Chapter III
Financial Analysis of the Company

3.1 Introduction

Planning is the key to the finance manager's success. Financial plans may take many forms; a good plan must be related to the firm's existing strengths and weaknesses. The strengths must be understood if they are to be used to proper advantage, and the weaknesses must be recognized if corrective action is to be taken. It helps to answer the questions such as, Are inventories adequate to support the projected volume of sales? Does the firm have too heavy investment in account receivables? What is the efficiency of collection policy? The financial manager can plan his future financial requirements in accordance with the forecasting and budgeting procedures developed in succeeding chapters but his plan must begin with the type of financial analysis developed.

Every company records its every day transactions according to some system of accounting. It is useful to know the result of these transactions over a period of time. Such results are to be presented to the interested parties in same suitable form.

The purpose of evaluating such financial statements is different from person to person depending upon his relationship, for example, business itself, shareholders, debentureholders etc. Financial Statement analysis is the part of the larger information processing system which is helpful in decision making.

3.2 Meaning of Financial Analysis

According to Anthony - "Ratio is one number expressed in terms of another"

According to John Myer - "Financial statement analysis is (largely) a study of relationship among the various financial factors in a business as disclosed by a single set of statement and a study of the trend of these factors as shown in a series of statement"

According To Metcatt R.W. and Titard P.L. - "Analyzing financial statement is a process of evaluating relationship between component parts of financial statement to obtain a better understanding of firm's position and performance"

Some of the possible uses of accounting ratios are summarized as below

1. Past ratios are useful for forecasting future events.
2. Ratios are depending on integral accounting information and budgetary control.
3. Ratio can play a vital role in getting information about what happened from one period to another.
4. Ratios may be used as measures of efficiency as well as for comparing changes with other business unit or inter- firm unit.

3.3 Procedure

Basically there are three steps involved in the analysis of financial statement. These are follows

1) Selection

2) Classification

3) Interpretation

The first step involves information (data) which is used for analysis. The second step is the methodical classification of the data and the third step is finding out conclusions.

3.4 Nature and Characteristics of Ratio analysis

From various financial techniques ratio analysis is a powerful tool of financial analysis. A ratio is used as a yardstick for examining the financial position of any company. Ratios also provide information of financial data and draw proper conclusions regarding firm's financial performance. One can calculate a number of ratios from the information given in the financial statements but the decision as to exactly which ratio is to be calculated, depends on the object of analysis, intention of the analyst for which he wants to analyze and interpret the data.

Financial statements reflect a combination of recorded facts, accounting-conventions.

1) Recorded Facts

The monetary business transactions are recorded in the subsidiary books and posted to ledger accounts. Then the financial statements are prepared. The non-monetary transactions are not recorded.

2) Accounting Conventions

There are three main accounting conventions are viz Materiality, Consistency and Conservatism.

According to the 'Materiality' convention only records are only facts in the books of accounts and there is no necessity to record every minute detail. A convention implies that anticipated losses but anticipated profits are not to be taken into account. On the basis of this convention closing stock value calculated on the basis of 'cost' or 'market price' whichever is lower.

While preparing the financial statement, accountant follows the accounting conventions and concept.

3) Personal Judgment

Financial statement prepared from the recorded facts. There is scope for personal judgments of the accountant in application of convention and assumptions.

The degree of accuracy of profit or loss shown by the profit and loss account and that of financial position shown by the balancesheet depends upon the degree of accuracy in the personal judgments.

3.5 Demand for Financial Statement Information

Everyone interested to know about the financial position of the firm. Who needs financial information for analysis? It depends on what information do they need and for what purpose. It includes investors, creditors, lenders, suppliers, managers, employees, customers, government and other regulatory bodies etc. So, the financial statement analysis which aims at measuring the performance of the firm is mainly prepared for: (a) the outsiders, i.e. for external use (b) the management, i.e. for internal use. The focus of attention is different for different parties.

Table3.1

Target Audience for Financial Statement Analysis

Interested Parities	Purpose for which information is Required	Type of information Required
Shareholders and potential investors	For investment decision and earning per share of company.	Risk-return, dividend yield. liquidity and so on. The shareholders want to predict the timing, amounts and uncertainties of future cash flows of the firm.
Suppliers and Lenders	To get back their money in time.	Short term and long term liquidity and profitability.
Customers	Customers have interest in monitoring the financial viability of firms with which they have long-term relationship e.g. guarantees, warrantees, deferred benefits etc.	Profitability, liquidity, efficiency with which resources are put to use.
Employees	Employees have interest in getting information about profit information of firm and the type of benefit company gives them like pension, bonus, incentives etc.	Production , profit liquidity, solvency, and stability
Management	Management needs financial statements for taking investment, dividend operating decision and also know earning per share and cash flow capacity.	Information for capital structure planning, investment decision, dividend decision, etc.

3.6 Functions of Financial Statements

George O. May points out the following functions of financial statements

1) As a report of stewardship.
2) As a basis of fiscal policies.
3) As a basis of granting credit.
4) As a guide to the value of investments already made.
5) To determine the legality of dividends.
6) As a guide to wise dividend action.
7) As an information to prospective investors.
8) As a basis for price or rate regulation to prospective investors.
9) As an aid to Government.
10) As a basis of taxation.

3.7 Techniques of Financial analysis

There are three groups concerned with a firm's financial condition.

a) Creditors.
b) Investors and
c) Financial Management.

The following are more commonly used techniques of the financial statement analysis

1) Ratio analysis.
2) Fund flow analysis.
3) Common-size statement analysis.
4) Comparative statement analysis.
5) Trend analysis.
6) Other Techniques of analysis
    - Cash flow analysis.
    - Break- even analysis.
    - Statistical techniques.
    - Moving average.
    - Index numbers.

- Range.
- Standard deviation.
- Co-relation.
- Regression.
- Diagrammatic and graphic presentation

3.8 Advantages of ratio analysis

Following are the advantages of the ratio analysis

1) Ratio analysis is a useful tool in the hands of analyst. It provides crucial information about financial condition of business.
2) Liquidity ratio helps to predict present and future liquidity position of the company.
3) Ratio analysis provides data for the inter-firm or intra-firm comparison. Inter-firm comparison is simplified only net profit percentage is compared to evaluate the performance of two firms.
4) The ratio analysis is valuable for the management to discharge its basic function of forecasting, planning, co-ordination, communication and control properly.
5) Ratios show overall profitability and operating efficiency of a firm

3.9 Limitations of ratio analysis

1) Single ratio does not provide complete picture of company's financial position. To get a complete picture of the financial health of a company a number of ratios are required to be a computed and studied together.
2) Reliability of ratios depends upon the reliability of data.
3) For comparing ratios of the two firms, it must be seen that both of them follow the same accounting plans.
4) It is difficult for comparison, if there is change in price over a period of years.
5) It is necessary to study complete financial statements. Sometimes ratios give misleading picture. Therefore, it must be proper to study absolute figures along with ratios.

It has rightly been observed, “The ratio analysis is an aid to management in taking decisions, but as a mechanical substitute for thinking and judgment it is worse than unless”.

3.10 Types of Ratios

Classification of ratios is done in two ways

A) According to nature of items

1) Balance sheet ratios

The ratios exhibiting the relationship between two items or groups of items in the balance sheet e.g. relationship between current assets and current liabilities.

2) Revenue statement or profit and loss a/c Ratios

The ratios disclosing the relationship between two items or a group of items in the profit and loss account e.g. relationship between sales and gross profit or net profit.

3) Inter statement or composite Ratios

The ratios indicating the relationship of certain items in the balance-sheet with some figures in the revenue statement i.e. net profit and capital or sales and fixed assets etc.

B) Financial Classification of ratios

• Profitability Ratios.	Liquidity Ratios.
• Activity Ratios.	Leverage Ratios.

A) Profitability Ratios

The profitability of any business is very essential to achieve efficiency. Thus, the management of any business organization strives to measure the operating efficiency of that organization to ensure optimum profitability on its investment. The profitability ratios are designed to measure the profitability of any organization. In other words, these ratios indicate the unit's efficiency of operation. Profitability ratios can be divided into two categories i.e. showing profitability either in relation to sales or in relation to investments.

I) Gross Profit Ratio

This ratio indicates the efficiency of production as well as pricing policy. Gross profit is the difference between net sales of the firm and cost of goods sold. The gross profit ratio shows the relationship between gross profit and sales. Gross profit should be sufficient to meet the administrative cost make provision for sufficient depreciation, and leave surplus to the shareholders.

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

Purpose

Gross Profit Ratio reveals the efficiency of the Production /trading operation of a company.

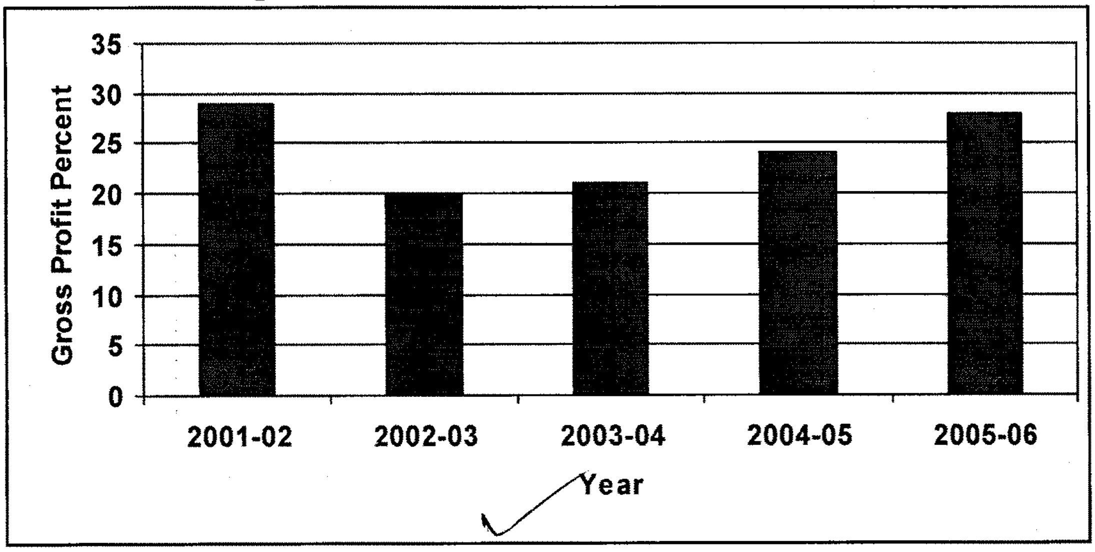
Table 3.2 Gross profit Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. in lakhs)

Year	Gross Profit	Sales	Gross Profit Ratio(In Percent)
2001-2002	28.51	98.85	29
2002-2003	22.88	114.42	20
2003-2004	24.32	116.04	21
2004-2005	28.25	119.87	24
2005-2006	37.24	133.25	28

Source : Company records.

Graphical Presentation of Gross Profit Ratio



Interpretation

The gross profit ratio shows the efficiency of the trading function of a firm. The gross profit is calculated by deducting cost of good sold from the net sales. Higher gross profit ratio indicates better results. There is no standard norm for gross profit ratio and it may vary from business to business but the gross profit should be adequate to cover the operating (administrative and office expenses) expenses, selling and distribution expenses and to provide for fixed charges and dividends. A low gross profit ratio, generally, indicates high cost of goods sold due to unfavorable purchasing policies, lesser sales, lower selling prices etc.

In 2001-2002 Gross profit ratio was 29 percent it reduced in the next two years but started again increasing. It moved to 24 percent and in 2004-05 and further to 28 percent in 2005-06.

Reasons for Higher/ Lower Gross Profit Ratio

Reason of Higher G.P. Ratio	**Reason of Lower G.P. Ratio**
• Decrease in cost	• Increase in costs without increasing selling price
• Increase in Selling Price	• Some of stocks omitted from inventory
• Some purchases omitted in accounts	• Over valuation of opening stock
• Inflated value of sales	• Under valuation of closing stock
• Over valuation of closing stock	• Misappropriation of stock
• Under valuation of opening stock	• Purchase of items not used for trading

II) Net Profit Ratio

Net Profit ratio shows the overall profitability of the company. It establishes a relationship between net profit and net sales. It is calculated by using the following equation.

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

Purpose

It reveals the net margin on sales.

Sales are the most important element of net profit or, in other words, the primary factor of profits is sales volume. So the ratio of net profit to net sales is of significance rather than the quantum of net profit. A consistently high ratio will indicate the effective and efficient operation of the firm.

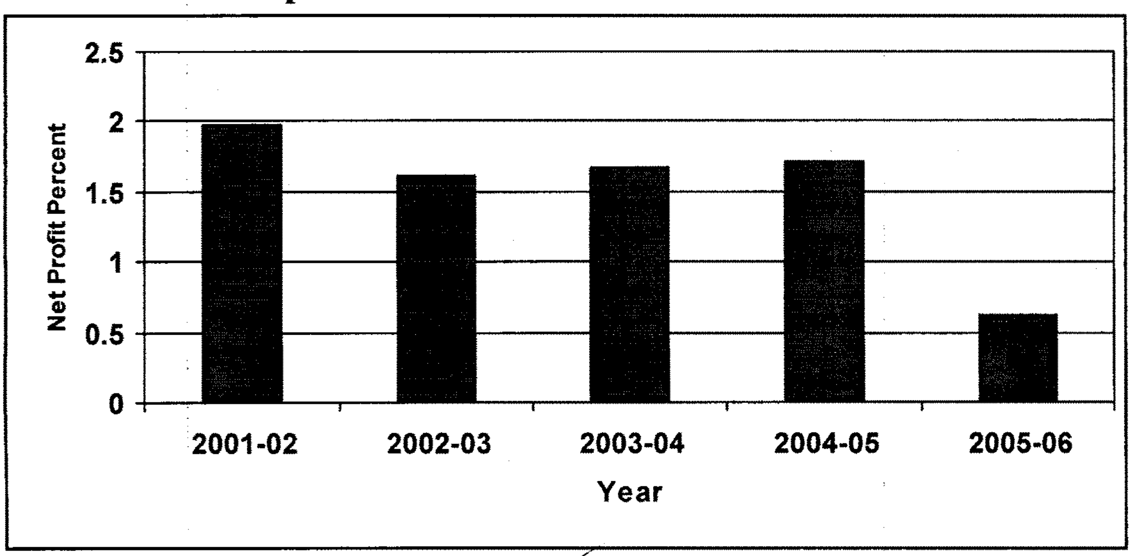
Table 3.3 Net profit Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. in lakhs)

Year	Net Profit	Sales	Net Profit Ratio (In Percent)
2001-2002	1.95	98.85	1.97
2002-2003	1.84	114.42	1.61
2003-2004	1.94	116.04	1.67
2004-2005	2.05	119.87	1.71
2005-2006	0.84	133.25	0.63

Source : Company records.

Graphical Presentation of Net Profit Ratio



Interpretation

The net profit ratio was from below 2 percent in the first four years of the study, it declined farther to 0.63 percent in the year 2005-06. The reason of low net profit ratio was told to be increasing administrative and marketing expenses and the inability to increase the price of chappels due to cut- throat competition in the market

Net profit ratio has created serious concern and the company needs to adopt suitable measures to reduce the cost and increase the profit.

B) Liquidity Ratios

Liquidity ratio measures the ability of the firm to meet its short term (generally one year) obligations and reveals the short term financial strength or weakness of the firm. The purpose of liquidity ratio is to find answers to the following questions.

1) Is the firm capable of satisfying its short term obligation?
2) Is working capital being properly utilized?
3) Is the current financial position of the firm improving?

Liquidity is the very basis of survival of any firm and the short-term creditors are more interested in liquidity of the firm. However, Liquidity by its very name implies funds which are lying idle or are earning very little income. Therefore, liquidity and profitability are two contradictory situations and proper balance between the two has to be maintained in the overall interest of the firm. Following are the two basic indicators of liquidity.

1) Current Ratio 2) Acid Test / Quick Ratio

I) Current Ratio

The current or 2 to 1 ratio shows the relationship between total current assets and total current liabilities; i.e. cash or assets expected to be converted into cash within a year (current assets) and those expected to be paid off within the same period (current liabilities).

The current ratio is calculated by using the following formula.

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

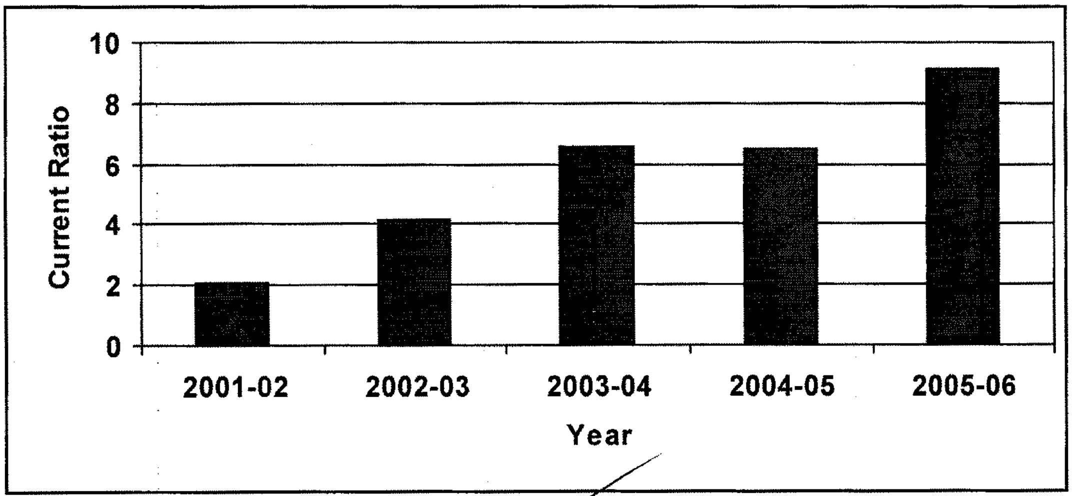
Table 3.4 Current Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. In lakhs)

Year	Current Assets	Current Liabilities	Current Ratio
2001-2002	19.23	9.23	2.1: 1
2002-2003	23.54	5.10	4.2: 1
2003-2004	26.61	4.02	6.6: 1
2004-2005	30.98	4.78	6.5: 1
2005-2006	35.41	4.04	8.8: 1

Source : Company records.

Graphical Presentation of Current Ratio



Interpretation

The standard current ratio is 2.1. It means that the current assets should be two times than current liabilities. A higher ratio is preferred as it reflects the short term solvency. In 2001-2002 current ratio was 2.1 quite satisfactory was 4.2 in 2002-03.It went on increasing further in subsequent year and reached to 8.8 in 2005-06. No doubt, the higher ratio is on indication of solvency of the firm but the actual ratio in this firm was at unwarranted high level which means excessive investment in current assets.

II) Acid Test Ratio

The quick or liquid ratio shows the ability of a business to meet its immediate commitments. This ratio is also known as the 'Acid test Ratio'. It is calculated by using the following formula.

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

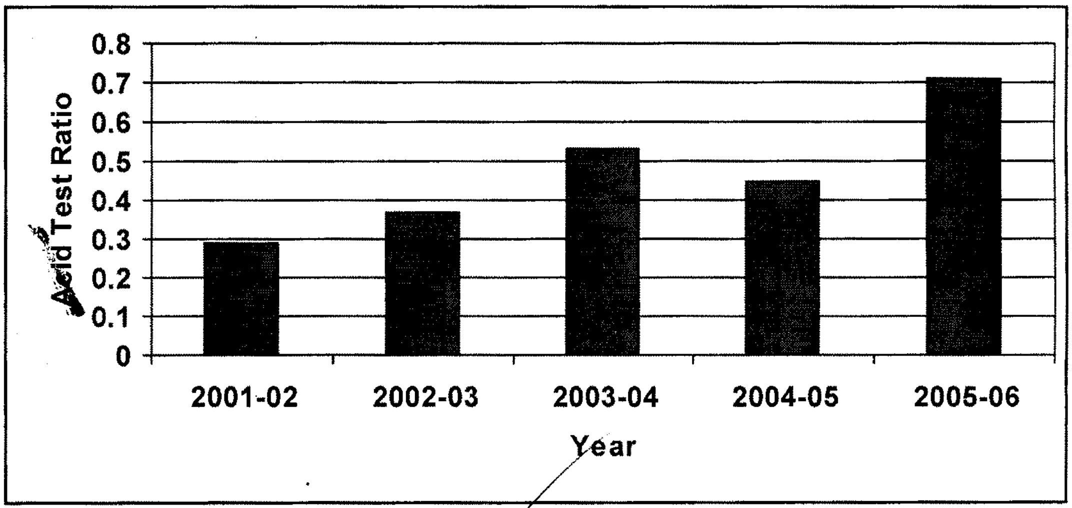
Table 3.5 Acid Test Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. In lakhs)

Year	Liquid Assets	Current liabilities	Acid Test Ratio
2001-2002	2.66	9.23	0.29 : 1
2002-2003	1.89	5.10	0.37 : 1
2003-2004	2.14	4.03	0.53 : 1
2004-2005	2.15	4.78	0.45 : 1
2005-2006	2.86	4.04	0.71 :1

Source : Company records.

Graphical Presentation of Acid Test Ratio



Interpretation

Generally the Liquid ratio should be at least 1:1 to consider as satisfactory. The high ratio shows the large extent of liquid assets and a low ratio may be an indication of bad liquidity position. In Abhyankar Footwear Pvt. Ltd. in the year 2001-2002 the liquid ratio was 0.29 very low ratio which that means that liquid assets were not enough to pay its current liabilities. In 2002-2003 the ratio was 0.37, in 2003-2004 it was 0.53. In 2005-2006 quick ratio increased to 0.71. It can therefore, be concluded that the firm had not adequate liquid assets to cover current liabilities.

C) Turnover Ratios

Turnover ratios, also known as activity ratios or asset- management ratio measure how efficiently the assets are employed by the firm. These ratios are based on the relationship between the level of activity, represented by sales or cost of goods sold and levels of various assets. The important turnover ratios are; fixed assets turnover ratio, total assets turnover ratio and inventory turnover ratio

I) Fixed Assets Turnover Ratio

This ratio is also called as the investment turnover ratio and is calculated by dividing the net sales of a firm by its net fixed assets. Its purpose is to measure the efficiency in using fixed assets to generate the sales. Generally, the higher the ratio, the better is the efficiency. If compared with a previous period, it indicates whether the investment in fixed assets has been judicious or not. The fixed asset to turnover ratio measures the productivity of fixed assets.

It is calculated by using the following formula.

$$\text{Fixed assets turnover Ratio} = \frac{\text{Net Sales}}{\text{Net Fixed Assets}}$$

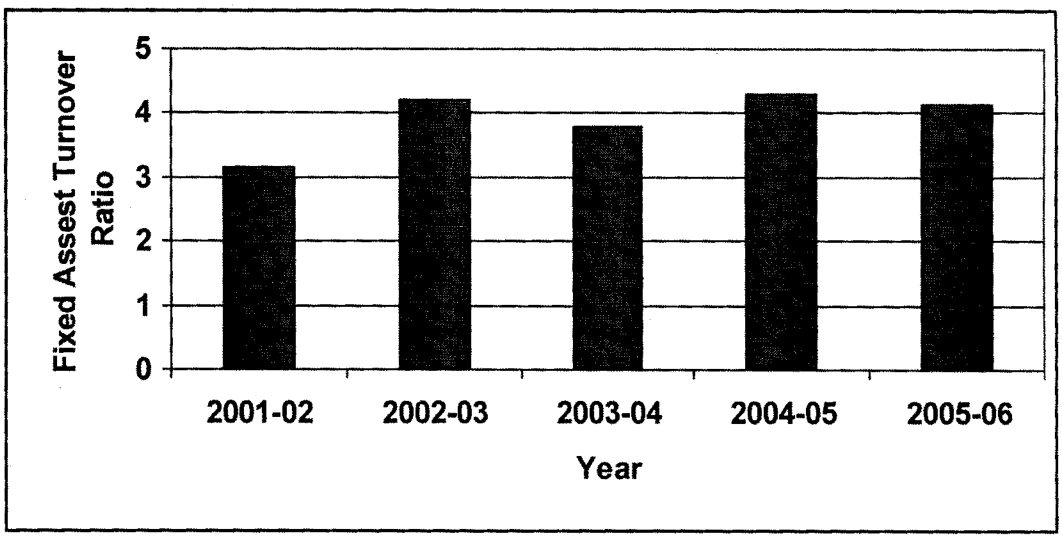
Table 3.6 Fixed Assets Turnover Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. in lakhs)

Year	Sales	Fixed Assets	Fixed Assets Turnover Ratio (In Times)
2001-2002	98.85	31.25	3
2002-2003	114.42	27.18	4
2003-2004	116.05	30.54	3
2004-2005	119.89	27.82	4
2005-2006	133.25	32.20	4

Source : Company records.

Graphical Presentation of Fixed Assets Turnover Ratio



Interpretation

A higher ratio indicates an efficient asset management. In case of Abhyankar Footwear Pvt. Ltd. the ratio was found to be between 3 to 4 times of the period of study.

II) Total Assets Turnover Ratio

This ratio is similar to fixed assets turnover ratio and is calculated by dividing sales of firm by its total assets (Fixed assets +Current assets). It measures the efficiency of using all assets to generate the sales.

$$\text{Total Asset Turnover Ratio} = \frac{\text{Sales}}{\text{Total assets}}$$

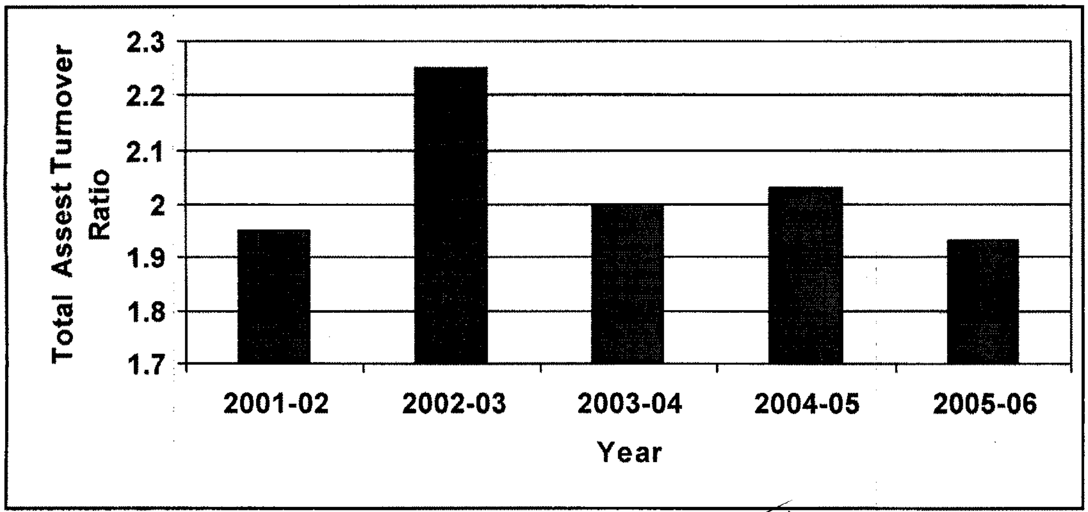
Table 3.7 Total Assets Turnover Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. in lakhs)

Year	Sales	Total Assets	Total Assets Turnover Ratio (In Times)
2001-2002	98.85.	50.4.7	2
2002-2003	114.42.	50.72.	2
2003-2004	116.0.5	57.15	2
2004-2005	119.89	58.80.	2
2005-2006	133.25	68.98	2

Source : Company records.

Graphical Presentation of Total Assets Turnover Ratio



Interpretation

The total assets to turnover ratio remained low in all the years of study. The sales generated were found to be only two times the total assets of the company.

III) Current Assets Turnover ratio

In current assets turnover ratio current assets of the company and its net sales are considered.Net sales are cash sales as well as credit sales after deducting return inwards. Current assets include cash in hand and at bank, inventories, sundry debtors, bills receivables, marketable securities, prepaid expenses and short term loans and advances. A higher current assets turnover ratio indicates the efficiency of the company to gear up maximum sales with minimum investments in the current assets.

The data for this ratio is collected from Trading, Profit and Loss A/C and Balance sheet of the company. It is calculated by using the following formula.

$$\text{Current Asset Turnover Ratio} = \frac{\text{Sales}}{\text{Current Assets}}$$

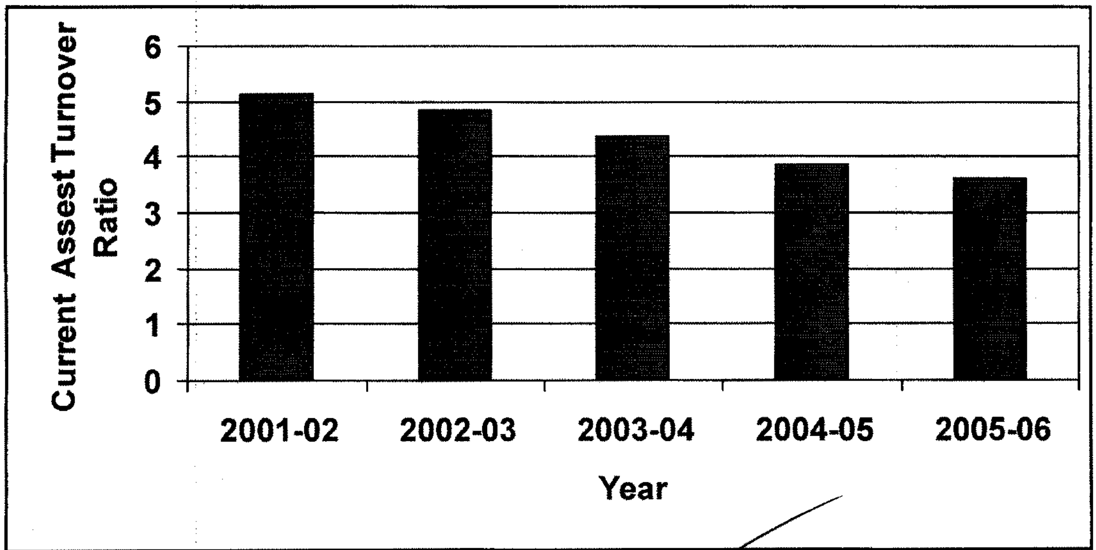
Table 3.8 Current Assets Turnover Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. in lakhs)

Year	Sales	Current Assests	Current Assets Turnover Ratio (In Times)
2001-2002	98.85.	19.23	5.14
2002-2003	114.42.	23.55	4.86
2003-2004	116.0.5	26.61	4.36
2004-2005	119.89	30.98	3.87
2005-2006	133.25	36.78	3.62

Source : Company records

Graphical Presentation of Current Assets Turnover Ratio



Interpretation

In 2001-2002 current assets turnover ratio was 5.14. A higher ratio indicates efficiency of company. From next year the ratio went on decreasing. In 2005-2006 it came down to 3.62. This shows the capacity of current assets to generate sales has reduced over the period.

IV) Working Capital Turnover Ratio

In this ratio we calculate the proportion of working capital to sales of the firm. This ratio indicates low efficiently sales have been achieved by utilizing the working capital. A high working capital turnover ratio is a better sign of efficiency regarding utilization of working capital.

The data for this ratio is collected from Trading, Profit and Loss A/C and Blancesheet of the company. It is calculated by using the following formula.

$$\text{Working Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Working Capital}}$$

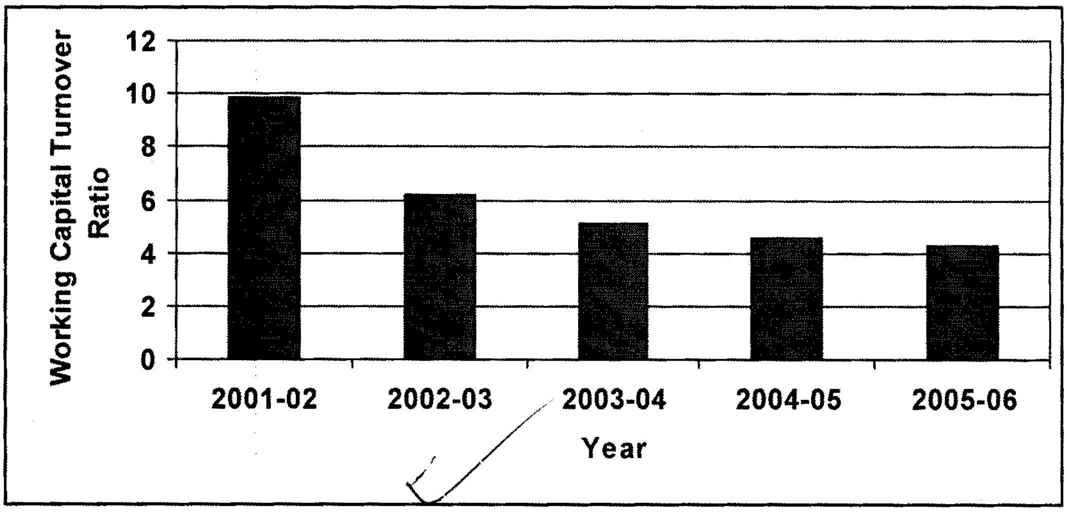
Table 3.9 Working Capital Turnover Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. in lakhs)

Year	Sales	Working Capital	Working Capital Turnover Ratio
2001-2002	98.85.	10.00	9.89
2002-2003	114.42.	18.45	6.20
2003-2004	116.0.5	22.58	5.14
2004-2005	119.89	26.20	4.58
2005-2006	133.25	32.74	4.25

Source : Company records

Graphical Presentation of Working Capital Turnover Ratio



Interpretation

In 2001-2002 the working capital turnover ratio was 9.89, a good sign of business efficiency because of a proper use of working capital. From 2002-2003 the ratio started decreasing and reduced to 4.25 in 2005-2006. This indicates that in subsequent years the working capital was not used efficiently as a result of which the sales could not increase.

D) Leverage Ratios

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

There are two aspects of the long-term solvency of a firm.

I) Ability to repay the principal when due and

II) Regular payment of the interest.

Financial leverage refers to the use of debt finance. While debt capital is a cheap source of finance it is also a riskier source of finance. Leverage ratios help in assessing the risk arising from the use of debt capital. Two types of ratios are commonly used to analyze financial leverage of a firm structured ratios and coverage ratios.

In the present study Debt Equity ratio and Interest Coverage ratio are calculated.

a) Coverage Ratio

These ratios are calculated from information available in the profit and loss account. The obligations of a firm are normally met out of the earning or operating profits. These claims consist of (i) interest on loans. (ii) Preference dividend and (iii) repayment of the installment of loan or redemption of preference capital on maturity. The soundness of a firm, from the view-point of long-term creditors, lies in its ability to service their claims. This ability is indicated by the coverage ratios measure the relationship between what is normally available from operations of the firms and the claims of the outsiders. The important coverage ratios are.

I) Debt Equity Ratio

The relationship between borrowed funds and owner's capital is a popular measure of the long-term financial solvency of a firm. This relationship is shown by the debt-equity ratio which reflects the relative claims of creditors and shareholders against the assets of the firm. Alternatively, this ratio indicates the relative proportion of debt and equity in financing the assets of a firm. There relationship between outsider's claims and owner's capital can be shown in different ways and accordingly, there are many variation of the debt-equity ratio.

In the present context the Debt equity ratio is calculated by dividing the long-debt by shareholder equity.

$$\text{Debt-Equity Ratio} = \frac{\text{Long term Debt}}{\text{Shareholders equity}}$$

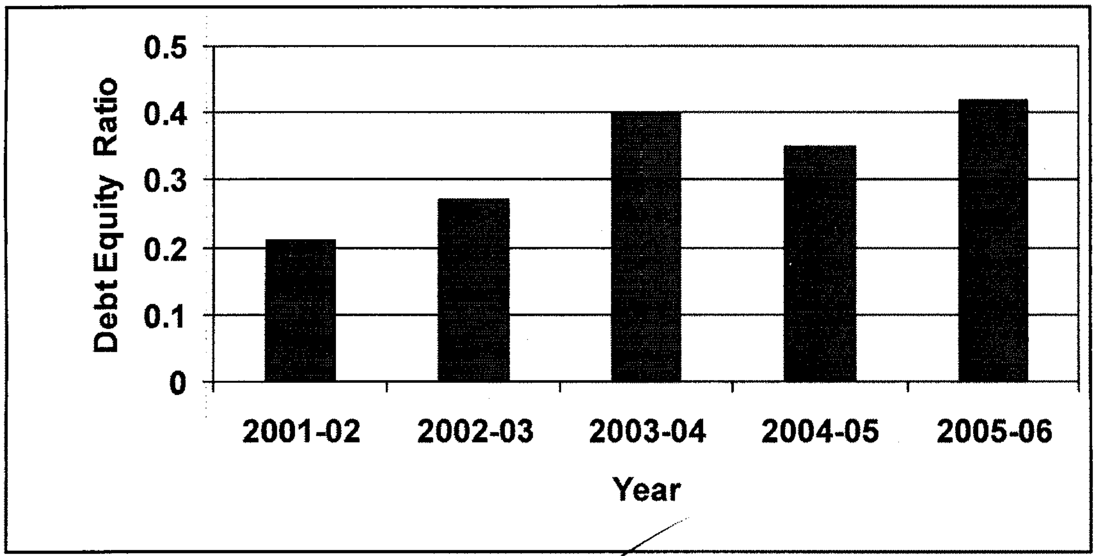
Table 3.10 Debt Equity Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. in lakhs)

Year	Long-Term Debt	Shareholders equity	Debt Equity Ratio
2001-2002	7.31.	34.12	0.21
2002-2003	9.80.	35.95	0.27
2003-2004	15.30	37.89	0.40
2004-2005	14.08	39.94	0.35
2005-2006	17.16	40.40	0.42

Source : Company records

Graphical Presentation of Debt Equity Ratio



Interpretation

It standard of debt equity ratio depends upon the financial policy of the firm and its firm's nature of business. A ratio of 1:1 may be, usually, considered to be a satisfactory ratio although there cannot be any types of businesses. In Abhyankar Footwear Pvt. Ltd. Debt equity ratio was found to be very low in all years of the study. It was less than 0.5 percent. This shows the Company had not used low-cost outsider's funds to magnify it earnings.

II) Interest coverage Ratio

This ratio measures the debt servicing capacity of a firm in so far as fixed interest on long-term loan is concerned. It is determined by dividing the operating profits or earning before interest and taxes (EBIT) by the fixed interest charge on loans.

$$\text{Interest Coverage Ratio} = \frac{\text{Earning before interest and tax}}{\text{Interest on loan}}$$

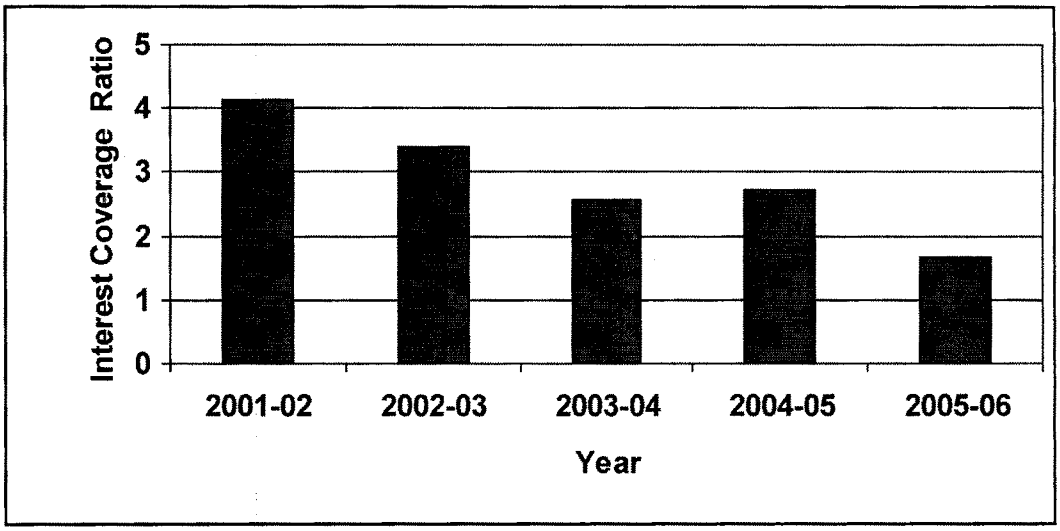
Table 3.11 Interest Coverage Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. in lakhs)

Year	EBIT	Interest	Interest Coverage Ratio
2001-2002	4.29	1.04	4.13
2002-2003	3.99	1.18	3.39
2003-2004	4.71	1.84	2.57
2004-2005	5.27	1.93	2.73
2005-2006	4.49	2.69	1.67

Source : Company records

Graphical Presentation of Interest Coverage Ratio



Interpretation

Interest coverage ratio in Abhyankar Footwear Pvt. Ltd. went on reducing from 4.13 in 2001-2002 to 1.67 in 2005-2006. This speaks of reduction in the ability of the company to service the long term loan. This has further affected the profit after tax.

E) Expenses Ratio or Operating Ratio

It is a reciprocal of the profit margin ratios and is computed by dividing "Expenses" by "sales". The term "Expenses" include all operating expenses but does not include the financial charges such as interest and taxes and the extra ordinary losses. This ratio is very important in analyzing the profitability of any firm and for inter firm comparison. There are many types of this ratio and some of them are

I) Administrative Expenses Ratio

The administrative expense ratio is computed by dividing by total administrative expense by net sales.

$$\text{Administrative Expenses Ratio} = \frac{\text{Administrative Expense}}{\text{Net Sales}} \text{ X } 100$$

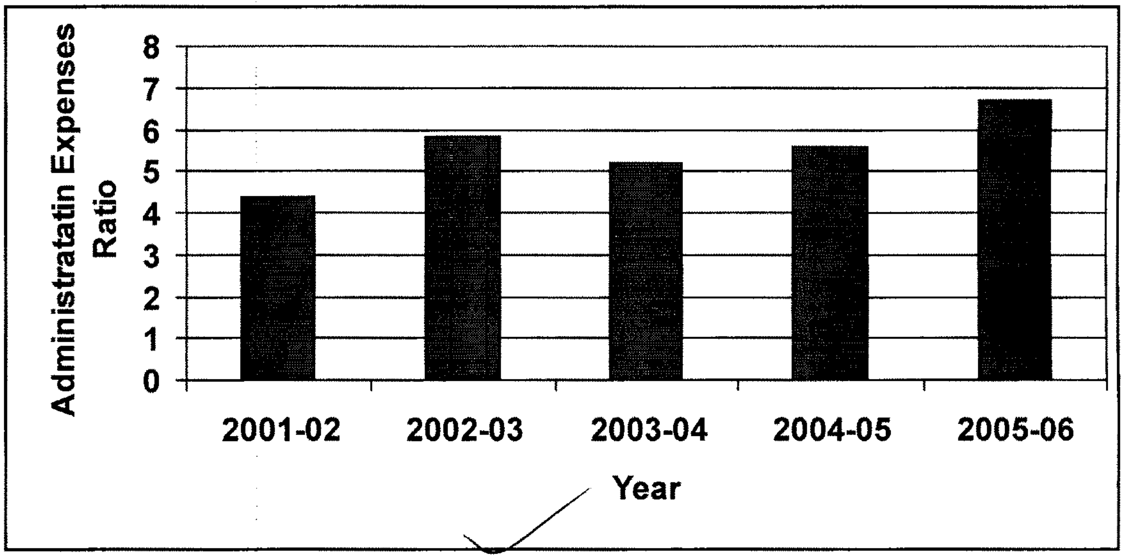
Table 3.12 Administrative Expenses Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. in lakhs)

Year	Administration Expenses	Net Sales	Administration Expenses Ratio (In Percent)
2001-2002	4.32	98.85.	4.37
2002-2003	6.67	114.42.	5.83
2003-2004	6.05	116.0.5	5.21
2004-2005	6.67	119.89	5.57
2005-2006	8.92	133.25	6.70

Source : Company records

Graphical Presentation of Administrative Expenses Ratio



Interpretation

The administration expenses ratio increased from 4.37 percent in 2001-2002 to 6.70 percent in 2005-2006. This indicates the high burden of administration expenses year after year. The high administration expenses ratio has adversely affected the profitability of the company.

II) Selling Expenses Ratio

Selling expenses ratio is computed by dividing the total selling expenses by net sales.

$$\text{Selling Expenses Ratio} = \frac{\text{Selling Expenses}}{\text{Net Sales}} \times 100$$

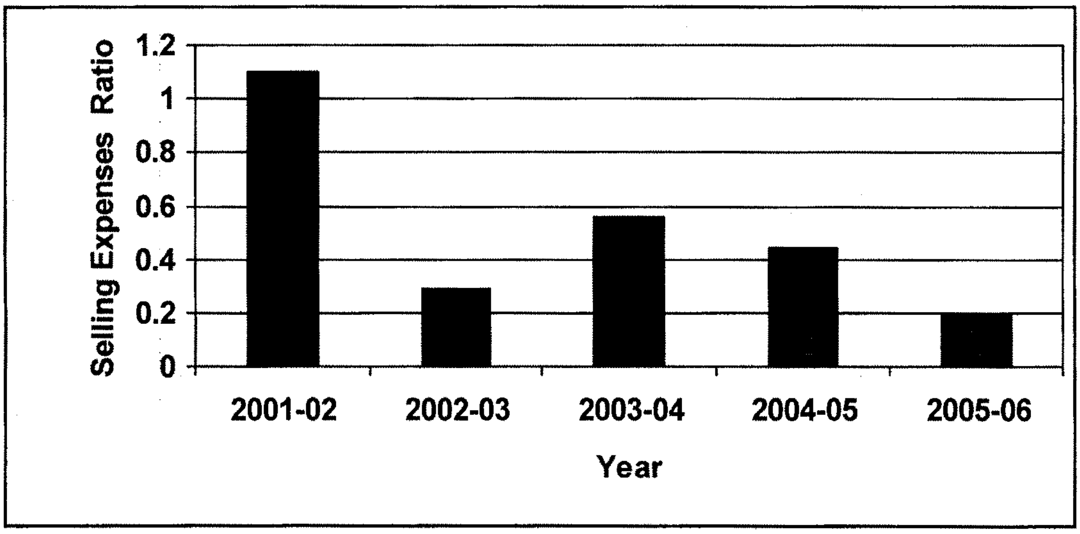
Table 3.13 Selling Expenses Ratio in Abhyankar Footwear Pvt. Ltd.

(fig. in lakhs)

Year	Selling Expenses	Net Sales	Selling Expenses Ratio (In Percent)
2001-2002	1.09	98.85.	1.10
2002-2003	0.33	114.42.	0.29
2003-2004	0.65	116.05	0.56
2004-2005	0.53	119.89	0.44
2005-2006	0.25	133.25	0.19

Source : Company records

Graphical Presentation of Selling Expenses Ratio



Interpretation

The selling expenses ratio in Abhyankar Footwear Pvt. Ltd. reduced from 1.10 percent in 2001-2002 to 0.19 percent in 2005-2006. This indicates that sales expenses were kept under control by the company. This has created a favorable effect on the profitability of the Company.