and balance sheet by the tool and techniques of management accounting.

The purpose of this study is to analyse the financial data of Bemco Hydraulics Ltd, Belagavi. The study is conducted using the annual reports published by the organization. The study helps in analysing and interpreting the profitability, liquidity and solvency position of the company.

1.2 REVIEW OF LITERATURE

- **Nissim & Penman (2001)** suggest using a modified version of the traditional DuPont model in order to eliminate the effects of financial leverage and other factors not under the control of those managers. Using operating income to sales and asset turnover based on operating assets limits the performance measure of management to those factors over which management has the most control. The modified DuPont model has become widely recognized in the financial analysis literature

- **MEIGS AND MEIGS (2003),** According to Meigs and Meigs, the purpose of financial statement analysis is to provide information about a business unit for decision making purpose and such information need not to be limited to accounting data. White ratios and other relationships based on past performance may be helpful in predicting the future earnings performance and financial health of a company, we must be aware of the inherent limitations of such data. The key objectives of financial analysis are to determine the 8 company's earnings performance and the soundness and liquidity of its financial position. Wearer essentially interested in financial analysis as a predictive tool.

- **Elijelly (2004)** in the study on "Liquidity – profitability trade-off: An empirical investigation in an emerging market" empirically examined the relation between profitability and liquidity, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock companies in Saudi Arabia. The study found significant negative relation between the firm's profitability and its liquidity level, as measured by current ratio."

- **ZHANG (2006)** argues that stocks with greater information uncertainty (e.g.: those which are small and have low analyst following) exhibit stronger statistical evidence of mispricing in terms of return predictability based on extant book-to-market ranking cross-sectional regression.

- **Kasturi (2006)** highlighted that the performance was assessed by maintaining the balance between all the measures in order to achieve success. The study evaluated that financial performance was measured by various financial ratios while non-financial measures include indicators like orientation of customers, growth, and value to the societies. The measures revealed both short-term and long-run achievements of a company.

- **Kettiramalingam et al (2008)** estimated the financial performance using productivity and efficiency relationships as a case study industry in India. The obtained results revealed a rise in the performance of the industry in a period of 20 years. To investigate the interplay between executive compensation and companies' performance has been used the ratios analysis as main and important variables

- **James Clausen (2009)** in his article briefly expressed about the liquidity ratios. Investors and lending institutions will often use ratio analyses of the financial statements to determine a company's profitability and liquidity. If the ratios indicate poor performance, investors may be reluctant to invest. Therefore, the current ratio or working capital ratio, measures current assets against current liabilities. The current ratio measures the company's ability to pay back its short-term debt obligations with its current assets. He thinks a higher ratio indicates the company is better equipped to pay off short-term debt with current assets. Therefore, the acid test ratio or quick ratio, measures quick assets against current liabilities. Quick assets are considered assets that can be quickly converted into cash. Generally, they are current assets less inventory

- **Singh and Pandey (2008)** suggested that, for the successful working of any business organization, fixed and current assets play a vital role, and that the management of working capital is essential as it has a direct impact on profitability and liquidity. They studied the working capital components and found a significant impact of working capital management on profitability for Hindalco Industries Limited

- **Kevin and Young (2009)** in their article, "Need Cash? Look Inside Your Company" had taken a hard look at the way company manages its working capital. He identified that a lot of capital tied up in receivables and inventory could be turned into cash by challenging the working capital practices and policies of the company. He had explored six common mistakes that companies make in managing working capital. He says that the simple act of correcting them could free up enough cash to make the difference between failure and survival in the current recession.

- **Sherin (2010)** in her article on "Liquidity v/s profitability - Striking the right balance" writes about the implications of liquidity and profitability in a pharmaceutical company. A firm is required to maintain a balance between liquidity and profitability while conducting its day-to-day operations. Investments in current assets are inevitable to ensure delivery of goods or services to the ultimate customers. A proper management of the same could result in the desired impact on either profitability or liquidity

- **RAPHEAL NISHA (2013)**, the author tries to evaluate the financial performance of Indian tyre industry. The study was conducted for period 2003-04 to 2011-12 to analyse the performance with financial indicators, sales trend, export trend, production trend etc. The result suggests the key to success in industry is to improve labour productivity and flexibility and capital efficiency.

- **Ashok Kumar (2013)** studied liquidity position of five leading companies which cover period of 10 years from 2000-2010. It has been found that the liquidity position of small companies are better as compared to big ones. Lastly, it is concluded that companies should maintain an ideal current and liquid ratio.

- **Sandhar et.al (2013**) examined the relationship between liquidity and profitability of selected Indian cement companies using regression analysis and revealed that current ratio and liquid ratio are negatively associated with return on assets (ROA), return on investment (ROI) and cash turnover ratio is negatively associated with ROI and ROA.

- **Sarvanan and Abarna (2014)** conducted study on liquidity analysis of selected automobile companies in India using Anova and found that there is significant difference among the absolute liquid ratios of the selected automobile companies.

- **Mohmad and Dr. Syed (2016)** analysed the liquidity and profitability of selected companies and more specifically it seeks the comparison between the liquidity and profitability performance of selected companies. There is significant difference between the performances of pharmaceutical companies on the basis of Quick Ratio. The performance of Cipla is better than that of Dr. Reddy's labs in terms of profitability.

- **KUMAR NEERAJ & KAUR KULDIP (2016)** made an attempt to test the size and profitability relationship in the Indian 16 automobile industry. To analyse the relationship linear regression model as well as cross-sectional has been employed for the year 1998 to 2014. For profitability analysis two different measures have been used (i) ratio of net profit to total sales turnover (ii) ratio of net income to net assets plus working capital and for form size two indicators used namely, total sales turn over and net assets. The time series analysis showed the positive relationship between firm size and profitability but cross-sectional show no relationship between firm size and profitability.

- **IDHAYAJOTHI, RETAL (2014)** the main idea behind this study is to analyse the financial performance of Ashoka Leyland ltd. at Chennai. The result shows that financial performance is sound and also suggested to improve financial performance by reducing the various expenses.

- **KUMAR RAKESH RASIKLALAJANI & BHATT SATYAKI J. (2015)** the proposed research is intended to examine the trend and pattern of financing the capital structure of Indian companies. The study is to analyse the determinants of total debt ratios as well as determinants of short term and long-term ratios.

- **JOTHI, K. & GEETHALAKSHMI A. (2016)** this study tries to evaluate the profitability & financial position of selected companies of Indian automobile industry using statistical tools like, ratio analysis, mean, standard deviation, correlation. The study reveals the positive relationship between profitability, short term and long-term capital.

1.3 SIGNIFICANCE OF THE STUDY

The significance of the study is confined to locating the profitability and financial position of the Bemco Hydraulics Ltd. Belagavi. Financial statement analysis is the best tool for measuring the financial performance of the company.

Each and every company is aware about accessing the financial performance of the company. It helps to analyse the factors that help to improve the profitability by reducing unnecessary expenses to the company. The scope of the present study is limited to the analysis and interpretation of the financial statements from the financial point of view only. The study gives information on important aspects like profit, sales, income, inventory, etc. related to different periods which will help the management to develop new plans and overall improvements in the functions of the organization. The findings and suggestions stated at the end of the study helps to identify the strength and weakness of the company.

1.4 STATEMENT OF THE PROBLEM

Finance plays a vital role in business of every company. Each and every company is aware about accessing the financial performance of the company. It helps to analyse the factors that help to improve the profitability by reducing unnecessary expenses to the company. Therefore, the researcher's intention is to know the viability, and its performance with various parameters. The is aimed at evaluating financial performance in order to provide appropriate measures to perform better in future. Hence the project title is "**An Effective Study on Financial Performance Analysis with Reference to BEMCO HYDRAULICS.**

1.5 OBJECTIVES OF STUDY

The major objectives of financial statement analysis are to provide decision makers information about a business enterprise for use in decision making. Uses of financial statement information are management for evaluating the operational and financial efficiency of the enterprise However, the following are the objectives laid down for the study

- To find out financial stability and soundness of Bemco Hydraulics Ltd.
- To understand the effect of the ratio analysis on profitability of Bemco Hydraulics Ltd.
- To Study various financial ratio to know financial performance of company.
- To estimate and determine the possibilities of future growth of business.
- To study the changes in the financial position of the organisation for the years April 2017-March 2021

1.6 SCOPE OF THE STUDY

The following are the scope of the study

- The study reveals the financial performance of BEMCO HYDAULICS LTD. Udyambag, Belagavi.
- Comparative balance sheets are used in assessing the financial position of the company.
- To settle the organization of funds through proper administration, legal advice and proper accounting records.
- To organize funds from different sources like banks, investment companies and financial institutions.
- The purpose of financial performance as to diagnose the financial soundness of the company.

1.7 RESEARCH METHODOLOGY

The research involves intensive and extensive studies of BEMCO HYDRAULICS LTD. A sincere effort has been made to evaluate the performance analysis of the company. The study is based on primary and secondary data. Quantitative research approach was applied to find out the outcomes of the study. The evaluation of performance of the company is done applying various ratio analysis techniques to complete the study.

Primary Data:

Primary data is the information collected directly with any references. In this study it as mainly through interviews with concerned officers and staff either individually or collectively some of the information had been verified or supplemented with personal observations. The data is been collected in following manner.

1. Interaction with staff member and
2. Interaction with officials and concerned authority of the company.

Secondary Data:

It was collected from already published books. Secondary data helps researcher to save time. While primary researchers take a considerable amount of time in the form of collecting and analysing the data. Secondary data offers readymade solutions. The collection of this was in the following manner

1. Annual Reports and Internal Records of the company.
2. Journals and text books related to financial management.

1.8 LIMITATIONS OF THE STUDY

The following are limitations observed during the study of the project.

- The study complies only with internal analysis and it is limited to only one company i.e., BEMCO HYDRAULICS LTD.
- The study is restricted to the past five years (2017-21) financial information only.
- The study is based on secondary data only. Hence, it may not provide accurate information.
- There might be some fractional difference in the calculations.
- Many facts and data are such that they are not to be disclosed because of the confidential nature of the same.

1.9 CHAPTER SCHEME

Chapter: 1	**Introduction** It provides a detail introduction of Financial Performance Analysis, Review of literature, Objectives, Scope, and Source of data, Research methodology, and Limitations
Chapter: 2	**Company Profile** It provides the profile of the industry and company where the project is made. And It also explains product profile, organizational structure of the company.
Chapter: 3	**Conceptual Framework** It provides full information about Meaning, Importance, Concept, Types of analysis, Tools and techniques for measuring the performance.
Chapter: 4	**Data Analysis and Interpretation** It provides detailed information regarding the Collection of data, Analysis and Interpretation consisting of systematic representation using Tables, Graphs, Charts Etc.
Chapter: 5	**Findings, Suggestion and Conclusion** This chapter provides final concluded aspects of the project report. It comprises of Findings and Suggestion, and the conclusion drawn from above analysis based on the collected data.

CHAPTER – 2
COMPANY PROFILE

CHAPTER:2

COMPANY PROFILE

Name of the company	:	BEMCO HYDRAULICS LIMITED
C.E.O	:	Mr. M.M. Mohta
Company Secretary	:	Mr. S.R. Deshpande
Registered Office	:	Udyambag Khanapur Road, Belagavi- 59008
Year of establishment	:	1967
Standard certification	:	ISO 9001:2015
Registered No	:	1283
Size and Nature of Business	:	Medium Scale, Public Limited Company
Type of industry	:	Hydraulics
Activity	:	Manufacturing and Selling of Hydraulic Press and Equipment
Total Area	:	30000Sq.mts
Total Area Buildup	:	10000Sq.mts
Branches	:	New Delhi, Kolkata, Chennai.
Phone number	:	0831-244198, 2440173
Website	:	www.bemcohydraulics.com
E-mail	:	isc@bemcohydraulics.net
Export to Countries	:	Ethiopia, Iraq, Myanmar, Nepal, Oman, Philippines Russia, Saudi Arabia, Sri Lanka, Singapore,

2.1 HISTORY OF THE COMPANY

BEMCO originally an Engineering Craftsman's shop in the late thirties has risen to be a premier producer of HYDRAULIC Presses equipments. It is located in Belgaum, Karnataka a southwestern state in India. The company was incorporated in the year 1957. BEMCO now has a well-planned and adequately equipped manufacturing set up where every infrastructure is available to design develop and produce a mega range of HYDRAULIC presses & equipment's.

BEMCO by collaborating with Vogel of Germany and Towler Brothers of U.K manufactured the first ever indigenously produced of Hydraulics press .BEMCO has lived the reputation of their collaborators in producing Hydraulics presses & equipments conforming to the international standards. BEMCO with its classic range of Hydraulic Presses caters to the needs of industries involved in metal working plastics wood rubber electronics and electricals in India and abroad. BEMCO backed by the expertise of its highly qualified technocrats and professional & dynamic leadership has etched its name as producers of high quality reliable and easily maintainable Hydraulic presses & equipments.

2.2 BACKGROUND AND INCEPTION OF THE COMPANY

The company was approved on a partnership concern by late Shri. B.V. pauskar under the name of "Belgaum motors" in the year 1939 as contentment as an automobile services station. And then after change by partnership concern in to the private limited company, and the old name of the company was transformed to "NEW BEMCO" (Belgaum Engineering Motor Company). Further in 1972 the company got converted into public limited company with its head office at Belgaum. Mr.

Mohan from Calcutta originate that there is huge demand for hydraulic process in India and also in a foreign country. Mr. Mohan took over the company by obtaining share of BEMCO and renamed the company as "BEMCO Hydraulics Ltd" in the year 1974.

BEMCO originally was engraining craftsman's shop in late 30's risen to be primer producer of hydraulics presses and equipment. BEMCO Hydraulics company stated manufacturing presses initially in collaborations with VOGAL and COM Germany in the year 1956-57 and subsequently developed innumerable types of standard and non- standard range of hydraulics and special purpose hydraulics pneumatic machines. It started group of people like Late Shri Baburao Puslakar and some other members. The company started initially with 25crore with 10000 turnovers.

BEMCO stands for

B- Belgaum

E- Engineering

M- Motors

Co- Company

BEMCO, during 1970's became weak in finance and Mr. M. Mohta who purchased maximum shares of BEMCO become chairman of the company. During 1975 the strength of the company all most reached to 450 employed with turnover of 5crore. By now the major item produced by the company changed from motors to hydraulic line process in large scale. The company became pioneer in India in making various types of hydraulic process as per the need of customer.

2.3 ORAGANIZATION PROFILE

BEMCO was originally established as "Belgaum Motor Company" by Late Shri. B.V. Pusalkar Belgaum Cantonment as an Automobiles Service Station. However, in due course he identified the opportunities in the Hydraulic Manufacturing industry and shifted his company base to the udyambag area which is now the industrial hub of North Karnataka. The company – now named 'New BEMCO engineering products Pvt. Ltd.'- built its first ever hydraulic press in 1957 in collaboration with Vogel, Germany.

Since then, BEMCO has been the pioneers in the field of hydraulics with various developments in respect of machine Tools. The company started manufacturing presses initially in collaboration with international companies but subsequently devolved innumerable types of standard range of hydraulics presses and special purpose hydro-pneumatic machines indigenously. In the March 1957, the Company was incorporated as BEMCO Hydraulics Ltd- a private limited company and subsequently as a public limited company in April 1972.

To diversity the product range and increase the effectiveness its existing products, BEMCO entered into collaboration with 'Towler hydraulics Ltd., UK' for items, which were earlier being imported into India, have been successfully developed and commissioned for reputed Government and Private sector industries in India.

The excellence of workmanship and quality has been hallmarks of recognition of the technological capability of BEMCO, wherever machine tools have been installed. The ability and capacity to develop highly sophisticated items as per the specific requirement of the customer have also enhanced company's prestige.

BEMCO Hydraulics enjoys tremendous brand recall among its customers due to its quality products and reliable after-sales support. The company has also exported with repeat orders to the various countries in South East Asia, Africa and Middle Eastern countries.

BEMCO has branches in 3 major cities of India namely, New Delhi, Kolkata and Chennai. BEMCO has got excellent after-sales service team, which takes care of any minor jobs that should be necessary as well as provide Annual Maintenance Counteracts.

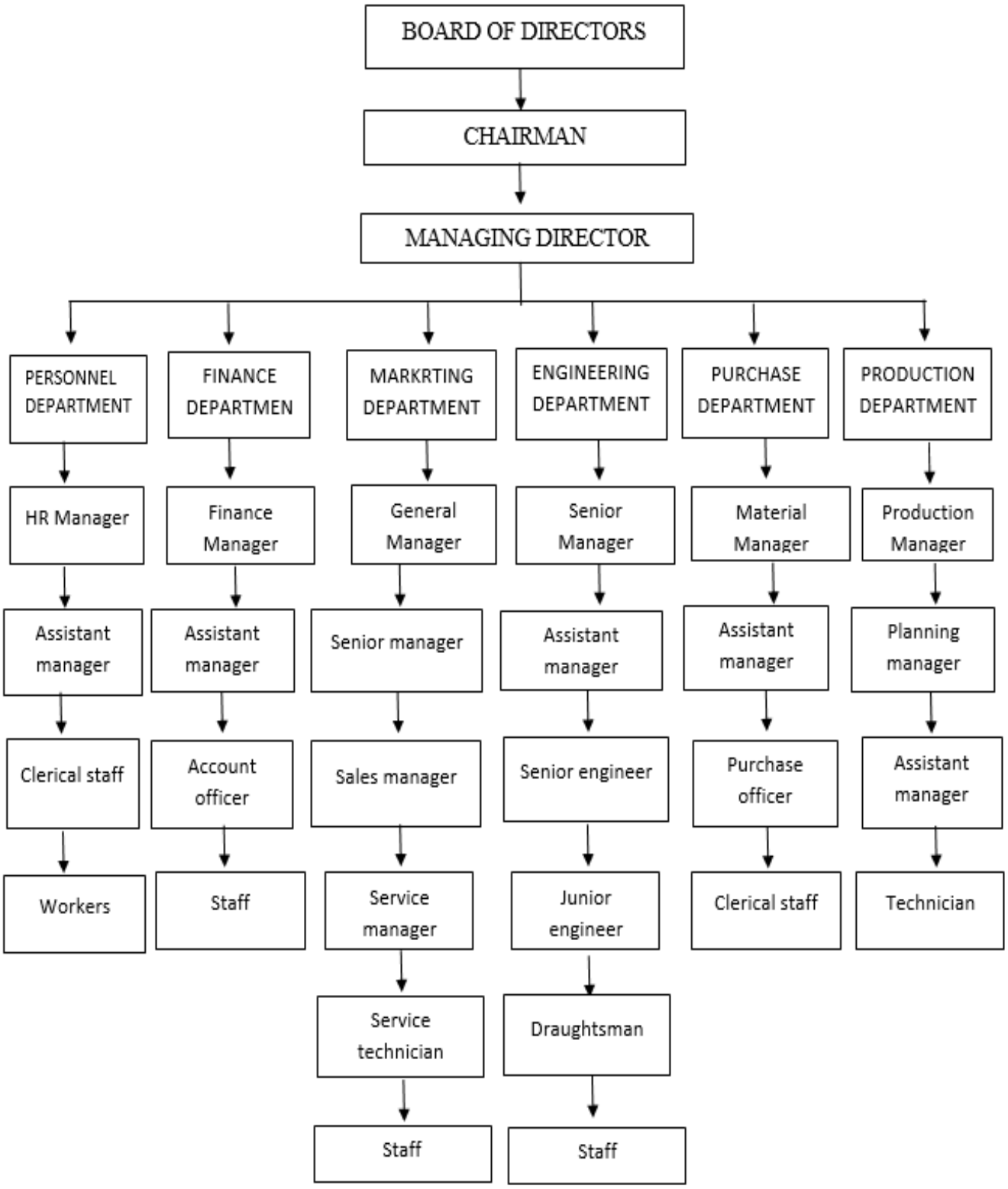
Ownership Pattern

The company was incorporated as private ltd in 1957; later in 1972 it became a public ltd company and got listed in BSE (Bombay Stock Exchange) but the majority stakes is still with their family members of Mohta, the following are the present Board of Directors

Board of Directors

Directors	Name	Executive/ Non-Executive
Chairman	Mr. M.M. Mohta	Non-Executive
Managing Director	Mr. Anirudh Mohta	Executive
Director	Mrs. Urmila Devi Mohta	Non-Executive
Director	Mr. Ramesh Shah	Independent Non-Executive
Director	Mr. N.K. Daga	Independent Non-Executive
Director	Mr. Dilip Chandak	Independent Non-Executive

ORGANISATIONAL CHART



2.4 NATURE OF BUSINESS

The company originally is an engineering craftsman's shop and has risen to be a producer of hydraulic presses and equipment's. It has a classic range of hydraulic presses and equipment's caters to the needs of industries involved in mental working, plastics, wood working, rubber, electronics. It has highly qualified technocrats and professionals which produce high quality, reliable and easily maintainable Hydraulics presses and equipment's they manufacture these products as per the customers' demand specification and based on the contracts.

2.4 VISION MISSION OBJECTIVES AND QUALITY

Vision

The Vision of BEMCO is to be highly visible company known for this highest technology driven products, superior training and exceptional services in the field of engineering. The company's products will be marked worldwide and will be looked at, as a leader in custom made machines. BEMCO will market, world class and prestigious products through their distribution network manned by well trained and experiences personnel in the country and world at large.

Mission

BEMCO's mission is to provide innovative, practical and world-class quality products that improve the workmen to perform their job. We believe that our first responsibility is our customer who uses our products.

Quality Policy

"We are growth-oriented organization in terms of technology, quantity and quantity whose underlying principle is timely delivery of long-term, cost-effective products and services to our customers."

Following are the quality objectives followed at BEMCO

Enhance Customer satisfaction

Upgrade Employees Skills

Continual Improvement in all processes to achieve on time delivers

Safe Working environment for all employees

Efficient utilization if resources to achieve zero breakdowns.

Quality control Information

Quality at BEMCO, starts from vendors and continues through the various stages of manufacturing right up to the final testing, painting and dispatching of the products. Stringent inspection of material and component at every stage of production is a norm at BEMCO. The finished products are no only inspected internally by the company's technical person but also by technical teams of customer before the products leaves the factory premises. BEMCO has been assist by International Certification Services Pvt. Ltd. and is certifies as ISO 9001: 2008 with registration number RQ91/6325.

Environmental Policy

We at BEMCO Hydraulics ltd stand committed to prevention of pollution related to our workplace to author to the applicable legal at other requirements and continuously improve our environmental management system.

Objectives

To flawless service to customers and to offer support in:

1. Selection of machinery
2. Design and development
3. Installation and commission
4. Supply of components and sears
5. Promote after sales and service

To provide wide range of presses for various applications in metalworking, plastic, woodworking, rubber electronic industries.

2.5 PRODUCT PROFILE

The company is engaged in manufacturing of the following products,

Hydraulic Presses

- Throat type hydraulic presses.
- Four pillar hydraulic presses.
- Closed Fame Hydraulic presses.
- Power compacting presses.
- Mounding, straightening and bending presses.
- Scarp balling presses.
- Deep drawing, trimming, forging, crankshaft, twisting and coining presses.
- Stabilizer bar correction presses.
- Broaching for horizontal and vertical machines.
- All types of special purpose oil hydraulic machine.
- Hydraulic power packs.
- Hydraulics pumps and valves.
- Hydraulic Motors.

Apart from standard range Hydraulic supplies large number of special fittings and also develops fittings for specific needs. The design is carried out using exclusive specialist manifold software programs used, constantly updated and enhanced over the last 5 years. These programs run on 3D said modeling CAD software.

Re-railing and Rescue Equipments

- Powering and Controlling
- Up-righting and Pulling
- Lifting and Traversing
- Rescue Tools

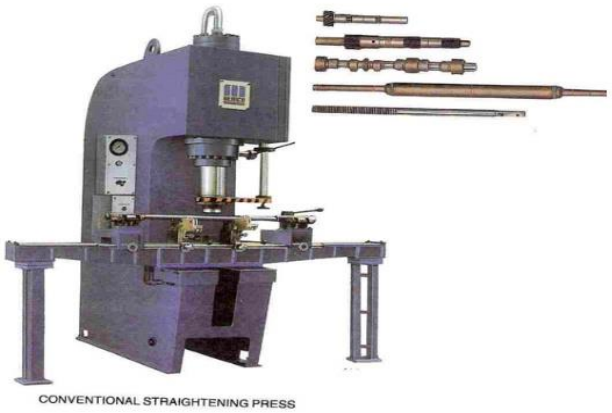
Bemco Hydraulics Limited is manufacturing Rerailing and Rescue equipment. BEMCO, backed by the expertise of its highly qualified technocrats and professional & dynamic leadership has etched its name as producers of high quality, reliable and easily maintainable Hydraulic presses & equipments. Development of high efficiency elements to meet the cleanliness standards demanded in today's hydraulic systems.

STRAIGHTENING PRESSES

1. BAR STRAIGHTENING PRESS

These are hand operated open throat presses with bar straightening attachment for straightening cam shafts, axle shafts and crank shafts presses from 63 KN. to 2000 KN. capacity and straightening attachment for bar length 100 mm to 5000 mm can be supplied.

2. CONVENTIONAL STRAITHENING PRESS



CONVENTIONAL STRAIGHTENING PRESS

Conventional Press also known as 'C' type or Gap Frame Press. These presses are used widely for a variety of applications for manufacturing of small size components. Our standard range of throat type presses is 25 KN. to 2000 Kn. Capacity. Our presses are built with good aesthetics and ergonomics for overall look and operator's comfort.

3. SERVO STROKE CONTROLLED STRAIGHTENING PRESS

Servo Stroke Controlled Straightening Press from 63 KN. to 2000 KN. capacity and straightening attachment for bar length 100 mm to 5000mm can be supplied. Our standard range of Straightening Press is 63 KN. to 2000 Kn. Capacity

4. BAR STRAIGHTENING PRESS ATTACHMENT

Bar Straightening Machines offered by us is a fully automatic Steel Bar straightening & cutting machine that is both handy in operations as well as in controlling so as to ensure complete safety while in operation. Fully Automatic Bar straightening & cutting Machine

MOULDING PRESSES

Moulding Presses are for moulding rubber parts, rubber seals, brake linings, laminates etc. where parts are normally formed under heat and pressure, or in some cases under pressure alone. Presses from 63 KN. to 2000 KN. capacity and straightening attachment for bar length 100 mm to 5000 mm can be supplied. Varieties of sequence, which include pre-moulding, breathing final curing can be provided as per the product requirement

MULTI PLATEN MOULDING PRESSES

SHEET METAL FORMING PRESSES

Deep drawing presses are for sheet metal forming like LPG bottles, Automobile sheet metal parts, Domestic appliances sheet metal parts. These presses come in four pillar, closed frame and stretched tie rod type construction with die cushion blank holder for blank holding. Presses from 63 KN. to 2000 KN. capacity and straightening attachment for bar length 100 mm to 5000 mm can be supplied. Shock absorber cylinders are provided optionally for blanking sheet. Press capacities from 2000 KN. and table sizes of 4000 x 3000 mm are already built and even larger presses can be built.

FOUR PILLAR PRESS

2.6 AREA OF OPERATION

BEMCO is an authorised and certified supplier for

Automobile Industries

- Hyundai Motors Ltd.
- Maruti Udyog Ltd.
- Tata Motors Ltd.
- TVS motors Ltd.
- Hero Honda Motors Ltd.
- Baja Auto Ltd.
- Honda Motors Pvt. Ltd**.**

Heavy Engineering and Electricals

- Bharat Heavy Ltd
- Hindustan Aeronautics Ltd
- L and T Ltd
- Bharat Forge Ltd

Indian Railways

- All zonal workshop
- ART
- HRD

Space

- Indian Space Research Organisation Trivandrum
- R and D Eng. Organisation Pune
- Vikram Sarabhai Space Research Centre

BEMCO Products are exported to

- Ethiopia
- Iraq
- Israel
- Malaysia
- Oman
- Philippines
- Russia
- Saudi Arabia
- Sri Lanka
- Singapore

2.7 GROWTH AND ACHIEVEMENTS

Future Growth and Prospectus

The hydraulic manufacturers by company are primary used in Automobile sector. On the canvas of Indian economy, Auto Industry occupies a prominent place due to its deep forward linkages with sacral key segments of the economy, Automotive industry has strong multiplier effect and is capable of being the driver of economic growth.

The automobile sector is one of the core industries of Indian economy, whose prospect is reflective of economic resilience of the country. With 4% contribution to GDP and nearly 5% of the total industrial output, the automotive sector has become a significant contributor to the exchequer

Achievements

BEMCO has achieved extensive success as a remark of which it celebrated 50th Excellence Golden Jubilee in the year 2017. It has achieved an outstanding turnover from 1crore to 20 crores. BEMCO got ISO certificates during the year 2009 -10

2.8 SWOT ANALYSIS OF THE COMPANY

Strength

- Large number of orders
- High Quality
- One of the top five jobbing foundries in India
- Efficient manpower
- Good Infrastructure facility
- Good Financial Condition
- Various awards and Achievements

Weakness

- High Transportation cost
- High rejection
- High Absentee of workers

Opportunities

- Increase in demand
- Permanent and new customers
- Increase in production capacity
- Advancement in technology
- Qualified employees

Threats

- Environmental problem
- Environmental policy
- Competition

CHAPTER – 3
CONCEPTUAL FRAMEWORK

CHAPTER: 3

CONCEPTUAL FRAMEWORK

3.1 INTRODUCTION TO FINANCIAL ANALYSIS

Financial analysis is the assessment of business entities, projects, budgets, and forecasts from a financial perspective by analysing the data from financial statements. The main purpose is to check the effectiveness of funds employed in the firm by analysing the efficiency of operations and financing activities using a data-backed approach. Financial analysis plays a catalyst role in decision making related to investing and financing activities.

This interpretation of financial statements helps to understand the characteristics of important operational and financial activities undertaken by the organization. The process involves financial ratio analysis and interpretation of financial statements. Methodological classification of data for simplification of given financial data represents the analysis part. The explanation of the simplified data and its utility for the organization represents the financial data interpretation part

3.2 MEANING AND DEFINITIONS OF FINANCIAL ANALYSIS

Meaning

The process of reviewing and analysing a company's financial statements to make better economic decisions is called analysis of financial statements. In other words, the process of determining financial strengths and weaknesses of the entity by establishing the strategic relationship between the items of the balance sheet, profit and loss account, and other financial statements.

The term 'analysis' means the simplification of financial data by methodical classification of the data given in the financial statements, 'interpretation' means, 'explaining the meaning and significance of the data so simplified.' However, both' analysis and interpretation' are interlinked and complementary to each other.

Definitions

"Financial statements should be understandable, relevant, reliable and comparable. Reported assets, liabilities, equity, income and expenses are directly related to an organization's financial position. Financial statements are intended to be understandable by readers who have "a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently."

- According to Lev- "financial statement analysis is an information processing system design to provide data for decision making models, such as the portfolio selection model, bank lending decision models and corporate financial models".
- According to john Myer, "financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by single set of statements and a study of the trend of these factors as shown in a series of statements
- According to Kennedy and Muller, "the analysis and interpretation of financial statements reveal each and every aspect regarding the well-being financial soundness, operational efficiency and credit worthiness of the concern concerned".

Financial statement analysis embraces the methods used in assessing and interpreting the result of past performance and current financial position as they relate to particular factors of interest in investment decisions. It is an important means of assessing past performance and in forecasting and planning future performance.

3.3 SIGNIFICANCE OF FINANCIAL ANALYSIS

Financial statements analysis is an attempt to determine the significance and meaning of the financial statements data, which measure the enterprise's liquidity profitability, forecast may be made of the future earnings, solvency and other indicators to assess its operating efficiency, financial position and performance. Financial analysis serves the following purpose:

- To know the operational efficiency of the business.
- This will enable the management to locate weak spots of the business and take necessary remedial action.
- Helpful in measuring the solvency of the firm in taking appropriate decisions for strengthening the short-term as well as long-term solvency of the firm.
- Comparison of past and present results.
- Financial analysis helps the managers in taking certain decisions for improving the profitability or reducing the losses of the firm.
- Helps in judging the solvency i.e., the capacity of the business to repay their loans.
- Financial statement analysis is a significance tool in predicting the bankruptcy and failure of the business enterprises.

3.4 EXTERNAL AND INTERNAL ANALYSIS:

External Analysis

External analysis can be defined when the parties conducting the analysis are alien to the entity's management. The management of the entity does not have any authority over them and do not take any active part in the process. The investors, shareholders, government agencies, credit agencies are among the external/ outsiders to the organization. The financial analysis conducted by them is called as external analysis. The typical objectives of external analysis are to investigate the liquidity of assets and the ability to generate funds. These observations help in deciding whether it is fruitful to invest in the entity or not. It also helps to make decisions at the time of granting credits and loans to the entity.

Internal Analysis

Internal analysis is conducted by the management of the entity through their accounting and finance departments. This type of analysis takes place periodically to ensure that the business functions are in synchronization with the planned goals. The observation helps in deciding whether the business will be able to generate sufficient funds or to make investment decisions related to the purchase or lease of an asset. The conclusions will forecast how much the business can generate as returns on the invested capital

3.5 PROCESS OF FINANCIAL ANALYSIS:

The first step to begin the financial analysis process is to determine the objective of conducting the same. For example, whether the analysis is taking place for the granting of loans and advances or making an investment in the entity being audited for the financial analysis. The financial data is analysed based on the purpose of analysis. The data is analysed and interpreted to suit the needs of the objective.

Drawing a conclusion from interpreted data is the last mile goal of the process. The financial analysis should not only include the financial statements but also include the notes given with reference to the statements and auditor's report. The report certifies that the statements were audited by following standard accounting procedures. The notes brief about the accounting policies of the company and how they were taken into consideration while preparation of the statements.

3.6 TYPES OF FINANCIAL ANALYSIS

Two types of analysis are undertaken to interpret the position of an enterprise. They are

- Vertical Analysis
- Horizontal Analysis

The companies act, 1956 permits the companies to present the financial statements in vertical as well as horizontal form.

1. Vertical Analysis

It is the analysis of relationship as between different individual components. It s also the analysis between these components. It is also the analysis between these components and their totals for a given period of time it is also regarded as static analysis. Comparison of current assets to current liabilities or comparisons of debt to equity for one point of time are examples of vertical analysis. Thus, the vertical analysis can be made in the following ways

- Preparation of common size statements of the two similar units
- By preparing common size statement of different years of the same business unit

2. Horizontal Analysis

In the horizontal analysis, we compare financial data from previous years with the targeted year to obtain a pattern of growth for the entity. An analyst observes a trend in the growth of the entity to reach helpful conclusions. This helps to understand growth patterns over the period of time by assessment of changes in different items over the course of time. It helps in long-term planning for the organization.

This process is also known as trend analysis. Absolute comparison and percentage comparisons are the two ways to conduct this type of financial analysis. Here, the value of the item in the initial year acts as a base figure to compare with the value of the same item in the coming years.

3.7 TOOLS AND TECHNIQUES OF FINANCIAL ANALYSIS

A financial analyst can adopt the following tools for analysis of the financial statements. These are also termed as methods or techniques of financial analysis.

1. Comparative statement analysis
2. Common-size statement analysis
3. Trend analysis
4. Fund flow analysis
5. Cash flow analysis
6. Ratio Analysis

1. Comparative Statement Analysis

The Comparative financial statement shows the financial position at different period of time. The elements of financial position are shown in a comparative form so as to give idea of financial position at two or more periods. Two financial statements (balance sheet and income statement) are prepared in a comparative form for financial analysis purposes. These statements enable an in-depth study of financial position operating results.

The comparative statement may show:

1. Absolute figures (rupee amounts).
2. Changes in absolute figures i.e., increase or decrease in absolute figures.
3. Absolute data in terms of percentages.
4. Increase or decrease in terms of percentages.

The analyst is able to draw useful conclusions when figures are given in a comparative position. The figures of sales for a quarter, half-year one year may tell only the present position of sales efforts. When sales figures of previous periods are given along with the figures of current periods then the analyst will be able to study the trends of sales over different periods of time.

Similarly, comparative figures will indicate the trend and direction of financial position and operating results. The financial data will be comparative only when same accounting principles are used in preparing these statements. In case of any deviation in the use of accounting principles this fact must be mentioned at the foot of financial statements and the analyst should be careful in using statements. Comparative statements can be prepared for both income statement and balance sheet.

Comparative Income Statement:

Comparative Financial Statement analysis provides information to assess the direction of change in the business. Financial statement is presented date for a particular date for a particular period. The financial statement Balance Sheet indicates the financial position as at the end of an accounting period and the financial statement. Income Statement shows the operating and non – operating results for a period. But financial managers and top management are also interested in knowing whether the business is moving in a favourable or an unfavourable direction. For this purpose, years. In analysing this way comparative financial statement are prepared. Comparative Financial Statement Analysis is also called as Horizontal analysis.

The Comparative Financial Statement provides information about two or more year's figures as well as any increase or decrease from the previous year's figure and its percentage of increase or decrease. This kind of analysis helps in identifying the major improvements and weaknesses. The income statement discloses net profit or net loss on account of operations. A comparative income statement will show the absolute figures for two or more periods. The absolute change from one period to another and if desired. The change in terms of percentages. Since, the figures for two more periods are shown side; the reader can quickly ascertain whether sales have increased or decreased, whether cost of sales has increased or decreased etc.

Comparative Balance Sheet:

Comparative balance sheet as on two or more different dates can be used for comparing assets and liabilities and finding out any increase or decrease in those items. Thus, while in a single balance sheet emphasis is on present position. It is on change in the comparative balance sheet. Such balance sheet is very useful in studying the trends in an enterprise.

There are two main types of assets: current assets and non-current assets are likely to be used up or converted into cash within one business cycle – usually treated as twelve months. Three very important current assets items found on the balance sheet are investors normally are attracted to companies with plenty of cash on their balance sheets. After all, cash offers protection against tough times, and it also gives companies more option for future growth. Growing cash reserves often signal strong company performance. Indeed, it shows that cash is accumulating so quickly that management doesn't have time to figure out how to make use of it. A dwindling cash pile could be a sign of trouble. That said, if loads of cash are more use of the company's balance sheet. Investors need to ask why the money is not being put to use. Cash could be there because management has run out of investment opportunities or is too short – sighted to know what to do with the money.

2. Common Size Statement Analysis.

Common size financial statements are those statements in which figures are reported for the period is converted into percentage or ratios of total item. A vertical presentation of financial information is followed for preparing common-size statements. Besides, the rupee value of financial statement contents is not taken into consideration. But only percentage is considered for preparing common size statement.

The total assets or total liabilities or sales is taken as 100 and the balance items are compared to the total assets, total liabilities or sales in terms of percentage. Thus, a common size statement shows the relation of each component to the whole. Separate common size statement is prepared for profit and loss account as Common Size Income Statement and for balance sheet as Common Size Balance Sheet**.**

3. Trend Analysis

In trend analysis, ratios are compared over periods, typically years. Year-to-year comparisons can highlight trends and point up possible need for action. Trend analysis works best with three to five years of ratios. The theory behind time-series analysis is that the company must be evaluated in elation to its past performance, developing trends must be isolated, and appropriate action must be taken to direct the firm towards immediate long-term goals.

Time-series analysis is often helpful in checking the reasonableness of a firm's projected financial statements. Certainly, the most informative approach to ratio analysis combines both cross-sectional and trend analyses. A combined view makes it possible to assess the trend in the behaviour of the ratio in relation to the trend for the industry.

4. Fund Flow Analysis

It is the statement providing necessary information about the changes in financial conditions of a business concerns between two periods. It states how the flow into the business and how fund flow out of the business. In other words, It is a statement that depicts the sources. Applications of funds for a specific period. Through the fund flow statement, research concerning the changes in the financial position of an organization from the beginning of a period to its end is undertaken.

As this statement portrays movement of funds among several sources and their applications, It is also knows as the Application of the Funds and Statement of Sources. Usually, the preparation of these statement is followed by Fund Flow Analysis. It serves as a financial parameter that helps a company to control its finance and develop a better strategy to utilize funds.

5. Cash Flow Analysis.

Cash flow analysis is method of analysing the financing, investing, and operating activities of the company. The primary goal of cash flow analysis is to identify, in a timely manner, cash flow problems as well as cash flow opportunities. The primary document used in cash flow is the cash flow statement. Cashflow is essentially the movement of movement of cash into and out of a business firm. It is the cycle of cash inflows and cash outflows that determine the firm's solvency. Cash flow analysis is the study of changes in financial position of business enterprise during a

Given period on the basis of cash. In other words, it studies the changes in the cash position of a business enterprise between two balance sheet dates. For this purpose, a statement is prepared which is called the cash flow business. Its main aim it to maintain an adequate cash flow for the business, and to provide the basis for the cash flow management. The cash statement is useful to managers, lenders, and investors because it translates the earning reported on the income statement which are subject to reporting regulations and accounting decisions into a simple summery of how much cash company has generating the period.

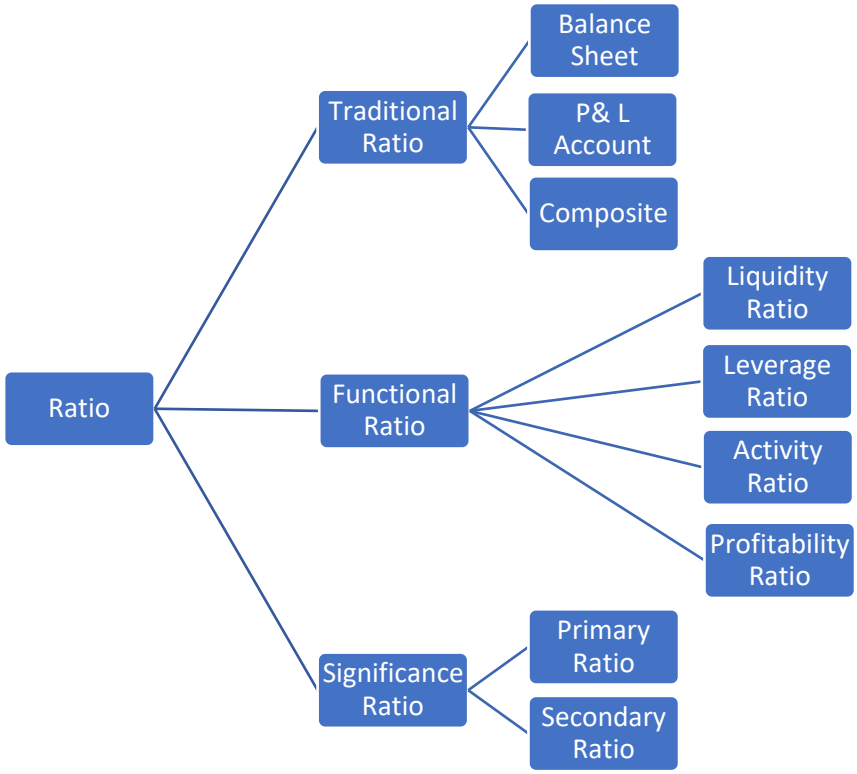
6. Ratio Analysis

Ratio analysis is a very important tool of financial analysis. It is the process of establishing the significant relationship between the items of financial statement to provide a meaningful understanding of the performance and financial position of a firm. Ratio when calculated on the basis of accounting information are called „Accounting Ratio".

Ratio analysis is a technique of analysis and interpretation of financial statements. It is the process of establishing and interpreting various ratios for helping in making certain decisions. However, ratio analysis is not an end in itself. It is only a study on the financial performance of Bemco Hydraulics Limited using Ratio Analysis 4 means of better understanding of financial strengths and weakness of a firm. There are a number of ratios which can be calculated from the given information given in the financial statements, but the analyst as to select the appropriate data and calculate only a few appropriate ratios from the same keeping in mind the objectives of analysis. The following are the four steps involved in the ratio analysis:

Classification of Ratios

Several ratios, calculated from the accounting data can be grouped into various classes according to financial activity or function to be evaluated. Management is interested in evaluating every aspect of the firm's performance. They have to protect the interests of all parties and see that the firm grows profitably. In view of the requirement of the various users of ratios; ratios are classified into following four important categories:



A. LIQUIDITY RATIO:

It is extremely essential for a firm to be able to meet the obligations as they become due. Liquidity ratios measure the ability of the firm to meet its current obligations (liabilities). The liquidity ratios reflect the short-term financial strength and solvency of a firm. In fact, analysis of liquidity needs the preparation of cash budgets and cash and funds flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity.

1. Current ratio:

Current ratio is calculated by non-dividing current assets by current liabilities. Current assets include cash and other assets that can be converted into cash within in a year, such as marketable securities, debtors and inventories. Prepaid expenses are also included in the current assets as they represent the payments that will not be made by the firm in the future. All obligations maturing within a year are included in the current liabilities. Current liabilities include creditors, bills payable, accrued expenses, short-term bank loan, income tax, liability and long-term debt maturing in the current year.

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

Note: Standard or ideal current ratio is 2:1

Components of Current Ratio

Current Liabilities	**Current Assets**
Outstanding expenses	Cash in hand
Bank overdraft	Cash at bank
Bills payable	Bills receivable
Sundry creditors	Inventories
Dividend policy	Marketable securities
Interest due	Sundry debtors

2. Quick Ratio (Acid test ratio) liquid ratio:

Quick ratio also called Acid-test ratio, establishes a relationship between quick, or liquid, assets and current liabilities. An asset is a liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets that are considered to be relatively liquid and included in quick assets are debtors and bills receivables and marketable securities (temporary quoted investments). Inventories are considered to be less liquid. Inventories normally require some time for realizing into cash; their value also has a tendency to fluctuate. The quick ratio is found out by dividing quick assets by current liabilities

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

Note: Standard or ideal quick ratio is 1:1

Components of Quick Ratio

Liquid Liabilities	Liquid Assets
Creditors	Cash
Bills Payable	Bank
Income Tax Liability	Marketable Securities
Unclaimed Dividend	Outstanding Incomes

3. Cash ratio or Absolute liquid ratio

Since cash is the most liquid asset, it may be examined cash ratio and its equivalent to current liabilities. Trade investment or marketable securities are equivalent of cash; therefore, they may be included in the computation of cash ratio

$$\text{Cash Ratio} = \frac{\text{Absolute liquid assets}}{\text{Quick Liabilities}}$$

Note: Standard or ideal current ratio is 1:2

Current Liabilities	Absolute liquid assets
Outstanding expenses	Cash in hand
Bank overdraft	Cash at bank
Bills payable	Interest on fixed deposit
Sundry creditors	

B. LEVERAGE OR CAPITAL STRUCTURE RATIO'S

The short-term creditors, like bankers and suppliers of raw materials, are more concerned with the firm's current debt-paying ability. On other hand, ling-term creditors like debenture holders, financial institutions etc. are more concerned with the firm's long-term financial strength. In fact, a firm should have a strong short as well as long-term financial strength. In fact, a firm should have a strong short-as well as long-term financial position. To judge the long-term financial position of the firm, financial leverage, or capital structure ratios are calculated.

These ratios indicate mix of funds provided by owners and lenders. As a general rule there should be an appropriate mix of debt and owners‟ equity in financing the firm's assets. Leverage ratios may be calculated from the balance sheet items to determine the proportion of debt in total financing. Many variations of these ratios exist; but all these ratios indicate the same thing the extent to which the firms have relied on debt in financing assets. Leverage ratios are also computed form the profit and loss items by determining the extent to which operating profits are sufficient to cover the fixed charges

1. Debt-Equity Ratio

- **First Approach**: According to this approach, this ratio expresses the relationship between long term debts and shareholder's fund

$$\text{Debt equity ratio} = \frac{\text{Total liabilties}}{\text{Shareholder's funds or Net worth}}$$

Long Term Loans: These refer to long term liabilities which mature after one year. These include Debentures, Mortgage Loan, Bank Loan, and Loan from Financial institutions and Public Deposits etc.

Shareholder's Funds: These include Equity Share Capital, Preference Share Capital, Share Premium, General Reserve, Capital Reserve, Other Reserve and Credit Balance of Profit & Loss Account.

- **Second Approach:** According to this approach the ratio is calculated as follows

$$\text{Debt equity ratio} = \frac{\text{Externa Equities}}{\text{Internal Equities}}$$

Note: The lower this ratio, the better it is for long-term lenders because they are more secure in that lower than 2:1 debt equity ratio provides sufficient protection to long-term lenders.

2. Proprietary Ratio

This ratio establishes the relationship between shareholder's fund and total assets of a firm. It is also known as equity ratio. This ratio indicates the proportion of total funds provide by owners or shareholders

$$\text{Debt equity ratio} = \frac{\text{Shareholder's fund}}{\text{Total assets}}$$

Note: Standard ratio is 5:1 i.e., this ratio should be 33% or more than that. In other words, the proportion of shareholders" funds to total funds should be 33% or more. If the ratio is low, it indicates that long-term loans are less secured and they face the risk of losing their money.

Components of proprietary ratio's

Shareholder's Fund	**Total Assets**
Paid up capital	Fixed assets
Preference share capital	Current assets
Reserves and surplus	Cash in hand & cash at bank
	Bills receivable
	Inventory
	Marketable securities

3. Capital Gearing Ratio:

This ratio establishes a relationship between equity capital (including all reserves and undistributed profits) and fixed cost bearing capital. The high gearing will be beneficial to equity shareholders when the rate of interest/dividend payable on fixed cost bearing capital is lower than the rate of return on investment in business. Thus, the main objective of using fixed cost bearing capital is to maximize the profits available to equity shareholders.

$$\text{Capital gearing ratio} = \frac{\text{Equity share capital} + \text{Reserves} + \text{P \& L balance}}{\text{Fixed cost bearing capital}}$$

Whereas, Fixed cost bearing capital = Preference Share Capital + Debentures + Long Term Loan

Note: If the amount of fixed cost bearing capital is more than (the equity share capital including reserves an undistributed profits), it will be called high capital gearing and if it is less, it will be called low capital gearing.

4. Interest Coverage Ratio:

This ratio is also termed as 'Debt Service Ratio'. This ratio indicates how many times the interest charges are covered by the profits available to pay interest charges. This ratio measures the margin of safety for long-term lenders. This ratio is calculated as follows:

$$\text{Capital gearing ratio} = \frac{\text{Net profit before charging interest and tax}}{\text{Fixed interest charges}}$$

Note: An interest coverage ratio of 6 or 7 times is considered appropriate.

C. ACTIVITY RATIO OR TURNOVER RATIOS

These ratios are calculated on the bases of "cost of sales" or sales, therefore, these ratios are also called as "Turnover Ratio". Turnover indicates the speed or number of times the capital employed has been rotated in the process of doing business. Higher turnover ratio indicates the better use of capital or resources and in turn leads to higher profitability.

1. Stock Turnover Ratio:

This ratio indicates the relationship between the cost of goods during the year and average stock kept during that year. This ratio indicates whether stock has been used or not. It shows the speed with which the stock is rotated into sales or the number of times the stock is turned into sales during the year.

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

$$\text{Cost of Goods Sold} = \text{Net sales} - \text{Gross profit}$$

$$\text{Capital gearing ratio} = \frac{\text{Cost of goods sold}}{\text{Average stock}}$$

Note: The higher the ratio, the better it is, since it indicates that stock is selling quickly. In a business where stock turnover ratio is high, goods can be sold at a low margin of profit and even than the profitability may be quite high.

2. Debtors Turnover Ratio:

This ratio indicates the relationship between credit sales and average debtors during the year. While calculating this ratio, provision for bad and doubtful debts is not deducted from the deducted from the debtors, so that it may not give a false impression that debtors are collected quickly.

$$\text{Debtors turnover ratio} = \frac{\text{Net Credit Sales}}{\text{Average Debtors} + \text{Avrage Bills Recievables}}$$

Note: This ratio indicates the speed with which amount is collected from debtors. The higher the ratio, the better it is, since it indicates that amount from debtors is being collected more quickly. Hence standard credit period is 30 days

3. Average Collection Period:

This ratio indicates the time with in which the amount is collected from debtors and bills receivables. This ratio shows the time in which the customers are paying for credit sales.

$$\text{Average Collection Period} = \frac{\text{Debtors} + \text{Bills Recievables}}{\text{Credit Sales Per Day}}$$

Here, Credit Sales per day = Net Credit Sales of the year/365

$$\text{Average Collection Period} = \frac{\text{Average Debtors} * 365}{\text{Net Credit Sales}}$$

Note: A higher debt collection period is thus, an indication of the inefficiency and negligence on the part of management. On the other hand, if there is decrease in debt collection period, it indicates prompt payment by debtors which reduces the chance of bad debts.

4. Credit Turnover Ratio:

This ratio indicates the relationship between credit purchased and average creditors during the year. This ratio indicates the speed with which the amount is being paid to creditors.

$$\text{Credit Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Creditors} + \text{Average Bills Payable}}$$

Note: The higher the ratio, the better it is, since it will indicate that the creditors are being paid more quickly which increases the credit worthiness of the firm.

5. Average Payment Period:

This ratio indicates the period which is normally taken by the firm to make payment to its creditors.

$$\text{Average Collection Period} = \frac{\text{Creditors} + \text{Bills Payable}}{\text{Credit Purchases Per day}}$$

Note: The lower the ratio, the better it is, because a shorter payment period implies that the creditors are being paid rapidly.

6. Fixed Assets Turnover Ratio:

This ratio reveals how efficiently the fixed assets are being utilized. This ratio is particular importance in manufacturing concerns where the investment in fixes asset is quite high.

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Net Fixed Assets}}$$

Here, Net Fixed Assets = Fixed Assets – Depreciation

Note: Compared with the previous year, if there is increase in this ratio, it will indicate that there is better utilization of fixed assets. If there is a fall in this ratio, it will show that fixed assets have not been used as efficiently as they had been used in the previous year

7. Working Capital Turnover Ratio:

This ratio reveals how efficiently working capital has been utilized in making sales. This ratio is of Particular importance in non-manufacturing concerns where current assets play a major role in generating sales. It shows the number of times working capital has been rotated in producing sales.

$$\text{Working Capital Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Working Capital}}$$

Here,

Cost of Goods Sold = Opening Stock + Purchases + Carriages + Wages – Closing Stock

Working Capital = Current Assets – Current Liabilities

Note: A high working capital turnover shows efficient use of working capital and quick turnover of current assets like stock and debtors. A low working capital turnover ratio indicates under-utilization of working capital.

D. PROFITABILITY RATIOS:

The main object of every business concern is to earn profits. A business must be able to earn adequate profits in relation to the risk and capital invested in it. The efficiency and the success of a business can be measured with the help of profitability ratio.

Profitability Ratios Based on Sales

1. Gross Profit Ratio:

This ratio shows the relationship between gross profit and sales. This ratio measures the margin of profit available on sales. The higher the gross profit ratio, the better it is.

$$\text{Gross Profit} = \frac{\text{Gross Profit}}{\text{Net Sales}} * 100$$

Here, Net Sales = Sales – Sales Return

Note: No ideal standard is fixed for this ratio, but the gross profit ratio should be adequate enough not only to cover the operating expenses but also to provide for depreciation, Interest on loans, dividends and creation of reserves.

2. Net Profit Ratio:

This ratio shows the relationship between net profit and sales. This ratio measures the rate of net profit earned on sale. It helps in determining the overall efficiency of the business operations.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} * 100$$

$$\text{Operating Net Profit} = \frac{\text{Operating Net Profit}}{\text{Net Sales}} * 100$$

Note: An increase in the ratio over the previous year shows improvement in the overall efficiency and profitability of the business.

3. Operating Ratio:

This ratio measures the proportion of an enterprise cost of sales and operating expenses in comparison to its sales. Operating Ratio is a measurement of the efficiency and profitability of the business enterprises. The ratio indicates the extent of sales that is absorbed by the cost of goods sold and operating expenses.

$$\text{Operating Ratio} = \frac{\text{Cost of Goods Sold} + \text{Operating Expense}}{\text{Net Sales}} * 100$$

Note: Lower the Operating ratio is better, because it will leave higher margin of profit on sales.

4. Expenses Ratio

The ratio indicates the relationship between expenses and sales. Although the operating ratio reveals the ratio of total operating expenses in relation to sales but some of the expenses include in operating ratio may be increasing while some may be decreasing. Hence, specific expenses ratios are computed by dividing each type of expenses with the net sales to analyse the causes of various in each type of expenses.

$$\text{Expenses Ratio} = \frac{\text{Particular Expense}}{\text{Net Sales}} * 100$$

Note: If the expenses ratio is lower, the profitability will be greater and if the expenses ratio is higher the profitability will be lower.

Profitability Ratios Based on Investment

These ratios reflect the true capacity of the resources employed in the enterprises. Sometimes the profitability ratio based on sales is high whereas profitability ratio based on investment is low. Since the capital is employed to earn profit, these are the real measures of the success of the business and managerial efficiency.

1. Return on Capital Employed:

This ratio reflects the overall profitability of the business. It is calculated by comparing the profit earned and the capital employed to earn it. This ratio is usually in percentage and is also known as "Rate of Return" or Yield on Capital.

$$\text{Return on Capital Employed} = \frac{\text{Profit Before Interest Tax and Dividends}}{\text{Capital Employed}} * 100$$

Advantages of Return on Capital Employed:

Since profit is the overall objective of a business enterprise, this ratio is a barometer of the overall performance of the enterprise. It measures how efficiently the capital employed in the business is being used.

- Even the performance of two dissimilar firms may be compared with the help of this ratio.
- The ratio can be used to judge the borrowing policy of the enterprise.
- This ratio helps in affecting the necessary changes in the financial policies of the firm.
- Return on Shareholder's Fund: Return on Capital Employed shows the overall profitability of the funds supplied by long term lenders and shareholders taken together. Whereas, return on shareholder's funds measures only the profitability of the funds invested by shareholders.

2. Return on Total Shareholder's Funds:

For calculating this ratio Net Profit after Interest and Tax is divided by total. This ratio reveals how profitably the proprietor's funds have been utilized by the firm. A comparison of this ratio with that of similar firms will throw light on the relative profitability and strength of the firm.

$$\text{Return on Total Shareholder's Fund} = \frac{\text{Net Profit After Interest and Tax}}{\text{Total Shareholder's Fund}}$$

Total Shareholder's Funds = Equity Share Capital + Preferences Share Capital + All Reserved + P&L Account Balance – Fictitious Assets

3. Return on Equity Shareholder's Funds:

Equity Shareholders of a company are more interested in knowing the earning capacity of their funds in the business. As such, this ratio measures the profitability of the funds belonging to the equity shareholders. This ratio measures how efficiently the equity shareholder's funds are being used in the business.

$$\text{Return on Equity Shareholder's Fund} = \frac{\text{Net Profit (After Interest,Tax and Preference dividends)}}{\text{Equity Shareholder's Fund}} * 100$$

Note: It is a true measure of the efficiency of the management since it shows what the earning capacity of the equity shareholders" funds. If the ratio is high, it is better, because in such a case equity shareholders may be given a higher dividend.

3. Earnings per Share (E.P.S):

This ratio measures the profit available to the equity shareholders on a per share basis. All profit left after payment of tax and preference dividends are available to equity shareholders. This ratio helpful in the determining of the market price of the equity share of the company. The ratio is also helpful in estimating the capacity of the company to declare dividends on equity shares.

$$\text{Earning Per Share} = \frac{\text{Net Profit} - \text{Dividend Preference Shares}}{\text{No. of Equity Shares}}$$

4. Dividend per Share (D.P.S):

Profits remaining after payment of tax and preference dividend are available to equity shareholders. But of these are not distributed among them as dividend. Out of these profits is retained in the business and the remaining is distributed among equity shareholders as dividend. D.P.S. is the dividend distributed to equity shareholders dividend by the number of equity shares.

$$\text{Dividend Per Share} = \frac{\text{Dividend Paid to Equity Shareholder's}}{\text{Total Net Profit Belonging To Equity Shares}} * 100$$

CHAPTER -4
DATA ANALYSIS AND INTERPRETATION

CHAPTER: 4

DATA ANALYSIS AND INTERPRETATION

4.1 ANALYSIS OF FINANCIAL PERFORMANCE AND HEALTH

Continuing with fourth chapter and the core part of the project i.e., Data analysis and Interpretation. In this chapter described and explained the financial analysis of company. The data analysis is performed by using ratio analysis followed by trend analysis. Data analysis covers the process of using diverse analytical methods to review data and arrive at relevant conclusions. The interpretation of data helps to categorize, manipulate, and summarize the information in order to justify objectives of the project. To examine the financial position of the company the data analysis carried on the basis of following four parameters.

1. Liquidity position of company.
2. Solvency position of company.
3. Operational efficiency of company.
4. Ability of company to generate income.

The key financial ratios are used to evaluate financial health of the company based on above parameters.

1. LIQUIDITY RATIOS

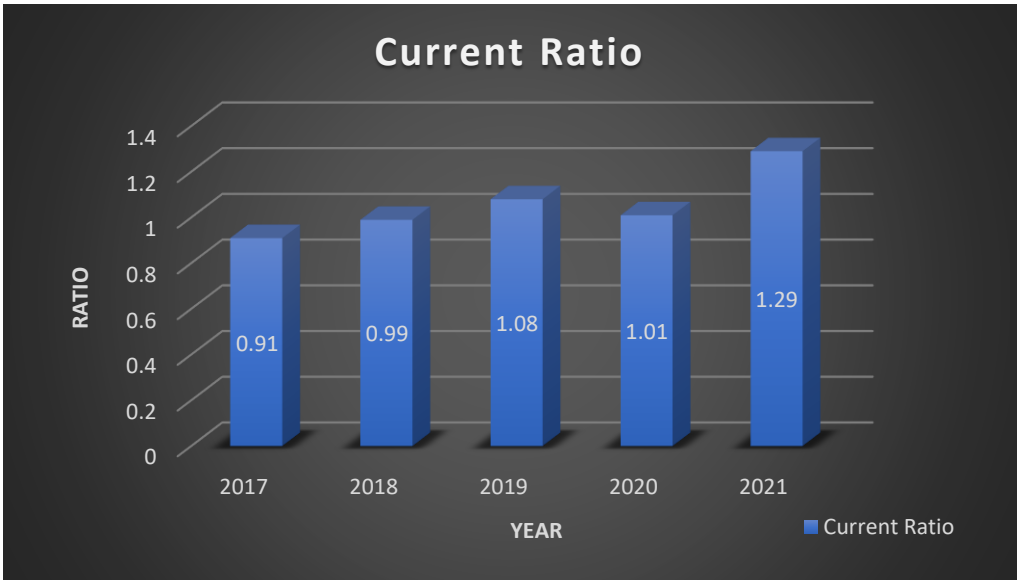
Table 4.1: Current Ratio:

Calculated by dividing current assets by current liabilities.

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

Year	Current Assets	Current Liabilities	Ratio
2017	35,37,55,237.65	38,86,28,971.36	0.91
2018	33,39,02,121.00	33,68,07,638.00	0.99
2019	36,06,51,576.00	33,22,02,569.00	1.08
2020	37,79,44,000.00	37,41,01,000.00	1.01
2021	38,51,41,000.00	29,75,03,000.00	1.29

Graph No.4.1



Source: Annual report

Interpretation:

The above table showed the current ratio of five years five years (2017-2021). The current ratio of Bemco Hydraulics Ltd. varied from 0.91 to 1.29. From the year 2017-19 there was a constant increase in the current assets over the current liability, later raised to 1.29 in the year 2019 which is a good sign of growth. The liquidity position of the Bemco Hydraulics Ltd. in terms of current ratio was below the standard norm volume of 2:1 for entire period which need to be improved further.

Table 4.2: Quick Ratio (Liquid Ratio)

The Formula for calculating Cash Ratio is as follows:

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

Year	Liquid Assets	Current Liabilities	Ratio
2017	15,83,56,333.65	27,95,19,314.78	0.56
2018	14,19,79,687.00	28,26,72,005.00	0.50
2019	15,42,04,838.00	30,85,44,263.00	0.49
2020	14,12,34,000.00	27,07,71,000.00	0.52
2021	23,29,69,000.00	29,19,10,000.00	0.79

Graph No.4.2

Source: Annual report

Interpretation:

The above table and diagram show the quick ratio of five years (2017-2021). As per the annual reports the ideal Ratio is not 1:1 in any financial year. In the year 2021, the firm has maintained its highest quick ratio of 0.79. Hence, it confirms that the liquidity position of Bemco Hydraulics Ltd. In terms of quick ratio were less than the above standards. The low Quick Ratio indicates that the firm has the failed in its ability to meet its current liabilities.

2. LONG TERM SOLVENCY RATIOS OR LEVERAGE RATIOS

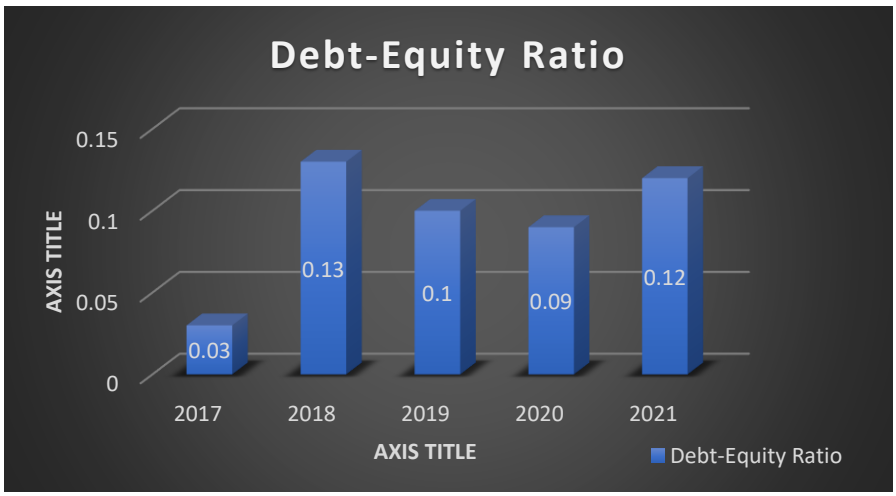
Table 4.3: Debt Equity Ratio:

Debt-equity ratio is a long-term solvency ratio that indicates the soundness of long-term financial policies of a company. The Formula for calculating debt-equity ratio is as follows:

$$\text{Debt Equity Ratio} = \frac{\text{Debt's}}{\text{Shareholder's funds or Net Worth}}$$

Year	Total Liability	Shareholder's Fund	Ratio
2017	2,04,20,777.00	43,29,25,797.75	0.04
2018	6,62,30,400.00	33,71,14,164.00	0.19
2019	6,39,30,561.00	35,28,39,315.00	0.18
2020	3,37,97,000.00	35,94,86,000.00	0.09
2021	4,94,83,000.00	40,03,07,000.00	0.12

Graph No. 4.3



Interpretation:

This Ratio is calculated to assess the ability of the firm to meet its long-term liabilities. Generally, debt equity ratio of 0.67:1 is considered to be safe. The actual debt-equity ratio in the above (Table No.4.5) shows that, in all the five years the ratio is below the standard of 2:1. There is no much fluctuations in the above ratio from 2017-21. In 2018 and 2021 the ratio was at their highest i.e., 0.13 and 0.12 respectively. Since Company has the poor debt-equity ratio which indicates company has lower portion of long-term loans. Thus, this can affect the image of the company and the value placed by the market on shares.

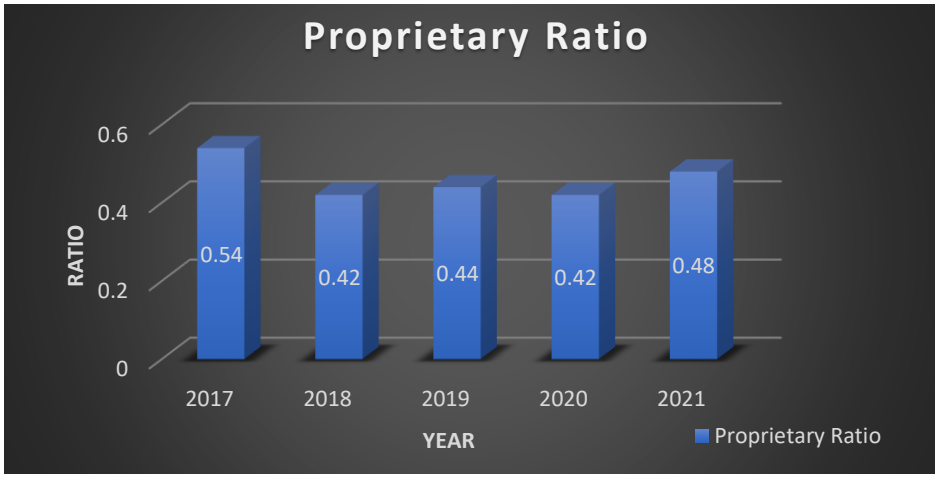
Table 4.4: Proprietary Ratio:

This ratio is a variant of debt-equity ratio which establishes the relationship between shareholders' funds and total assets. This ratio indicates the extent to which shareholders' funds have been invested in the assets. This ratio is worked out as follows:

$$\text{Proprietary Ratio} = \frac{\text{Shareholder's funds}}{\text{Total Assets}}$$

Year	Shareholder's Fund	Total Assets	Ratio
2017	43,29,25,797.75	79,68,51,641.65	0.54
2018	33,71,14,164.00	78,47,81,965.00	0.42
2019	35,28,39,315.00	79,64,73,922.00	0.44
2020	35,94,86,000.00	83,98,12,000.00	0.42
2021	40,03,07,000.00	83,06,56,000.00	0.48

Graph No.4.4



Interpretation:

The above Table and Graph No.4.6 shows the Proprietary Ratio of five years that is from 2017-2021 of Bemco hydraulics Ltd. This ratio used to determine the financial stability of the concern in general. Proprietary Ratio indicates the share of owners in the total assets of the company. The above table shows the highest ratio of 0.54 in year 2017. We can see that there are slight fluctuations in year 2018-2020 i.e., 0.42, 0.44, 0.42 respectively. This indicates that long-term loans are more secured and they face low risk of losing their money. It is increased in the year 2021 that means a firm is less dependent on external sources of finance.

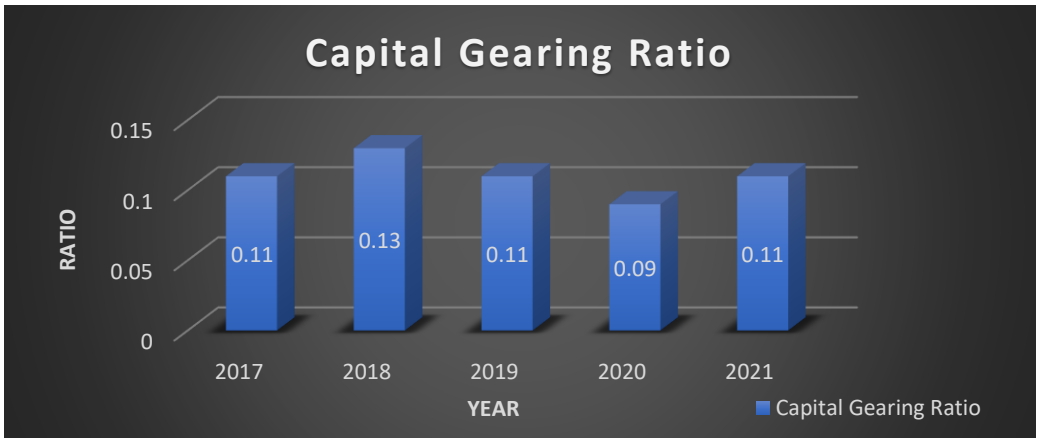
Table 4.5: Capital Gearing Ratio:

The proportion between fixed interest or dividend bearing funds and non-fixed interest or dividend bearing funds in the total capital employed in the business is termed as capital gearing ratio. This ratio indicates the extra residual benefits accruing to equity shareholders. Whether the concern is operating on trading on equity can be judged by this ratio.

$$\text{Capital Gearing Ratio} = \frac{\text{Fixed Interest Bearing Funds}}{\text{Equity Shareholder's Funds}}$$

Year	Fixed Interest-Bearing Securities	Equity Shareholder's Fund	Ratio
2017	4,75,10,189.00	40,09,25,797.75	0.11
2018	4,44,61,932.00	33,71,14,164.00	0.13
2019	3,85,57,950.00	35,28,39,315.00	0.10
2020	3,26,85,000.00	35,94,86,000.00	0.09
2021	4,90,84,000.00	42,74,57,000.00	0.11

Graph No.4.5



Interpretation:

The above table no.4.5 shows the Capital Gearing Ratio of five years (2017-2021). Capital Gearing Ratio of Bemco Hydraulics Ltd. If the amount of fixed cost bearing capital is more, than it will be called high capital gearing and if it is less, it will be called low capital gearing. The above table shows that company has very low capital gearing ratio i.e., in the year 2017 and 2019 which indicates company is highly geared.

3. ACTIVITY RATIOS OR TURNOVER RATIOS

Table 4.6: Debt-Collection Period:

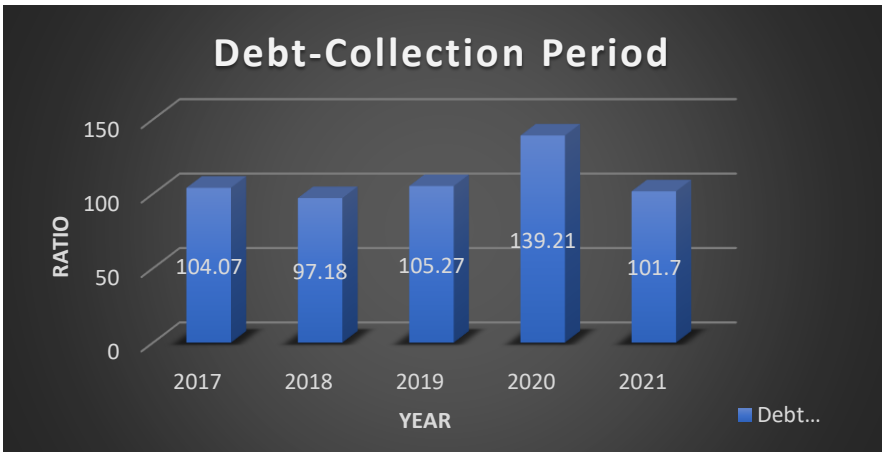
This ratio indicates the extent to which the debts have been collected in time. This ratio is in fact, interrelated with and dependent upon the debtor's turnover ratio. This ratio can be computed as follows.

$$\text{Debt Collection Period} = \frac{\text{Average Debtors}}{\text{Credit Sales Per Day}}$$

Note: Here Credit Sales Per Day = Net Credit Sales of the Year/365

Year	Average Debtors	Credit Sales Per Day	Ratio
2017	12,80,01,016.20	12,29,923.99	104.07
2018	10,69,50,598.00	11,00,455.78	97.18
2019	14,14,88,775.00	13,44,001.15	105.27
2020	11,68,04,000.00	8,39,030.13	139.21
2021	16,67,58,000.00	16,39,695.89	101.70

Graph No.4.6



Interpretation:

The above table and diagram show the relationship between Debtors + Bills Receivable and Credit Sales per day. Indicates the average time taken to collect the trade debts. The debtor collection period or Average Collection Period of the company has a slight fluctuation from 2017 to 2021. In 2020 was the highest collection i.e., 139.21 and lowest collection period i.e., 97.18 observed in the above table. Since the above ratios are very high it indicates company is not much efficient in recovering its trade debts.

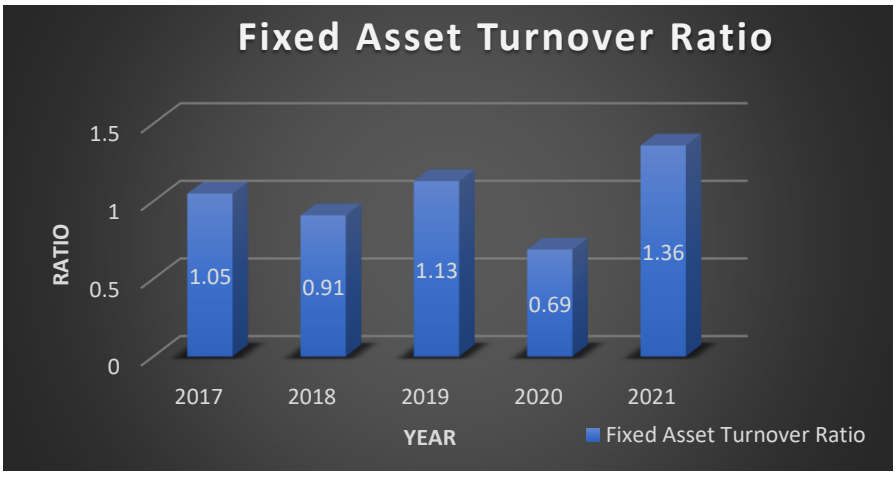
Table 4.8: Fixed Asset Turnover Ratio:

This ratio indicates the number of times fixed assets are being turned over in a stated period. This ratio is an indicator of the extent to which investment in fixed assets contributes to generate sales. The fixed assets are to be taken net of depreciation. The higher is the ratio the better is the performance.

$$\text{Fixed Asset Turnover Ratio} = \frac{\text{Net sales}}{\text{Fixed assets}}$$

Year	Net Sales	Fixed Assets	Ratio
2017	44,89,22,259.46	42,65,14,874.00	1.05
2018	40,16,66,361.00	44,06,49,059.00	0.91
2019	49,05,60,421.00	43,38,28,236.00	1.13
2020	30,62,46,000.00	43,91,14,000.00	0.69
2021	59,84,89,000.00	43,93,31,000.00	1.36

Graph.No.4.8



Interpretation:

The above table and diagram No.4.8 shows the relationship between Net Sales and Net Fixed Assets from 2017 to 2021. In the year 2019 and 2021 the company has the highest ratios i.e., 1.13 and 1.36 respectively which indicates that part of fixed assets is utilised in generating profits. There was a slight fluctuation in the ratios and lowest ratios i.e., 0.69 and 0.91 are observed in the year 2020 and 2018.

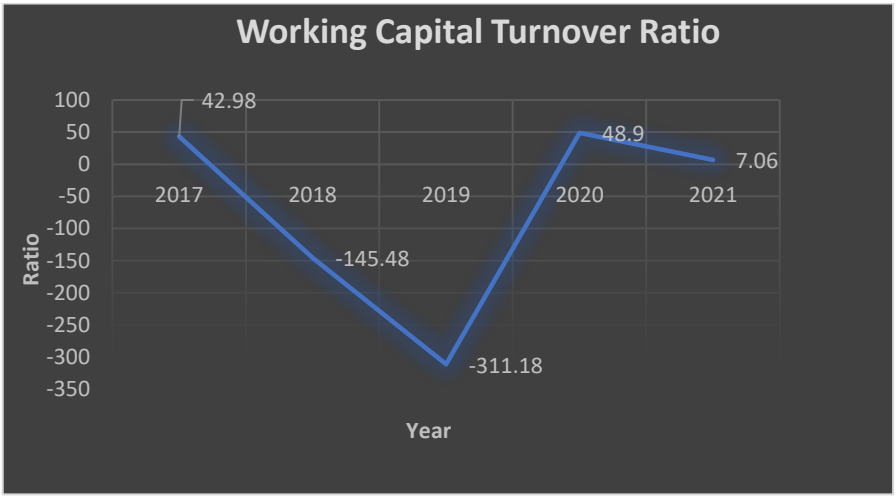
Table 4.9: Working Capital Turnover Ratio:

This ratio shows the number of times working capital is turned-over in a stated period. This ratio is It indicates to what extent the working capital funds have been employed in the business towards sales. calculated as:

$$\text{Working Capital Turnover Ratio} = \frac{\text{Net sales}}{\text{Working Capital}}$$

Year	Net Sales	Working capital	Ratio
2017	46,42,59,562.52	1,08,01,235.75	42.98
2018	42,26,94,793.00	-29,05,517.00	-145.48
2019	48,26,42,289.00	-15,50,993.00	-311.18
2020	32,00,00,000.00	65,43,000.00	48.90
2021	61,87,47,000.00	8,76,38,000.00	7.06

Graph No.4.9



Interpretation:

The above Graph shows the effectiveness of the company in generating for every rupee of working capital put into use. In the above Table and Chart No.4.9 the velocity of the utilization of working capital ratio have been observed. In the year 2017, company had good working capital but rapidly decreased in the year 2018 and 2019 i.e., -145.48 and -311.18 respectively. Hence graph has steep downward slope, this indicates that company had a reduced sales in year 2018 and 2019. In the year 2020 the company has recovered its working capital position to 48.9, which is a good sign of increased sales again in the year 2021 reduced to 7.06.

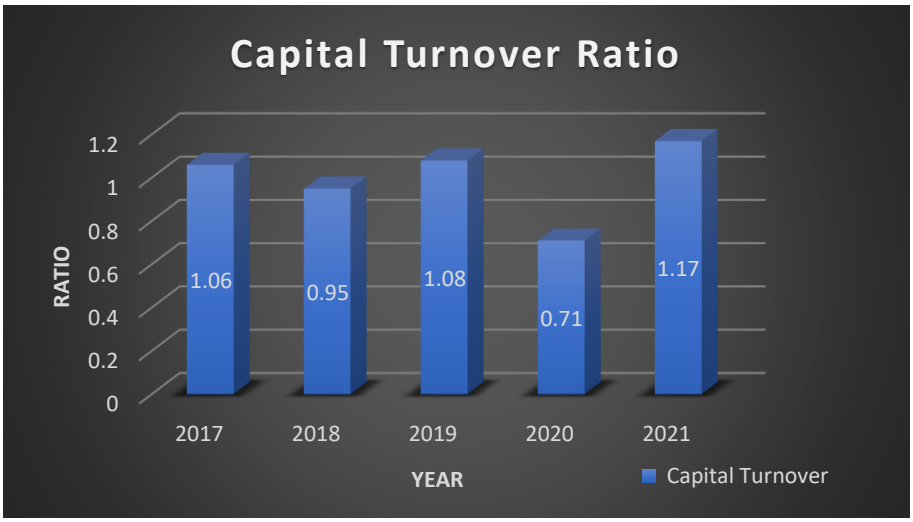
Table 5.0: Capital Turnover Ratio:

This ratio shows the efficiency of capital employed in the business and is calculated as follow:

$$\text{Capital Turnover Ratio} = \frac{\text{Net sales}}{\text{Capital Employed}}$$

Year	Net Sales	Capital Employed	Ratio
2017	46,42,59,562.52	43,73,16,109.75	1.06
2018	42,26,94,793.00	44,11,54,166.00	0.95
2019	48,26,42,289.00	44,55,56,694.00	1.08
2020	32,00,00,000.00	44,56,57,000.00	0.71
2021	61,87,47,000.00	52,69,69,000.00	1.17

Graph No.5.0



Interpretation:

The above Table and Diagram No.5.0 shows the relationship between sales and capital employed. The above data shows efficiency of the company to generate profits with the present capital employed. The above graph shows capital turnover of Bemco Hydraulics Ltd (2017 to 2019). The company had low capital turnover of 0.95 in 2018 but the ratio again reduced to 0.71 in the year 2020 which indicates that company had low profit margins in respective years. Similarly, the company had alternate increasing trend in the capital ratio from 2017 to 2021. That is in the year 2017 ratio was 1.06 again it increased to 1.08 in 2018 and lastly in 2021 increased to 1.17. This increasing trend is an indication of high profit margins earned by the company.

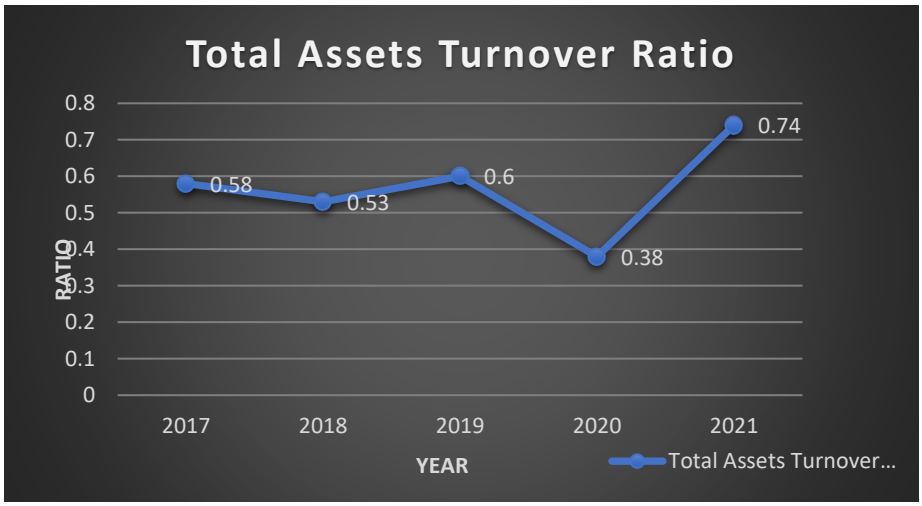
Table 5.1: Total Assets Turnover Ratio:

This ratio is ascertained by dividing the net sales by the value of total assets. A high ratio is an indicator of overtrading of total assets while a low ratio reveals idle capacity Thus,

$$\text{Total Assets Turnover Ratio} = \frac{\text{Net sales}}{\text{Total Assets}}$$

Year	Net Sales	Total Assets	Ratio
2017	46,42,59,562.52	79,68,51,641.65	0.58
2018	42,26,94,793.00	78,47,81,965.00	0.53
2019	48,26,42,289.00	79,64,73,922.00	0.60
2020	32,00,00,000.00	83,98,12,000.00	0.38
2021	61,87,47,000.00	83,06,56,000.00	0.74

Graph No.5.1



Interpretation:

The above Table and Graph No.5.1 show the relationship between sales and total assets. Total Assets Turnover Ratio of the company is circulating their assets for business purpose. It shows that the company can circulate the total assets in the business. According to above graph the company has a low Assets Turnover ratio over all the five years from 2017 to 2021. In above graph there is sharp fluctuations of assets turnover ratio i.e., from 0.58 to 0.74. The ratio had downward trend from the year 2017 to 2018, that is 0.58 to 0.53. from the year 2019 to 2021 there was an increasing trend in the ratios that is 0.6 to 0.74. Thus, a low assets turnover ratio is indication that an idle capacity of assets have been utilised in the business operations

Table 5.2: Stock turnover ratio:

This ratio is an indicator of the efficiency of the use of investment in stock. It is calculated as:

$$\text{Stock Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Year	Cost of Goods Sold	Average Inventory	Ratio
2017	20,32,18,113.61	16,30,38,160.00	1.24
2018	20,61,47,372.00	15,41,28,893.50	1.33
2019	21,64,75,540.00	13,99,55,398.50	1.54
2020	19,29,50,000.00	15,51,23,000.00	1.24
2021	27,09,04,000.00	14,62,56,500.00	1.85

Graph No.5.2

Interpretation:

The above Table and Graph No.5.2 shows stock turnover ratio of Bemco hydraulics Ltd. From year 2017-2021. The company has ratio ranging from 1.24 to 1.85. It is noticed that in the year 2017 and 2020 stock turnover ratio is constant. It is also observed that there is an upward pattern in the graph ranging 1.33 in year 2018 to 1.85 in the year 2021. Thus, the low ratio indicates that company has large inventory in the business. And the upward patter in the stock turnover ratio is a good sign that investments of the company are efficiently utilised in stock.

4. PROFITABILITY RATIOS OR INCOME RATIOS

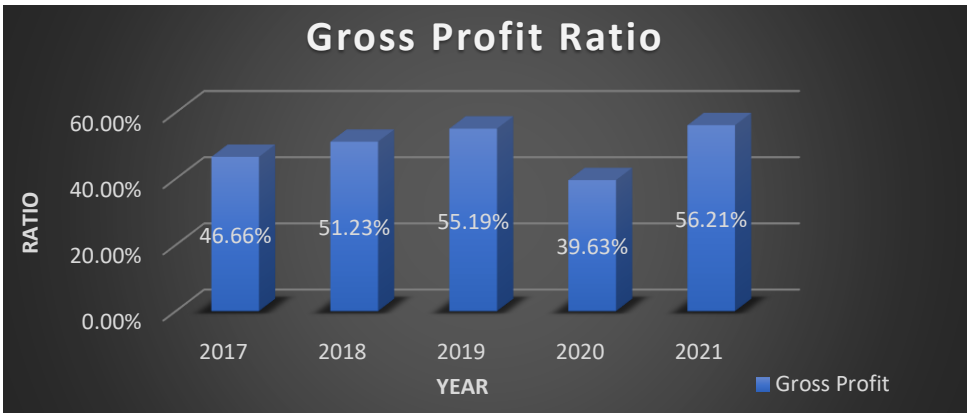
Table 5.3: Gross Profit Ratio or Gross Margin

Gross profit ratio expresses the relationship of gross profit to net sales or turnover. Gross profit is the excess of the proceeds of goods sold and services rendered during a period over their cost, before taking into account administration, selling and distribution and financing charges. This ratio is important to determine general profitability since it is expected that the ratio would be quite high so as to cover not only the remaining costs but also to allow proper returns to owners. Gross profit ratio is expressed as follows:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} * 100$$

Year	Gross Profit	Net Sales	Ratio (in %)
2017	21,66,64,655.84	46,42,59,562.52	46.66
2018	21,65,47,421.00	42,26,94,793.00	51.23
2019	26,63,71,740.00	48,26,42,289.00	55.19
2020	12,68,21,000.00	32,00,00,000.00	39.63
2021	34,78,43,000.00	61,87,47,000.00	56.21

Graph No.5.3



Interpretation:

The above Table and Graph No.5.3 show the profit earned by the company before tax and interest payable. This ratio measures the margin of profit available on sales. The higher the ratio higher profit margin of the company. The figure shows that company has a good profitability as there is an increasing pattern except in the year 2020 i.e., 39.63%. This low profit margin might be due covid pandemic since all business operations were shut down. But company has recovered back in 2021 with highest profit margin of 56.21%.

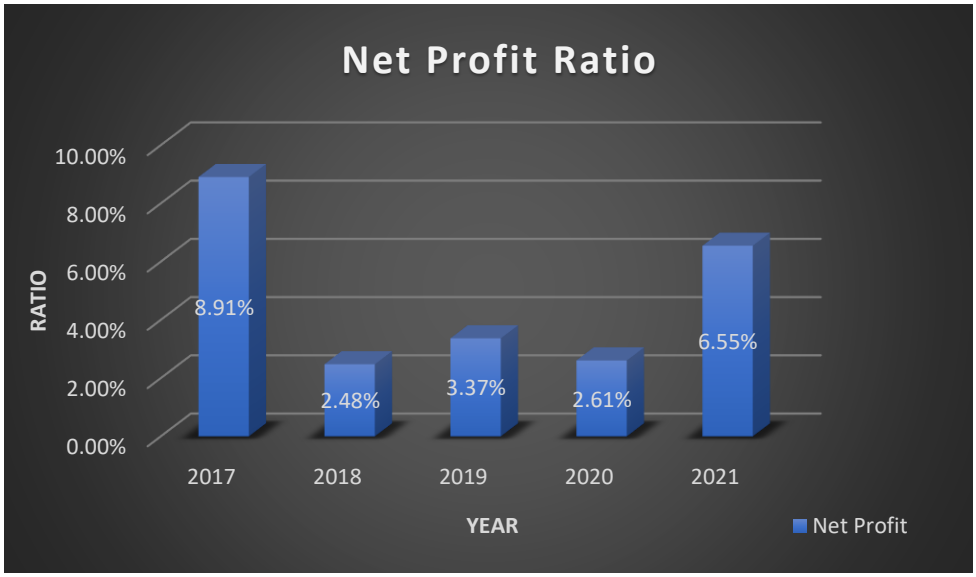
Table 5.4: Net Profit Ratio

One of the components of return on capital employed is the net profit ratio (or the margin on sales). calculated as:

$$\text{Net Profit Ratio} = \frac{\text{Operating Profit}}{\text{Net Sales}} * 100$$

Year	Operating Profit	Net Sales	Ratio (in %)
2017	4,13,78,033.73	46,42,59,562.52	8.91
2018	1,05,17,291.00	42,26,94,793.00	2.48
2019	1,62,65,604.00	48,26,42,289.00	3.37
2020	83,61,000.00	32,00,00,000.00	2.61
2021	4,05,51,000.00	61,87,47,000.00	6.55

Graph No.5.4



Interpretation:

The above Table and Graph no.5.4 shows the relationship between Operating Profit and Net Sales. The ratio indicates the net margin earned in a sale of Rs.100. The company had highest profit of 8.91% in the year 2017 and the low profits were observed during covid pandemic period from the year 2018 to 2020 ranging an average profit of 3%. But the company has recovered back its net profit margin to 6.55% in the year 2021.

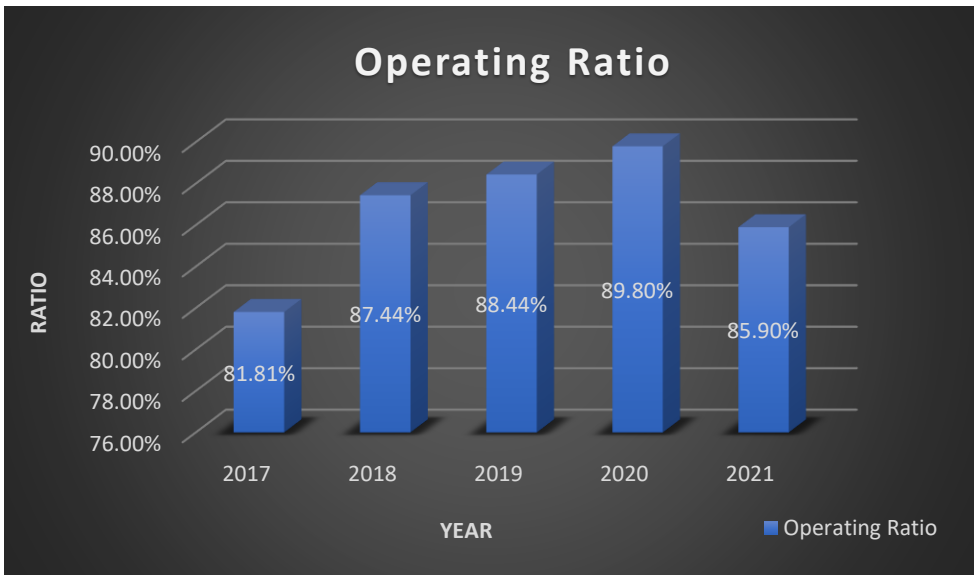
Table 5.4: Operating Ratio

The ratio of all operating expenses (i.e., materials used, labour, factory overheads, office and selling expenses) to sales is the operating ratio.

$$\text{Operating Ratio} = \frac{\text{Cost of Goods Sold} + \text{Operating Expenses}}{\text{Net Sales}} * 100$$

Here, Operating Expenses = Cost of Goods Sold + Operating Expenses.

Year	Operating Expenses	Net Sales	Ratio (in %)
2017	37,98,54,081.26	46,42,59,562.52	81.81
2018	36,96,11,038.00	42,26,94,793.00	87.44
2019	42,68,67,705.00	48,26,42,289.00	88.44
2020	28,73,83,000.00	32,00,00,000.00	89.80
2021	53,15,27,000.00	61,87,47,000.00	85.90



Interpretation:

The above Table and Graph No.5.4 shows the relationship between Operating expenses and Sales. The ratio indicates the operational efficiency or intensity of cost content in the figures of sales of the company. Hence according to above data, it clearly shows that the cost content had been increasing from the year 2017 to 2020 ranging from 81.81% to 89.80%. Thus, it indicates that during the year 2018 to 2020 the company has failed in maintaining its operational efficiency. But, in 2021 the figure has decreased to 85.90%. which is a sign that company is improving post covid period.

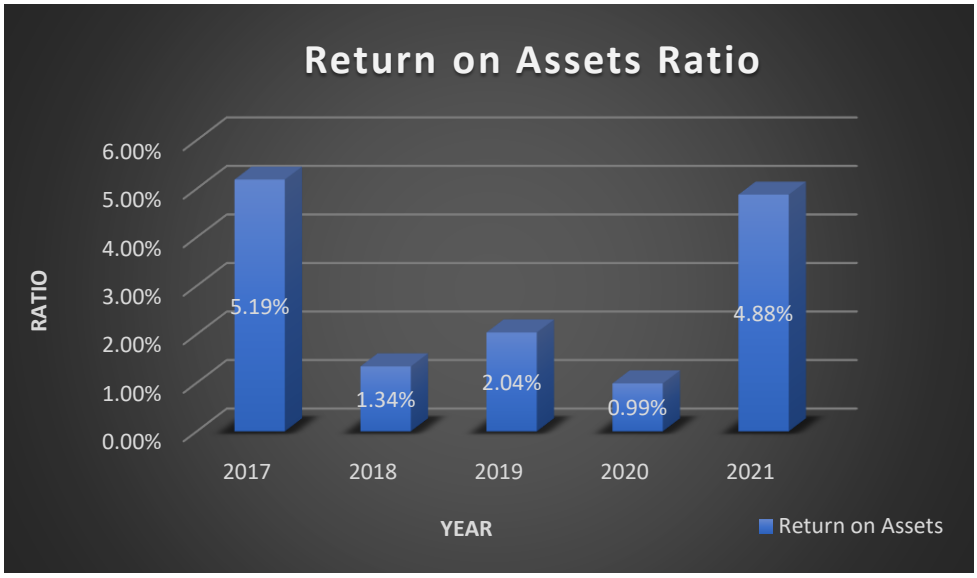
Table 5.5: Return on Assets

Here the profitability is measured in terms of the relationship between net profits and assets. It shows whether the assets are being properly utilised or not. This ratio is a measure of the profitability of the total funds or investment of the organisation. It is calculated as:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} * 100$$

Year	Net Profit After Tax	Total Assets	Ratio (in %)
2017	4,13,78,033.73	79,68,51,641.65	5.19
2018	1,05,17,291.00	78,47,81,965.00	1.34
2019	1,62,65,604.00	79,64,73,922.00	2.04
2020	83,61,000.00	83,98,12,000.00	0.99
2021	4,05,51,000.00	83,06,56,000.00	4.88

Graph No.5.5



Interpretation:

The above Table and Graph No.5.6 shows the relationship between Net Profit and Total Assets in percentage. The ratio indicates efficiency of the company in utilising the assets. After observing above figures, it is clear that company had high ROA ratio of 5.19% in the year 2017. There was sudden decrease in the from the year 2018 to 2020 ranging from 1.34% to 0.99% which was lowest. Thus, it is clear that in the year 2020 company had failed in proper utilisation of assets. In the year 2021 the ratio increased to 4.88% which shows that company is slowly moving towards efficiency.

Table 5.6: Return on Investment

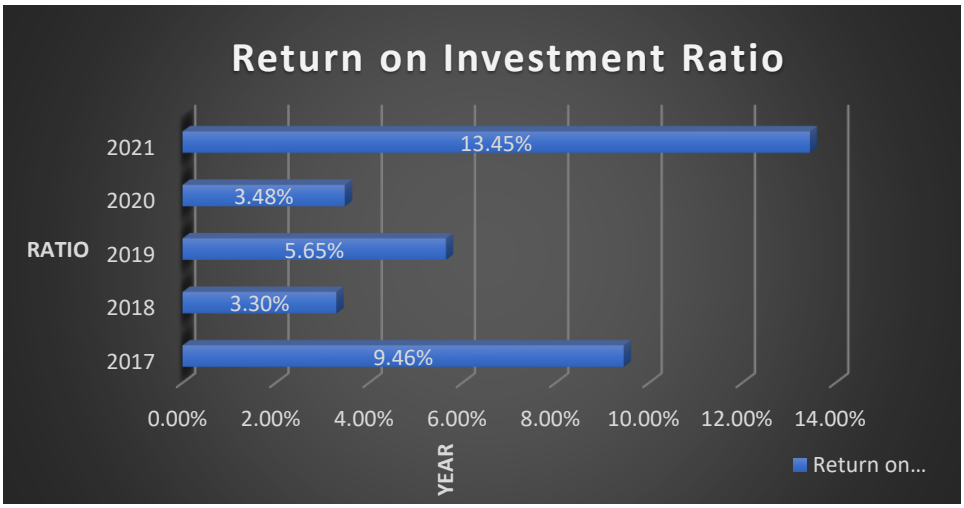
This ratio is also known as overall profitability ratio or return on capital employed. The income (output) as compared to the capital employed (input) indicates the return on investment. It shows how much the company is earning on its investment. This ratio is calculated as follows:

$$\text{Return on Investment} = \frac{\text{Net Operating Profit}}{\text{Capital employed}} * 100$$

Here, Capital Employed = Net fixed Assets + Working Capital

Year	Net Operating Profit	Capital Employed	Ratio (in %)
2017	4,13,72,091.73	43,73,16,109.75	9.46
2018	1,45,99,027.00	44,11,54,166.00	3.30
2019	2,51,90,447.00	44,55,56,694.00	5.65
2020	1,55,14,000.00	44,56,57,000.00	3.48
2021	7,09,18,000.00	52,69,69,000.00	13.45

Graph No.5.6



Interpretation:

The above Table and Graph No.5.6 shows data of Return-on-Investment ratio over five years from 2017 to 2021. It is the relationship between the Net Profit and Capital Employed in the business. From above data it is clear that company earning a good return on their capital employed in the business. In 2017 and 2021 the company has significant return i.e., 9.46% and 13.45% respectively. From the period 2018 to 2020 the company has earned low average return of 4.14%.

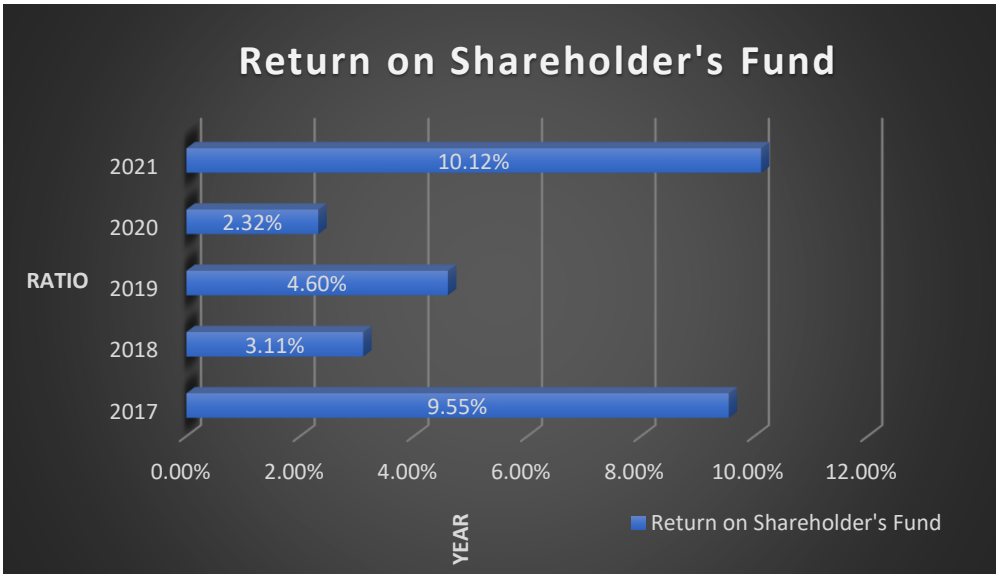
Table 5.7: Return on Shareholder's Fund

It is also referred to as return on net worth. In this case it is desired to work out the profitability of the company from the shareholders' point of view and it is computed as follows:

$$\text{Return on shareholder's Fund} = \frac{\text{Net Profit After Interest and Tax}}{\text{Shareholders' Funds}} * 100$$

Year	Net profit After Interest and Tax	Shareholder's Fund	Ratio in (%)
2017	4,13,78,033.73	43,29,25,797.75	9.55
2018	1,05,17,291.00	33,71,14,164.00	3.11
2019	1,62,65,604.00	35,28,39,315.00	4.60
2020	83,61,000.00	35,94,86,000.00	2.32
2021	4,05,51,000.00	40,03,07,000.00	10.12

Graph No.5.7



Interpretation:

The above table and diagram shows relationship between net profits earned and Total Shareholders' Funds. This ratio reveals how profitability the proprietor's funds have been utilized by the firm. A comparison of this with that of similar firms will throw light on the relative profitability and strength of the firm. According to above figures it is clear that in 2017 and 2021 the ratio was at its peak level i.e., 9.55% and 10.12% hence it indicates the shareholder's fund have been utilised efficiently.

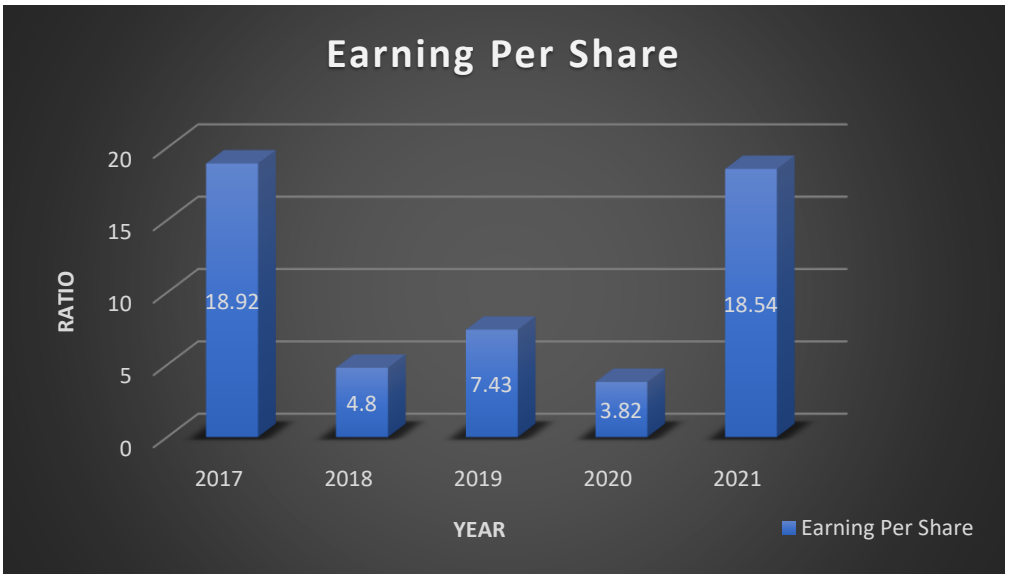
5. MARKET TEST RATIO'S

Table 5.8: Earning Per Share (EPS)

This ratio measures the profit available to the equity shareholders on a per share basis. This ratio is of considerable importance in estimating the market price of the shares. This is calculated as under

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Profit}}{\text{No. of Equity Shares}}$$

Year	Net Profit	No. of Equity Shares	EPS
2017	4,13,78,033.73	21,86,700	18.92
2018	1,05,17,291.00	21,86,700	4.80
2019	1,62,65,604.00	21,86,700	7.43
2020	83,61,000.00	21,86,700	3.82
2021	4,05,51,000.00	21,86,700	18.54



Interpretation:

Above Table and Graph No.5.7 shows the data for Earning Per Share of the company over 5 years (2017-2021). This ratio is of considerable importance in estimating the market price of the shares. A low E.P.S. The figure clearly shows that in the year 2017 and 2021 earning per share was 18.92 and 18.54 which was the highest among the five years. Thus, it indicates the market value of company in 2021 has been increased. Similarly, in 2018, 2019 and 2020 the earning per share were low due to lower dividends.

Table 5.9: Price Earnings Ratio

This ratio establishes relationship between the market price of the shares of a company and it's earning per share (EPS). It is calculated as under

$$\text{Price Earning Ratio} = \frac{\text{Market value Per Share}}{\text{Earning Per Shares}}$$

Year	Market Value Per Share	Earnings Per share	P.E Ratio
2017	230	18.92	12.15
2018	236	4.80	49.16
2019	92	7.43	12.38
2020	96	3.82	24.34
2021	237	18.54	12.78

Graph No. 5.9

Interpretation:

Above Table and Graph No.5.9 shows the data for Earning Per Share of the company over 5 years (2017-2021). This ratio helps in predicting the future market value of the shares within reasonable limits. It also helps in ascertaining the extent of under and over-valuation in the market price, thus, pointing to the effect of factors generated by the company's financial position. Bemco Hydraulics is listed company the P.E ratio plays a major role for their investors. Above figure shows that the P.E ratio was high in the year 2018 i.e., 49.16 and lowest in the year 2017 and 2021 i.e., 12.15 and 12.78 respectively.

CHAPTER -5

FINDINGS, SUGGESTIONS AND CONCLUSION

CHAPTER: 5

FINDINGS SUGGESTIONS AND CONCLUSION

5.1 FINDINGS

- It is found that the current ratio is below the standard ratio of 2:1, which is not good from the company's point of view. Certainly, the below standard ratio indicates that the company is incapable of meeting its short-term requirements.

- It is found that the quick ratio is fluctuating throughout the period 2017 – 2021. The study confirms that the liquidity position in terms of quick ratio of Bemco Hydraulics Ltd. is below the standards throughout the period, which is not appreciable.

- The debt-equity ratio of the company is below the standards which indicates that the ideal portion debt or long-term loans was not induced in the business operations of the company.

- The financial stability of the company is appreciable. It is found that there were slight fluctuations in the proprietary ratio throughout the year from 2017 to 2021. The figures showed sound financial stability of the company which indicates that the significant amount of investment from shareholders is utilised in the assets of the company.

- It is found that the figures of capital gearing ratio are very low during 2017-21. Thus, it indicates that the content of fixed interest-bearing capital is more in companies' capital structure. Hence company is called to be highly geared.

- The fixed asset turnover ratio is fluctuating every year. The figures showed that in recent years company had ratio of above 1, which indicates good sign that investment in fixed assets is contributing towards significant amount of sales of the company

- The numbers of working capital ratio were negative in 2018 and 2019. This reveals that in 2018 and 2019 the sales were low, since covid pandemic had hit all businesses. But later 1n 2021 the company has recovered to a better position.

- The study has found that company made a good capital turnover except in 2020. The figures have showed high capital turnover recent years which indicates company earned higher profits during the period.

- The Total Asset Turnover ratio of the Bemco Hydraulics Ltd. found to be varying from 0.58 to 0.74. Since the ratio is low, it reveals that idle capacity of assets is being traded.

- The Inventory turnover ratio of the company shows satisfied inventory management policies of the company. The ratio varies between 1.24 to 1.85 which indicates accumulation of large inventory or excess stock.

- The study has revealed that the company has maintained good margin. The gross profit ratio varied from 46% to 56% and Net profit ratio varied from 8% to 6% throughout the year. Thus, these numbers reveal that profitability of the company is reduced up to 2% during Pandemic period. But study also reveals that the company slowly recovering back to its normal since the pandemic hit.

- It is found that the operating ratio is showing an upward trend in graph from 2017 to 2021. The ratio varied from 81% to 85% during the period. Thus, it is clear that there is an significant rise the cost content of the company.

- The careful analysis reveals a hidden fact that, Return on Investment ratio is showing steep upward trend in graph, Since the ratio varied from 9.46% to 13% throughout the period. The rising numbers clearly shows that company is earning good returns on its investment.

- There is a noticeable variation found in the Earning Per Share (EPS) of the company from the year 2018 to 2021. There were sharp fluctuations found in the graph since the ratio varied from 4.8, 7.43, 3.82, 18.54 in respective years this might be due to various reasons. Since the company is listed one these variations quite expected.

5.2 SUGGESTIONS

- Since the liquidity position of the company is not up to the mark, the company has to focus on short-term obligation to improve their liquidity position of the company. The company should concentrate on minimising their current liabilities so that to maintain business transaction.

- The company should try to induce more debt in their capital structure to maintain standard of debt-equity ratio.

- It is observed that in 2018 and 2019 the working capital found to be negative. Therefore, it suggested that the company must try to improve their sales which will reduce their stock and generate liquid cash for meeting their working capital requirement.

- Operating ratio reveals that there is a significant rise in the cost production during the period. Therefore, it is suggested that management should try to minimise their expenses and reduce their cost of production.

- It is recommended that the company should aim at achieving higher returns on investment, by better utilization and allocation of funds employed in the business which in return helps the company to meet its long-term objectives.

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