CHAPTER ONE

INTRODUCTION

1.1 General Background:

Nepal is an independent country. It lies between two powerful countries, India and China. It is landlocked country situated in South Asia occupying 1, 47,181sq.km. It is located between 26◌ 22' to 30 ◌27'north latitude and 80◌ 4' to 88◌ 12' east latitude. Its average length is 885Km. east to west and average breath is about 193 Km. north to south. Naturally filled with amazing mountains and fall, it is really a country of natural beauty. The country is situated in the lap of Himalayas where the geographical variation is from 90M. to 8,848M. altitude.

It is a developing country in the world. Most of people of the country (over 85%) live in the rural areas. The high percentage of people is poor and uneducated.

The great challenge for the nation is to eliminate massive poverty existing in the country through gradual development of the industrial sector which helps to provide basic needs to the people. Several programs can only be result oriented when the country will follow the path of industrialization.

In Nepal, industrialization is an important perquisite for economic development which will transfer the traditional and agrarian economy to modern one.

The development in agriculture sector alone is not sufficient in Nepal. It is essential to develop industrial sector too. Industrialization in a poverty stricken country like Nepal is an effective means of achieving economic development. Nepal is in infancy period of industrialization. The developing countries are well informed about the need and importance of the industrialization.

1.2 Evolution of Industries in Nepal

In ancient time, Handicraft & Cottage Industries played significant role. During Lichhibi period industries like weaving, mining, handicraft, metalidols, food products were encouraged. Prithvi Narayan Shah has made policy to protect cottage industries by discouraging imports. At that time, Nepal becomes self dependent in textiles. The development of modern industries was started after 1935 A.D. In 1935 an industrial board named "Udhyog Parishad" was formed with a view to produce goods under medium & large industry. The first company Act. was promulgated in 1936 A.D. & in the same year Biratnagar

Jute mill, the first joint stock company was established in Biratnagar. To provide financial assistance to industries& trade, Nepal Bank Ltd. was established in 1994 B.S.

During ten year (1936-1946 A.D.) altogether 63 industries like established Morang Sugar Mills, Raghupati Jute Mills, Judha Match Factory, Nepal Plywood & Babbin Company were established beside Paper, Soap, Furniture, Oil, Rice Industries were also established with a total investment of Rs. 7.20 crores. However, most of them went into liquidation due to lack of proper management.

1.3 Profile of Purbanchal Lube Oil

Purbanchal Lube Oil is a productive company. It has established in 2058 B.S. as a private company under company act 2053. It is located at the eastern parts of Nepal. It has provided the employment to 71 people. The company certified by ISO 9001:2000. Main production of the PLO is grease and Lubricants product. The main product of the company is as follow:

i. PLO Super Turbo 15W/40
ii. PLO Supper Multigrade 20W/50 Engine Oil
iii. PLO SAE-40 Engine Oil
iv. PLO Maruti Oil 20W/50
v. PLO Tractor Oil 20W/50
vi. PLO Extra Power 4 Stroke Motorcycle Oil
vii. PLO 2T Oil
viii. PLO Gear Oil GL-3EP 90/140
ix. PLO Multi Purpose Gear Oil GL-5EP 85W/90,140
x. PLO ATF DEXRON III Oil
xi. PLO PENTAN DOT-3 & GIRLING TYPE BRAKES CLUTCH FLUID
xii. PLO AP-3, GREASE
xiii. PLO MP WHITE GREASE
xiv. PLO AUTO TOUCH GREASE
xv. PLO HYDRAULIC- AW Oil

The market of PLO is all over the Nepal. It kept the aim to increase the production by 15% yearly. The slogan of PLO is "Hamro Gaurab, Hamro Pan, Hamro Swadeshi Utpadan."

1.4 Statement of the Problem

Nepal is a developing country in the world. With a limited number of the industry and service providing sector, where the industrialization and the service sector are not in full fledged development, the country economy is moving in very slow pace. Limited natural resources, landlocked position, difficult topography and poor infrastructure are only some of the handicaps with which this economy struggles. The economy of the country has not kept pace with the country's high population growth thus depending most of the people in the agriculture sector. Agriculture has been the major earning for the most of the Nepalese people for the long period in the history of Nepal. Though the agriculture has been the major profession of the Nepalese people, they were facing the problem of food shortages and malnutrition. Due to lack of enough land, modern agricultural practices, facilities of irrigation, scientific equipments, better fertilizers and improved seeds the production is not enough to fulfill the country's needs. Majority of the farmers find it hard to live with their produce more than six months. Even if some farmers do produce more, they will not benefit much due to lack of transportation and marketing facilities.

PLO industry is Lubricant product production industry. Finance is one of the most important functional of a business. It is concerned with generation, transmission, distribution and other function of any business including PLO Pvt. Ltd. The problem toward which this study is directed is to identity and analyzes the financial strength and weaknesses of PLO. Besides the study attempts to seek answers of the following questions:

- Do the financial ratio best describe the performance of the PLO?
- What types of contemporary steps are essential for performance improvement of PLO?

1.5 Objectives of the Study:

The main objective of the study is to examine and evaluate financial performance of PLO industry and to suggest recommendation based upon it. The specific objective of this study will be:

1. To analyze the financial performance of PLO and make financial analysis.
2. To compute, analyses and interpret financial ratios.
3. To identify the strength and weakness of industry.

1.6 Limitations of the Study:

In spite of the conceptualization made, analysis performed and generalization drawn regarding the financial performance, the study may have some constraints. The study will be limited by following factors.

1. This study is focused mainly on financial performance of PLO Industry.
2. This study based on certain fiscal year, but the main focus is on financial factors.
3. The study was based on primary as well as secondary data provided by the administrative and accountant of the industry.

1.7 Organization of the Study:

The research work has been designed into the following five chapters-

1. Introduction
2. Review of literature
3. Research methodology
4. Presentation and analysis of data
5. Conclusion and recommendation

The introduction chapter includes the topics such as background, statement of the problem, objective of the study, limitation of the study and organization of the study. The second chapter includes review of literature. The third chapter research methodology is completely related with the data collection activities and about how the whole research work is completed. In next Chapter Presentation and Analysis of data. At last summary or conclusion of the study is drown and on the basis of conclusion drown, some suggestion are offered to solve the existing problems, thus the whole research work will be ended.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Introduction

Review of Literature is an essential part of all studies. It is a way to discover what other research in the area of our problem have uncovered. It is a way to avoid investigating problems that have already been definitely answered. The review of literature is basically a "Stock Taking" of available literature in one's filed of research. The review of literature accomplishes the following functions:

- It is establishes a point of departure for future research.
- It avoids needless duplication of costly research efforts.
- It reveals areas of needed research.

Review of literature, studies in two parts:

- Conceptual framework
- Review of related studies

2.2 Conceptual Framework:

Financial analysis is concerned with analyzing the financial statement of an enterprise and real picture of financial performance mainly depends upon firms past, present and anticipated future condition. A financial analysis enables us to evaluate and depict the condition of firm's financial position. The analysis of financial statement as a process of evaluating relationship between component parts of financial statement is to obtain a better understanding of a firm's position and performance.

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm, or by parties outside the firm *viz.* owners, creditors, investors and others. (Pandey, I.M. 2009: 517)

To evaluate the financial condition and performance of a company, the financial analyst needs certain yardstick. The yardstick frequently used is a ratio, or index,

relating two pieces of financial data to each other. Analysis and interpretation of various ratios should give experienced, skilled analyst a better understanding of the financial condition and performance of the firm than they would obtain from analysis of the financial data alone. (Jems C Van Horme. 2009: 367-368)

Financial ratios, representing the relationship between two set of financial data, are the indicators of a firm's provide vital information in which the management, the creditor, the investors and financial analysts in general are interested. The firm's ratios are compared with the industry norm, with those of similar firms in other industry or industries or on a time-series basis. This comparison makes deviations clear and the management adopts financial measures accordingly. (Vyuptakesh Sharan. 2009: 357)

2.2.1 Financial Statement:

The financial statement contains summarized information of the firm's financial affairs, organized systematically. Preparation of the financial statements is the responsibility of the top management. These statements are the responsibility of the top management. These statements are used by investors and financial analysts to examine the firm's performance in order to make investment decisions. Financial statement disclosed financial information relating to any business concern during a financial year, which is present in the firm of income statement or profit and loss account and balance sheet usually prepared at the end of each financial year. Financial statements are prepared from accounting records maintained by the enterprises and has main objective to assist in decision-making.

Financial statements reports both on a firm's position at a point in time and on its operations over some past period. However, the real value of financial statement lies in the fact that they can used to help predict future earnings, dividends and free cash flow. From an investor's stand point, predicting the future is what financial statement analysis is all about while from management's stand point, financial statement analysis is useful both to help anticipate future condition and, more important, as a starting profit for planning actions that will improve the firm's future performance. (Eugene F. Brigham, Michael C. Ehrhardt. 2009: 399).

Financial statements not only help you to understand the past but they also provide the starting point for developing a financial plan for the future. Here is where finance and

strategy need to come together. A coherent financial plan demands an understanding of how the firm can generate superior long-term returns by its choice of industry and by the way that it positions itself within that industry. (Richard A Berealey, Steward C Myers, Franklin Allen, Pitabas Mohanty. 2007:801).

Financial statement presents an organized collection of financial data, consistence with accounting norms, form the basis of financial analysis and planning. They help convey an understanding of certain very significant aspect of firm's finance, e.g., the various inflows and outflows of cash ultimately resulting in profit (or loss) during a particular fiscal period, the financial position as on a particular data, that is, the value of the assets the firm owns and its liabilities, as also the sources and uses of the funds. Some important financial statement the will be the income statement, balance sheet, funds-flow statement and cash flow statement. (Vyuptakesh Sharan. 2009:325).

2.2.1.1 Balance Sheet:

A balance sheet is an accounting statement prepared form accounting balance at a given date. It shows the financial position of business by detaining the sources of funds and the utilization of these funds. A balance sheet shows the assets and liabilities group, properly classified and arranged in a specific manner. Balance sheet is prepared at the end of each financial year of a firm to reflect the position of assets, liabilities and capital separately in two sides. Balance sheet can be prepared in two styles, one report form and other the account form. Assets side represents current assets, fixed assets and intangible assets, similarly on the other side, current liabilities, long-term liabilities and owner's equity. This statement is prepared to see whether the liquidity position of a firm is sound or not to draw an attention towards weak area for corrective action so as to ensure financial position.

A balance sheet indicates a firm's financial position as on a particular data, usually on the last day of particular fiscal period. In particular, it shows the assets of the firm and how the assets are financed by different types of capital. The assets are displayed on one side, and the sources of the assets or the liabilities are displayed on the other. (Vyuptakesh Sharan. 2009: 330).

2.2.1.2 Income Statement:

Income statement is a summary of expenses, revenue loss and net income of industry or company for a particular period of time.

An income statement is the presentation of a firm's activities during a given fiscal period, normally one year. It shows firm's revenues and expenses along with interest and taxes and their impact on its net income. (Vyuptakesh Sharan. 2009 : 326).

In other words, it can be said that income statement is profit and loss account. Income statement shows earning capacity potential of the firm. It measures the firm's profitability, statement of income and statement loss.

A profit and loss statement also known as earning or statement of operation is a statement sharing over a specified and limited period of the life of business, the nature and amount all its income of all its operating costs and expenses.

The profit and loss account is condensed and classified record prepared for the various subsidiary nominal accounts of the gain and losses to the business of a period of time. This income statement is frequently titled as statement of income. Income statement is a summary of expenditure of a firm within a particular period of time.

Lastly, it can be said that income statement or profit and loss account shows the net income and net loss resulting from the operation of business during a specific period.

2.2.1.3 Cash Flow Statement:

Balance sheet, Income statement and statement of cash flow are three statement of final account, which are most important on financial analysis. A statement of changes in financial position on cash basis, commonly known as the cash flow statement, summaries the causes of changes in cash position between dates of two balance sheets. It indicates the sources and uses of cash. The cash flow statement is similar to the funds flow statement except that it focuses attention on cash instead of working capital. Thus, this statement analysis changes in non-current accounts as well as current account (other than cash) to determine the flow of cash.

A cash-flow statement is to a large extent similar to a funds-flow statement. The only difference is that a cash-flow statement shows the position of the cash balance in a

firm (including cash at bank), whereas the funds-flow statement indicates the changes in the working capital as whole. Cash is only a part of working capital, and so any change in the working capital does not necessarily indicate a change in the cash balance. It is possible of there to be increases in working capital, with the cash position either deteriorating or not satisfactory form the viewpoint of liquidity. . (Vyuptakesh Sharan. 2009:335).

The following are the sources of cash:

- The profitable operation of the firm.
- Decrease in assets (except of cash).
- Increase in liabilities, and
- Sale proceeds from an ordinary or performance share.

It may be conclude that cash flow operation should be arrived at by adding decrease in current assets and increases in current liability to net profit and subtraction increases in current assets and decreases in current liability form net profit.

2.3 Review of Related Studies:

2.3.1 Review of Journals/Articles

This part is mainly focused on the review of book, articles, journals published and different thesis, which is relating to this study. Various thesis works have done in financial performance of different organization is also review for the purpose of justifying the study. Different writers have some different theoretical insight into financial performance after their various research studies.

"While it is true that general economic conditions and industry practice have a strong impact on the level of receivables, a firm's investment in these of current assets is greatly affected by its internal policy". (Khan, M.Y. and Jain, P.K.1988:669).

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the

same industry or to compare industries or sectors in aggregation. (http://shodhganga.inflibnet.ac.in/bitstream/10603/705/11/12_chapter3.pdf)

Financial statements can have a predictive or prospective role. This Standard does not require the entity to disclose forward-looking information, such as forecasts or projections. However, financial statement discussion and analysis should explain significant changes and trends in an entity's financial position and financial performance. An analysis of trends includes those financial statement items that are important and significant to gaining a better understanding of an entity's financial position and performance and changes in financial position and performance over a period of time. (http://www.ifac.org/sites/default/files/publications/files/Financial%20Statement%20Discussion%20and%20Analysis_0.pdf)

Gopinathan Thachappilly (2009) he discuss about the Financial Ratio Analysis for Performance evaluation. It analysis is typically done to make sense of the massive amount of numbers presented in company financial statements. It helps evaluate the performance of a company, so that investors can decide whether to invest in that company. Here we are looking at the different ratio categories in separate articles on different aspects of performance such as profitability ratios, liquidity ratios, debt ratios, performance ratios, investment evaluation ratios. (www.google.com/Performance evaluation and ratio analysis of Pharmaceutical Company in Bangladesh/pdf)

Jo Nelgadde (2010), in this article he briefly about the asset management ratio. It divided into different types of categories. He state that about the used to analyze accounts receivable and other working capital figures to identify significant changes in the 12 company's operations and financial accounts. He said that there are two categories about this ratio such as account receivable turnover and average age of account receive. He measurement the ratio as, Accounts receivable turnover = Sales / Average Accounts receivable. Average age of accounts receivable/ collection period = 365 days / Accounts receivable Turnover. (www.google.com/Performance evaluation and ratio analysis of Pharmaceutical Company in Bangladesh/pdf)

Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goal of such analysis is to determine the efficiency and performance of firm's management, as reflected in the financial records and reports. The analyst attempts to

measure the firm's liquidity, profitability and other indicators that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value. (http://maxwellsci.com/print/crjss/v3-269-275.pdf)

2.3.2 Review of Previous Thesis

Some studies have been made in the subject of financial performance analysis of various organizations. Among these studies, this section will review some of them. Previews related studies provide the simple guideline for the present research. Various studies have been done to evaluate the financial portion of a manufacturing company. The review aims to inform about the nature and consistency of other previous research matter with this study. Some of the more relevant studies have been review there under:

Mr. Janak Raj Parajuli (2002) was done a research work on *"The financial performance of Himal Cement Co. Ltd."* The objective of this study is to evaluate the financial performance of HCCL with respect to liquidity, profitability, assets management and debt management, to examine the income and expenses position of the company and the flow of the funds and uses of these resources are also the objectives of the study. This study covers only seven year period from 2050/051 to 2056/057. The main conclusion of the study was as follows:

i) Although liquidity partition of the company has efficient during the latest year, it wasn't satisfactory in most the fiscal year.
ii) The assets turnover of the HCCL wasn't sound because of too poor capacity utilization and resulting low volume of sales.
iii) The profitability position of HCCL wasn't satisfactory. The company's management tried to increase profit during the latest fiscal year.
iv) Funds flow analysis showed that the funds mainly used is increasing fixed assets and current assets as well as fulfilling the loss.

The study suggests that the company's financial position doesn't seem to be sound is recent years. If the company is to operate and service for a long period of time, the management must try to improve its financial position for the coming years.

Mr. Tejendra Regmi (2003) was conducted a research on "*Financial performance analysis of Gorakhkali Rubber Udyog Ltd."* The objective of the study is to analyze the various years' financial statement, to compute analyses and interpret financial ratios, to offer a suggestion to improve the financial performance of GRUL, and oversee the return over the equity. This study covers five year from 2053/054 to 2058/059. The main findings of the study were as follow:

i) GRUL has not sound liquidity position. The industry has low liquid assets and the industry management did not seem to be conscious about the liquidity position.

ii) The leverage ratio of GRUL was also found to be very poor. GRUL was not being able to even to cover its operating expenses from its earning. It is suffering loss from establishment. It has to bear huge amount of interest on loan-borrowed from various institutions. The proportion of debt to equity, assets and capital were not sound.

iii) The various activity ratios of GRUL were not satisfactory either. It could not be able to utilize its assets. The only debtor turnover ratio seems to be satisfactory otherwise all other ratios like inventory, fixed assets, total assets, and current assets turnover were poor. This showed the inventory was not being managed properly.

iv) The profitability ratios of GRUL were also not satisfactory. Losses were increasing every year continuously overhead expense has increased but sales have not increase accordingly. Working capital is too low than fixed assets. The order of gross profit margin of GRUL is increasing during the study. Gross profit margin in itself does not show poor position. The average net profit margin was negative in this study. Returns on equity, return of the total assets and earnings per share were all negative: this proved that GRUL performance was not satisfactory.

Mr. Shreedhar Gautan (2004) was conducted a research work on *"Financial Performance of Nepalese listed manufacturing companies (a comparative study of Bottlers Nepal Balaju and Bottlers Nepal Tarai Ltd.)".* The main objective of the study is to make overall comparison of financial performance of both companies, to analyze the liquidity, long term solvency, assets utilization and profitability position of both company and identify the trend projection of both companies. The study

covers seven year from 1995/96 to 2001/002 A.D. The main conclusions of the study were as follows:

i) The liquidity position is not very poor of both companies. High quick ratio indicates that the both companies are holding more quick assets.
ii) The both company has follow tight credit policy.
iii) Both companies are not able to increase their net profit as per sales increase. It because of higher production, selling and administrative cost.

Mr. Debi Prasad Shrestha (2005) was done a research work on *"A study on financial statement analysis of a manufacturing company with reference to Dabur Nepal Private Limited"*. The main objective of the study is to analysis financial position of DNPL. The study covers five year from 1999/2000 to 2003/04 A.D. The main conclusions of the study were as follows:

i) The liquidation position of the industry is found better and satisfactory which reveals its strength working capital policy. The analysis has concluded that DNPL is able to meet its maturing debt and obligation in time.
ii) The capital structure ratios of DNPL are unsatisfactory. Debt equity and debt to total assets ratio have been fluctuated in the study period and have been going downward.
iii) The efficiency ratios are unsatisfactory and poor except the debtors turnover ratio. The debtor's turnover ratio is satisfactory and the firm seemed to have sound collection policy. All the assets in the industry have not been properly utilized. It indicates that total resources including the fixed have not been efficiently managed and utilized to generate adequate sales as profit by management.
iv) The profitability ratios have shown the poor profitability condition of DNPL. High cost of material, manufacturing overhead, administrative and selling overhead and poor financial management are the main reason for the concern's poor profitability condition.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that we generally adopted by a researcher, studying his research problem among with the logic behind them. Thus this chapter highlights the research methodology used in the study for analysis of financial performance of PLO to draw some potential conclusion form this. For the purpose of achieving the objectives the following methodology has been proposed to follow:

- Research design.
- Nature and sources of data.
- Sample size.
- Methods of data analysis methods of presentation

3.2 Research Design

Research design is the task of designing the research problem. Analysis research tools Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research question an integrated from that guide and executing the research works.

A research design is the plan of attach: What approach to the problems will be taken? What method will be used? What strategies will be most effective? The purpose of this chapter is to introduce you to the idea of research design and given you some orientation to major types of research design. This chapter will thus explain the meaning and types of research design and common sources of error in a research design. (Panta, P.R., 2010: 52)

3.3 Nature and Sources of Data

The study is mainly based on secondary data provided by PLO. It constitutes annuals reports, containing balance sheet, profit and loss account, cash flow statement and other related books, booklets, magazine, journals and concerning thesis are consulted.

3.4 Sample Size

Among the many manufacturing industry in Nepal, PLO is Lube oil producing industry. The study is concerned only financial analysis of PLO. The analysis covers only five years period from 2064/065 to 2068/069.

3.5 Methods of Data Analysis

Data collected from different sources are in raw form and are not analytical. Judging independently does not give sense and could not be able to evaluate the performance of the company. Thus these data are analyzed by the help of various financial and statistical tools to provide sense and to achieve the objectives.

3.5.1 Financial Tools (Ratio Analysis)

For the financial analysis of PLO various ratios are used. Although there are various financial ratios only selected ratios used in this study.

3.5.1.1 Liquidity Ratio

Liquidity ratios are used to judge a firm's ability to meet short-term obligations from them, much insight can be obtained into the present cash solvency of a company and its ability to remain solvent in the event of adversities. Essentially we wish to compare short-term obligation with the short-term resources available to meet these obligation.

Current Ratio

The current ratio is computed by dividing current assets by current liabilities. Current assets normally include cash, marketable securities, account receivable, and inventories. Current liabilities consist of account payable, short-term notes payable, current maturities of long-term debt, accrued income taxes and other accrued expenses. The current ratio is the most commonly used measure of short-term solvency. As a conventional rule, current ratio of 2:1 or more is considered satisfactory.

Current Ratio = $\frac{Current\ Assets}{Current\ Liabilities}$ (in times).

Quick Ratio

The quick ratio or acid test is calculated by deducting inventories from current assets and dividing the remainder by current liabilities. Inventories are typically the least

liquid of a firm's current assets and the assets on which losses are mostly likely to occur in the vent of liquidation. Therefore, this measure of the firm's ability to payoff short-term obligation without relying on the sale of inventories is important. As a conventional rule, Quick ratio of 1:1 or more is considered satisfactory.

Quick Ratio = $\frac{current\ Assets - Inventories}{Current\ Liabilities}$ (in times).

Cash Ratio

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

Cash Ratio = $\frac{Cash + Marketable\ Securities}{Current\ Liabilities}$ (in percentage).

3.5.1.2 Leverage Ratio

Leverage ratio indicates the proportions of debt and equity in financing the firm's assets or the extent to which the firm has relied on debt in financing assets. The choice between debt and equity depends largely on three factors: cost, risk and control. It is used to measure the firm's ability to meet long-term obligation. Generally assets of the firms are financed both by equity and debt. Capital structure ratios are calculated to measure long term financial position or solvency of a firm.

Debt Ratio

Debt ratio can be computed by dividing total debt by capital employed or net assets. Where capital employed will include total debt and net worth.

Debt Ratio = $\frac{Total\ Debt(TD)}{Net\ Assets(NA)}$ (in times).

Debt Equity Ratio

The relationship describing the lenders' contributions for each rupee of the owners' contributions is called debt-equity ratio. The debt to equity ratio computed by simply the total debt of firms (including current liabilities) by its shareholders equity.

Debt Equity Ratio = $\frac{Total\ Debt}{Shareholders' Equity\ or\ Net\ Worth}$ (in times).

Interest coverage ratio

The interest coverage ratio is one of the most conventional coverage ratios used to test the firm's debt – servicing capacity. The interest and taxes (EBIT) by interest charges.

Interest coverage ratio = $\frac{EBIT}{Interest}$ (in times).

3.5.1.3 Activity Ratio or Turnover Ratios

Traditionally, assets and investment ratios have been called activity ratios or turnover ratios. Whatever the designation, the idea is to measure how effectively the firm utilizes the investments and the economic resources at its command. Investments are made in order to produce profitable sales. Achieving profitable, sales therefore, involves making sound investment. A proper balance between sales and assets generally reflects that assets are managed well.

Inventory Turnover

This ratio indicates the efficiency of the firm in selling its product. It is calculated by dividing the cost of goods sold by the average inventory.

Inventory turnover = $\frac{Cost\ of\ good\ sold}{Average\ Inventory}$ (in times)

Where, Average Inventory = $\frac{Begining\ Inventory + Cloing\ Inventory}{2}$

Days of Inventory holding (DIH)

The reciprocal of inventory gives average inventory holding in percentage term when the number of days in a year is dividing by inventory turnover, we obtain day of inventory holding.

DIH = $\frac{Days\ in\ a\ Year}{Inventory\ Turnover}$ (in days).

Debtor's Turnover

A firm sells goods for cash and credit. Credit is used as a marketing tool by a number of companies. The liquidity position of the firm depends on the quality of debtors to a great extent. Debtor's turnover can be computed credit sales dividing by average debtors.

Debtor's Turnover = $\frac{Sales}{Debtors}$ (in times).

Average Collection Period (ACP)

The average collection period tells the average number of days debtors or receivables are outstanding, i.e., the average time it take to convert them into cash

ACP = $\frac{Days\ in\ a\ Year}{Debtors\ Turnover}$ (in days).

Assets Turnover

Assets are used to generate sales. Therefore, a firm should manage its assets efficiency to maximize sales. The relationship between sales and assets is called assets turnover.

Net Assets Turnover = $\frac{Sales}{Net\ Assets}$ (in times).

Total Assets Turnover = $\frac{Sales}{Total\ Assets}$ (in times).

Fixed Assets Turnover = $\frac{Sales}{Net\ Fixed\ Assets}$ (in times).

Working Capital Turnover = $\frac{Sales}{Net\ Current\ Assets}$ (in times).

3.5.1.4 Profitability Ratio

Profitability is a measure of operating efficiency that can be success in achieving desire profit level, measure management's overall effectiveness as shown by the returns generated on sales and investment. These ratios are composed of a group of ratio showing the combined effects of liquidity assets management and debt management on operating result. So such ratios are regarded as a central measure of earning power and operating efficiency of a firm.

Gross Profit Margin

The first profitability ratio in relation to sales is the gross profit margin. Gross profit margin ratio indicates the percentage of profit after cost of production. It also indicates the efficiency of operation of the firm. If profit margin falls, the cost of production increases. This occurrence in turn may be due to lower sales prices or to lower operating efficiency in relations to volume.

Gross Profit Margin = $\frac{Gross\ Profit}{Sales}$ (in percentage).

Net Profit Margin

Net profit is obtained when operating expenses; interest and taxes are subtracted from the gross profit. The net profit margin ratio is measured by dividing profit after tax by sales. This ratio is the overall measure of the firm's ability to turn each rupee sales into net profit. If the net margin is inadequate the firm will fail to achieve satisfactory return on owners' equity. It also indicates the firm's capability to withstand in adverse economic conditions.

Net Profit Margin = $\frac{Profit\ After\ Tax\ (PAT)}{Sales}$ (in percentage).

Operating Expenses Ratio

The operating expenses ratio explains the changes in the profit margin ratio. A higher operating expenses ratio is unfavorable since it will leave a small amount of operating income to meet interest dividend etc.

Operating Expenses Ratio = $\frac{Operating\ Expenses}{Sales}$ (in percentage).

Return on Investment (ROI)

The term investment refers to total assets or net assets. So the ratio is also called Return on total assets. Return on assets measures the profitability of the total funds or the total investment of the firm. It however throws on light on the profitability on different sources of funds, which financed the total assets in point of fact, the real return on the total assets in the net operating earning including interest. A more reliable indicator of the true return on assets is the net profit inclusive of interest.

ROI = $\frac{EBDIT}{GFA+NCA}$ (in percentage).

Where, GFA = Gross Fixed Assets

Return on Equity (ROE)

The return on equity measures the book return to the owners of the firm. It is bottom line ratio in that sense. The ratio indicates how well the firm has used the resources of the owner. The return on equity is net profit after taxes divided by shareholders equity.

ROE = $\frac{Profit\ After\ tax\ (PAT)}{Net\ Worth\ (NW)}$ (in percentage).

3.5.2 Statistical Tools Analysis

Statistics may be defined as the collection, presentation, analysis and interpretation of numerical data. Under this heading statistical tools such as standard deviation, correlation and time series are uses to analyze data.

3.5.2.1 Standard Deviation

The standard deviation concept was introduced by Karl Pearson in 1983 A.D. it is by far the most important and widely used measures of studying dispersion. Standard deviation measure the absolute dispersion or variability of a distribution; the greater the amount of dispersion or variability the greater the standard deviation, for the greater will be the magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a larger standard deviation means just the opposite. (S.P. Gupta, p.E-8.19)

$$\text{S.D. } \sigma = \frac{\sqrt{\sum(X-\overline{X})^2}}{N}$$

Where, X = series of variable of the data

$\bar{X}$ = Mean of the series of variable

N= Number of observation

The relative measure is known as coefficient of variation (CV)

$$\text{CV} = \frac{\sigma}{\bar{X}} \times 100$$

High CV denotes the series is more variable, less consistent, less uniform, less stable, and less homogeneous.

3.5.2.2 Coefficient of Correlation Analysis

Correlation analysis attempts to determine the degree of relationship between variable. If quantities vary in such a way that movements in one is accompanied by movements in the other, these quantities are correlated. The measure of correlation called the correlation coefficient. In other words, the correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variables. In business correlation analysis enables the executive to estimate costs, sales, price and other variable on the basis of some other series with which these cost, sales or

prices series with which these cost, sale or prices may be functionally related. Correlation is of three types, positive or negative; simple, partial and multiple; and linear and non-linear correlation.

$$\text{Correlation (r)} = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - (\sum X)^2}.\sqrt{N\sum Y^2} - (\sum Y)^2}$$

Where, X,Y = Series of Variables

N = Number of pairs of observation.

The value of the coefficient of correlation lies between ±1.

r = +1 means positive correlation between variables

r = -1 means negative correlation between variables.

r = 0 means no relation between variables.

3.5.2.3 Time Series (Trend) Analysis

A time series is a set of statistical observation arranged in chronological order. In other words, a time series consists of statistical data, which are collected, recorded or observed over successive increments. It helps, in understanding past behavior; in planning future operation; in evaluating current accomplishments, facilities comparison.

The least square method is one most widely method among all method used in time series analysis. It is a mathematical method and with its help, a trend line is fitted to the data.

$$\sum Y = Na + b\sum X$$

$$\sum XY = a\sum X + b\sum X^2$$

Where N represents number of years for which data are given.

3.6 Method of Presentation

The techniques for presentation used here in most descriptive and analytical nature and the data have been presented basically in tabular form then after some important tabulated information of the data have been graphically presented.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The presentation of data is the basic organization and classification of the data for analysis. After data collection is completed, the data will be in what researchers call "the raw from". The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. The analysis of data consists of organizing, tabulating and performing statistical analysis. (Panta, P.R & H.K. Wolf, 1999:127)

4.2 Financial Tools Analysis

4.2.1 Ratio Analysis

As mention in the earlier chapter, various ratios such as liquidity, leverage, activity and profitability are used to analyze the financial performance of Purbanchal Lube Oil.

4.2.1.1 Liquidity Ratio

These ratios are applied to measure the ability of the company to meet the short-term obligations. The ratios analyzed under liquidity ratios are as follows:

Current Ratio

Current Ratio = $\frac{Current\ Assets(CA)}{Current\ Liabilities\ (CL)}$ (in times).

Current Ratio

Table- 4.1

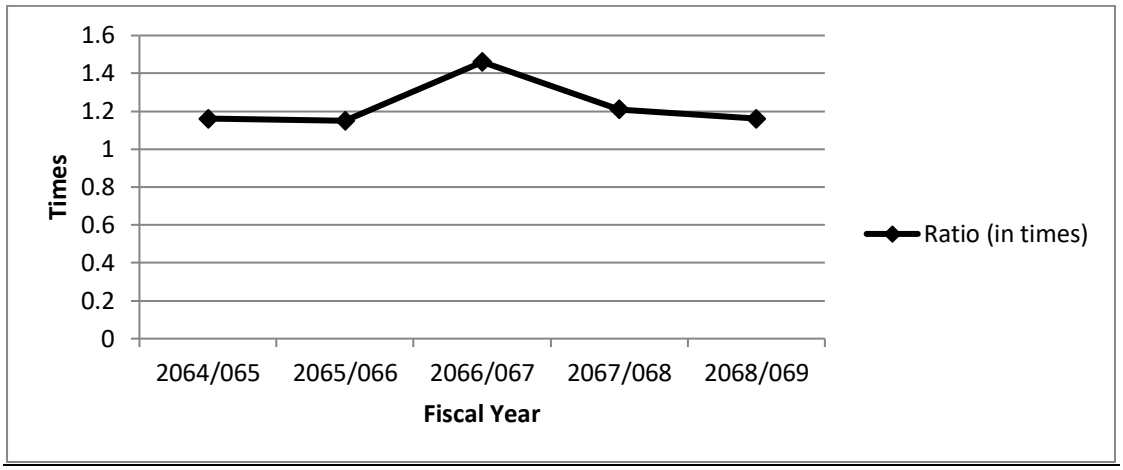
Fiscal Year	Current Assets (Rs)	Current Liabilities (Rs)	Ratio (in times)
2064/065	38047552.21	32809320.93	1.16
2065/066	46486673.03	40498825.91	1.15
2066/067	65755572.87	44998429.30	1.46
2067/068	89150596.93	73673032.68	1.21
2068/069	77092038.33	66199018.33	1.16
		Average	1.23

This table clearly shows that current ratio of the company was 1.16 times in 2064/065 for the period of study. It was lowest in 2065/066 which was 1.15. In overall the

company has not maintained its standard norms of 2:1 ratio. So short-term solvency position of PLO seems to be unsound. The trend of current ratio is shown in graph.

Current Ratio

Figure – 4.1



Quick Ratio

Quick Ratio = $\frac{Liquid\ or\ Qucik\ Assets}{Current\ Liabilities}$ (in times).

Where, Liquid Assets = Current Assets - Inventory- Prepaid Expenses.

Quick Ratio

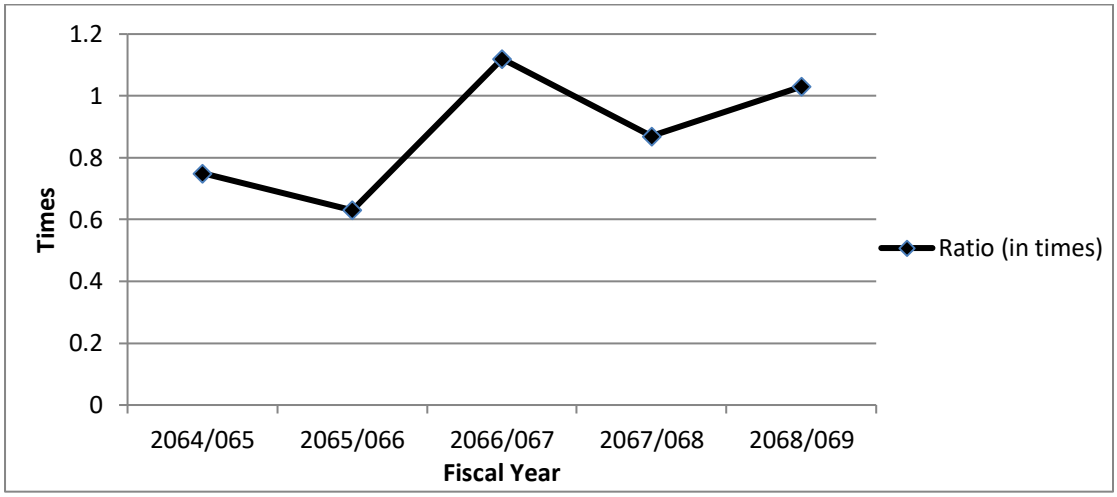
Table- 4.2

Fiscal Year	Quick Assets (Rs)	Current Liabilities (Rs)	Ratio (in times)
2064/065	24722051.96	32809320.93	0.75
2065/066	25426574.63	40498825.91	0.63
2066/067	50448755.39	44998429.30	1.12
2067/068	64025765.57	73673032.68	0.87
2068/069	68081322.10	66199018.33	1.03
		Average	0.88

The table indicates that quick ratio of company was about0.88:1 average for the study period of five year. It was highest of about 1.12 in 2066/067 and 1.03 in 2068/069 which is maintained standard norm 1:1. On the other hand Purbanchal Lube Oil Pvt. Ltd, have mixed quick ratio in the study period 2064/065 to 2068/069. So short-term solvency position of PLO is not good. The ratio is going to increasing trend. The trend of Quick ratio shown in graph.

Quick Ratio

Figure -4.2



Cash Ratio

Cash Ratio = $\frac{Cash+Marketable\ Securities}{Current\ Liabilities}$ (in percentage).

Cash Ratio

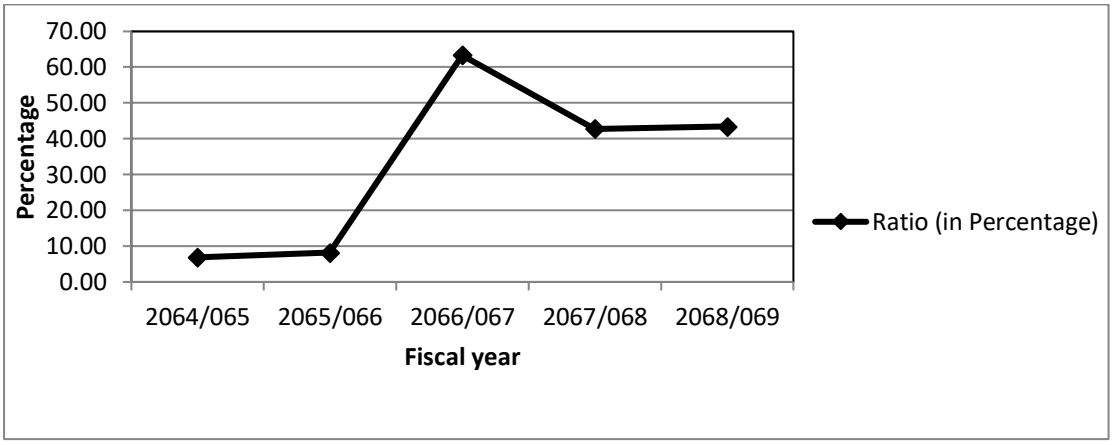
Table -4.3

Fiscal Year	Cash (Rs)	Current Liabilities (Rs)	Ratio (in Percentage)
2064/065	2252906	32809320.93	6.87
2065/066	3306708	40498825.91	8.16
2066/067	28490470	44998429.30	63.31
2067/068	31534151	73673032.68	42.80
2068/069	28706337	66199018.33	43.36
		Average	32.90

Cash ratio shows the percentage of cash and marketable securities in current assets. The high cash ratio indicates the high proportion of cash in current assets and vice – versa. High level of cash shows the good liquidity condition of the firm. The cash ratio of PLO ranged from 6.87% to 63.31% during the study period. There is good condition of cash of PLO. The cash ratio is increasing trend. The trend of cash ratio of PLO is shown in graph.

Cash Ratio

Figure -4.3



4.2.1.2 Leverage Ratio

Leverage ratios are calculated to measure the financial risk and the firm's ability of using debt to shareholder's advantage. The ratios analyzed under leverage ratio are as follow:

Debt Ratio

Debt Ratio = $\frac{Total\ Debt(TD)}{Net\ Assets(NA)}$ (in times).

Debt Ratio

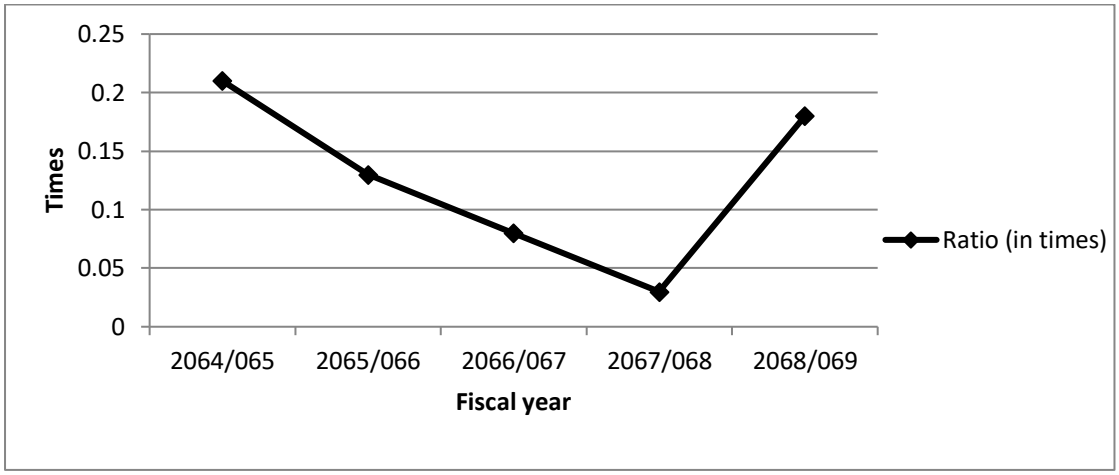
Table 4.4

Fiscal Year	Total Debt (Rs)	Net Assets (Rs)	Ratio (in times)
2064/065	6799927.25	33045748.93	0.21
2065/066	5200000.00	40889938.91	0.13
2066/067	3600000.00	45546151.30	0.08
2067/068	2000000.00	74358794.68	0.03
2068/069	12408000.00	67900364.33	0.18
		Average	0.12

As a general rule there should be an appropriate mix of debt and owner's equity in financing the firm's assets. High debt is more risky from the firm's point of view. The debt to net assets ratio of PLO ranged from 0.03 times to 0.21 times during the study period. Average debt ratio is 0.14 times. Less than 22% of total assets are financed by debt. The company is maintained equity capital more than debt capital. The trend of debt ratio is shown in graph.

Debt Ratio

Figure- 4.4



Debt to equity ratio

Debt to Equity Ratio = $\frac{Total\ Debt}{Shareholders\ equity\ or\ Net\ Worth}$ (in times).

Debt to Equity Ratio

Table 4.5

Fiscal Year	Total Debt (Rs)	Net Worth (Rs)	Ratio (in times)
2064/065	6799927.25	24575388.31	0.28
2065/066	5200000.00	25710711.58	0.20
2066/067	3600000.00	44469783.79	0.08
2067/068	2000000.00	45890753.90	0.04
2068/069	12408000.00	51204818.17	0.24
		Average	0.17

In general the debt to equity ratio of 1:1, said to be firm is in optimum level and the operation condition is satisfactory. High debt to equity ratio means the company is using high level of debt, which is not profitable to both creditors as well as owners. Debts magnify the shareholders' earnings as well as increasing risk, so prefer optimum level. A highly debt-burdened firm will find difficulty in raising funds from creditors and owners in future. The owners' equity is treated as a margin of safety by creditors, if the equity base is thin, creditors risk will be high. Low debt to equity ratio shows the high investment of shareholders, in the firm, the greater the cushion against losses in the event o f liquidation.

The debt to equity ratio of PLO was very low during the study period. In the fiscal year 2064/2065, 2065/2066 and 2068/2069 the ratio are 0.28, 0.20 and 0.24. In other fiscal year 2066/2067 and 2067/2068 were 0.08 and 0.04. It seems to good condition of PLO.

Total Liability to Total Assets Ratio

Total Liability to Total Assets Ratio = $\frac{Total\ Liabilities}{Total\ Assets}$ in times

Where, Total liabilities = Long term loan+ Total current liabilities

Total Liabilities to Total Assets Ratio

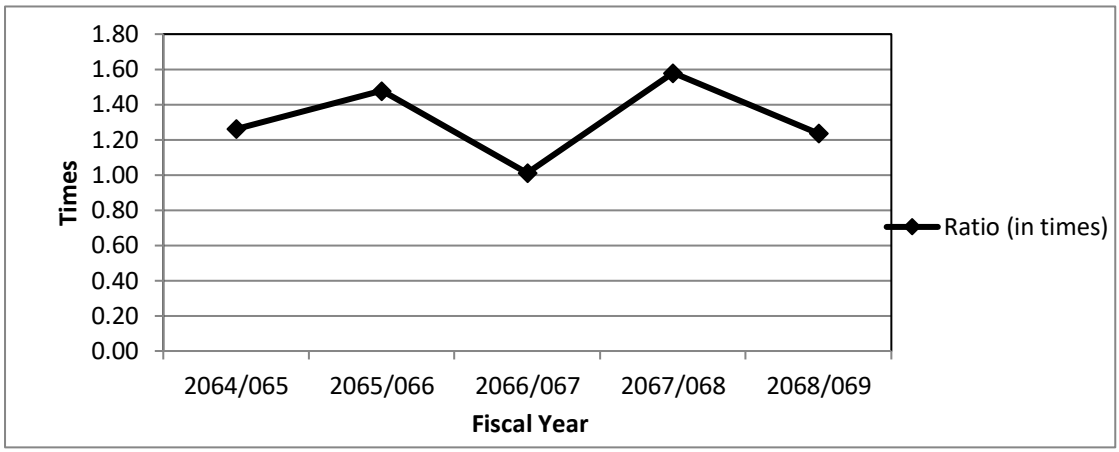
Table 4.6

Fiscal Year	Total Liabilities (Rs)	Total Assets (Rs)	Ratio (in times)
2064/065	39609248.18	31375315.56	1.26
2065/066	45698825.91	30910711.58	1.48
2066/067	48595429.30	48069783.79	1.01
2067/068	75673032.68	47890753.90	1.58
2068/069	78607018.33	63612818.17	1.24
		Average	1.31

The relationship between total liabilities (i.e. long term loan plus total current liabilities) and total assets is total liabilities to total assets ratio. Financial risk increases with the increase in this ratio. So, the ratio shows bad signal for the firm. From this ratio, we could know the financial contribution of credit loan on total assets. The total liabilities to total assets ratio of PLO ranged from 1.01 times to 1.58 times during the study period. The average total liabilities to total assets i.e. 1.31 times is greater than 1:1 ratio. This shows that the ratio of PLO is not satisfactory. The trend of total liabilities to total assets ratio is shown in the graph.

Total Liabilities to Total Assets Ratio

Figure- 4.5



Interest Coverage ratio

Interest Coverage ratio = $\frac{EBDIT}{Interest}$ in times.

Where, EBDIT = Earnings before depreciation, interest and tax.

Interest Coverage Ratio

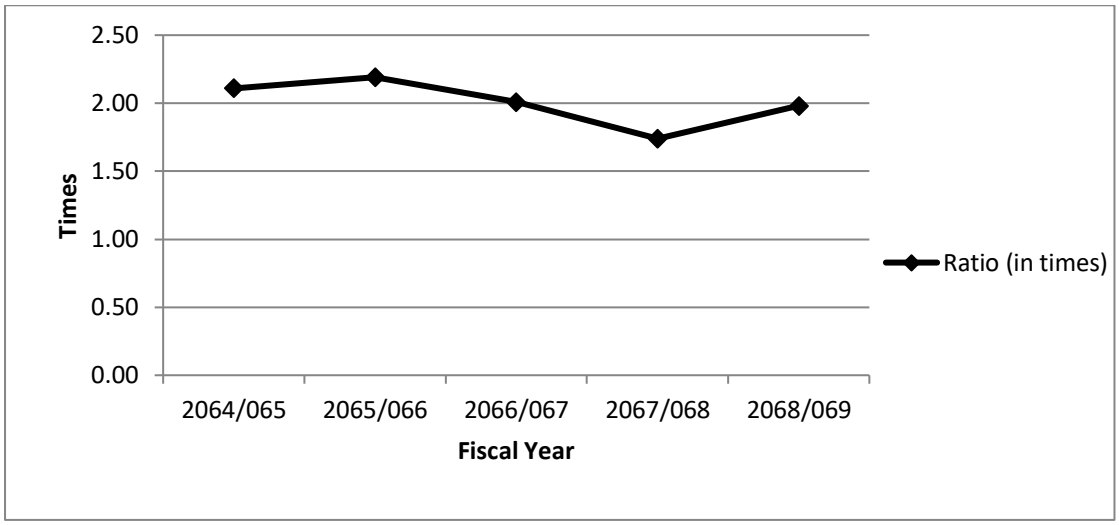
Table 4.7

Fiscal Year	EBDIT (Rs)	Interest (Rs)	Ratio (in times)
2064/065	5588341.01	2649174.10	2.11
2065/066	7742808.04	3534188.09	2.19
2066/067	9664380.32	4815041.63	2.01
2067/068	13015561.89	7483320.68	1.74
2068/069	24045623.55	12142515.86	1.98
		Average	2.01

The interest coverage ratio shows the number of time the interest charges are covered by funds that are ordinarily available for their payment. A higher ratio is desirable; but too high ratio indicates that the firm is very conservative in using debt, and that is not sing credit to the best advantage of shareholders. A lower ratio indicated excessive use of debt, or inefficient operation. In general, the ratio of 6 to 7 times said to be satisfactory. The interest coverage ratio of PLO ranged from 1.74 to 2.19 times. The trend to ratio is shown in graph.

Interest Coverage Ratio

Figure- 4.6



4.2.1.3 Activity Ratio or Turnover Ratios:

Activity ratios are also known as turnover ratios because they indicated the speed with which assets are being converted or turned over into sales. These ratios thus involve a relationship between sales and assets. A proper balance between sales and assets reflects that assets are managed well. The ratios analyzed under activity ratio are as follow:

Inventory Turnover

Inventory Turnover = $\frac{Cost\ of\ Good\ Sold}{Average\ Inventory}$ in times.

Where, Average Inventory = $\frac{Bigining\ Inventory + Cloing\ Inventory}{2}$

Inventory Turnover Ratios

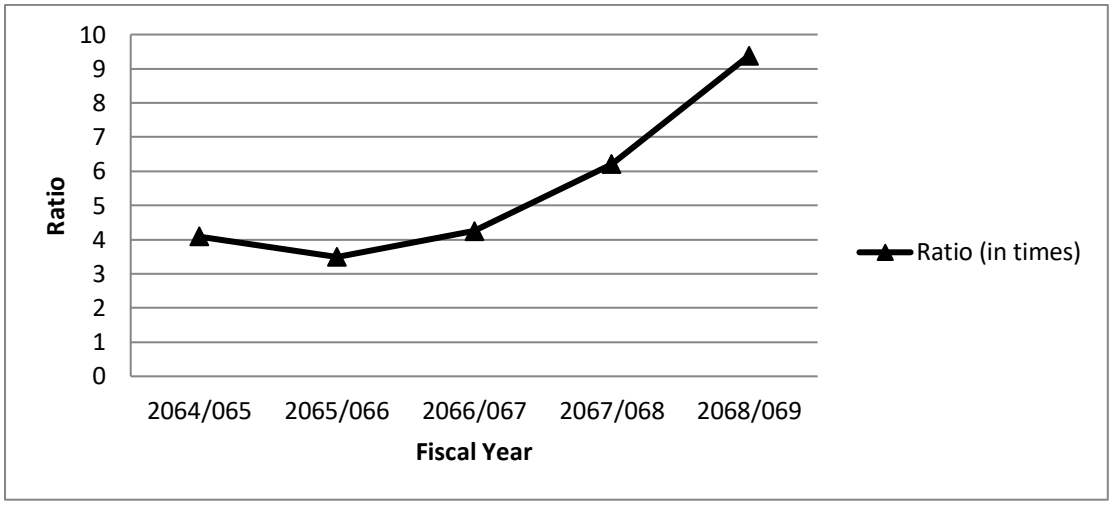
Table 4.8

Fiscal Year	Cost of Goods Sold (Rs)	Average Inventory (Rs)	Ratio (in times)
2064/065	48806617.69	11936181.33	4.09
2065/066	60050994.08	17192799.13	3.49
2066/067	77265555.62	18183457.94	4.25
2067/068	125447262.66	20215824.42	6.21
2068/069	160053501.08	17067773.38	9.38
		Average	5.48

The inventory turnover ratio tells us the rapidity with which the inventory is turned into receivables through sales. Generally, higher the inventory turnover, more efficient the inventory management of the firm. Too high inventory turnover also indicates shortage of inventories, it is not good. Again too low inventory turnover indicates overstocking. It is not good. The ratio of PLO ranged from 3.49 to 9.38 times over the study period. Average inventory turnover ratio of industry is 5.48 times which means firm is turning over its inventory into sales in each 65 days (360/5.48). The trend of inventory turnover ratio is shown in graph.

Inventory Turnover Ratio

Figure- 4.7



Days of Inventory Holding (DIH)

DIH = $\frac{Average\ Inventory}{Cost\ of\ Good\ Sold} \times Days\ In\ a\ year$ (in days).

Or, DIH = $\frac{Days\ in\ a\ year}{Inventory\ Turnover}$ (in days).

Days of Inventory Holding

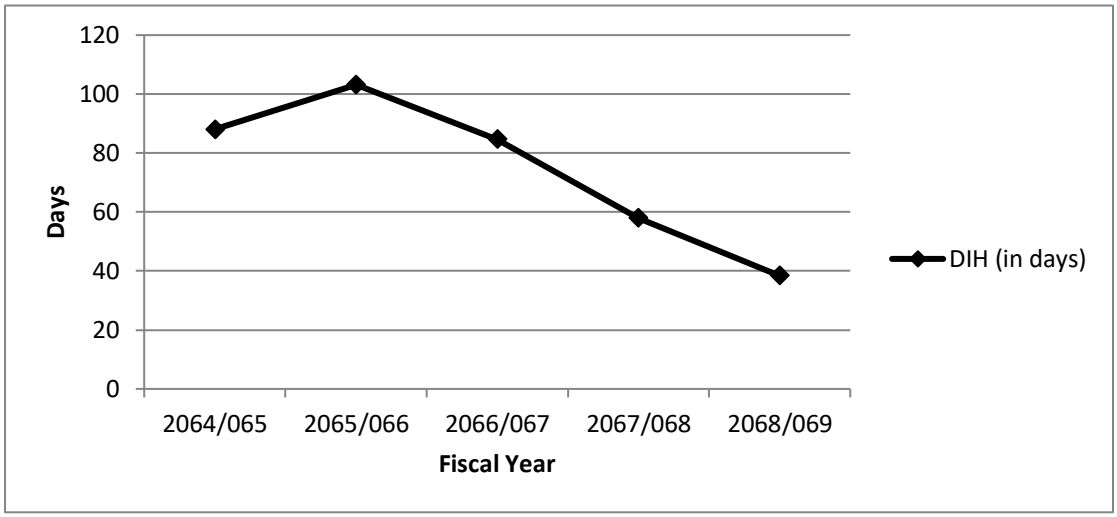
Table 4.9

Fiscal Year	Days in year	Inventory Turnover Ratio	DIH (in days)
2064/065	360	4.09	88
2065/066	360	3.49	103
2066/067	360	4.25	85
2067/068	360	6.21	58
2068/069	360	9.38	38
		Average	74

Days of inventory holding indicate the holding period of finished goods by the industry. Generally, lower the inventory holding period, higher will be the inventory turnover, indicated the better using of inventory by industry. The average inventory holding period of PLO is 74 days. This shows the inventory turnover ratio is satisfactory. The trend of DIH is shown in the graph.

Days of Inventory Holding

Figure- 4.8



Debtor's Turnover

Debtor's Turnover = $\frac{Sales}{Debtors\ (Receivables)}$ (in times).

Debtor's Turnover

Table 4.10

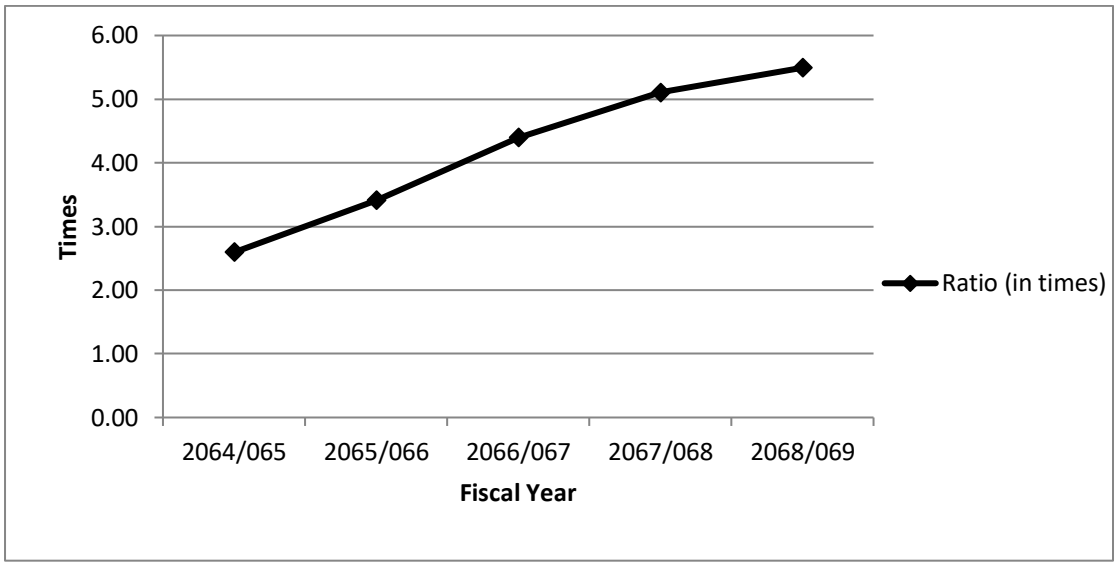
Fiscal Year	Sales (Rs)	Debtors (Rs)	Ratio (in times)
2064/065	58282055.35	22469146.38	2.59
2065/066	75481079.47	22119867.04	3.41
2066/067	96527676.63	21958285.09	4.40
2067/068	165808403.40	32491613.59	5.10
2068/069	216314336.62	39377653.46	5.49
		Average	4.20

Debtors turnover ratios indicate the frequency by which cash is generated by movement of receivables or Debtors. A high debtors turnover ratio indicated better the trade management. On the other hand low turnover ratio indicated payments by Debtors are delayed. The debtor turnover ratio of PLO ranged from 2.59 to 5.49 times over the study period. The average ratio 4.20 times indicates, debtors turnover ratios

of PLO are satisfactory. It shows good financial position of PLO. The trend is shown in graph.

Debtor Turnover Ratio

Figure- 4.9



Average Collection Period (ACP)

ACP = $\frac{Days\ in\ year}{Debtors\ Turnover}$ (in days).

Average Collection Period

Table 4.11

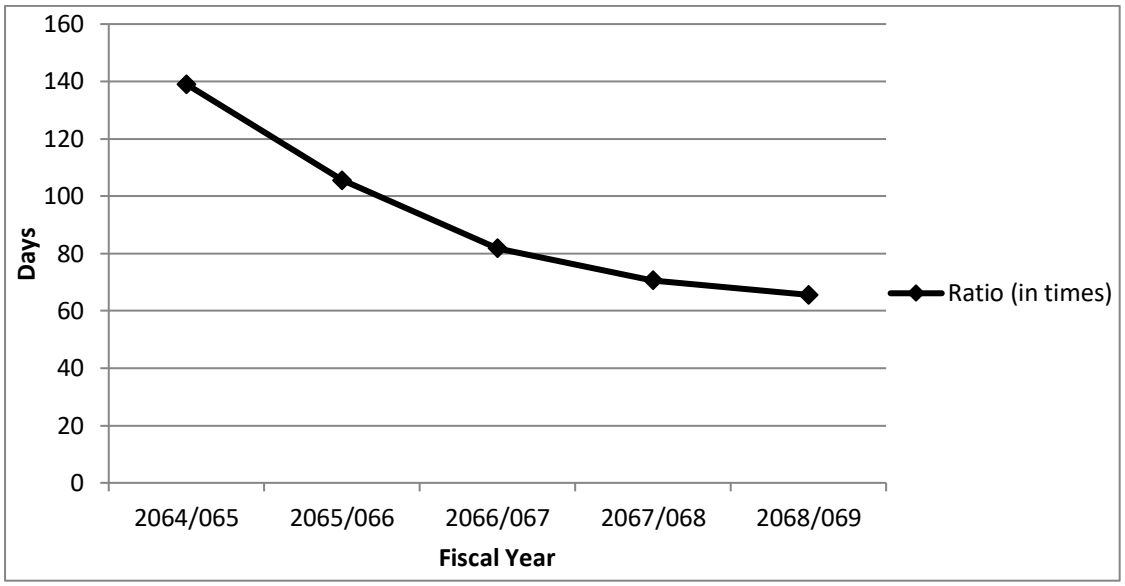
Fiscal Year	Days in year	Debtors turnover ratio (Times)	ACP (Days)
2064/065	360	2.59	139
2065/066	360	3.41	106
2066/067	360	4.40	82
2067/068	360	5.10	71
2068/069	360	5.49	66
		Average	93

The average collection period measure the rapidity and slowness of their collect ability. The shorter the average collection period, the better the quality of debtors, since a short collection period implies the prompt payment by debtors. The average collection period of PLO ranged from 66 days to 139 days over the study period. This is satisfactory or not, decided as per the industry's credit terms and policy. In this, the debtor turnover ratio of industry seems satisfactory. So we conclude that the average

collection period of the industry is also satisfactory. The trend of ACP is shown in graph.

Average Collection Period

Figure- 4.10



Net Assets Turnover

$$\text{Net Assets Turnover} = \frac{Sales}{Net\ Assets} \text{ (in times).}$$

Net Assets Turnover Ratio

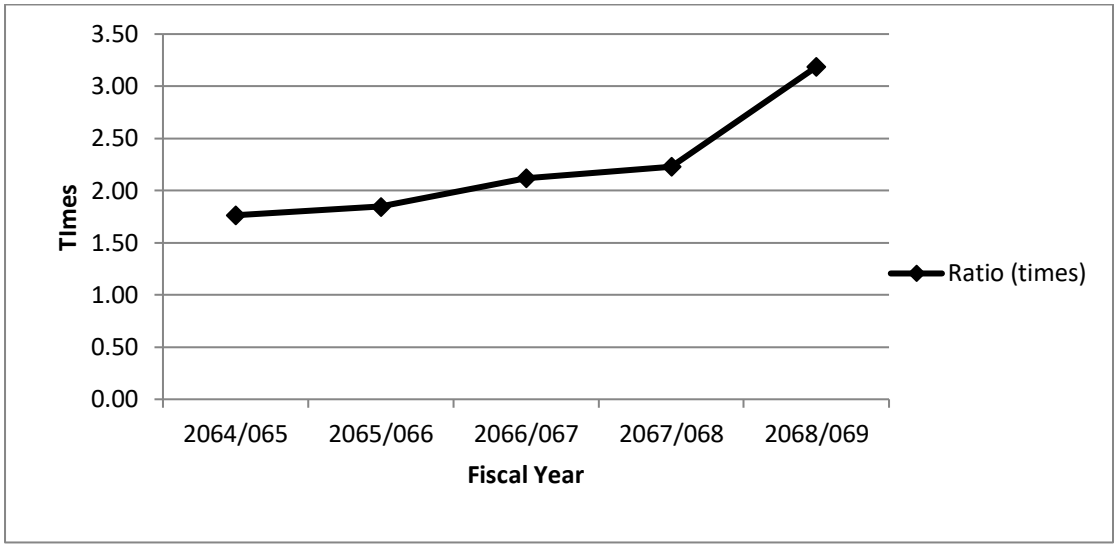
Table 4.12

Fiscal Year	Sales (Rs)	Net Assets (Rs)	Ratio (times)
2064/065	58282055.35	33045748.93	1.76
2065/066	75481079.47	40889938.91	1.85
2066/067	96527676.63	45546151.30	2.12
2067/068	165808403.40	74358794.68	2.23
2068/069	216314336.62	67900364.33	3.19
		Average	2.23

A firm' ability to produce a large volume of sales for a given amount of net assets is the most important aspects of its operating performance. The net assets turnover ratio of PLO ranged from 1.76 to 3.19 times over the study period. The average net assets turnover ratio 2.64 times, implies that the PLO is producing Rs 2.23 of sales for 1 Rupee of capital employed in net assets. This means that the industry is utilizing its net assets as required. The situation is improving trend, which shown in graph.

Net Assets Turnover Ratio

Figure- 4.11



Total Assets Turnover Ratio

Total Assets Turnover = $\frac{Sales}{Total\ Assets}$ (in times).

Total Assets Turnover

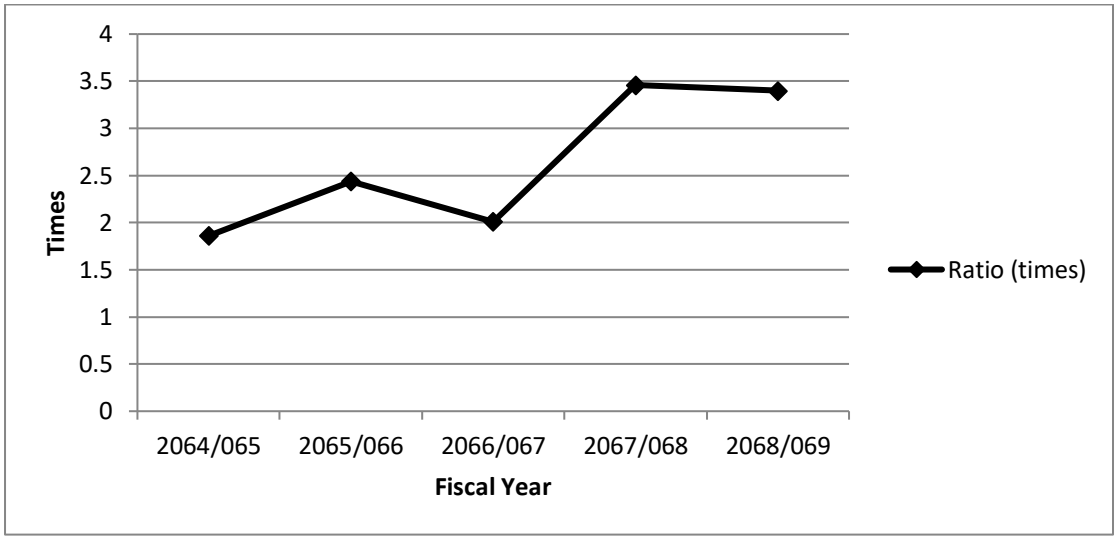
Table 4.13

Fiscal Year	Sales (Rs)	Total Assets (Rs)	Ratio (times)
2064/065	58282055.35	31375315.56	1.86
2065/066	75481079.47	30910711.58	2.44
2066/067	96527676.63	48069783.79	2.01
2067/068	165808403.40	47890753.90	3.46
2068/069	216314336.62	63612818.17	3.40
		Average	2.63

The total assets turnover ratio of PLO ranged from 1.86 to 3.46 times over the study period. The average total assets turnover is 2.63 times, implies that the PLO generate a sales of Rs 2.63 for 1 Rupee investment in fixed and current assets together. The ratio is increasing trend. The total assets turnover ratios of the industry are satisfactory. The trend of ratio is shown in the graph.

Total Assets Turnover Ratio

Figure- 4.12



Fixed Assets Turnover

Fixed Assets Turnover = $\frac{Sales}{Net\ Fixed\ Assets}$ (in times).

Fixed Assets Turnover

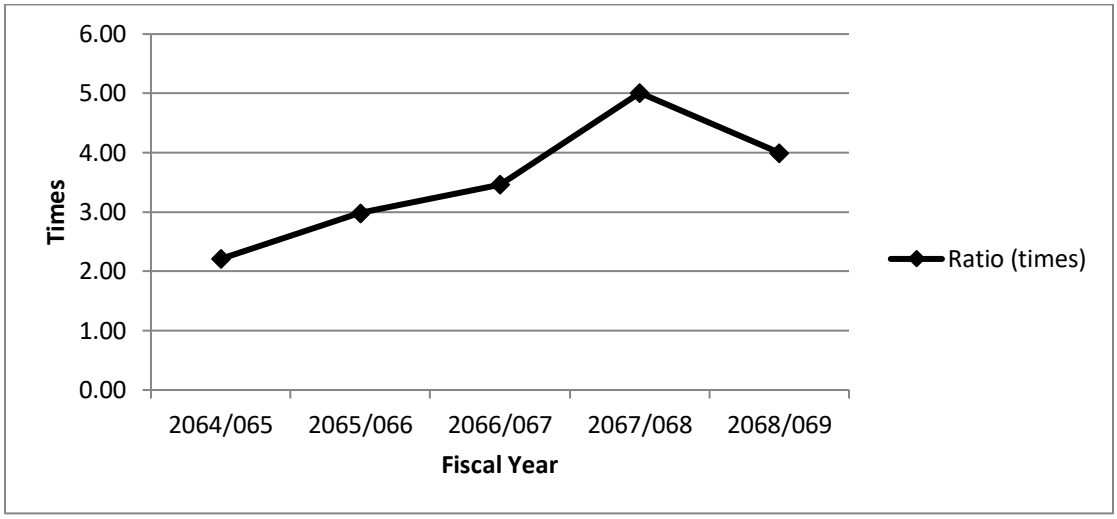
Table 4.14

Fiscal Year	Sales (Rs)	Net Fixed Assets (Rs)	Ratio (times)
2064/065	58282055.35	26373512.28	2.21
2065/066	75481079.47	25313977.46	2.98
2066/067	96527676.63	27860362.22	3.46
2067/068	165808403.40	33098951.65	5.01
2068/069	216314336.62	54121144.04	4.00
		Average	3.53

Fixed assets turnover ratio indicates the firm's ability to generate sales based on its various fixed assets like plant and equipment, building, machinery, land and other long-term assets. It makes efficient utilization of fixed assets. The fixed assets turnover ratio of PLO ranged from 2.21 to 5.01 times, over the study period. The average fixed assets turnover ratio is 3.53 times, implies that the PLO is producing Rs 3.53 of sales for 1 Rupee in investment in fixed assets. The fixed assets turnover ratio of PLO is highly satisfactory; it means utilization of fixed assets of the company is going efficiently. The trend of ratio is shown in graph.

Fixed Assets Turnover Ratio

Figure- 4.13



4.2.1.4 Profitability Ratio

The ratio which measure the profitability of business operation, are profitability ratio. These ratios are the indicators of degree of managerial success in achieving firms' overall goals. It also indicated public acceptance of the product and shows that the firm can produce competitively. The following are profitability ratios, used to evaluate the profitability of Purbanchal Lube Oil Pvt. Ltd.

Gross Profit Margin

$$\text{Gross Profit Margin} = \frac{Gross\ Profit}{Sales} \text{ in percentage.}$$

Gross Profit Margin Ratio

Table 4.15

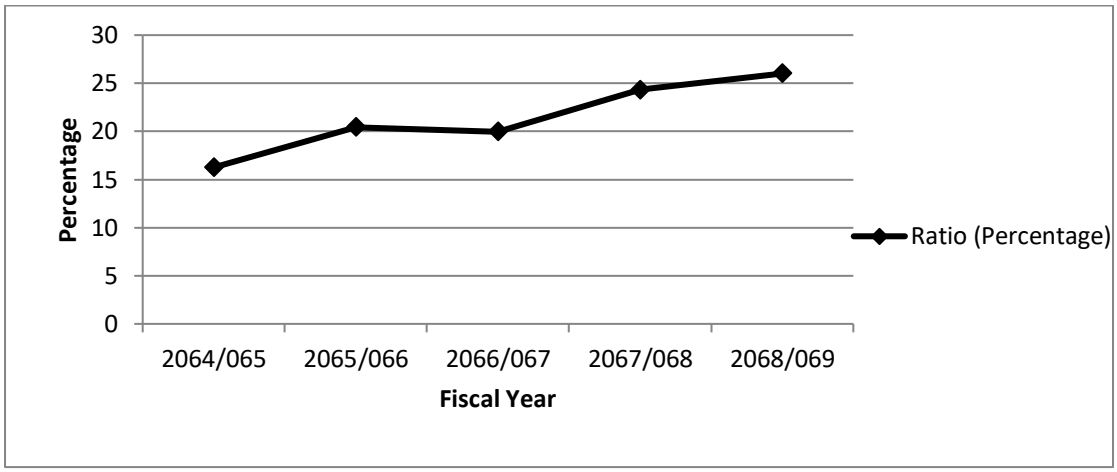
Fiscal Year	Gross Profit(Rs)	Sales (Rs)	Ratio (Percentage)
2064/065	9475437.66	58282055.35	16.26
2065/066	15430085.39	75481079.47	20.44
2066/067	19262121.01	96527676.63	19.96
2067/068	40361140.74	165808403.40	24.34
2068/069	56260835.54	216314336.62	26.01
		Average	21.40

Gross profit margin is the ratio of gross profit to sales. The ratio indicates how the company utilizes its employed resources. Gross profit is the excess of its sales over direct expenditures for the time period. Higher gross profit margin tells efficiency in

production of the company and vice versa. The above table shows that gross profit margin of the company ranged about 16.26% to 26.01% leading to average about 28 for the study period. The ratio of company is fluctuating trend. From that sales point of view gross profit seems to be satisfactory. The trend of gross profit margin ratio is shown in graph.

Gross Profit Margin Ratio

Figure- 4.14



Operating Expenses Ratio

Operating Expenses Ratio $= \frac{Operating\ Expnenses}{Sales}$ in percentage.

Where, Operating expenses = cost of goods sold + selling dist^{n} & Adm. Exps – Deprecation.

Operating Expenses Ratio

Table 4.16

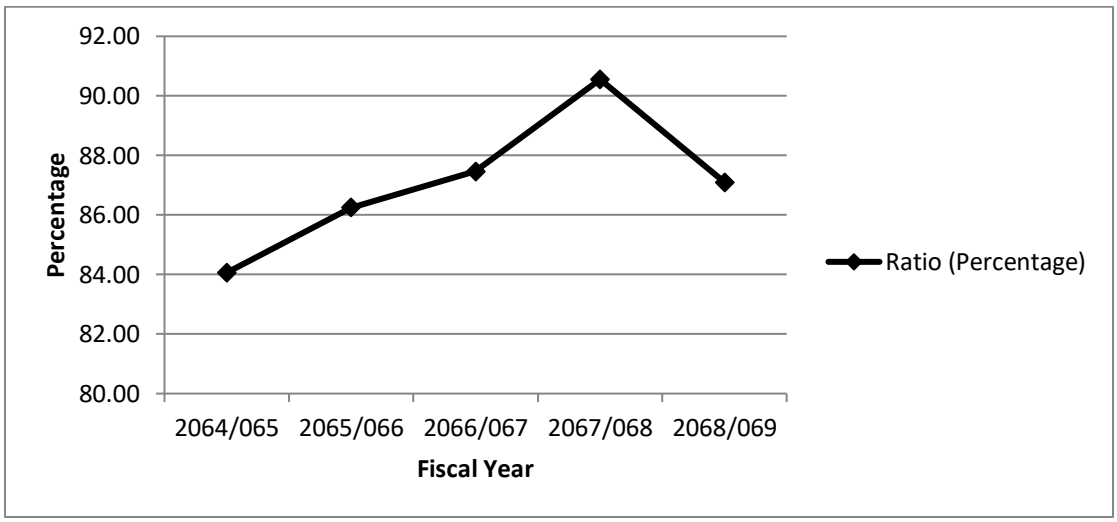
Fiscal Year	Operating Expense(Rs)	Sales (Rs)	Ratio (Percentage)
2064/065	48992520.77	58282055.35	84.06
2065/066	65098654.75	75481079.47	86.24
2066/067	84428528.86	96527676.63	87.47
2067/068	150143854.41	165808403.40	90.55
2068/069	188408311.48	216314336.62	87.10
		Average	87.08

Here the operating expenses ratio indicates the average aggregative variations in expenses, such as selling and distribution expense, administrative expenses etc, where some of the expenses may be increasing while other may be falling. The average

operating expenses ratio of PLO was 87.08% which indicates that 87.08% of sales have consumed together by the cost of goods sold, and other operating expenses. This implies that only 12.92% of sales are left to cover interest, taxes, and earning to owners. This indicates that the PLO has excess operating expenses. So make certain profit it would have to decrease operating expenses. The trend of operating expenses of PLO is shown in graph.

Operating Expenses Ratio

Figure- 4.15



Net Profit Margin Ratio

$$\text{Net Profit Margin Ratio} = \frac{Profit\ After\ Tax\ (PAT)}{Sales} \text{ in percentage.}$$

Net Profit Margin Ratio

Table 4.17

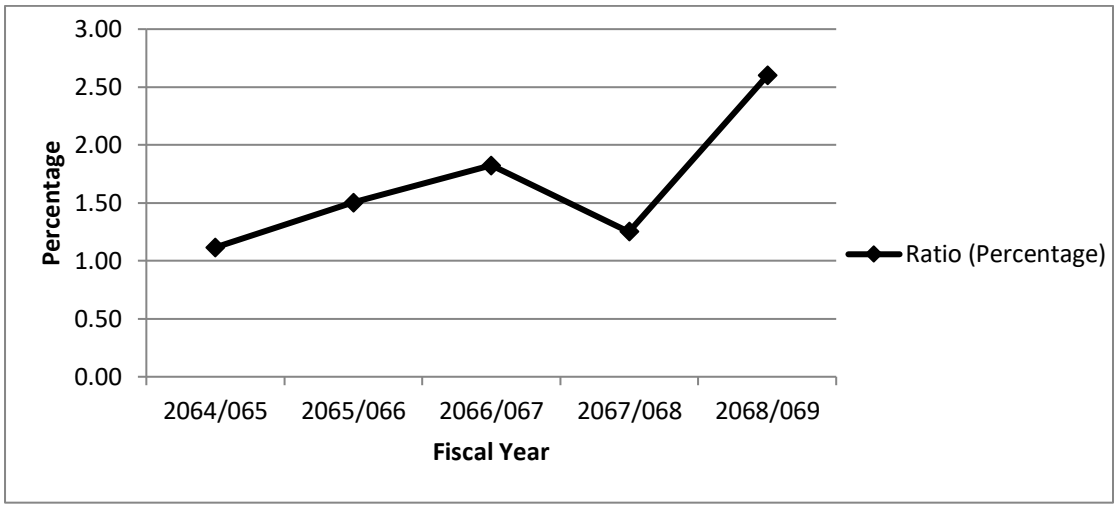
Fiscal Year	Profit After Tax (Rs)	Sales (Rs)	Ratio (Percentage)
2064/065	650645.34	58282055.35	1.12
2065/066	1135323.27	75481079.47	1.50
2066/067	1759072.21	96527676.63	1.82
2067/068	2077492.11	165808403.40	1.25
2068/069	5620814.07	216314336.62	2.60
		Average	1.66

The above table shows that net profit margin of the company was about 1.66% on an average for the period of study. In totality, it shows that one rupee of sales value has 1.66 paisa as return. On the other hand, net profit margin of the PLO was seems to be

fluctuating trend and no sufficient return was earned to its sales revenue. The trend of the ratio is shown in graph.

Net Profit Margin Ratio

Figure- 4.16



Return on Investment (ROI)

ROI = = $\frac{EBDIT}{Net\ Assets}$ in percentage.

EBDIT = Earnings Before Depreciation, Interest and Tax

Return on Investment (ROI)

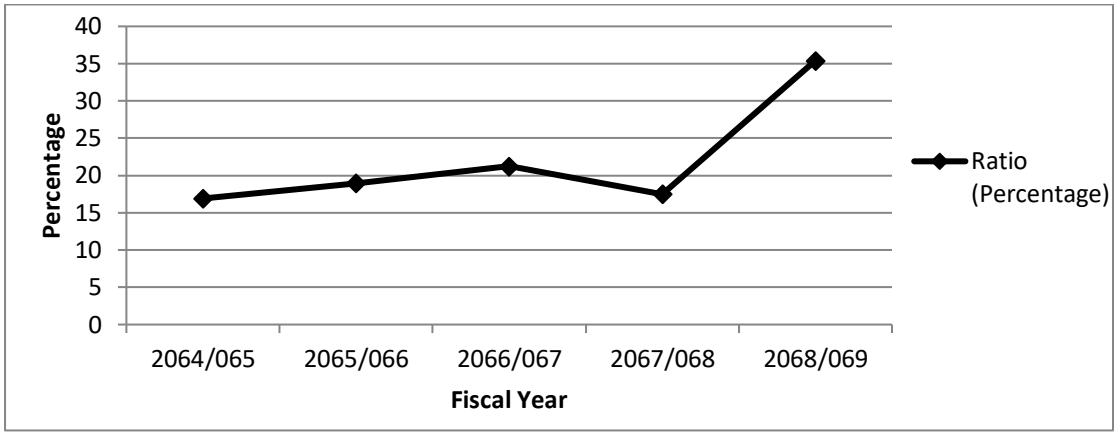
Table 4.18

Fiscal Year	EBDIT (Rs)	Net Assets (Rs)	Ratio (Percentage)
2064/065	5588341.01	33045748.93	16.91
2065/066	7742808.04	40889938.91	18.94
2066/067	9664380.32	45546151.30	21.22
2067/068	13015561.89	74358794.68	17.50
2068/069	24045623.55	67900364.33	35.41
		Average	22.00

Return from investment in Assets, is shown by ROI ratio. All firms expect good return from investment. So, the high ratio is desirable. This is also affected by gross profit margin and operating expenses. The average of ratio is 22.00% of the study period which seem to be satisfactory. The trend of ratio is shown in graph.

Return on Investment

Figure- 4.17



Return on Equity (ROE)

ROE = $\frac{Profit\ After\ Tax\ (PAT)}{Net\ Worth}$ in percentage.

Return on Equity (ROE)

Table 4.19

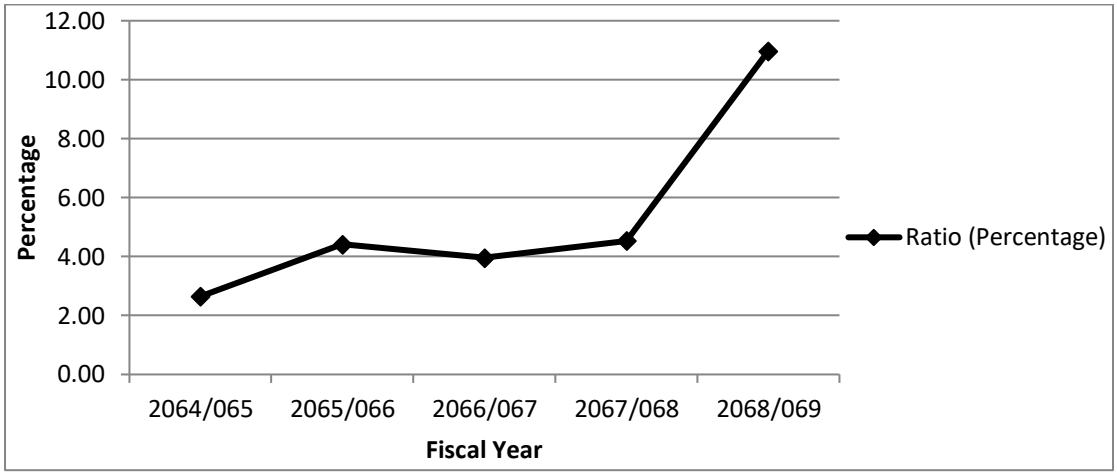
Fiscal Year	PAT (Rs)	Net Worth (Rs)	Ratio (Percentage)
2064/065	650637.34	24575388.31	2.65
2065/066	1135323.27	25710711.58	4.42
2066/067	1759072.21	44469783.79	3.96
2067/068	2077492.11	45890753.90	4.53
2068/069	5620814.07	51204818.17	10.98
		Average	5.30

The firm's real owner are the ordinary shareholders who bear all the risk, participate in management and are entitle to all profits remaining after all outside claims including dividend are met in full. (M.Y. Khan & P.K. Jain, 1993:105). ROE indicates how well the firm has used the resources of owners. The earning of a satisfactory return is the most desirable objective of the business.

The table shows that the ratio varied about 2.65% to 10.98% leading to average ratio of about 5.30 for the study period. Return on net worth of the PLO did not followed any particular trend and seem to be increasing trend over by the study period of time. It is because of higher operating ratio of the company net income earned during study period show not satisfactory on an average ratio of 5.30%. The trend of ratio is shown in graph.

Return on Equity

Figure- 4.18



Return on Assets (ROA)

ROA = $\frac{Profit\ After\ Tax+Interest}{Total\ Assets}$ in percentage.

Return on Assets (ROA)

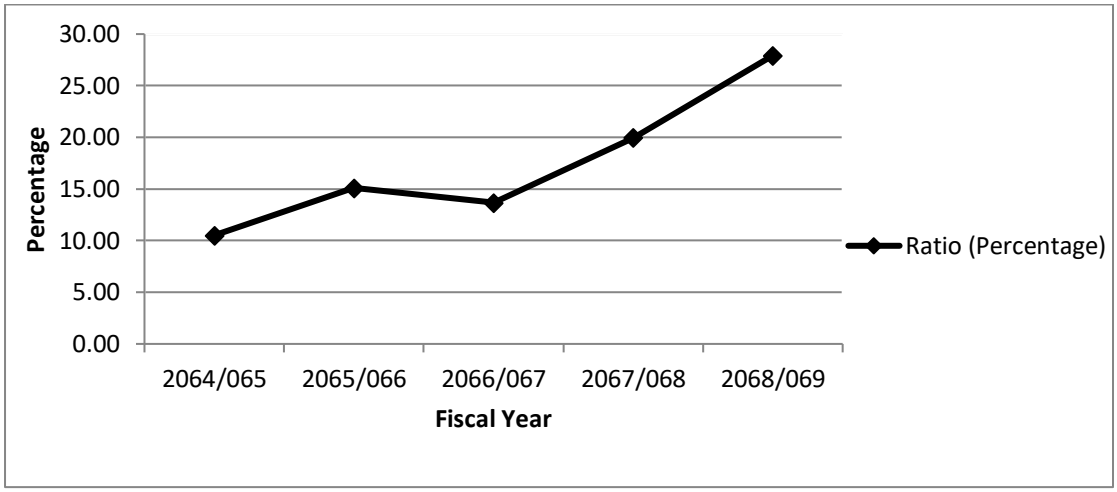
Table 4.20

Fiscal Year	PAT + Interest (Rs)	Total Assets (Rs)	Ratio (Percentage)
2064/065	3299811.44	31375315.56	10.52
2065/066	4669511.36	30910711.58	15.11
2066/067	6574113.84	48069783.79	13.68
2067/068	9560812.79	47890753.90	19.96
2068/069	17763329.93	63612818.17	27.92
		Average	17.44

The above table shows that the company was able to earn more than 27.92% return on its total assets in a year. The average return on assets ratio was about 17.44% during the study period. It implies that the firm's investment in total assets offer 17.44% return after recovering all operating expenses, interest and tax. The trend of ratio is shown in graph.

Return on Assets

Figure- 4.19



4.3 Statistical Tools Analysis

4.3.1 Standard Deviation (S.D.)

Calculation of S.D. of sales & Cost of goods sold

Sales (in Rs) is denoted by 'x'

& cost of goods sold (in Rs) is denoted by 'y'

Calculation of Standard Deviation (S.D.)

Table 4.21

Fiscal Year	x (in Millions)	y (in Millions)	$(x-\bar{x})^2$	$(y-\bar{y})^2$
64/065	58.2821	48.8066	4121.7196	2071.9229
65/066	75.4811	60.0510	2209.1523	1174.7057
66/067	96.5277	77.2666	673.6631	290.9883
67/068	165.8084	125.4472	1877.1145	968.5926
68/069	216.3143	160.0535	8804.3654	4320.2383
	$\sum x$ =612.4136	$\sum y$ =471.6249	$\sum(x-\bar{x})^2$ 17686.0149	$\sum(y-\bar{y})^2$ 8826.44787

$\bar{x} = \frac{\sum x}{n} = \frac{612.4136}{5} = 122.4827$

$\bar{y} = \frac{\sum y}{n} = \frac{471.6249}{5} = 94.3250$

Standard Deviation of Sales i.e., δ_x

$$\delta_x = \sqrt{\frac{\sum(x-\bar{x})\ 2}{n}}$$

$$= \sqrt{\frac{17686.0149}{5}}$$

= 39.2072 millions

Standard Deviation of Cost of goods sold i.e., δ_y

$$\delta_y = \sqrt{\frac{\sum(y-\bar{y})2}{n}}$$

$$= \sqrt{\frac{8826.4478}{5}}$$

= 42.0153 millions

Calculation of co-efficient of variation.

C.V. of Sales i.e., $CV_x = \frac{\delta x}{\bar{x}} \times 100$

$$= \frac{39.2072}{122.4827} \times 100$$

= 32.104%

C.V. of Cost of goods sold i.e., $CV_y = \frac{\delta y}{\bar{y}} \times 100$

$$= \frac{42.0153}{94.3250} \times 100$$

= 44.5431 %

The Standard deviation and C.V. of Sales are high. This shows the amount of variability is greater. It should be maintain uniform.

The standard deviation and C.V. of Cost of goods sold is also high, which indicates the greater amount of variability. It should be also maintain uniform.

4.3.2 Coefficient of Correlation Analysis

Calculation of co-efficient of correlation between sales and Gross Profit.

We Know That,

Karl pearson's Co-efficient of Correlation

Correlation (r) = $\frac{N\sum XY-\sum X.\sum Y}{\sqrt{N.\sum X^2-(\sum X)^2}.\sqrt{N\sum Y^2-(\sum Y)^2}}$

Here,

N = Number of Series of X and Y observed.

X = Values of Sales (in Rs.)

Y = Values of Gross Profit (in Rs.)

Where, N = 5

Calculation of Correlation between Sales and Gross Profit

Table 4.22

Fiscal Year	X (in Millions)	Y (in Millions)	X^2	Y^2	X.Y
64/065	58.2821	9.4753	3396.8032	89.78131	552.2404
65/066	75.4811	15.4301	5697.3965	238.08799	1164.6809
66/067	96.5277	19.2621	9317.5969	371.02850	1859.3262
67/068	165.8084	40.3611	27492.4255	1629.01839	6692.2094
68/069	216.3143	56.2608	46791.8764	3165.27762	12170.0156
	$\sum X =$ 612.4136	$\sum Y =$ 140.7894	$\sum X^2 =$ 92696.0984	$\sum Y^2 =$ 5493.19380	$\sum XY =$ 22438.4725

Now, substituting the values in above formula. We get,

$$r = \frac{5\times22438.4725-(612.4136\times140.7894)}{\sqrt{5\times92696.0984-(612.4136)^2}.\sqrt{5\times5493.19380-(140.7894)^2}}$$

$$= \frac{112192.3625-86221.3433}{\sqrt{88430.0745}.\sqrt{7644.3138}}$$

$$= \frac{25971.0192}{297.3719\times87.4318}$$

$$= 0.9989$$

Calculation of Coefficient of Determination

$r^2 = (0.9989)^2$

$= 0.9978$

Here the value of 'r' is positive. It shows that correlation between sales and gross profit is positive i.e., moves in the same direction. Coefficient of determination tells that 99.78% of the variation in the gross profit has been explained by the sales.

Calculation of co-efficient of correlation between sales and PAT.

Correlation (r) = $\frac{N\sum XY-\sum X.\sum Y}{\sqrt{N.\sum X^2-(\sum X)^2}.\sqrt{N\sum Y^2-(\sum Y)^2}}$

Where, N = 5

X = Denotes Sales in Rs.

Y= Denotes Profit after Tax (PAT) in Rs.

Calculation of Correlation between Sales and PAT

Table 4.23

Fiscal Year	X (in Millions)	Y (in Millions)	X^2	Y^2	X.Y
64/065	58.2821	0.6506	3396.8032	0.4233	37.91833
65/066	75.4811	1.1353	5697.3965	1.2889	85.69369
66/067	96.5277	2.2924	9317.5969	5.2551	221.28010
67/068	165.8084	2.7633	27492.426	7.6358	458.17835
68/069	216.3143	5.6208	46791.876	31.5934	1215.85942
	$\sum X =$ 612.4136	$\sum Y =$ 12.4624	$\sum X^2 =$ 92696.0984	$\sum Y^2 =$ 46.1965	$\sum XY =$ 2018.9299

Correlation (r) = $\frac{N\sum XY-\sum X.\sum Y}{\sqrt{N.\sum X^2-(\sum X)^2}.\sqrt{N\sum Y^2-(\sum Y)^2}}$

$= \frac{5\times2018.9299-(612.4136\times12.4624)}{\sqrt{5\times92696.0984-(612.4136)^2}.\sqrt{5\times46.1965-(12.4624)^2}}$

$= \frac{10094.6495-7632.1432}{\sqrt{88430.0745}.\sqrt{75.6711}}$

$= \frac{2462.5063}{2586.8228}$

= 0.9519

Calculation of Coefficient of Determination

$r^2 = (0.9519)^2$

= 0.9062

Here the value of 'r' is positive. It shows that correlation between sales and profit after tax is positive i.e., moves in the same direction. Coefficient of determination tells that 90.62% of the variation in the profit after tax has been explained by the sales.

Calculation of Correlation between Total Assets & Total Debt

$$\text{Correlation (r)} = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - (\sum X)^2}.\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where, N = 5

X = Value of Total Assets (in Rs.)

Y = Value of Total Debt (in Rs.)

Calculation of Correlation between Total Assets and Total Debt

Table 4.24

Fiscal Year	X (in Millions)	Y (in Millions)	X^2	Y^2	X.Y
64/065	31.3753	6.800	984.4104	46.2390	213.3499
65/066	30.9107	5.200	955.4721	27.0400	160.7357
66/067	48.0698	3.600	2310.7041	12.9600	173.0512
67/068	47.8908	2.000	2293.5243	4.0000	95.7815
68/069	63.6128	12.408	4046.5906	153.9585	789.3078
	$\sum X =$ 221.8594	$\sum Y =$ 30.0079	$\sum X^2 =$ 10590.7016	$\sum Y^2 =$ 244.1975	$\sum XY =$ 1432.2261

$$\text{Correlation (r)} = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - (\sum X)^2}.\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5\times1432.2261 - (221.8594\times30.0079)}{\sqrt{5\times10590.7016 - (221.8594)^2}.\ \sqrt{5\times244.1975 - (30.0079)^2}}$$

$$= \frac{7161.1305 - 6657.5347}{\sqrt{3731.9146}.\ \sqrt{320.5134}}$$

$$= \frac{503.5958}{1093.0292}$$

$$= 0.4607$$

Calculation of Coefficient of Determination

$$r^2 = (0.4607)^2$$

$$= 0.2123$$

Positive value of correlation shows the positive relation between total assets and total debt i.e., both move in same direction. Coefficient of determination tells that 21.23% of variation in the total debt has been explained by total assets.

4.3.3. Time Series (Trend) Analysis

Calculation of Sales Trend

Using the least square method

The straight line at trend is represented by the equation.

$Y_c = a+bx$ …… (i)

To find the value of a & b, we have to solve following two equation

$\sum Y = Na+b\sum X$ …… (ii)

$\sum XY = N\sum X+b\sum X^2$ …… (iii)

Calculation of Sales Trend

Table 4.25

Fiscal Year (X)	Sales (in Millions) (y)	x = X-2067	x^2	xy
2065	58.2821	-2	4	-116.5641
2066	75.4811	-1	1	-75.4811
2067	96.5277	0	0	0.0000
2068	165.8084	1	1	165.8084
2069	216.3143	2	4	432.6287
	$\sum y =$ 612.4136	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 406.3919$

Substituting the value in above equation (ii) & we get

$612.4136 = 5\times a + b\times 0$

or, $612.4136 = 5a$

$\therefore a = \frac{612.4136}{5} = 122.4827$

Using eq^n. (iii)

$406.3919 = 5\times0 + b\times10$

Or, $406.3919 = 10b$

$\therefore b = \frac{406.3919}{10} = 40.6392$

Substituting the value of a & b in eq^n (i), we get,

$Y_c = 122.4827+ 40.6392x$

Now, we can calculate sales trend of PLO

Calculation of sales in the fiscal year 2070/71

Here, We get x = 2070-2067

= 3

Y_c = 122.4827+ (40.6392×3)

= 244.4003 Million

∴ Sales in the F.Y 070/071 will be Rs. 244.4003 Million

Calculation of sales in the fiscal year 2074/075

Here, We get x = 2075-2067

= 8

Y_c = 122.4827+ (40.6392×8)

= 447.5387 Million

∴ Sales in the F.Y. 2074/075, will be Rs. 447.5387 Million

Here, the trend of sales of PLO is increasing trend. The condition of PLO is positive become its establishment.

Calculation of Net Profit After Tax Trend

$Y_c = a+bx$ …… (i)

$\sum Y = Na+b\sum X$ …… (ii)

$\sum XY = N\sum X+b\sum X^2$ …… (iii)

Calculation of Net Profit After Tax Trend

Table 4.26

Fiscal Year (X)	NPAT (in Millions) (y)	x = X-2067	x^2	xy
2065	0.6506	-2	4	-1.3013
2066	1.1353	-1	1	-1.1353
2067	1.7591	0	0	0.0000
2068	2.0775	1	1	2.0775
2069	5.6208	2	4	11.2416
	$\sum y$ = 11.2433	$\sum x$ = 0	$\sum x^2$= 10	$\sum xy$ = 10.8825

Now substituting the value in above equations, we get,

11.2433 = 5× a + b× 0

or, 11.2433 = 5a

$\therefore a = \frac{11.2433}{5} = 2.2487$

Now substituting the value of a in above equation, we get,

10.8825 = 2.2487×0 + b×10

10.8825 = 10b

$\therefore b = 1.0883$

The equation of straight line will be,

$Y_c = 2.2487 + 1.0883x$

Calculation of NPAT in the F.Y. 2069/70

We get x = 2067-2070 = 3

Y_c = 2.2487+ (1.0883×3)

= 5.5136 Million

∴NPAT in the F.Y. 2069/70 is 5.5136 Million

Calculation of NPAT in the F.Y. 2074/075

We get x = 2075-2067 = 8

Y_c = 2.2487+ (1.0883×8)

= 10.9551 Million

∴NPAT in the F.Y. 2074/75 is 10.9551 Million

Here, the trend of NPAT of PLO is increasing trend. The condition of PLO is positive become its establishment. The portion of profit is increasing day by day.

4.4 Major Finding

- PLO has not been better result of current assets. The standard position of a current ratio is (2:1) but the company has lower current ratio i.e. 1.61:1, 1.15:1, 1.46:1, 1.21:1, 1.16:1, respectively. In FY 2064/65 to FY 2068/69, it shows that the firm has higher short term current assets.
- The standard of a liquidity ratio is (1:1) but the company has low liquidity ratio, but in FY 2066/67 has higher liquidity ratio i.e. 1.12:1 and remaining year have lower the standard. From the liquidity ratio we know that the position of a company has lower quick assets than current liabilities.
- The company has been increasing cash ratio. This shows that the company should be fulfill the short term liabilities.
- The debt ratio of company has lies between 0.03 to 0.21 times in FY 2064/065 to 2068/069. This shows that the company should operate by owner capital. This means that the company should financed by interest rate.
- The debt to equity ratio of a company has lower than the standard (1:1). This means the company is using low level of debt, which is profitable to both creditors as well as owners. Low debt to equity ratio shows the high investment of shareholders in the firm.
- The relationship between total liabilities and total assets is total liabilities to total assets ratio. The standard ratio is (1:1) but it has higher than the standard i.e., 1.26:1, 1.48:1, 1.01:1, 1.58:1, 1.24:1 in FY 2064/065 to FY 2068/069 respectively. This ratio shows that the company is not satisfactory.
- The company has higher interest coverage ratio i.e., 2.19 times in FY 2065/066 and low in FY 2067/068 i.e., 1.74 times. This means that the company sufficiently reaches the interest from the operating profit. The standard norms of a ratio is 6 to 7 times said to be satisfactory but he company has lower interest coverage ratio which focus that the company only recovered interest by operating profit.
- The turnover ratio of the company is satisfactory. Average inventory ratio is 5.48 times. Lower inventory turnover ratio reflects excess inventory which may creditor's liquidity crises. The inventory holding period ranged from 38 day to 103 days. This shows day of holding period is low. Debtor's turnover

ratio is 2.59 times to 5.49 times. Average debtors turnover ratio is 4.2 times. Low debtor turnover ratio is desirable.

- The assets turnover ratio shows the capacity utilization of the assets. The Net assets turnover ratio ranged from 1.76 times to 3.19 times. This is satisfactory utilization fixed assets. The total assets turnover ratio ranged from 1.86 times to 3.46 times. This is satisfactory utilization of total assets. This means that the company has efficiently utilization of fixed assets.
- It is a fat that sufficient profit must be earned to run the business efficiently. By analyzing the financial statement we could say the industry could not run profitability. The average gross profit margin is 21.4% over the study period, which is not sufficient to cover operating expenses and to give net profit. Operating expenses ratio ranged from 84.06% to 90.55% over the study period, which is excess high and is the main case of loss. Under the operating cost both selling and distribution and administrative seems high.
- The average net income/margin is 1.66% shows positive sign during the study period. The average return on investment is 22%, which seem to be satisfactory. The ROE of the company ranged from 2.65% to 10.98%. This shows that the position of a company is satisfactory.
- Return on Assets of industry is ranged from 10.52% to 27.92% over the study period. This shows that the profitability position of the company is good.
- The standard deviation and C.V. of sales are high over the study period. This shows that the amount of variability is greater. It should be maintained uniform.
- The standard deviation and C.V. of cost of goods sold is also high, which indicates the greater amount of variability.
- The correlation between sales and gross profit is positive. Coefficient of determination shows 99.78% variance in gross profit is explained by sales.
- The correlation between sales and NPAT is positive. Coefficient of determination tells that 90.62% of the variation in the profit after tax is explained by the sales.
- The correlation between total assets and total debt is positive. Coefficient of determination tells that 21.23% of variation in the total debt has been explained by total assets.

- The trend analysis shows, increasing trend of sales. In FY 2074/075, it would be Rs. 477.5587 Million. This trend shows the company should operate desirably.
- The trend analysis shows the increasing trend of profit. In FY 2074/075, the profit would be Rs. 10.9551 Millions.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal "A world of its own" is only independent of country of the world. Nepal is an underdeveloped small and land locked country, which is situated in the heart of Asia, between India and China.

Nepal had predominantly agrarian economy. More than 80% of the economically active population is estimated to be involved in agriculture. But industrialization is a key factor of development of country. So, strong plans and policies are formed to give emphasis on industrialization. So many manufacturing industries are running along with other industries. Being a land locked country; surface transport is a vital to Nepal's development process. Purbanchal Lube Oil Pvt. Ltd is one which is established to fulfill the certain demand of Lube Oil of various vehicles, on 2058 B.S. under the company act 2053.

Profit is the primary measure of success of any firm. The objective of a business firm may to maximize its profit as well as to render service.

The specific objective of the study is to analyze financial performance of PLO, find weakness and strengths and provide necessary recommendation to improve its performance.

Financial statement analysis primarily includes income statement, balance sheet and cash flow statement. They are the real documents of the firm to analyze the real financial strength. However, financial healthiness of any firm can be tested through developing certain relationships between the different items of the financial statements. So before the firms starts sophisticated forecasting and master budgeting procedure, the financial analysis is the very key tool for financial decisions. This approach is to find out the quantitative selection, which would be used to diagnose strengths and weakness in the firm's performance. Those discovered data will be in concern of different interest group of the firm like common stock holder, investors, long-term and short-term creditors, customers etc. More over financial policies will be

directly or indirectly influenced in the financial performance. Therefore, it is the base for the firm's survival, growth and expansion

Ratio analysis is used in the valuation of accounting data of the firm. Different parties are interested in different ratios. Liquidity ratio shows ability of the firm to meet short-term obligation. Therefore short-term creditors are mainly interested in liquidity ratio. On the other hand, long-term creditors are interested in leverage ratio. Similarly owners of the firm are interested in the profitability position. Lastly, management of the firm is interested on overall financial position. So management is mainly concerned in various ratios.

5.2 Conclusion

The specific objective of the study is to analyze the financial performance of the PLO. PLO is a productive company. It has established in 2058 B.S. as a private company under company act 2053. It is located at the eastern parts of Nepal. It has provided the employment to 71 people. The company certified by ISO 9001:2000. Main production of the PLO is grease and Lubricants product.

The analysis of liquidity ratio show the financial condition of PLO is not good. Liquidity position is weak, debt ratio is seems to be satisfactory. The company has been increasing cash ratio. Debt to equity ratio of company has lower than the standard. The total liabilities to total assets ratio is not satisfactory. The interest coverage ratio is under the standard.

The turnover ratio of company is satisfactory. Debtor turnover ratio of company is desirable. The assets turnover ratio is satisfactory which shows that the utilization of fixed assets uniformly.

The gross profit margin is not good of the company, which is not sufficient to cover operating expenses and to give net profit. The net income shows positive sign of the company. Return on assets of industry is good.

Correlation between sales and gross profit, sales and NPAT are positive. Correlation between total assets and total debt is also positive. Trend of sales and profit are increasing.

5.3 Recommendation

On the basis of study, the following suggestions are recommend for consideration.

1. It is observed that there is inconsistency in between current assets and current liabilities of the company. Hence the company should increase current assets.
2. The company should increased debt to expand the business activities.
3. The company should increase sales volume to increase gross profit.
4. The company should adopt the policy to minimize operating expenses to earn profit.
5. The company should follow the participative management system to encourage employee.
6. Company should applied two way communication system for convey the message.

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