A

Project Report on

Financial Statement Analysis

of

at

Crompton Greaves Ltd., S2- Division, Nasik

in partial fulfilment of

MASTER IN BUSINESS ADMINISTRATION

By

(_____)

(Finance Management)

under the guidance of

Prof. D.D. _____.

From

(INSTITUTE NAME)

UNIVERSITY OF _____.

(20 -20)

DECLARATION

I, UJVAL RAMKRISHNA SONONE a student of MBA (2007-2009) hereby declare that the, project report entitled

"Financial Statement Analysis of

Crompton Greaves Ltd."

is the authentic work done by me at Crompton Greaves Limited, S2-Division, Nasik.

This report is being submitted in partial fulfilment of the requirement of the award of Master of Business Administration (M.B.A.) degree abiding by the rules of Pune University.

- (_____)
(FINANCE MANAGEMENT)

ACKNOWLEDGEMENT

It gives me an immense pleasure to express sincere gratitude towards my instructor Prof. _____ for his guidance and consistent motivation which inspired me to learn and apply the fundamentals of Financial Accounting and Management.

I thank my project guide Mr. _____, Asst. General Manager- Design, (S2-Division), CGL, Nasik who provided valuable insights and direction for presented Financial Statement Analysis.

Most especially, I would like to thank Mr. _____, General Manager (S2-Division), CGL, Nasik, for giving me an opportunity to undertake this project in his Division and for guidance for understanding the practical aspects of Financial Statement Analysis.

At last but not the least, I am greatly indebted to all Professors and staff of my college, all Officers and staff at S2-Division, CGL, Nasik and my friends who contributed directly or indirectly for successful completion of this project.

- (_____)
(FINANCE MANAGEMENT)

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1.1 Object of Project

As per the rules and regulations set by University, under two years of full time course of MBA degree, a student has to undertake a project related to Management discipline in an organization like manufacturing industry, consultancy firm etc. This project normally include data collection, data sorting, data analysis and making inferences from it, under the guidance of that organizational guide and his/her educational institution guide.

Such project work thus become a live platform for the student to know the current management issues, development and the same time he/she can apply the knowledge gained through earlier class-room learning.

The project study also provides an opportunity to develop communication skill, analytical skill and also expose to the organizations culture and the actual working of the organization.

1.2 Selection of Project Topic

The LPG phenomenon (Liberalization, Privatization and Globalization) have given rise to immense competition in various sectors of Indian economy. In order to sustain itself in such competitive market, any organization has to be well aware of its strengths, weaknesses, opportunities and threats. It helps to estimate the capacity and possible hurdles for its satisfactory performance.

Many organizations use the financial results as a yardstick to measure its performance. Profit maximization of organization's shareholders being one of the prime-most agenda, unbiased analysis and interpretation has become very essential. It help its owners, investors and government agencies to know the performance for given period of time. Financial statements also help to gain an insight into the profitability and operational efficiency of the firm to assess its financial health and future prospects.

Financial statement analysis thus gives an overall idea of performance of the firm when compared with inter-firm or intra-firm results. With thus topic selected for project, it is expected that it will provide a live case-study to know various accounting standards and accounting policies as well as the prevailing trends in application of the same.

1.3 Objectives of Project

- To collect and analyse financial statements of the firm (Crompton Greaves Ltd.) for year 2005-06 to 2007-08 and to study various terminologies used in it.
- To know organizational structure, working culture and business segments of the firm.
- To know the business environment in which the firm is working.
- To understand the meaning and objectives of financial statement analysis.
- To know various tools for financial statement analysis and their uses.
- Application of financial statement analysis tools for evaluating the performance the firm for financial years 2005-06 to 2007-08.
- Data interpretation with the help of soft tools.
- Recommendations or suggestions if any.

1.4 Scope of the Project:

The scope of this project covers a brief financial statements analysis of Crompton Greaves Limited (CGL) from 2005-06 to 2007-08 by using the annual report of the company for the three years. It also includes study of accounting standards and accounting policies related to financial statements.

The scope of study includes:

a) Environment, Threats and Opportunities (ETOP) Analysis for CGL.

b) Financial Statement Analysis:

- Significance & Objectives
- Tools such as Comparative Statements, Common Size Statements, Trend Analysis, Ratio Analysis, Cash Flow Analysis
- Liquidity/Profitability/Turnover/Leverage Ratios and their trends
- Limitations of financial statements analysis.

1.5 Research methodology:

Appropriate methodology is an essential characteristic of quality research studies, irrespective of the discipline to which they are related. The research is totally dependent on the data, which has to be collected through various methods. The following are the types of data:

1. Primary Data: Primary data was collected from Managers and Executives of Divisional office at Nasik and Corporate office at Mumbai. This data includes information on company profile, its products, its share holding pattern, Accounting policies and standards etc.

2. Secondary Data: Secondary data was taken from Annual Reports of Crompton Greaves Limited for the period of 2005-06 to 2007-08 available on company's website www.cglonline.com.

1.6 Limitations of the project:

- The firm under consideration has diversified product line, which includes fans, luminaries, motors, switchgears, transformers etc. Market demand-supply fluctuations are different for different products of this product line. Hence inter-firm performance comparison could not be done since different firms are competing for its different products. Also the profit details etc. were not available for such different product divisions.
- With the credit policies being different for different products, exact information related to debtors, creditors and period for their payment could not be availed and hence ratios related to them were not considered.
- This financial statement analysis of CGL is mainly based on its financial statements only. With limited time period for completion this project, it was not possible to consider each and every factor, which might have affected the depth and the accuracy of the analysis.
- This financial statement analysis is applicable for the period of FY 2005-06 to 2007-08 only and its extrapolation may or may not hold true for future forecasting of performance of CGL.

2. Crompton Greaves Limited

2.1 COMPANY HISTORY

For the last 71 years, **Crompton Greaves** has become synonymous with electricity in India. The first unit of electricity at Calcutta was generated on a Crompton Greaves dynamo. Today Crompton Greaves is one of India's largest private sector enterprises in the business of electrical engineering. A pioneering leader since 1937 in the management and application of electrical energy, Crompton Greaves is dynamically managed to create and capitalize growth opportunities. Crompton Greaves is extensively engaged in manufacturing, marketing and turnkey project operations. The company offers one of the widest spectrums of products, systems and services to fulfil almost every need through three strategic business units. Crompton Greaves has seen a transformation from a national business entity to an aggressive world-class player. In May 2005, Crompton Greaves has concluded the acquisition of Pauwels, Belgium & positioned itself in the global market as the first Truly Indian Multinational. Expanding its services to foreign shores, the company is now emerging as a preferred choice in the global market for high quality electrical products.

2.2 COMPANY PROFILE

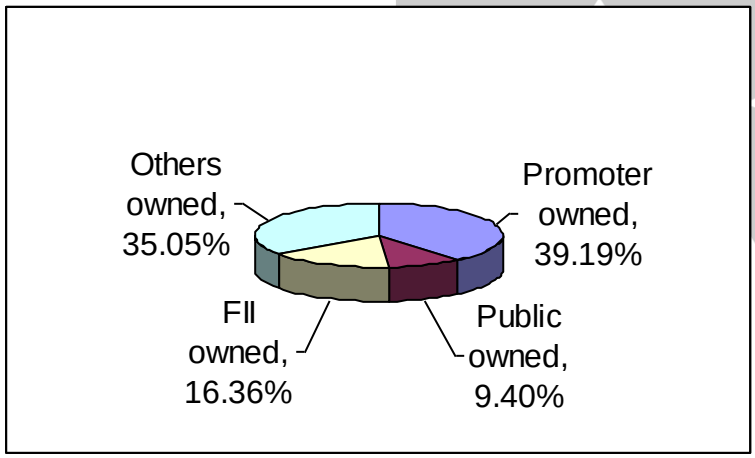
Crompton Greaves is part of the **Avantha Group**. With a turnover, over Rs. 4200 crores, the company is India's largest private sector enterprise in the business of electrical engineering. The wide range of products that the company offers is canalized through its four business units. These are Power Systems, Industrial Systems, Consumer Products and Telecom Products.

Crompton Greaves enjoys a leadership position in most of its product lines. Crompton Greaves' strength, among other factors, emanates from its strong indigenous manufacturing base comprising 22 manufacturing facilities in 5 states spread all over India. The other aspect that has given an added impetus to Crompton Greaves growth is the dedicated R&D efforts that catalyze the synergy of marketing, manufacturing and interpreting customer needs. The commitment to responsible business through quality, technology, productivity and customer service has helped Crompton Greaves to receive many certifications in the ISO 9000/9001:2000/14001 series, including the unique distinction of being the first to receive an ISO 9000 certification for Finance and Administration. The company has made considerable progress towards integration of the Six Sigma methodology in its manufacturing processes with the ultimate aim of achieving 'Product Quality as Perceived By Consumer'. Crompton Greaves emphasis on customer service is manifest in the wide distribution network that serves customers nationally and creates a strong presence in global markets through a high level of exports the world over. At Crompton Greaves, creative excellence is effectively realized by strong workforce of dedicated managers, engineers and technicians in pursuit of world-class corporate status through Total Quality Management.

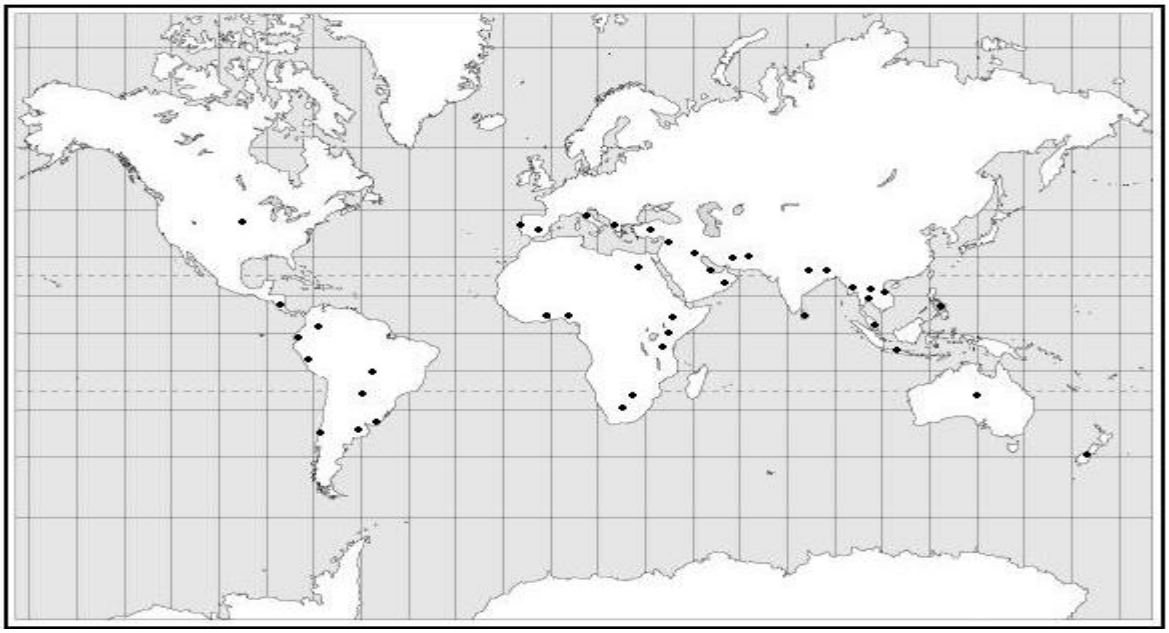
2.21 KEY STRENGTHS:

* Performance Culture driven by Values
* Leadership Position in most Products
* Widely recognized technologies and tie-ups with the best in the world
* Strong Brand Equity
* Increasing International Presence
* Exhaustive product portfolio
* Well established marketing and service network

2.22 CGL Share Holding Pattern (as on 31 Dec'07):



2.23 CG'S GLOBAL FOOTPRINT:



2.3 INTRODUCTION TO CGL PRODUCTS & SERVICES:

STRATEGIC BUSINESS UNITS OF CGL

Power Systems:

> Switchgear

> Transformers

> Engineering Projects.

> Power Quality Products

Industrial Systems:

> Motors,

> Alternators

> Railway Transportation & Signalling Products

> Stampings

Consumer Products:

> Light Sources & Luminaries

> Ventilation Products

>Comfort Engineering Products

> Pumps

Crompton Greaves offers a comprehensive portfolio of products and services for Generation, Transmission, Distribution and Utilization of power in various applications. Its presence is well established and widespread, notably in the Utilities, Industry, Agriculture, Transportation, Informatics, Telecommunication and Lifestyle Products.

LUMINARIES & LAMPS:

Crompton Greaves is contributing ceaselessly to improve lighting design practices in India by developing innovative, user-friendly lighting products, introducing new concepts and creating landmarks in lighting applications.

The category of luminaries offered by CGL includes:

1. Streetlight 2. Industrial 3.Floodlight 4.Domestic 5.Commercial etc.
   Various types of lamps offered by CGL include:
   1. Incandescent Lamps 2. Compact Fluorescent Lamps (CFL)
   3. Halogen Lamp 4. Fluorescent Tubular Lamps etc.

FANS:

Crompton Greaves is the market leader (24% market share) for fans in India and has been so for over a decade. Its dominance of the market is comprehensive and it manufactures fans for all sections of the market and for all applications of air delivery- be it domestic or industrial.

PUMPS:

The Pumps Division of Crompton Greaves began operations in 1964. From the Seventies onwards the division has experienced rapid growth - from a modest 7000 pumps, the division's volumes today stands at 300,000 pumps a year. Pumps of the Division have a significant market share in the Domestic market and are also a preferred brand worldwide. Crompton Greaves Pumps are exported to the Far East and the Middle East

TRANSFORMERS:

Crompton Greaves kicked off the Transformers operation with their first supply to the US Army over 60 year's back! Transformers forms major share of export products from CGL and also contributes a major portion of revenues from power system group (which contributes around 70% share in CGL's total revenue).

Switchgear & Control Products:

This Switchgear Divisions at Nashik produces Quality Switchgear that meets the specifications of electrical sub-stations and installations for effective management of power. The Switchgear Division offers the widest range of Switchgear products ranging from 3.3kV to 420 kV, to meet the requirements of electrical sub-stations and installations. The Switchgear Division is the largest exporter of HV switchgear from India and its products function successfully in many installations around the world (More than 40 Countries).

3. Environment, Threats and Opportunities (ETOP) Analysis

3.1 Indian Economy:

India is presently the second fastest growing economy in the world, with an average GDP growth rate of 9% for past three years. To cater to the needs of such growing economy and to ensure its further progress, reliable, affordable, secure and sustainable energy will be required. For this purpose, pubic and private entities like NTPC, NHPC, Reliance Energy, TATA Power, CGL, and ABB etc. are investing seriously in Power Sector Development.

3.2 Investment Opportunities:

India has emerged as one of the most attractive investment destinations in the world with an average annual return of 38.36 per cent - the second highest among BRIC economies. Investment climate in India is buoyant and various macro-economic parameters are reflecting that the pace of growth of the economy has accelerated and macro- economic fundamentals are sound and moving towards right direction. Electricity market in the country is buoyant. There has been quantum increase in the investment in the power sector. At present projects aggregating over 43,000 MW with total committed investment of above $50 Billion (Rs.220K Crores Approx) are under execution. Majority of them would be commissioned in next 3 years.

3.3 Investment Requirements during XI Plan:

The working Group on Power for XI Plan has assessed funding requirement for power sector during XI plan: USD 224 Billion (Rs.985K Crores Approx.) +

- Thermal and Hydro Generation USD 93 billion (Rs.410K Crores)
- Captive Gen. and Non-Conventional Energy Sources
  : USD 25 billion (Rs.110K Crores)
- Merchant Power Plants: USD 9 billion (Rs.40K Crores)
- R&M: USD 3 Billion (Rs.13K Crores)
- Total Generation: USD 129 billion (Rs.568K Crores)
- Transmission, Distribution and Rural Electrification
  : USD 95 Billion (Rs.418K Crores)

(Source: Reference no. 9 & 10 from Bibliography, Assumption: 1$=Rs.44)

3.4 Rural Electrification Features:

- The scheme covers the entire country.
- Provides 90% grant and 10% loan from the central Government
- USD 3.6 Billion outlay for the entire scheme.
- USD 1.1 Billion provided in the Tenth Five Year plan.
- Emphasis on decentralized distributed generation &
- Decentralized management by Franchisees, Co- operatives, Panchayats etc

3.5 Comprehensive Legislation:

Electricity Act, 2003 is an historic legislation aimed for creating a competitive environment. Consumer is the central point of this legislation and the main features are:

- Promoting competition for benefit of the consumers.
- Effective mechanism for redressal of consumers' grievances
- Regulatory oversight for transparency

- Measures to control theft of power
- Special measures for power in rural areas

3.6 Govt. steps for creating competitive Environment:

- Entry Barriers removed/reduced
- Generation de-licensed.
- Freedom to captive generation including group captive.
- Recognizing trading as an independent activity.
- Open access in transmission already in place.
- Multiple licenses in distribution.
- Regulatory Commissions – to develop market; fix tariff.

3.7 India's Electricity Policy aims at:

- Access to all by year 2009
- Eliminating power shortages by year 2012
- Protection of consumer interests
- Financial turnaround of power utilities

3.8 POSITIVE RESPONSES:

Growth in electricity generation during Ninth Plan was 3% per annum. During last three years growth in electricity generation has been consistently above 5%. During April to October, 2005 growth rate recorded was 5.2%, against this during the same period in 2006-07 growth in generation has been 7.3%.

3.9 INTERPRETATION OF ETOP ANALYSIS:

With all above facts and figures taken into consideration, it is clear that with economy growth, demand for electricity will also be rising. It gives an indication that the power sector reforms will be taking place for at least 5 more years, which will provide huge potential for market of Power Sector Industries. It will provide significant scope for growth of company like Crompton Greaves Ltd. whose approx. 70% of revenues is from power sector products.

4. Financial Statements Analysis

4.11 Meaning:

The process of critical evaluation of the financial information contained in the financial statements in order to understand and make decisions regarding the operations of the firm is called 'Financial Statement Analysis'. It is basically a study of relationship among various financial facts and figures as given in a set of financial statements, and the interpretation thereof to gain an insight into the profitability and operational efficiency of the firm to assess its financial health and future prospects. The term 'financial analysis' includes both 'analysis and interpretation'. The term analysis means simplification of financial data by methodical classification given in the financial statements. Interpretation means explaining the meaning and significance of the data. These two are complimentary to each other. Analysis is useless without interpretation, and interpretation without analysis is difficult or even impossible.

4.12 Objectives:

Analysis of financial statements reveals important facts concerning managerial performance and the efficiency of the firm. Broadly speaking, the objectives of the analysis are to apprehend the information contained in financial statements with a view to know the weaknesses and strengths of the firm and to make a forecast about the future prospects of the firm thereby, enabling the analysts to take decisions regarding the operation of, and further investment in, the firm. To be more specific, the analysis is undertaken to serve the following purposes (objectives):

- To assess the current profitability and operational efficiency of the firm as a whole as well as its different departments so as to judge the financial health of the firm.

•To ascertain the relative importance of different components of the financial position of the firm.

•To identify the reasons for change in the profitability/financial position of the firm.

• To judge the ability of the firm to repay its debt and assessing the short-term as well as the long-term liquidity position of the firm. Through the analysis of financial statements of various firms, an economist can judge the extent of concentration of economic power and pitfalls in the financial policies pursued. The analysis also provides the basis for many governmental actions relating to licensing, controls, fixing of prices, ceiling on profits, dividend freeze, tax subsidy and other concessions to the corporate sector. It also helps the management in self-appraisal and the shareholders (owners) and others to judge the performance of the management.

Financial statement analysis is very aptly defined by Bernstein as, "a judgmental process which aims to estimate current and past financial positions and the results of the operation of an enterprise, with primary objective of determining the best possible estimates and predictions about the future conditions." It essentially involves regrouping and analysis of information provided by financial statements to establish relationships and throw light on the points of strengths and weaknesses of a business enterprise, which can be useful in decision-making involving comparison with other firms (cross sectional analysis) and with firms' own performance, over a time period (time series analysis).

Financial statement analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of the balance sheet and the profit and loss account. Financial statement analysis can be undertaken by management of the firm, or by parties outside the firm, viz. owners, trade creditors, lenders, investors, labour unions, analysts and others. The nature of analysis will differ depending on the purpose of the analyst. A technique frequently used by an analyst need not necessarily serve the purpose of other analysts because of the difference in the interests of the analysts. Financial statement analysis is useful and significant to different users in the following ways:

(a)Finance manager: Financial statement analysis focuses on the facts and relationships related to managerial performance, corporate efficiency, financial strengths and weaknesses and creditworthiness of the company. A finance manager must be well-equipped with the different tools of analysis to make rational decisions for the firm. The tools for analysis help in studying accounting data so as to determine the continuity of the operating policies, investment value of the business, credit ratings and testing the efficiency of operations. The techniques are equally important in the area of financial control, enabling the finance manager to make constant reviews of the actual financial operations of the firm to analyse the causes of major deviations, which may help in corrective action wherever indicated.

(b)Top management: The importance of financial statement analysis is not limited to the finance manager alone. Its scope of importance is quite broad who includes top management in general and the other functional managers.

Management of the firm would be interested in every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm are used most efficiently, and that the firm's financial condition is sound. Financial statement analysis helps the management in measuring the success or otherwise of the company's operations, appraising the individual's performance and evaluating the system of internal control.

(c)Trade creditors: A trade creditor, through an analysis of financial statements, appraises not only the urgent ability of the company to meet its obligations, but also judges the probability of its continued ability to meet all its financial obligations in future. Trade creditors are particularly interested in the firm's ability to meet their claims over a very short period of time. Their analysis will, therefore, confine to the evaluation of the firm's liquidity position.

(d)Lenders: Suppliers of long-term debt are concerned with the firm's long-term solvency and survival. They analyse the firm's profitability overtime, its ability to generate cash to be able to pay interest and repay the principal and the relationship between various sources of funds (capital structure relationships). Long-term tenders do analyse the historical financial statements. But they place more emphasis on the firm's projected financial statements to make analysis about its future solvency and profitability.

(e)Investors: Investors, who have invested their money in the firm's shares, are interested about the firm's earnings. As such, they concentrate on the analysis of the firm's present and future profitability. They are also interested in the firm's capital structure to ascertain its influences on firm's earning and risk. They also evaluate the efficiency of the management and determine whether a change is needed or not. However, in some large companies, the shareholders' interest is limited to decide whether to buy, sell or hold the shares.

(f)Labour unions: Labour unions analyze the financial statements to assess whether it can presently afford a wage increase and whether it can absorb a wage increase through increased productivity or by raising the prices.

(g)Others: The economists, researchers, etc. analyze the financial statements to study the present business and economic conditions. The government agencies need it for price regulations, taxation and other similar purposes.

4.2 Tools of Financial Analysis

The most commonly used techniques of financial statement analysis are as follows:

1. Comparative Statements: These are the statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or more periods. It usually applies to the two important financial statements, namely, Balance Sheet and Income Statement prepared in a comparative form. The financial data will be comparative only when same accounting principles are used in preparing these statements. If this is not the case, the deviation in the use of accounting principles should be mentioned as a footnote. Comparative figures indicate the trend and direction of financial position and operating results. This analysis is also known as 'horizontal analysis'.

2. Common Size Statements: These are the statements which indicate the relationship of different items of a financial statement with some common item by expressing each item as a percentage of the common item. The percentage thus calculated can be easily compared with the results corresponding percentages of the previous year or of some other firms, as the numbers are brought to common base. Such statements also allow an analyst to compare the operating and financing characteristics of two companies of different sizes in the same industry. Thus, common-size statements are useful, both, in intra-firm comparisons over different years and also in making inter-firm comparisons for the same year or for several years. This analysis is also known as 'Vertical analysis'.

3. Trend Analysis: It is a technique of studying the operational results and financial position over a series of years. Using the previous years' data of a business enterprise, trend analysis can be done to observe the percentage changes over time in the selected data. The trend percentage is the percentage relationship, which each item of different years bear to the same item in the base year. Trend analysis is important because, with its long run view, it may point to basic changes in the nature of the business. By looking at a trend in a particular ratio, one may find whether the ratio is falling, rising or remaining relatively constant. From this observation, a problem is detected or the sign of good management is found.

4. Ratio Analysis: It describes the significant relationship which exists between various items of a balance sheet and a profit and loss account of a firm. As a technique of financial analysis, accounting ratios measure the comparative significance of the individual items of the income and position statements. It is possible to assess the profitability, solvency and efficiency of an enterprise through the technique of ratio analysis.

5. Cash Flow Analysis: It refers to the analysis of actual movement of cash into and out of an organization. The flow of cash into the business is called as cash inflow or positive cash flow and the flow of cash out of the firm is called as cash outflow or a negative cash flow. The difference between the inflow and outflow of cash is the net cash flow. Cash flow statement is prepared to project the manner in which the cash has been received and has been utilized during an accounting year as it shows the sources of cash receipts and also the purposes for which payments are made. Thus, it summarizes the causes for the changes in cash position of a business enterprise between dates of two balance sheets.

Here financial statements of CGL are analysed with the help of:

1. Comparative Statements & Trend Analysis
2. Ratio Analysis

5.1 Comparative Statements Analysis :

EXTRACTS OF ANNUAL REPORTS OF CGL FOR FY FROM YEAR 2005 TO 2008					
Financial Year-->	2005-06 {A}	2006-07{B}	2007-08 {C}	% Change from A to B	% Change from B to C
Description	Amount (Rs. in Million)	Amount (Rs.in Million)	Amount (Rs.in Million)		
NET SALES	25205.93	33676.04	38757.56	33.60	15.09
GROSS PROFIT	2653.42	3767.09	5534.22	41.97	46.91
NET OPERATING PROFIT	2,496.35	2,393.24	4,430.85	-4.13	85.14
CURRENT ASSETS	11336.87	14608.45	16562.24	28.86	13.37
Current Liabilities	8023.62	10474.2	12952.93	30.54	23.67
Net Current Assets	3313.25	4134.25	3609.31	24.78	-12.70
Year End Inventory	1918.09	2470.1	2629.51	28.78	6.45
Average Inventory	1844.49	2194.095	2549.805	18.95	16.21
Sundry debtors	6596.41	8038.9	9562.2	21.87	18.95
Cash and bank balances	1251.31	1735.77	1576.5	38.72	-9.18
Loans and advances	1571.06	2363.68	2794.03	50.45	18.21
Sundry creditors	5398.46	6496.62	7709.69	20.34	18.67
BARROWINGS (DEBT)	2497.69	2700.33	875.59	8.11	-67.57
NET WORTH(EQUITY)	5363.77	6742.97	9307.47	25.71	38.03
EBIT	2211.65	3373.53	5127.66	52.53	52.00
PBT	1947.98	3070.03	4856.52	57.60	58.19
Interest	263.67	303.5	271.14	15.11	-10.66
Tax	317.5	1146.3	1717.3	261.04	49.81
Net Profit after tax	1630.48	1923.73	3139.22	17.99	63.18
Fixed Assets	3637.9	4333.76	5152.96	19.13	18.90
Investments	1021.31	1351.09	1943.29	32.29	43.83
NET ASSETS=CE	7972.46	9819.10	10705.56	23.16	9.03
Dividends per share (Rs.)	1.00	1.29	1.60	28.55	24.45
EPS(Rs.)	4.45	5.25	8.56	17.98	63.05
Dividend pay-out ratio	82.38	89.77	68.52	8.96	-23.67
Book Value of share (Rs.)	14.63	18.39	25.39	25.70	38.06

TABLE NO.1

Interpretation from Comparative Statements:

From comparative statements it is clear that during financial year 2006-07, sales rose smartly by 33.6%,GP by 42% and PAT by 16%. But on the other side, year end inventory rose by 28.8% which can be attributed for sharp rise of 30.5% in current liability. The Market price declined by around 81 % at the end of this financial year. Even though, sales have sharply rose by 33..6% , net operating profit has declined by around 4%,which might have affected the sentiments of investors.

For financial year 2007-08, CGL has performed extremely well in almost all areas. The sales have gone up by 15%, net profit rose significant by 63% and the year end inventory rose only by 6.5%. The company has continuously generated wealth for its capital providers. During this period only, CGL has significantly reduced the borrowings and increased the net-worth (equity).This aspect is very important and appreciable during current inflationary period. The net operating profit rose by 85%, which shows appreciable change in commercial profitability. This might be one of the reason for positive investor's sentiments, since CGL share's Market Price rose by 38% at the end of FY 2007-08.

5.2 RATIO ANALYSIS:

The relationship between two accounting figures, expressed mathematically, is known as financial ratio (or simply as a ratio). Ratio helps to summarise large quantities of financial data and to make qualitative judgment about firm's financial performance .The ratio analysis is the most powerful tool of financial analysis. Many diverse groups of people are interested in analysing the financial information to indicate the operating and financial efficiency, and growth of the firm.

Ratio analysis plays an important role in the corporate world. It is a widely used tool of financial analysis. Ratio Analysis is relevant in assessing the performance of a firm in respect of liquidity position, long-term solvency, operating efficiency, overall profitability, inter-firm comparison and trend analysis.

With the help of ratio analysis, one can determine:

- The ability of firm to meet its current obligations;
- The extent to which the firm has used its long term solvency by barrowing funds ;
- The efficiency with which the firm is utilising its assets in generating sales revenue , and
- The overall operating efficiency and performance of the firm.

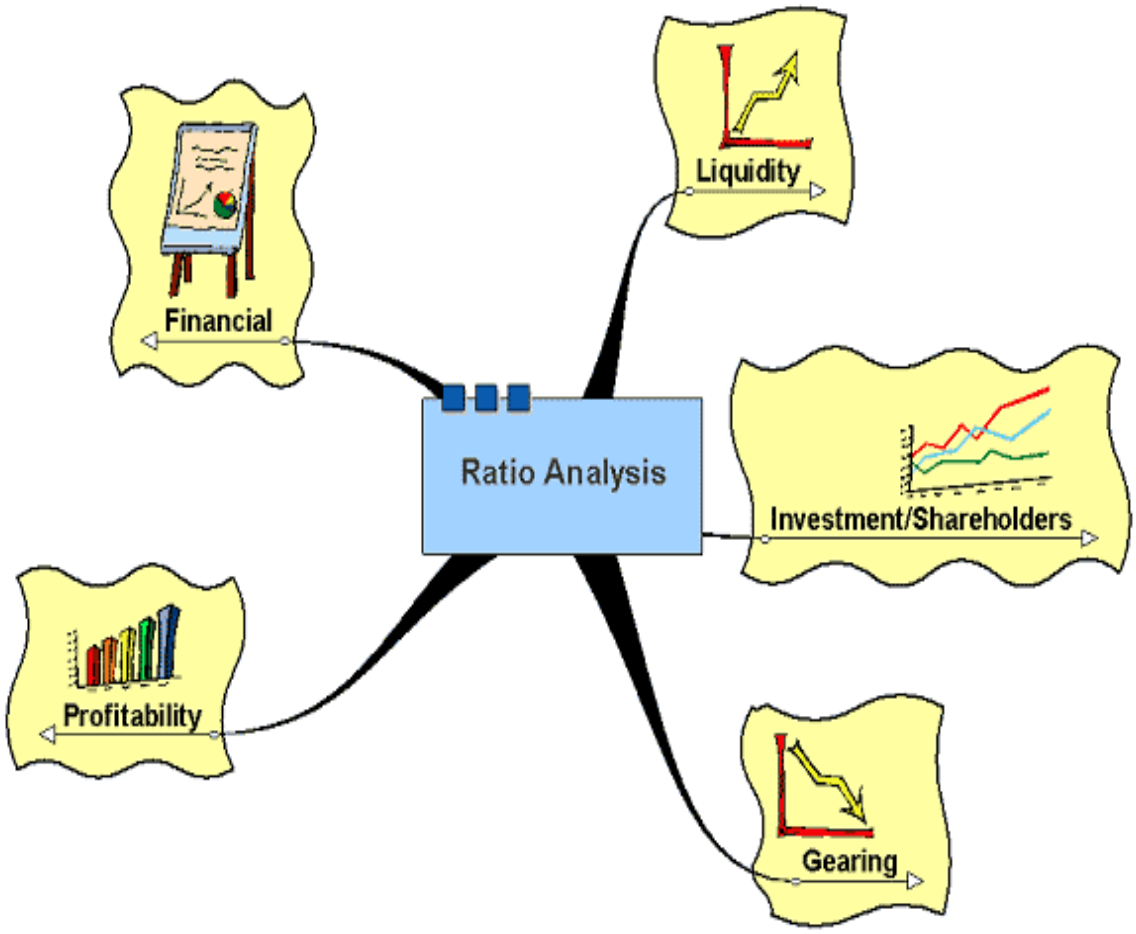


Fig.1: Uses of Ratio Analysis

5.3. LIQUIDITY RATIOS:

- Liquidity ratios measure the firm's ability to meet current obligations. It is extremely essential for a firm to be able to meet its obligations as they become due liquidity ratio's measure. The ability of the firm to meet its current obligations. In fact analysis is of liquidity needs in 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. Main types of liquidity ratios are :

  1. Current ratio 2. Acid Test Ratio/Quick ratio

  3. Cash Ratio 4. Net Working Capital Ratio

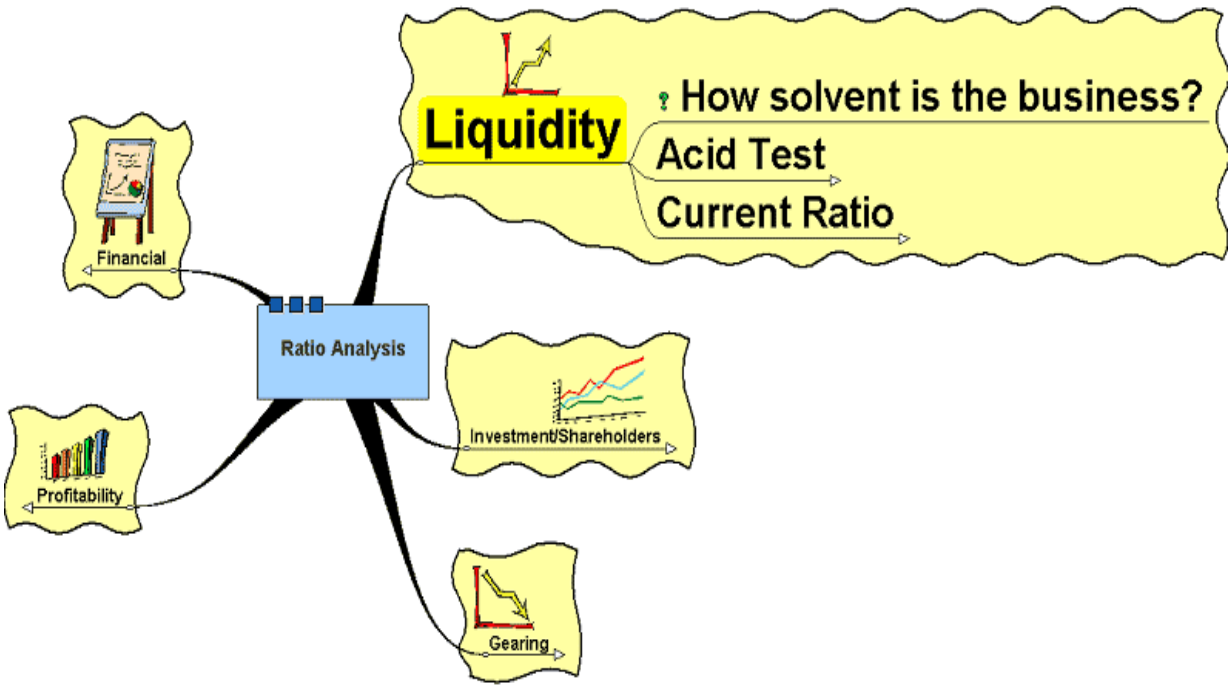


Fig.2: Significance of Liquidity Ratios

5.31 Current Ratio

The ratio is worked out by dividing the current assets of the concern by its current liabilities.

CURRENT RATIO = CURRENT ASSETS/ LIABILITIES

Current ratios indicate the relation between current assets and current liabilities. Current liabilities represent the immediate financial obligations of the company. Current assets are the sources of repayment of current liabilities. Therefore, the ratio measures the capacity of the company to meet financial obligation as and when they arise. Textbooks claim a ratio of 1.5 to 2 is ideal.

5.32 Acid Test Ratio/Quick Ratio:

Quick assets represent current assets excluding stock and prepaid expenses. Stock is excluded because it is not immediately realizable in cash. Prepaid expenses are excluded because they cannot be realized in cash.

QUICK RATIO= (CA–INVENTORIES)/CURRENT LIABILITIES

One of the defects of current ratio is that it does not measure accurately to meet financial commitments as and when they arise. This is because the current assets include also items that are not easily realizable, such as stock. The acid test ratio is a refinement of current ratio and is calculated to measure the ability of the company to meet the liquidity requirements in the immediate future. A minimum of 1: 1 is expected which indicates that the concern can fully meet its financial obligations. This also called as Liquid ratio or Quick ratio.

5.33 Cash Ratio:

Since cash is the most liquid asset, a financial analyst may examine cash ratio and its equivalent to of cash ratio.

CASH RATIO=CASH & BANK BALANCE/CURRENT LIABILITIES

5.34 NET WORKING CAPITAL RATIO:

The difference between current assets and current liabilities excluding short term bank borrowing is called net working capital or net current assets.

NET W.C RATIO = NET WORKING CAPITAL / NET ASSETS

The use of this ratio is two fold. First, it can be used to measure the efficiency of the use of working capital in the unit. Secondly, it can be used as a base for measuring the requirements of working capital for an expected increase in sales.

TABLE FOR LIQUIDITY RATIOS FOR CROMPTON GRAEVES LTD.

FY-→	Year ended 31st March		
Liquidity Ratios	2006	2007	2008
Current Ratio	1.41	1.39	1.28
Liquid Ratio	1.17	1.16	1.08
Cash Ratio	0.16	0.17	0.12
Net Working Capital Ratio	0.42	0.42	0.34

TABLE NO.2

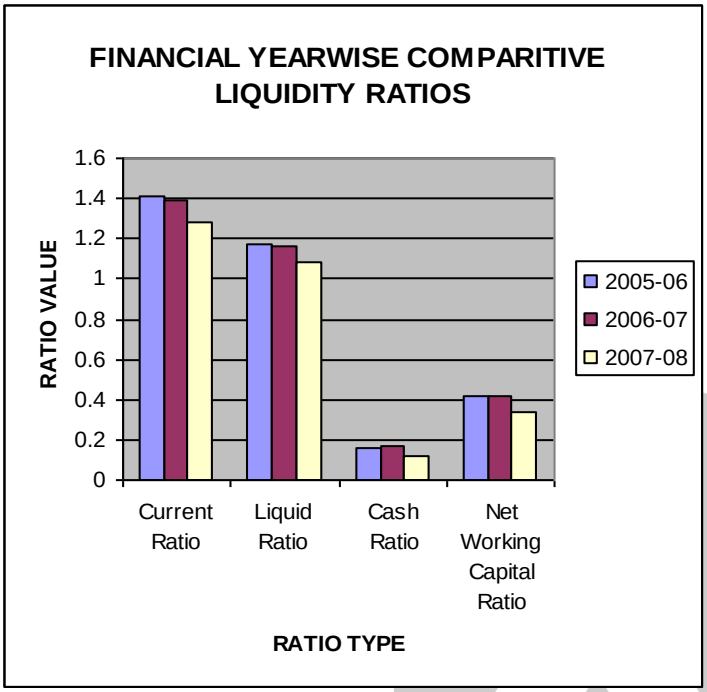


Fig.3: Financial Yearwise comparative Liquidity Ratios for CGL

Interpretation from Table: Decreasing current ratio, suggest that the availability of current assets in rupees for every one rupee of current liability is decreasing. Still the ratio being greater than one, means that the firm has more current assets than current claims against them. Nearly constant CR in year '06 & '07 may be attributed to rise in sundry creditors with rise in Inventories. Also the control over debtors seems to have loosened and collection activities should have been tightened. But during the '08 the story of inventories is pleasing with slight rise and delicate use of creditor period seems admirable, with rise in interest rates in market. The steep rise in sundry creditors with comparatively less rise in inventories and reduction in cash caused the current ratio to decrease from 1.16 to 1.08.

The consistency in LR in year '06 & '07 can be attributed to proportionate rise in Inventories and Sundry debtors. Cash availability increased during year 2007 but again decreased during year 2008. The rise in current liability was much higher than the rise in cash availability and hence the CR

decreased steeply for year 2008. The constant Net Working Capital Ratio in year '07 can be attributed to equally rise in working capital (with highly valued inventories) with respect to sales. Whereas the turnaround in year '08 is marked with significant rise in sales and effective conversion of inventories into sales.

5.4 LIVERAGE RATIOS:

The short term creditors, like bankers and suppliers of raw material are more concerned with the firm's current debt paying ability. On the other hand, long term creditors like debenture holders, financial institutions etc. are more concerned with firms long term financial strength. In fact a firm should have 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. Main types of leverage ratios are:

1. Debt Ratio
2. Debt Equity Ratio
3. Capital employed to net worth ratio

5.41 DEBT RATIO:

Several debt ratios may be used to analyse the long term solvency of the firm. It may therefore compute debt ratio by dividing total debt by capital employed or net assets.

DEBT RATIO = TOTAL DEBT / NET ASSETS

5.42 DEBT EQUITY RATIO:

It is computed by dividing long term borrowed capital or total debt by Share holders fund or net worth.

DEBT EQUITY RATIO = TOTAL DEBT / NET WORTH

5.43 CAPITAL EMPLOYED TO NET WORTH RATIO:

There is a alternative way of expressing the basic relationship between debt and equity. It helps in knowing, how much funds are being contributed together by lenders and owners for each rupee of owner's contribution. This can be found out by calculating the ratio of capital employed or net assets to net worth.

CAPITAL EMPLOYED TO NETWORTH RATIO = CA / NW

TABLE FOR LIVERAGE RATIOS FOR CROMPTON GRAEVES LTD.

FY-→	Year ended 31st March		
Leverage Ratios	2006	2007	2008
Debt Ratio	0.31	0.28	0.08
Debt Equity Ratio	0.47	0.40	0.09

TABLE NO.3

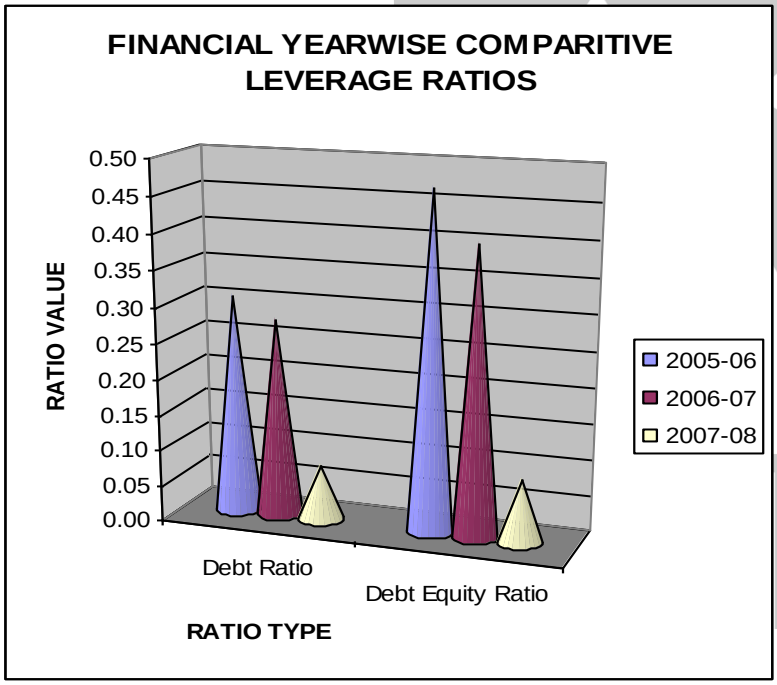


Fig.4: Financial Yearwise comparative Leverage Ratios for CGL

Interpretation from Table : The drastically declining Debt Ratio indicates that the firm is trying to provide larger margin of safety for its shareholders. It shows that the claims of shareholders are becoming significantly higher than its creditors. This can be looked as more freedom for its owners to take fast and independent decisions for business expansion say through Mergers and Acquisitions. With the cost of debt increasing, this strategy seems appreciable in current inflationary period.

5.5 TURNOVER/ACTIVITY RATIOS:

Funds of creditors and owners are invested in various assets to generate sales and profits. The better the management of assets, the larger is an amount of sales.

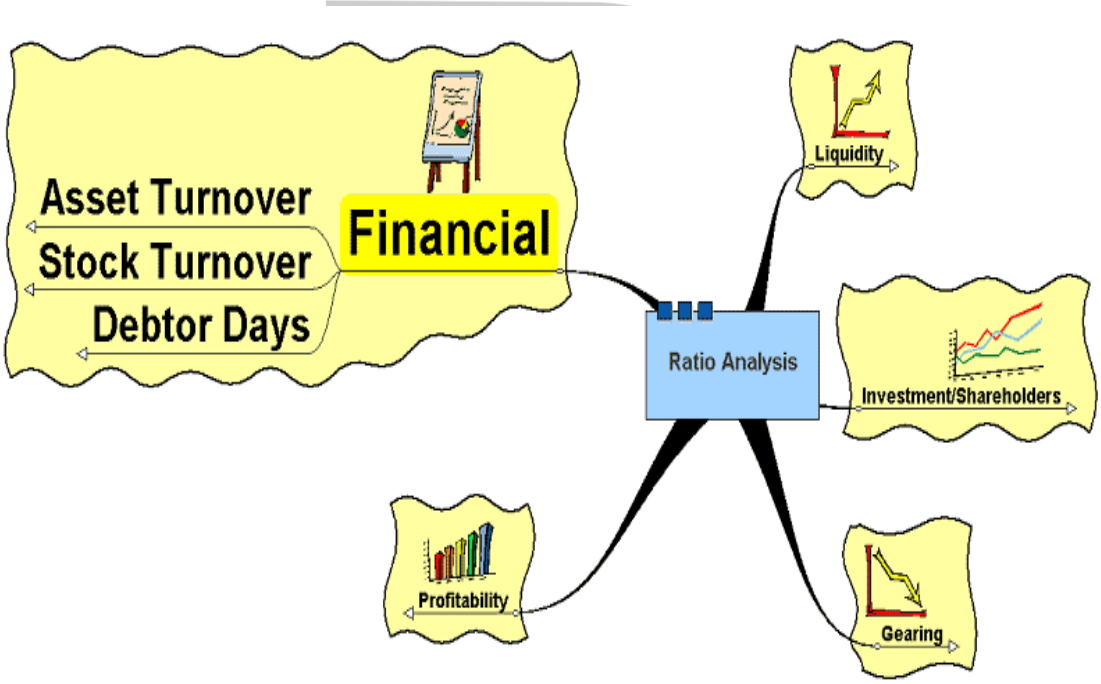


Fig.5: Significance of Turnover Ratios

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets these ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. Activity ratios, thus, involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well.

TABLE FOR TURNOVER RATIOS FOR CROMPTON GRAEVES LTD.

FY-→	Year ended 31st March		
Turnover Ratios	2006	2007	2008
Inventory Turnover Ratio	13.67	15.35	15.20
Total Assets Turnover Ratio	3.16	3.43	3.62
Current Assets Turnover Ratio	2.22	2.31	2.34
Fixed Assets Turnover Ratio	6.93	7.77	7.52
Working Capital Turnover Ratio	7.61	8.15	10.74

TABLE NO.4

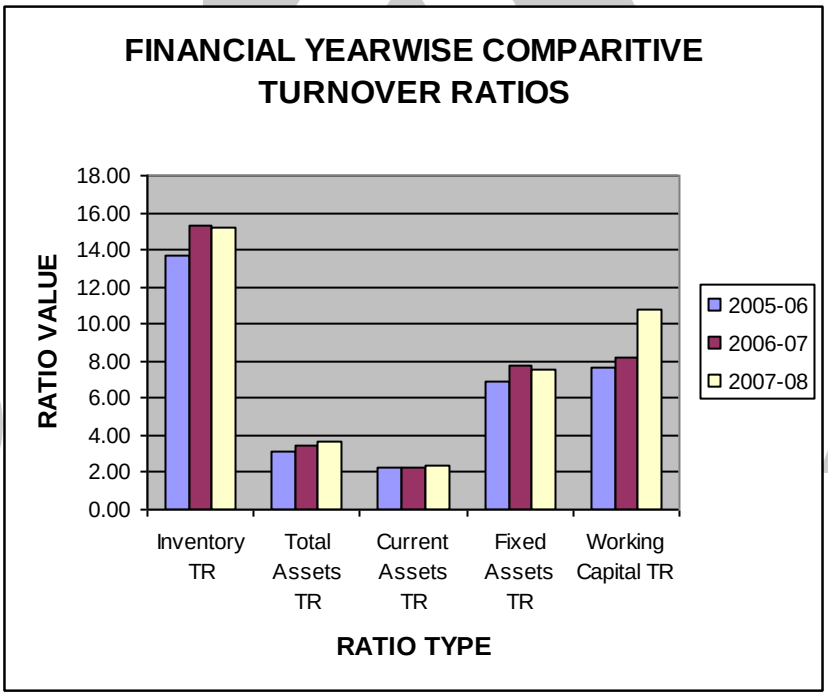


Fig.6: Financial Year wise comparative Turnover Ratios for

5.51 INVENTORY TURNOVER RATIO:

The ratio is usually expressed as number of times the stock has turned over. Inventory management forms the crucial part of working capital management. As a major portion of the bank advance is for the holding of inventory, a study of the adequacy of abundance of the stocks held by the company in relation to its production needs requires to be made carefully by the bank.

A higher ratio may mean (higher turnover or less holding periods):

- The stocks are moving well and there is efficient inventory management; or the stocks are purchased in small quantities. This may be harmful if sufficient quantities are not available for production needs; secondly, buying in small quantities may increase the cost.

Contrarily, a lower ratio (i.e. lower turnover of longer holding period may be an index of :

- Accumulation of large stocks not commensurate with production requirements
- A reflection of inefficient inventory management or over-valuation of stocks for balance sheet purposes; or Stagnation in sales, if stocks comprise mostly finished goods.

Inventory turnover ratio indicates the efficiency of the firm in producing and selling its product. It is calculated by dividing Net Sales by average inventory. Average inventory consists of opening stock plus closing stock divided by 2.

INVENTORY TURNOVER RATIO = SALES / AVERAGE INVENTORY

Interpretation from Table: The inventory turnover has improved over the years indicating improved inventory management. Also during 2007-08,the rise in inventory is much less than the rise in sales indicating better utilisation of sales for generating more sales.

5.52 NET ASSETS TURNOVER RATIO:

A firm should manage its assets efficiently to maximise sales. The relationship between sales and (fixed or current) assets is called (fixed or current) assets turnover ratio. A lower ratio may indicate inefficiency of assets. It may also be indicative of under utilizations or non-utilization of certain assets. Thus with the help of this ratio, it is possible to identify such underlined or unutilised assets and arrange for their disposal.

- ***FA TURNOVER RATIO= SALES / FIXED ASSETS***
- ***CATURNOVER RATIO= SALES/ CURRENT ASSETS***

Interpretation from Table: For all the three years fixed asset turnover has been faster than the current asset turnover. Interpreting the reciprocals of these ratios, one may say that for generating a sale of one rupee, the company needs respectively (Rs. 0.14, 0.13, 0.13) investments in fixed asset and (Rs. 0.45, 0.43, 0.43) investments in current assets.

5.53 WORKING CAPITAL TURNOVER RATIO:

A firm may also like to relate net current assets to sales. It may thus compute net working capital turnover by dividing sales by net working capital.

WORKING CAPITAL TURNOVER RATIO = SALES / NCA

Interpretation from Table: Over the three years CGL has improved the Working Capital Turnover Ratio. The reciprocal of the ratios for year ended 2006, '07, and'08 are 0.13, 0.12 and 0.09 respectively. It indicates that for one rupee of sales, the company needed the current assets of Rs. 0.13, 0.12 and 0.09. It reflects lesser requirement of funds from bank borrowings and long term sources of funds.

5.6 PROFITABILITY RATIOS:

A company should earn profits to survive and grow over a long period of time. Profits are essential but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profits, irrespective of social consequences.

Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of a company and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profits. The profitability ratios are calculated to measure the operating efficiency of the company.

The major types of profitability ratios are:

1. Profitability in relation to sales
2. Profitability in relation to investment

- Gross profit margin ratio
- Net profit margin ratio
- Operating expenses ratio
- Return on Investment
- Return on equity
- Earning per share
- Dividends per share
- Dividend pay out ratio
- Price earning ratio

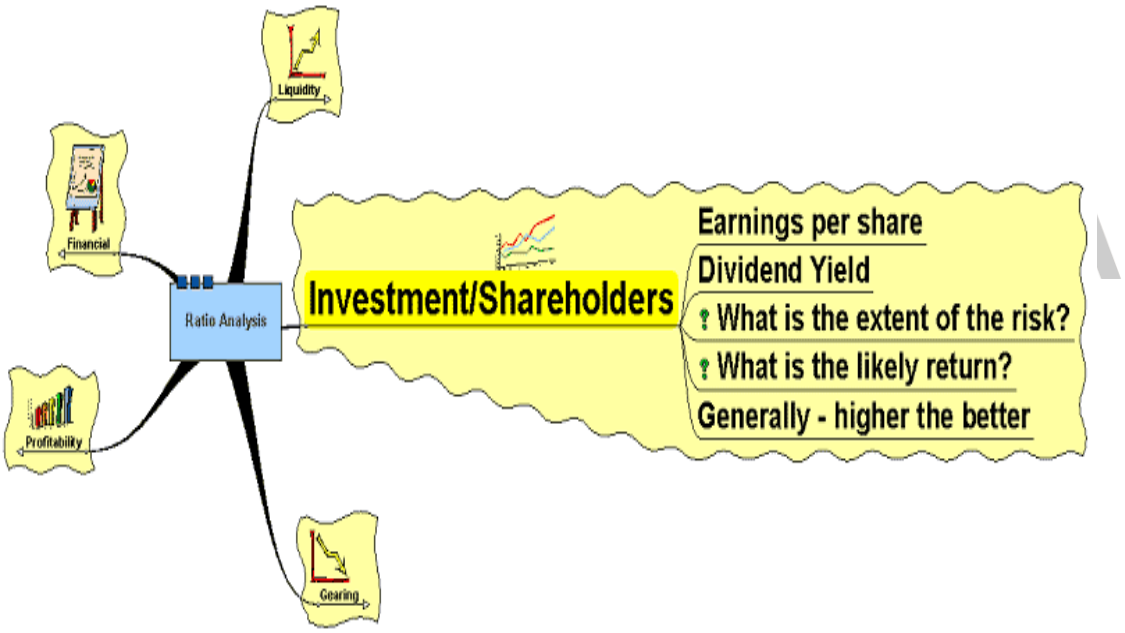


Fig.7: Viewpoint of Shareholders

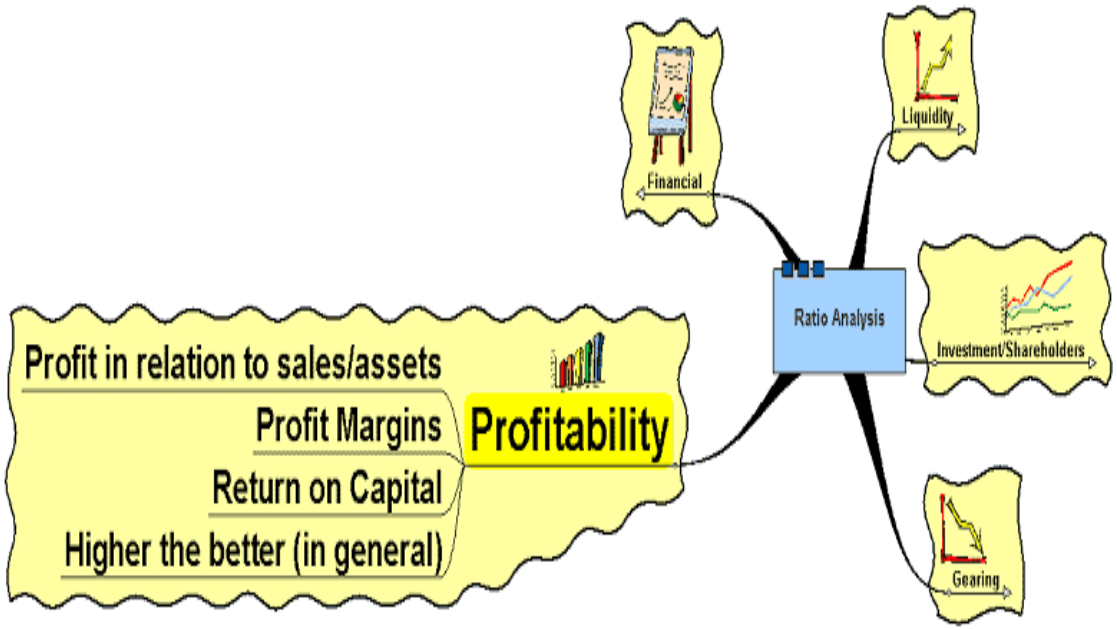


Fig.8: Significance of Profitability Ratios

TABLE FOR PROFITABILITY RATIOS FOR CROMPTON GRAEVES LTD.

FY--→	Year ended 31st March		
Profitability Ratios	2006	2007	2008
Gross Profit Ratio (%)	10.53	11.19	14.28
Net Profit Ratio (%)	6.47	5.71	8.1
Operation Profit Ratio (%)	9.9	7.1	11.43
Earning Per Share (Rs.)	4.45	5.25	8.56

TABLE NO.5

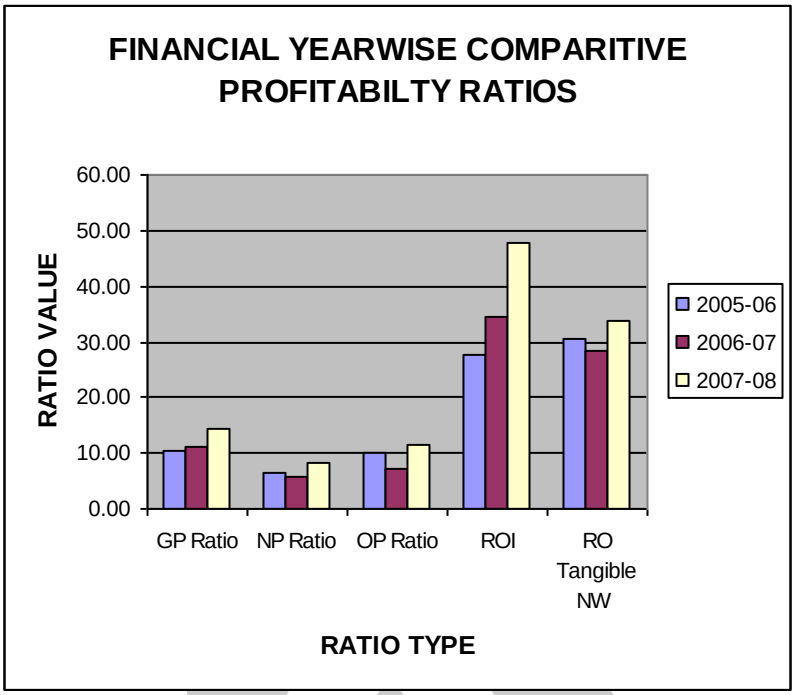


Fig.9: Financial Yearwise comparative Profitability Ratios for CGL

5.61 GROSS PROFIT RATIO:

It is calculated by dividing gross profit by sales. The gross profit margin reflects the efficiency with which management produces each unit of product. This ratio indicates the average spread between the cost of goods sold and the sales revenue.

GROSS PROFIT RATIO = GROSS PROFIT (EBIDTA) / SALES

Interpretation from Table: The % growth in gross profit is higher than the sales. It means that the firm is able to widen the gross profit margin with a combination of variations in sales prices and cost. Referring to business segment-wise sales data it is clear that, the highest rise in sales has come from Transformers & Reactors business segment in which the firm is holding major market share. Also the export sales and services has grown significantly during 2007-08, which has comparatively more profit margin than the domestic sales.

SALES DATA FOR VARIOUS BUSINESS SEGMENTS OF CGL					
	YEAR				
FY-→	2005-06 {A}	2006-07{B}	2007-08 {C}	% Change from A to B	% Change from B to C
BUSINESS SEGMENTS	(Rs. In Million)	(Rs. In Million)	(Rs. In Million)		
i) Transformers, Reactors and Accessories	6985.02	9987.54	12869.74	42.99	28.86
ii) Switchgears, Control Equipments and Acc.	4413.37	5654.21	6060.07	28.12	7.18
iii) Motors, Alternators and Pumps Nos	6183.97	7973.59	9710.54	28.94	21.78
iv) Electrical Steel Stampings and Laminates	329.44	555.02	546.28	68.47	-1.57
v) Electric Fans, Ventilation Control Systems	3239.35	3959.77	4927.71	22.24	24.44
vi) Electric Lamps	1125.10	1352.88	1634.30	20.25	20.80
vii) Communication, Computer system	280.51	46.82	1.97	-83.31	-95.79
Software and Accessories					
viii) Servicing	380.44	522.21	643.35	37.26	23.20
ix) Others	4448.63	6547.72	5832.02	47.19	-10.93
GROSS SALES	27385.83	36599.76	42225.98	33.64	15.37

DISTRIBUTION OF SALES & SERVICE REVENUES BY GEOGRAPHICAL MARKET					
	YEAR				
FY-→	2005-06 {A}	2006-07{B}	2007-08 {C}	% Change from A to B	% Change from B to C
Geographical Market	(Rs. In Million)	(Rs. In Million)	(Rs. In Million)		
Domestic	22793.73	30514.98	34582.04	33.87	13.33
Overseas	4592.10	6084.78	7643.94	32.51	25.62
Total	27385.83	36599.76	42225.98	33.64	15.37

TABLE NO.7

5.62 NET PROFIT RATIO:

Net profit is obtained when operating expenses, interest and taxes are subtracted from the gross profit. The net profit margin is measured by dividing profit after tax or net profit by sales.

NET PROFIT RATIO= NET PROFIT (PAT)/SALES

Interpretation from Table: This ratio indicates management's efficiency in manufacturing, administering and selling the products. It is overall measure of the firm's ability to turn each rupee sales into net profit. The higher % rise in gross profit (41.97) than the net profit (17.99) during 2006-07 indicates that the operating expenses relative to sales has increased. On the other hand this picture has reversed during 2007-08 with significant rise of 63.18% in net profit as compared to 46.91% in gross profit. It means that CGL worked on operating expenses rigorously towards achieving better return on shareholder's funds. In this inflationary period, this carries significant meaning in terms of sustainability in market with rising cost of production and price war.

5.63 RETURN ON INVESTMENT (ROI):

The ROI is perhaps the most important ratio of all. It is the percentage of return on funds invested in the business by its owners. In short, this ratio tells the owner whether or not all the effort put into the business has been worthwhile. If the ROI is less than the rate of return on an alternative, risk-free investment such as a bank savings account, the owner may be wiser to sell the company, put the money in such a savings instrument, and avoid the daily struggles of small business management.

ROI can be calculated in three ways:

Return on Investment = Return on Net worth

= Return on Capital Employed

= Return on Total Assets

Return on invested capital is an important indicator of a company's long term financial strength. It uses key summary features from both the income statement and the balance sheet to assess profitability. It can effectively convey the return on invested capital from varying perspectives of different financing contributors.

5.631 Return on Net worth (RONW):

(Net after Tax Profit divided by Net Worth) is the 'final measure' of profitability to evaluate overall return. This ratio measures return relative to investment in the company. Return on Net Worth also indicates how well a company leverages the investment in it.

RONW = PAT / Net Worth

Financial Year --->	2005-06{A}	2006-07{B}	2007-08 {C}
Description	(Rs. In Million)	(Rs. In Million)	(Rs. In Million)
PAT	1630.48	1923.73	3139.22
Net Worth	5363.77	6742.97	9307.47
PAT/Net Worth (%)	30.40	28.53	33.73

TABLE NO.8

5.632 Return on Capital Employed (ROCE):

It is a ratio that indicates the efficiency and profitability of a company's capital investments. It is calculated as:

ROCE = PBIT / CAPITAL EMPLOYED

ROCE should ideally be higher than the rate at which the company borrows; otherwise any increase in borrowing will reduce shareholders' earnings.

Financial Year --->	2005-06{A}	2006-07{B}	2007-08{C}
Description	(Rs. In Million)	(Rs. In Million)	(Rs. In Million)
PBIT	2211.65	3373.53	5127.66
Capital Employed	7972.46	9819.1	10705.56
PBIT/Capital Employed (%)	27.74	34.36	47.90

TABLE NO.9

5.633 Return on Total Assets (ROTA): It is a measure of how effectively a company uses its assets. It is calculated by

ROTA= (PBIT)/ (Total Assets)

It is also an indicator of how profitable a company is relative to its total assets. ROTA gives an idea as to how efficient management is at using its assets to generate earnings.

Financial Year-->	2005-06 {A}	2006-07{B}	2007-08 {C}
Description	(Rs. In Million)	(Rs. In Million)	(Rs. In Million)
PBIT	2211.65	3373.53	5127.66
Total Assets	14974.77	18942.21	21715.2
PBIT/ Total Assets	14.77	17.81	23.61

TABLE NO.10

5.634 DuPont Analysis:

The DuPont Model is a technique that can be used to analyze the profitability of a company using traditional performance management tools. To enable this, the DuPont model integrates elements of the Income Statement with those of the Balance Sheet.

Return on equity (ROE) or Return on Net Worth (RONW) is a product of Return on Net Assets (reflecting operational efficiency) and financial leverage ratios (reflecting financing efficiency).

DuPont Chart & Analysis for RONW for 2007 – 2008

The parameters for completion of Dupont Chart are calculated from extract table values. The Dupont Chart for the period of 2007-08 is as follows :

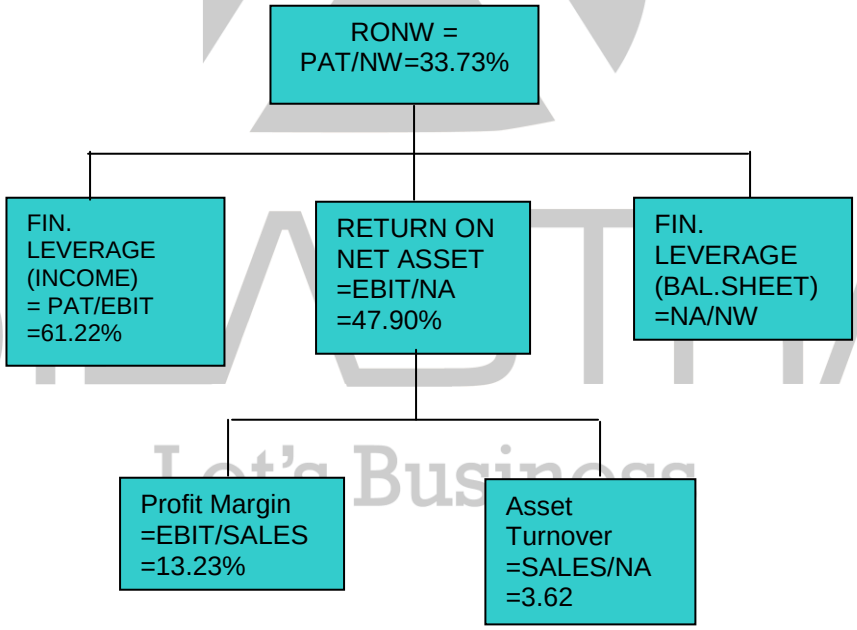


Fig.10: Dupont Chart based on RONW for year 2007–2008

Interpretation:

We observe that the RONW has been steadily improving (on an average of 30%) for the company during the period. This can be mainly attributed to the improving profit margins that the company has attained due aggressive marketing, various cost-cutting measures, bringing new products in market and adopting market oriented pricing structures, during the same period. CGL's NA/NW has deteriorated but PAT/EBIT has improved over one year. The combined effect has been favourable; CGL's ROE has increased from 28.53% to 33.73%, indicating its steadily improving performance.

The advantages of DuPont Analysis are as follows:

- Simplicity
- Can be easily linked to compensation schemes
- Can be used to convince management about steps needed to improve purchasing or sales function.

The limitations of DuPont Analysis are

- It is based on accounting numbers which are not reliable.
- It does not include cost of capital

Interpretation from Table (ROTA) :

CGL has been able to maintain sound ROI through its diversified business segments. With a widening global footprint with several acquisitions, it is expected that CGL will be able to better its ROI in future.

5.64 RETURN ON EQUITY (ROE OR RONW):

Ordinary share holders are entitled to the residual profits. A return on shareholders equity is calculated to see the profitability of owner's investment. Return on equity indicates how well the firm has used the resources of owners. The earning of a satisfactory return is the most desirable objective of business.

RETURN ON EQUITY = PAT / NET WORTH

Interpretation from Table:

The average of 31 % rise in ROE in three years reflects consistent performance of CGL for maximizing its shareholder's welfare. For manufacturing companies, with rising manufacturing cost, stiff competition in market it has been a difficult task to maintain constant growth rate. But CGL through its value engineering activities, exploration of new and quality products and widening overseas market share activity has confirmed its dedication for maximizing its shareholder's welfare.

6.65 EARNINGS PER SHARE:

The earning per share is calculated by dividing Profit After Tax (PAT**)** by total number of outstanding shares. EPS simply shows the profitability of the firm on a per share basis, it does not reflect how much is paid as dividend and how much is retained in business.

EARNINGS PER SHARE=PAT/NO. OF OUTSTANDING SHARES

Interpretation from Table:

The increasing EPS (4.45: 5.25: 8.56) indicates CGL's higher earning potential per share. It also signifies that the earnings are being invested in much better operations/opportunities for further improved EPS.

5.66 DIVIDENDS PER SHARE:

The net profits after taxes belong to shareholders. But the income which they really receive is the amount of earnings distributed as cash dividends. Therefore, a larger number of present and potential investors may be interested in DPS rather than EPS. DPS is the earnings distributed to ordinary shareholders divided by the number of ordinary shares outstanding.

DPS= EARNINGS PAID TO SHAREHOLDERS/NO. OF O/S SHARES

Interpretation from Table:

(EPS, DPS) has grown by (17.98%, 28.55%) & (63.05%, 24.45%) in '07 & '08 respectively. In year '08 even-though EPS has grown by 63.05%, but DPS rise is only 24.45%. It may be considered that CGL would like to retain the earnings in order to finance more business expansion and more returns in future.

5.67 DIVIDEND PAY OUT RATIO:

The dividend pay out ratio is simply the dividend per share divided by Earnings Per Share.

DIVIDEND PAY OUT RATIO= DPS/EPS

Interpretation from Table: The DPR is 22%, 24% and 19% during '06,'07, and '08 respectively meaning that comparatively more earnings are retained back and used in business activities and the firm has been able to improve the growth in equity as well.

5.7 Limitations of Financial Statement Analysis:

Though financial statement analysis is quite helpful in determining financial strengths and weaknesses of a firm, it is based on the information available in financial statements. As such, the financial statement analysis also suffers from various limitations of financial statements. Hence, the analyst must be conscious of the impact of price level changes, window dressing of financial statements, changes in accounting policies of a firm, accounting concepts and conventions, personal judgments, etc.

Some other limitations of financial statement analysis are:

1. Financial statement analysis does not consider price level changes.
2. Financial statement analysis may be misleading without the knowledge of the changes in accounting procedure followed by a firm.
3. Financial statement analysis is just a study of interim reports.
4. Monetary information alone is considered in financial statement analysis while non-monetary aspects are ignored.
5. The financial statements are prepared on the basis of on-going concept, as such, it does not reflect the current position.

6. Conclusion:

Financial Statement Analysis is an yardstick for measuring the financial status of a firm. It provides significant information about firm's strengths and weaknesses to various individuals and groups such as investors, lenders, management of firm, govt. agencies etc.

Financial Statement Analysis for Crompton Greaves Ltd. reveals considerable improvement in its performance during considered three financial years. Efforts to bank on less borrowed funds and more equity funds seem appreciable in current inflationary period. From ETOP Analysis indicates that in coming atleast five years, there will be rising demand for power sector equipments. CGL's rising revenue from power system group seems inline with market trend. CGL's overall performance indicates that it is smartly blending the efficiency and effectiveness of its operations, for higher market share and to ensure profit maximisation for its shareholders.

7. Suggestions/Recommendations:

Every coin has two sides, so is the case with financial statement analysis. It is user friendly tool for knowing financial status of a firm, but it has certain limitations in terms of lack of information regarding non-monetary aspects, price level change etc. Hence it is recommended that one should be cautious while using financial statement analysis and should also consider the effects of:

- Price level changes,
- Non-monetary aspects,
- Accounting policies of the firm and
- Changes in accounting procedures and standards followed by the firm.

SIGNIFICANT ACCOUNTING POLICIES:

The following policies have remained the same over 2005-2008 except where explicitly mentioned.

1 Basis of Presentation:

(a) The Company maintains its accounts on accrual basis following the historical cost convention, except for the revaluation of certain fixed assets, in accordance with the Generally Accepted Accounting Principles (GAAP) and in compliance with the Accounting Standards specified in the Companies (Accounting Standards) Rules, 2006 notified by the Central Government and other provisions of the Companies Act, 1956. However, certain escalation and other claims are accounted for in terms of contract with the customers. Insurance and other claims are accounted for as and when admitted by the appropriate authorities.
(b) The preparation of accounts under GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the year. Examples of such estimates include the useful lives of fixed assets and intangible assets, provision for doubtful debts/advances; future obligation in respect of retirement benefit plans, etc., actual result could differ from these estimates. Any revisions to accounting estimates are recognized prospectively in the current and future periods.

2 Fixed Assets:

(a) Fixed assets are stated at cost net of tax / duty credit availed, if any, except for land and buildings added prior to 30th June, 1985 which are stated at revalued cost as at that date based on the report of technical expert.
(b) Lump sum fees paid for acquisition of technical know-how relating to plant and machinery is capitalised as intangible asset.
(c) Fixed assets are eliminated from financial statements, either on disposal or when retired from active use. The retired assets are disposed off immediately. The capitalised cost of such disposed / retired assets are removed from the fixed assets records.
(d) Pre-operative expenses, including interest on borrowings till the date of commissioning, for the projects, where applicable, incurred till
the projects are ready for commercial production, are treated as part of the project cost and capitalised.
(e) Internally manufactured / constructed fixed assets are capitalised at factory cost, including excise duty, where applicable.

(f) Machinery spares which are specific to particular item of fixed assets and whose use is irregular are capitalised as part of the cost of machinery.

3. Impairment of Assets:

(a) The carrying amount of assets, other than inventories is reviewed at each balance sheet date, to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the assets is estimated.
(b) An impairment loss is recognized, whenever the carrying amount of assets or its cash generating units exceeds its recoverable amount.
The recoverable amount is the greater of the asset's net selling price and value in use which is determined based on the estimated future cash flow generated from the continuing use of an asset and from its disposal at the end of its useful life, discounted to their present values.
(c) An impairment loss is reversed, if there has been a change in the estimates made to determine and recognize the recoverable amount in the earlier year.

4 Intangible Assets and Amortization:

Intangible assets are recognized as per the criteria specified in the Accounting Standard - Intangible Assets and are amortized as under:
(a) Leasehold land: Over the period of lease;
(b) Specialized software: Over a period of five years;
(c) Lump sum fees for technical know-how: Over a period of five years from the year of commercial production.

5 Investments

(a) Long term investments are carried at cost after providing for any diminution in value, if such diminution is of other than temporary nature.
(b) Current investments are carried at lower of cost or market value. The determination of carrying costs of such investments is done on the basis of specific identification.

6 Inventories:

Inventories are valued at lower of cost or net realizable value, after providing for obsolescence and damage as under:
(a)Raw materials, packing materials: At Cost, on FIFO / Weighted average basis stores and spares
(b)Work-in-progress-Manufacturing: At Cost plus appropriate reduction overheads

(c)Work-in-progress-Contracts: At Cost till certain percentage of completion and thereafter at realizable value
(d)Finished goods-Manufacturing: At Cost, plus appropriate production overheads, including excise duty paid / payable on such goods
(e) Finished goods - Trading: At Cost, on weighted average basis

7 Foreign currency transactions, Forward contracts and Derivatives:

(a) The reporting currency of the Company is Indian Rupee.
(b) Foreign currency transactions are recorded on initial recognition in the reporting currency, using the exchange rate at the date of transaction. At each balance sheet, foreign currency monetary items are reported using the closing rate. Exchange differences that arise on settlement of monetary items are recognized as income or expense in the period in which they arise.
(c) The Company uses foreign exchange forward contract to hedge its exposure to movements in foreign exchange rates. The use of these contracts reduces the risk or cost and the company does not use these contracts for trading or speculation purposes. Cash flows arising on account of roll over / cancellation are recognized as income / expense of the period in line with the movement in the underlying exposures.
(d) Derivative transactions are considered as off-balance sheet items and cash flows arising therefrom are recognized in the books of account as and when the settlements take place / over the tenor thereof in accordance with the terms of the respective contracts.

8 Revenue Recognition:

(a) Revenue from sale of products is recognized when all the significant risk and reward of ownership of the products are passed on to the customers, which is generally on dispatch of goods and acceptance.
(b) Service income is recognized as per the terms of the contract with the customer, when the related services are performed.
(c) Sales include excise duty and price variation and recognised in terms of contracts with the customers. Sales exclude value added tax / sales tax, brokerage and commission.
(d) Revenue from contracts is recognised based on percentage completion after providing for expected losses.
(e) Excise duty in respect of finished goods is included in the valuation of finished goods.
(f) Dividend income is accounted for when the right to receive income is established.

9 Employee Benefits:

(a) Short Term Employee Benefits
All employee benefits payable wholly within twelve months of rendering service are classified as short term employee benefits. Benefits such as salaries, wages, short term compensated absences, etc. and the expected cost of bonus, ex-gratia are recognised during the period in which the employee renders the service.
(b) Defined contribution Plan Company's contributions paid / payable during the year to provident fund, officer's superannuation fund, ESIC and labour welfare fund are recognised in the profit and loss account.
(c) Defined Benefit Plan Company's liabilities towards gratuity leave encashment and Post-Retirement Medical Benefits are determined using the Projected Unit Credit Method, which considers each period of service as giving rise to additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Actuarial gain and losses are recognised immediately in the statement profit and loss account as income or expenses. Obligation measured at the present value of estimated future cash flows using a discounted rate that is determined by reference to market yields at the balance sheet date on government bonds, where the currency and terms of the Government are consistent with the currency and estimated terms of the defined benefit obligation.
(d) Long Term Employee Benefits: The obligation for long term benefits, such as, leave encashment is recognised in the same manner as in the case of defined benefit plans as in (c) above.

10 Depreciation:

(a) Depreciation on the fixed assets is provided at the rates and in the manner specified in Schedule XIV of the Companies Act, 1956, on written down value method other than on buildings and plant and equipment, which are depreciated on a straight line method.
(b) Building constructed on leasehold land is depreciated at normal rate as prescribed in Schedule XIV to the Companies Act, 1956, where the lease period of land is beyond the life of the building. In other cases, amortized over the lease period.
(c) In the case of revalued assets, the difference between the depreciation based on revaluation and the depreciation charged on historical cost is recouped out of revaluation reserve.
(d) In case of impaired assets, the depreciation is charged on the adjusted cost computed after impairment.

11 Research and Development:

(a) Revenue expenditure on research and development is charged under respective heads of account.
(b) Capital expenditure on research and development is included as part of fixed assets and depreciated on the same basis as other fixed assets.

12 Borrowing Costs:

(a) Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of such asset till such time as the asset is ready for its intended use or sale.
(b) All other borrowing costs are recognised as expense in the period in which they are incurred.

13 Taxes on Income:

(a) Tax on income for the current period is determined on the basis of estimated taxable income and tax credits computed in accordance with the provisions of the Income Tax Act, 1961 and based on the expected outcome of assessments / appeals.
(b) Deferred tax is recognised on timing differences between the accounting income and the taxable income for the year, and quantified using the tax rates and laws enacted or substantively enacted as on the Balance Sheet date.
(c) Deferred tax assets are recognised and carried forward only to the extent that there is reasonable certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized.

14 Provisions, Contingent liabilities and Contingent assets:

(a) Provisions are recognised for liabilities that can be measured only by using a substantial degree of estimation, if
i) The Company has a present obligation as a result of past event;
ii) A probable outflow of resources is expected to settle the obligation; and
iii) The amount of the obligation can be reliably estimated.
(b) Reimbursements by another party, expected in respect of expenditure required to settle a provision, is recognised when it is virtual certain that reimbursement will be received if obligation is settled.
(c) Contingent liability is disclosed in the case of
i) a present obligation arising from past event, when it is not probable that an outflow of resources will be required to settle the obligation;

ii) a possible obligation, unless the probability of outflow of resources is remote.
(d) Contingent assets neither disclosed nor recognised.
(e) Provision, contingent liabilities and contingent assets are reviewed at each balance sheet date.

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