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A study on financial performance of Schuf Speciality valves India private limited in Coimbatore

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Abstract

Finance is the life blood of a business. Circulation of blood is necessary for maintaining life in human body. In the same way, finance is absolutely necessary for the survival and smooth running of a business. Finance is necessary to promote a business, purchase fixed assets, buy raw materials, produce goods and market them. Without finance, the business would come to a halt. The success of the firm is judged by its financial performance which depends upon its financial ability and solvency. Finance is the fundamental requirement for any business enterprise, to carry on operations and achieve the goals.

Keywords: finance, circulation of blood

1. Introduction

Finance

Finance may be defined as the provision of adequate amount of money when it required. Finance function is concerned with the procurement of funds and their effective utilization. It helps the management in:

- Financial planning
- Raising of financial resources
- Management of financial resources
- Control of financial resources

Financial Management

Financial management may be described as making decisions on financial matters, implementing the decisions and review of the implementation. Financial management is defined as the implication of the planning and control functions to the finance function. Financial management is also defined as the activity concerned with planning, raising, controlling and administering of funds used in business.

According to the decision making, the following decisions are to be made:

- Investment decisions
- Financing decisions
- Dividend decisions

In order to make these financial decisions rationally, the company should have a clear objective. Two important objectives are:

- Profit maximization
- Wealth maximization

Approaches to Financial Management

Approaches to financial management are under two major heads:

Traditional Approach: Under this approach, the scope of financial management was limited to the procurement of funds on the most suitable terms.

Modern Approach: Under this approach, the scope is not limited to procurement of funds. It includes efficient utilization as well.

Financial Analysis

Analysis of financial performance is an integral part of financial management. It helps in the assessment of strengths and weaknesses of the company in respect of liquidity, solvency, profitability, operating efficiency etc. It is also useful in analysing the capital structure, it effect on earnings of shareholders and the dividend behaviour of the company. It is very useful in financial planning and control.

1.2 Statement of the Problem

The present study “A Study on Financial Performance of Schuf Speciality Valves India Pvt Ltd” helps:

- To know the Financial performance of this company
- To identify the financial Strength, Weakness, Opportunity and Threat (SWOT) analysis.

1.3 Objectives of the Study

- To ascertain the profitability of the company.
- To understand the liquidity position of the company.
- To analyze the solvency position of the company.
- To find out the trend of the financial activities of the company over the past ten years using Trend Analysis.

1.4 Scope of the Study

The study was carried out at Schuf Speciality Valves India Pvt to analyse the financial performance over the past 10 years. The study aims to analyse the profitability, liquidity, solvency position and also the efficiency with which it converts the resources into sales. The study also finds out the trend of the financial performance of the company in the period.

1.5 Research Methodology
Research Design

As the study is aimed at estimating the financial performance precisely the research design adopted here is based on the analytical method.

Analytical Research Design

Analytical research design is the design where the researcher has used the facts or information already available and analyzed these to make a critical evaluation.

Source of Data

The analysis of the financial performance necessitates accurate and reliable data. Therefore the sources for collecting the data include both primary and secondary data.
- **Primary Data:** The information collected is mainly based on the personal discussion with the Finance Manager and Managing Director of Schuf Speciality Valves India Pvt Ltd
- **Secondary Data:** Secondary data is mainly collected form annual reports, official records and the web page of the company.

Period of Study

The period of the study started form the financial year 2006-2007 to 2015-2016. For this purpose the sample data is taken form ten years audited report.

Statistical Tools Used

Different statistical tools and techniques have been used to evaluate the data.

The data collected from various sources were analyzed by ratio analysis, correlation analysis and trend analysis the tools are:
- Ratio analysis
- Trend analysis
- Correlation analysis
- Comparative financial statement

1.6 Limitations of the Study
- This study is for one particular company, inter firm comparison rendered impossible
- The data which is collected for the present study is entirely secondary in nature and in the case of study carries all limitations inherent with the secondary data.
- The reliability of analysis depends upon the accuracy of the data provided in financial report.
- As the company may have trade secrets and busy schedule of senior official‟s, limits the detailed information regarding the working pattern of the company.
- Figures taken for the study are approximate, which provides different answers.

2. Review of Literature
Praranta Paul, (2011) reported that" Financial performance evaluation"- A comparative study on some selected NBFCs. In this study, fire listed NBFCs have been considered for analyzing comparative financial performance. Different statistical tools like, arithmetic mean, standard deviation, coefficient of variance, correlation and analysis of variance have been used extensively. Arithmetic mean is an idea measure of central tendency, which is significantly defined, easy to calculate, based on all observation and affected least by fluctuation of sampling, has been applied in this study. It has been was to get a stable average and it is easy to understand the results of the study.

Amalendu Bhnuia, (2010), the author has undertaken a study "analysis of financial performance of pharmaceutical companies" his study mainly aims how management of finance plays a crucial role in the growth. His present study covers two public sector drugs and pharmaceutical enter prices listed on BSE. The study has been undertaken in terms of liquidity, solvency, profitability and financial efficiency, various accounting ratio have been used statistical measures namely linear multiple regression analysis and test of hypothesis has been used.

3. Profile of the Company
3.1 Industry Profile
World demand to rise 5.4% annually through 2015

Global demand for industrial valves is forecast to increase 5.4 % per year through2015 to S9-l billion. Gains will be driven by continuing robust gains in the Asia-Pacific region as well as -strong recovery in the US and West European markets from weak 2010 bases. The advanced nations of North America, Western Europe and the Asia ‟Pacific region (i.e., Australia, Japan, New Zealand, Singapore and South Korea) comprise mature markets for valves. Growth in valve demand in these markets will in almost all cases lag the world average through 2015. Growth will be much stronger in rapidly developing nations such as India and China. Advances in valve demand in these areas will be driven by healthy economic and fixed investment growth. Rising per capita incomes and urbanization in developing countries will result in a boost for all key valve markets, especially water and energy use.

3.2 Company Profile
SchuF Fetterolf is an international industrial valve company whose expertise is the design and manufacture of process critical valves.The company has design and manufacturing centers in Germany, the United States, the United Kingdom, Ireland, Brazil and India. SchuF has delivered over one million valves during its 100 year history -to a wide variety of industries in over 50 countries worldwide. The ability of our engineers to adapt the SchuF valve to almost any critical or severe process is well established in the Chemical, Refining, Pharmaceutical, Plastics and Polymer, Mining, Aluminium and Power industries.

4. Analysis and Interpretation
4.1 Introduction
Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “relationship between two or more variables”. In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of the firm. The absolute accounting figures reported in the financial statement do not provide a meaningful understanding of the performance

and financial position of the firm. The relationship between two accounting figures expressed mathematically is known as a financial ratio. The ratio reveals the company‟s ability to meet its current obligations. It measures the company‟s liquidity position and vice-versa. The ratio indicates the quantitative relationship, which can be in turn, used to make a qualitative judgment.

Liquidity Analysis

The short-term creditors of a company like suppliers of goods of credit and commercial s providing short-term loans, arc primarily interested in knowing the company's ability to meet its current or short-term obligations as and when these become due. At the short-term obligations of a firm can be met only when there are sufficient liquid assets. Two types of ratios can be calculated for measuring short-term financial position or short-term solvency of a firm.

a. Liquidity Ratios
b. Current Assets Movement or Activity Ratios.

a) Liquidity Ratio

This refers to the ability of a concern to meet its current obligations as and when these become due. The short- term obligations are met by realizing amounts from current, floating or circulating assets. The current assets should cither be liquid or near liquidity. These should be convertible into cash for paying obligations of short-term nature. The sufficiency or insufficiency of current assets should be assessed by comparing them with short-term (current) liabilities. To measure the liquidity of a firm, the following ratios can be calculated:

1. Current Ratio
2. Quick Ratio or Liquid Ratio
3. Absolute Liquid Ratio

4.2.1 Current Ratio

Current ratio also called as working capital ratio, is the most widely used of all financial devices based on the Balance Sheet. It matches the total current assets to its total current liabilities. A ratio of 2:1 is normally regarded as a standard norm in ensuring adequate liquidity for the business. Current Ratio is calculated with the following formula:-

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

Table 1: Current Ratio (Rs. in crores)

Year	Current Asset	Current Liabilities	Ratio
2006-2007	131.09	27.49	4.77
2007-2008	163.31	43.81	3.73
2008-2009	230.75	54.8	4.21
2009-2010	239.71	80.48	2.98
2010-2011	273.61	72.67	3.77
2011-2012	363.24	128.03	2.84
2012-2013	318.93	93.09	3.43
2013-2014	326.77	115.71	2.82
2014-2015	431.71	163.89	2.63
2015-2016	606.65	175.86	3.45

Source: Secondary Data

Interpretation

The average current ratio during the study period is 3.45 which is above the standard norms of 2:1, so the company has to improve its current ratio by increasing its current assets. The maximum current ratio in the year of 2006- 2007 is 4.77 and the minimum ratio in the year of 2014-2015 is 2.63. Therefore, there is a fluctuating trend in current ratio, so that the company can meet current liabilities with the available current assets.

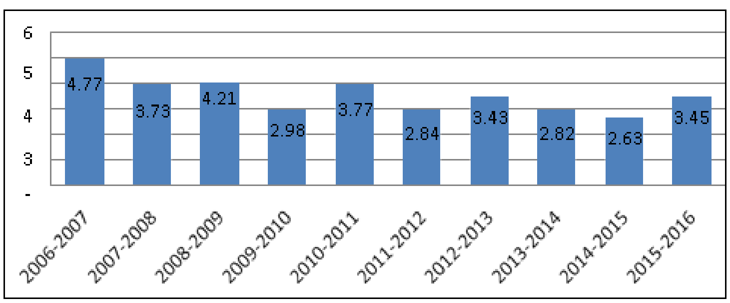

Fig 1: Current Ratio

Table 2: Correlation between Sales and Net Profit (Rs. in crores)

Year	Sales (X)	x = X - Mean	x2	Net Profit (Y)	y = Y - Mean	y2	xy
2006-2007	194.83	-265.22	70341.65	13.15	-23.96	574.08	6354.67
2007-2008	218.83	-241.22	58187.09	14.95	-22.16	491.07	5345.44
2008-2009	283.98	-176.07	31000.64	17.98	-19.13	365.96	3368.22
2009-2010	407.5	-52.55	2761.50	21.11	-16	256.00	840.80
2010-2011	360.4	-99.65	9930.12	13.11	-24	576.00	2391.60
2011-2012	488.42	28.37	804.86	34.41	-2.7	7.29	-76.60
2012-2013	503.13	43.08	1855.89	44.63	7.52	56.55	323.96
2013-2014	646.98	186.93	34942.82	78.21	41.1	1689.21	7682.82
2014-2015	817.02	356.97	127427.58	90.85	53.74	2887.99	19183.57
2015-2016	679.45	219.4	48136.36	42.67	5.56	30.91	1219.86
Total			385388.52			6935.06	46634.34

$$r = \frac{\sum XY}{\sqrt{\sum X^2 \times \sum Y^2}}$$

$$= \frac{46634.34}{\sqrt{385388.52 \times 6935.06}}$$

$$r = 0.90$$

Hypothesis test of significance

Hypothesis: There is no relationship between sales and net profit.

$$t = r \frac{\sqrt{n-2}}{1-r^2}$$

$$= 0.90 \frac{\sqrt{8}}{0.19}$$

$$= 0.90 \times 14.89$$

$$t = 13.40$$

The correlation between sales and net profit the value of „r‟ (0.90) is highly positive and also the calculated value of t (13.40) is more than the table values of t (2.447) at 5% level of significance hence the hypothesis is rejected and there exists a relationship between sales and net profit.

5. Findings and conclusion findings

Liquidity analysis

1. The current ratio is not up to the standard norms.
2. Liquid ratio is stable and is up to the standard norms hence the company is having sufficient amount of liquid assets to pay off its current liabilities.
3. Absolute liquid ratio of the company is not exactly meet standard norms and Schuf Speciality Valves India Pvt Ltd should maintain Valve products position.

Conclusion

The present study entitled "The financial performance analysis of Schuf Specialty Valves India Pvt Ltd" was undertaken with the main objective of analyzing the financial position of the company. The study enables to arrive at certain conclusion regarding the financial strength of Schuf Specialty Valves India Pvt Ltd. It reveals that the short term solvency of the company is commendable, but at the same time, it has to increase its cash position to improve its absolute liquidity. The use of long-term debt could be increased, to increase the return on the shareholder investment and by reducing outsider‟s funds. The company by framing better debt collection policy it could speed up the collections from debtors. Hence, the funds could be utilized to the extent possible, resulting maximum profitability. The study made on the efficiency position of the company is satisfactory. The trend analysis shows the favorable position of the company in the future sales and profits.

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