A STUDY ON FINANCIAL PERFORMANCE WITH SPECIAL REFERENCE TO SUNDARAM HYDRAULICS LIMITED, CHENNAI

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Abstract: A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can 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. The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm's success, conditions, and compliance.

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

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INTRODUCTION

Financial statements are prepared primary for decision –making. They play a dominant role in setting the framework of managerial decisions. But the information provided in the financial statement is not an end in itself as no meaningful conclusions can be drawn from these statements alone. However, the information provided in the financial statements is of immense use in making decisions though analysis and interpretation of financial statements. Financial analysis is the process of identifying the strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit profit and loss account. There are various methods or techniques used in analyzing financial statements, such as comparative statements, trend analysis, common size statements, funds flow and cash flow analysis cost volume profit analysis and ratio analysis.

DEFINITION

According to the American Institute of Certified public Accounts, (AICPA), "financial statements reflect a combination of recorded facts, accounting principles and personal judgments"

In the words of Myers "financial statement analysis is largely study of relationship among the various financial factors in a business as disclosed by a single set of statements, and a study of the trend of the factors as shown in series of statements."

The term 'financial statement analysis' both analysis and interpretation a distinction should therefore be made between the terms. while the term ' analysis' is used to mean the simplification of financial data by methodical classification of the data given in financial statements, 'interpretation' means , 'explaining the meaning significance of the data so simplified.

NATURE OF FINANCIAL STATEMENTS

The term recorded facts refers to the data taken out from accounting records. Facts which have not been recorded in the financial books are not depicted in financial statements, however important they might be. For example, fixed assets are shown at cost irrespective of their market or replacement price since only cost is recorded in the books.

ACCOUNTING PRINCIPLES

Certain accounting principles, concepts, concepts and conventions are followed in the preparation of financial statements. For example, the convention of valuing stock at cost or market price, whichever is less followed. The principle of valuing assets at cost less depreciation is followed for balance sheet purpose.

PERSONAL JUDGMENT

Personal judgment has an important bearing on the financial statements. For example, the selection of a method for stock valuation depends on the personal judgment of the accountant.

LIMITATION OF FINANCIAL STATEMENT

- ✓ Financial statements are relevant and useful for a concern. But they do not present a final picture. Financial statements suffer from the following limitations.
- ✓ In the balance sheet, assets are recorded at their original costs. Replacement cost or realizable value of the asset is ignored. Hence, it does not reveal the true position of the business.
- ✓ Non- monetary factors such as credit worthiness, reputation of the management, influence the financial position of a concern. But the financial statements do not take into account these factors.
- ✓ Financial statements ignore the changes in price level. Hence their use is limited during inflationary periods.
- ✓ Financial statements are records of past events only. Past can never be a hundred per cent representative of the future.
- ✓ Financial statements are prepared on the basis of certain accounting concepts and conventions. Any change in the method or procedure of accounting limits the utility of financial statements.
- ✓ The balance sheet fails to show how working capital was raised and used during the year. This is a serious limitation as changes in working capital are important to assess the financial health of a company.

PROCEDURE OF FINANCIAL STATEMENT ANALYSIS

Broadly speaking there are three steps involved in the analysis of financial statements. These are: (i) selection (ii) classification, and (iii) interpretation. The first step involves selection of information (data) relevant to the purpose of analysis of financial statements.

1. The analyst should acquaint himself with the principles and postulates of accounting He should know the plans and policies of the management so that he may be able to find out whether these plans are properly executed or not .
2. The extent of analysis should be determined so that the sphere of work may be decided. If the aim is to find out the earning capacity of the enterprise then analysis of income statement will be undertaken. On the other hand, if financial position is to be studied the balance sheet analysis will be necessary
3. The financial data given in the statements should be re –organised and re arranged. It will involve the grouping of similar data under same heads, breaking down of individuals' components of statements according to nature.
4. A relationship is established among financial statements with the help of tools and techniques of analysis such as ratios, trends, common size, funds flow etc.
5. The information is interpretated in a simple and understandable way. The significance and utility of financial data explained for helping decision- taking.

OBJECTIVE OF THE STUDY

- To know about earning capacity of the concern.
- To analysis the financial position of the company.
- To analysis the comparative statement of income and balance sheet.
- To analysis the common size balance sheet.

LIMITATION OF THE STUDY

- The data was collected only for a period of the five years.
- The data collected are secondary source of information.
- Due to the inadequate time it is not possible to analyze all respects relevant to the study.
- The analysis is based on annual reports of the company.
- Authorities were reluctant to reveal full information about the working of the Company.

SCOPE OF THE STUDY

- To study the mainly concentrated on the company's financial aspect to give a clear picture of the liquidity, leverage, profitability and efficiency level.
- To Management can easily identify existing financial position of the concern.

- This study to know about the financial strong by applying various analytical tools.
- Making suggestions to the institutions based on the week point are found in this analysis.

CURRENT RATIO

Current ratio is the relationship between current assets and Liabilities.

A current ratio of 2:1 considered ideal. That is for every one rupee or current liability they must be current assets of Rs.2 if the ratio is less than two it may be difficult for a firm to pay current Liabilities. If the ratio is more than two it is an indicator of ideal funds.

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

TABLE NO. 1

Years	Current Assets (Rs. In Lakhs)	Current Liabilities (Rs. In Lakhs)	Ratio
2006-2007	57,43,788.00	26,24,833.00	2.18
2007-2008	70,186.42	38,272.97	1.83
2008-2009	76,648.47	42,744.08	1.79
2009-2010	80,301.67	44,107.71	1.82
2010-2011	94,331.00	58,914.35	1.60

Source: Secondary Data

Inference: This ratio has decreased gradually from the year 2006-2007 to 2008 - 2009 at 1.79. It shows the current asset is utilized properly but in the year 2010-2011 the ratio has decreased at 1.60. So it is not satisfactory. The concern should take necessary steps to overcome this default.

QUICK RATIO

It is also known as liquid ratio or Acid test. It is defined as the relationship between quick, liquid assets and current or liquid liabilities. The standard norms that is followed in case of liquid Ratio is 1:1

$$\text{Quick ratio} = \frac{\text{Quick Assets}}{\text{Quick Liabilities}}$$

TABLE NO. 2

Years	Quick Assets (Rs. In Lakhs)	Quick Liabilities (Rs. In Lakhs)	Quick Ratio
2006-2007	36,194.93	26,248.33	1.37
2007-2008	52,878.63	38,272.97	1.38
2008-2009	46,513.69	42,744.08	1.08
2009-2010	49,078.93	44,107.71	1.11
2010-2011	35,834.54	58,914.35	0.60

Source: Secondary Data

Inference: This ratio has decreased from the year 2006-2007 to 2010-2011 at 0.60. It shows the current assets are utilized properly but in the year 2010-2011 the ratio is decreased in more. When compared to 2006 – 2007 so it is not satisfactory. The concern should take necessary steps to overcome this default.

WORKING CAPITAL: Working capital refers to that part of a firms' capital which is employed for short term operations.

Working capital = current assets –current liabilities

TABLE NO. 5

Years	Current Assets (Rs. In Lakhs)	Current Liabilities (Rs. In Lakhs)	Working capital
2006-2007	57,437.88	26,248.33	31,189.55
2007-2008	70,186.42	38,272.97	31,193.45
2008-2009	76,648.47	42,744.08	33,904.39
2009-2010	80,301.67	44,107.71	36,193.96
2010-2011	94,33.00	58,914.35	35,416.65

Source: Secondary Data

Inference

The above Table shows that the working capital of the company in the year 2006-2007. Rs.31, 189.55 Lakhs in the following three years the working capital has increased. But 2010-2011 decrease in working capital as Rs.35, 416.65. So the company concentrate to reduce the current liabilities.

CAPITAL TURN OVER RATIO

Managerial efficiency is also calculated by establishing the relationship between cost of sales with the amount of capital invested in the business. Higher ration indicates higher efficiency and lower ratio indicates in effective usage of capital.

$$\text{Capital turnover ratio} = \frac{\text{Cost of sales}}{\text{Capital employed}}$$

TABLE NO: 6

Years	Sales	Capital Employed	Ratio
2006-2007	18,475,170	10,359,783	1.78
2007-2008	21,334,754	91,955,630	0.23
2008-2009	22,582,258	10,998,548	2.05
2009-2010	24,693,946	12,208,147	2.02
2010-2011	25,638,810	12,395,115	2.06

Source: Secondary Data

Inference

The above table reveals that the capital turnover ratio from the year 2006-07 to 2007-08 is decreasing. But in the corresponding year the ratio was increasing 2.06. Show the company capital turnover ratio is accepted one.

RETURN ON SHARE HOLDERS FUND RATIO

$$\text{Return on share holders fund ratio} = \frac{\text{Net profit after tax}}{\text{Share holder fund}} \times 100$$

TABLE NO: 7

Years	Net profit After tax	Share holder fund	Ratio
2006-2007	5,388.88	75,090.33x100	7.1%
2007-2008	51,89.31	50,501,263x100	1.02%
2008-2009	4,701.75	10,395,801x100	4.52%
2009-2010	3,600.78	11,500,834x100	3.13%
2010-2011	2,877.40	45,283,002x100	0.63%

Source: Secondary Data

Inference

The above table shows that the return on shareholder fund ratio decreased more in the year 2010-2011 at 0.63%. The company should share holder fund is in very bad condition. So the company concentrate more in share holder fund to remove is fault.

SUNDDARAM HYDRALICUS LIMITED, CHENNAI COMPANIE BALANCE SHEET AS ON 2006 – 2007

TABLE NO: 8

PARTIUCULARS	2006	2007	INCREASE & DECRESEAS	% INCREASE DECREASE
	RUPEES IN LAKHS			
Current Assets:				
Cash	182.64	83.23	-49.41	-37.20
Debtors	11,867.71	14,353,11	+2,845.40	+20.90
Inventory	9,698.93	11,544,02	+1,945.09	+20.20
Other Current Assets	0.11	0.14	+0.03	+27.20
Loans and advances	4,598.97	5,159.02	+560.05	+12.18
Total Current Assets	**26,298.36**	**31,139.52**	**+4,841.16**	**+18.78**

Fixed Assets				
Investment	352.36	742.36	+390.00	+110.68
Land	328.66	352.84	+27.18	+8.34
Building	2,44,578	2,749.95	+304.17	+12.43
Plant	17,570.97	18,823,63	+1,25,266	+7.12
Furniture	265.44	323.35	+57.91	+21.81
Vehicle	18.54	11.55	-699	-39.87
Working Capital	1,62.259	3,183.17	+1560.58	+96.17
Assets	0.59	-	-	-
Total Fixed Assets	22,601.93	26,186.85	+3,584.92	+15.86
Total Assets	**48,900.29**	**57,326.37**	**+8,426.08**	**+17.23**

PARTICULARS	2006	2007	INCREASE DECRESE	% INCREASE DECREASE
	RUPEES IN LAKHS			
Current Liability:				
Creditors	10,795.02	14,272.27	+3,482.25	+32.2
Due to Directors	92.63	41.37	-5126	-55.33
Interest Accrued	209.28	249.57	+40.29	+19.25
Provisions	393.88	97.68	-296.20	-75.2
Total Current Liability	**11,490.81**	**14,757.52**	**+3,266.71**	**+28.42**

Long – Term Liability				
Capital	986.94	986.94	-	-
Reserves	13,131.57	15,003.12	+1871.55	+14.34
Loans	20,980.97	23,990.79	+236.00	+14.34
Tax Liabilities	2,300.00	2586.00	+286.00	+12.43
Total Long term Liabilities	37,409.48	42,568.85	+5,159.37	+13.79
Total Liabilities	**48,900.29**	**57,326.37**	**+3426.08**	**+17.23**

Source: Secondary Data

Inference: The above table explained that the concern is highly efficient in profitable solvency position. Current liabilities have registered a continuously increasing company's financial condition. The percentage in 2006 -07 assets is 18.78 as compared to 13.79 in Liabilities. The increase in current assets in quite satisfactory.

COMPATIVE BALANCE SHEET AS ON 2010 – 2011

PARTIUCULARS	2010	2011	INCREASES DECRESEAS	% INCREASES DECREASES
	RUPEES IN LAKHS			
Current Assets:				
Cash	27419	27419	-	-
Debtors	1665578	20666.78	-4011.00	-24.08
Inventory	17,241.73	18,241.73	-1100.00	-6.37
Other Current Assets	4.71	4.81	-10	-2.12
Loans and advances	552369	12,343.39	+681970	+123.4
Total Current Assets	**42,700.10**	**51,630.90**	**+8.93.080**	**+20.91**

Fixed Assets				
Foreign Currency				
Land	749.14	829.55	+8041	+10.73
Building	6044.99	6041.58	+341	+0.05
Plant	32,594.77	32,849.87	+25510	+0.78
Furniture	1050.13	1010.45	+3968	+3.77
Vehicle	4.01	324	+77	+19.20
Investment	1,107.46	2,108.46	-1,001.00	-90.38
Working Capital	2,11.125	2,02,960	+8165	+3.87
Total Fixed Assets	43661.75	44,872.75	+1211.00	+2.77
Total Assets	**86,361.85**	**96,503.65**	**+10,141.80**	**+11.74**

PARTIUCULARS	2010	2011	INCREASES DECRESEAS	% INCREASES DECREASES
	RUPEES IN LAKHS			
Current Liability:				
Creditors	23,892.26	32,520.60	+862834	+36.11
Due to Directors	66.86	-	-	-
Interest Accrued	464.08	985.79	+52171	+112.41
Provisions	518.88	528.88	-1000	-1.92
Total Current Liability	**24,879.08**	**34,035.27**	**+915619**	**+36.80**

Long – Term Liability				
Capital	986.94	986.94	-	-
Foreign Currency	46.19	-	-	-
Reserves	19,055.60	19,066.60	+1100	+0.05
Loans	37,511.57	37,522.37	+1080	+0.02
Tax Liabilities	3,882.47	4,892.47	+1010.00	+26.01
Total Long term Liabilities	61,482.77	62,468.38	+98561	+16.03
Total Liabilities	**86,361.85**	**96,503.65**	**+10,141.80**	**+11.74**

Source: Secondary Data

Inference: The above table explained that the concern is highly efficient in profitable solvency position. Current liabilities have registered a continuously increasing company's financial condition. The percentage in 2010 -11 assets is 20.91 as compared to 16.03 in Liabilities. The current assets increasing in satisfactory. (Calculation nearest in Rs)

Common size Balance sheet as on 2006-2007

	2006	%	2007	%
Current Asset:				
Cash	13,264.0	0.27	8,323	0.14
Dreditos	11,867.71	24.26	14,353.11	25.03
Inventory	9,698.93	19.83	11,544.02	20.14
Other current Assets	0.11	0.01	0.14	0.01
Loan and advance	4,598.97	9.40	5,159.02	9.00
Total current Asset	**26,298.36**	**53.74**	**31,139.52**	**54.32**

Fixed Assets:				
Land	0.59	1.00	-	-
Building	325.66	0.66	352.84	0.60
Plant	2,4415.78	5.00	2749.95	4.80
Furniture	17,570.97	35.93	18,823.63	32.83
Vehicle	265.44	0.54	323.35	0.56
Foreign currency	18.54	0.03	11.55	0.22
Investment	1,62,259	3.31	3,183.17	5.55
Working capital	352.36	0.72	742.36	1.29
Total Fixed Assets	**22,601.93**	**46.26**	**26,186.85**	**45.68**
Total Assets	**48,900.29**	**100**	**57,326.37**	**100**

Commonsize Balancesheet

	2006	%	2007	%
Current Liabilities				
Creditors	10,795.02	22.08	14,277.27	24.90
Due to directors	92.63	0.19	133.00	0.23
Interest Accured	209.28	0.43	249.57	0.44
Provision	393.88	0.81	97.68	0.17
Total Current Liabilities	**11,490.81**	**23.49**	**14,7457.52**	**25.74**

Long term Liabilities				
Capital	0.59	1.00	-	-
Reserves	325.66	0.66	352.84	0.60
Loans	2,4415.78	5.00	2749.95	4.80
Tax liabilities	17,570.97	35.93	18,823.63	32.83
Total long term liabilities	**22,601.93**	**46.26**	**26,186.85**	**45.68**
Total liabilities	**48,900.29**	**100**	**57,326.37**	**100**

Common size Balance sheet as on 2010-2011

	2010	%	2011	%
Current Asset:				
Cash	27,419	0.32	27,419	0.28
Dreditos	16,655.78	19.28	20,66.78	21.41
Inventory	17,241.73	19.96	18,341.73	19.01
Other current Assets	4.71	5.45	4.81	4.98
Total current Asset	**42,700.10**	**49.44**	**51,630.90**	**53.55**

Fixed Assets:				
Land	749.14	0.86	829.55	0.85
Building	6044.99	6.99	6041.58	6.26
Plant	32,594.77	3.77	32,849.87	34.04
Furniture	1050.13	1.21	1010.45	1.04
Vehicle	4.01	4.64	324	3.35
Foreign currency	1,107.46	1.28	2,108.46	2.18
Investment	2,11,125	2.44	2,02,960	2.10
Working capital				
Total Fixed Assets	**43,661.75**	**50.56**	**44,872.75**	**46.45**
Total Assets	**86,361.85**	**100**	**96,503.65**	**100**

Common size Balance sheet

	2010	%	2011	%
Current Liabilities				
Creditors	23,990.19	27.77	24,070.29	24.92
Due to directors	150.75	0.17	150.45	0.15
Interest Accured	265.45	0.30	285.55	0.29
Provision	518.88	0.60	528.88	0.54
Total Current Liabilities	**24,925.27**	**28.86**	25,035.27	25.94
Long term Liabilities				
Capital	986.94	1.14	986.94	1.02
Reserves	19,055.60	22.06	19,066.60	19.75
Loans	37,511.75	43.43	37,522.37	38.88
Tax liabilities	3,882.47	4.49	4,892.47	5.06
Total long term liabilities	**61,436.58**	**71.14**	**71,468.38**	**74.06**
Total liabilities	**86,361.85**	**100**	**96,503.65**	**100**

Source: secondary data

Inference: The table shows that the concern is highly efficient in long term solvency position. Total assets and liabilities have registered a continuous increase in 2006-2011, as compared to 100% in 2006 to 2011. Total assets and liabilities have increased substantially in five years.

FINDINGS

1. In current ratio range is between 2.18 and 1.60 it indicates the position of the company in an average.

2. The quick ratio range is between 0.60 and 1.37 it indicates the favourable position of the company.
3. The Net Profit range is between 4.18 and 1.59. It indicates the proportionate fluctuate position of the company. The net profit was decreased in 2010 – 2011. So its indicate the average position of the company.
4. The capital turn over range is between 1.78 and 2.06. Its indicates the good position for a company.
5. The proprietary ratio range is between 0.41 and 0.35 its indicates the average position of the Company.
6. The total assets Turnover range is between 1.40 and 1.73 its indicates the favourable position of the company.
7. In Comparative Balance sheet of the company 2006 – 2011 the current assets and fixed assets are in proportionate fluctuation position. The current liability of the company is in good position.
8. The trend Analysis that is maximum high on the year 2011. So this Analysis proves the average position of the firm.

SUGGESTIONS

- The company should raise the funds in more.
- The net worth of the company should be changed in positive during the coming periods.
- The liquidity position of the company should be satisfied to meet the short-term obligations.
- The company has to maintain the adequate comparative position.

Outsider fund must be raised by the company in future periods

CONCLUSION

During my study period of two months the researcher gets knowledge and experience in matter relating efficiency of the company. The current assets, fixed assets and current liabilities are fluctuated in some years. But the fluctuation was favourable to the company. The net worth was most important for that this Sundaram hydraulics ltd Chennai. Get them an excellent net worth position. “At last but not least”, after this analysis and findings, the researcher conclude that the Sundaram hydraulics ltd at Chennai. Is an above average position but in coming years it is going an excellent position of the company.

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