
Profitability, Liquidity and Solvency of M/s Synergies Castings Ltd. : An Overview of specific Financial Analysis and Interpretations

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Abstract

The Financial Management is not only arranging of funds but also planning, forecasting, raising and allocation of funds for the business. The financial analysis is largely a study on the relationship among the various financial factors of a company which are disclosed in its financial statements. The trend of such factors is shown in different forms of statements viz. comparative statements, common size statements, trend percentages and financial ratio. Synergies Casting Ltd. gained a brand name in the field of alloy manufacturers and allied products. This case study is an attempts to analyze its financial performance of Synergies Casting Ltd through financial analysis and interpretations.

Introduction

The financial management is concerned with the proper management of financial resources so that factors like risk, cost and control considerations are properly balanced in a given situation and there is optimum utilization of funds which helps in profit planning, capital spending, measuring costs, controlling inventories, accounts receivable etc. The financial statement analysis is largely the study of relationship among the various financial factors of a company which is disclosed by its financial statements. It is the study of the trend of these factors as shown in different forms of statements viz., comparative statements, common size statements, trend percentages, and financial ratios.

Prime Objective and Methodology

- To study the profitability and liquidity position of Synergies Castings Limited on the basis of financial analysis during 2005-06 to 2007-08.

- To evaluate and interpret the financial performance of Synergies Castings Limited through selected financial ratios during the period specified above.

Primary data for this case are obtained by interviewing and discussing with various officials and executives of Synergies Castings Ltd. While, Secondary data is taken from various books, journals,

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published reports, brochures and annual reports of Synergies Castings Ltd.

A Brief Profile of M/s Synergies Castings Ltd.

Synergies Castings Limited was founded in February 1996 by Mr. Shekhar Movva, an MS and MBA who had previous work experience in the automotive industries in US, Japan and India. He was ably supported by a team of competent professionals who brought a global orientation to their work and were responsible for achieving goals of the company.

“Synergies is the venture of Doorway Corporation, which is Korea’s leading alloy wheel manufacturers. It has a progressive, professional and contemporary work culture having promulgated several initiatives such as-adoption system, activity Based Costing, ESOP (from senior management to supervisors), implementation of the corporate governance code, social benefit programme etc..”

Synergies Castings Limited is India’s first globally scaled 100% export oriented, world-class aluminum alloy wheel manufacturing plant situated in the south-eastern coast of India at Visakhapatnam. It harnesses the power of Low Pressure Die Casting (LPDC) and customized copper-nickel-chrome electroplating technology in the manufacturing and finishing of aluminum alloy wheels and other cast components.

Synergies are constantly evolving to meet the requirements of customers. They are an integrated supplier who can deliver all finished and associated accessories from base alloy wheels to polished and chrome-plated wheels. Alloy wheels are substituted for steel wheels used in automobiles. However, alloy wheels initially used in the late sixties were produced in the unrecognized sector. Building on current manufacturing skills and engineering strengths, Synergies have forayed into pre aluminum and plastics. Apart from offering high-end chrome plating on aluminum and plastics, they also provide engineering services such as design, engineering analysis, development, prototyping and testing precision castings for other automotive and engineering companies.

Synergies casting is one of the India’s premier non-ferrous component companies, manufacturing world-

class aluminum castings, plastic components and alloy wheels. It offers solutions for pressure die-cast components, LPDC components of all types of aluminum cast alloys, plastics and assemblies. Synergies manufacturing infrastructure includes the state-of-the-art per annum capacity of more than 6000 tones of aluminum casting, T6 heat treatment, shot blasting, CNC machining, plastics injection molding systems, electrostatic paint systems (for non-ferrous and plastic components) and a completely automated, MMI controlled electroplating (non ferrous and plastic components) facility- all in house to ensure comprehensive delivery process. They use Low Pressure Die Casting (LPDC) technology for casting, and custom Copper-Nickel-Chrome electroplating technology for “Chrome” finishing the alloy wheels. Synergies wheel is a 100% X-rayed, leak tested and undergo a series of mechanical and chemical tests to ensure that only the highest quality product reaches the customers.

Synergies engineering services division provides end-to-end solutions that cater to the automotive and engineering industries. Synergies product design services include concept design, engineering analysis, tooling, prototyping, product manufacturing, testing and supply. They understand the entire APOQ process and deploy cutting edge concepts such as DFMEA, DFM, PPAP, FEA and VE to ensure stability and reliability in our development processes as well as ensuring an optimal design for manufacturability.

The major clients of Synergies Castings Limited are the leading companies like Ford, GM, Mahindra & Mahindra, TATA and Toyota Etc.

Ratio Analysis

In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The relationship between two accounting figures expressed mathematically is known as financial ratio. Ratios help to summarize large quantities of financial data and to make qualitative judgment about the firm’s financial position. It is used as a device to analyze and interpret the financial health of the enterprise. It is the process of establishing and interpreting various ratios which help in make certain decisions. Ratio analysis is not an end in itself. It is only a means of better understanding

of financial strengths and weaknesses of a firm. The Financial analysis through ratios also helps the inventory management for the company such as Synergies Casting PVT. Ltd. Synergies being a alloy wheels manufacturing unit running 365 days throughout the year and 24 hrs a day makes it costly to afford stopping on the account of non availability of stock of material. This is possible by the efficient management of its inventory.

Profitability position

Gross and Net Profits of Synergies Castings Ltd. during 2005-06 to 2007-08 are shown in Table-1. It is observed that the Gross Profits of Synergies Castings Ltd have constantly increased from Rs. 1,197.37 lakhs to 4,662.24 lakhs during 2005-08 due to the abnormal increase of Net sales (4 times) during the study period. Yet GP ratios of Synergies Castings Ltd registered decrease in this period. Reasons might be increase in cost of production of goods. It is a good sign that the SCL (of Synergies Castings Ltd) maintains nearly one-third of GP ratio during the past three years.

Net Profits of the Synergies Castings Limited have gradually decreased from 2005-06 to 2007-08 i.e. from 5.52% to 4.83% due to increase in major financial charges especially interest charges. It is better to discharge interest bearing liabilities by disinvestment in current assets to recover the Net Profit.

The operating ratio of Synergies Casting Limited indicates that there is a small portion left out to cover taxes, dividends, interest, reserves etc. In the year 2005-2006, the ratio was shown as 92.73 but it was reduced to 89.93 and 89.41 in 2006-07 and 2007-08 respectively. It is understood from the Table 2 that the Synergies was able to reduce the percentage of operating expenses in the total sales during the year 2007-2008 compared to the previous years. It is suggested that Synergies should minimize or at least maintain the same level of operating expenses as against its sales to enhance profitability in the future.

The Return on Capital Employed indicates how well the management has utilized the funds supplied by the owners and creditors (Table-3). The Net profit before interest payments and tax deductions of Synergies was phenomenally increased from Rs.2.93 crores in 2005-06 to Rs 16.25 crores in 2007-08 due

to doubling of capital employed during the similar period. Consequently, the ratio of ROCE of Synergies Casting Ltd was increased from 7.94% to 16.33% during the period., the Synergies Castings Ltd. introduced more and more capital funds time to time in order to enhance the business activities and to compete in the foreign market of its alloy products.

The return on proprietor's funds or shareholders' ratio of SCL is 5.87% in the year 2005-06 (Table- 4). It was increased to 7.63% in the year 2006-07 and in the year 2007- this increased to 7.73 due to increased in net profits as well as proprietor's funds. This is a good sign to both the company and the shareholder.

The Equity funds of Shareholders along with the Net profit of Synergies Castings limited during 2005-06 to 2007-08 are given in Table - 5. It is observed from the table that Return on Equity Capital of Synergies Casting Ltd. has increased by 1.28 percent (6.97 to 8.25) during the above period due to more than Rs. 5 crores increase in NP and also double the increase of Proprietary funds. Hence, it is understood that the company is capable to capture the consumers demand, steady rate of increase in sales, market share in the country and as well as across the globe.

Liquidity position

Current assets, Current Liabilities and Quick assets of SCL are given in Table-6. Generally Current Ratios of any organization are used to check whether the company is able or not able to meet it's Current Liabilities with its own Current Assets. It is a good sign for synergies which maintains the standard Current Ratio of 2:1 that is it maintains adequate working capital and good financial position by its effective utilization and efficient management of its monetary affairs.

It is inferred that the positive Current Ratio of Synergies Castings Limited reveals the proper maintenance of its current as well liquid assets. As current ratios of Synergies castings limited in 2005-06, 2006-07 and 2007-08 are 4.44, 5.74 and 5.8 respectively, it can be inferred that it can easily discharge its Current Liabilities and maintains good financial position for the prompt and timely payment of its current liabilities. It is suggested that SCL

should keep the same level of liquidity along with the profitability for its survival and growth in the long run.

The Quick Ratio of Synergies Castings Limited showed a greater increase due to investment in current assets i.e. stock and the liquid assets are increased year after year. It leads to good Liquidity position and it always maintained the standard Liquid Ratio of 1:1. During the study period, the quick Ratio is 1.89, 2.44 and 3.32 in 2005-06, 2006-07 and 2007-08. Consequently, the company can easily convert their current assets into liquidity to discharge the liquid liabilities. Since the absolute assets are less than the Current Liabilities in the above three years i.e. 0.57% in 2005-06, 0.05% in 2006-07 and 0.67% in 2007-08 (Table-7), the Absolute Liquidity Ratio of Synergies Castings Limited is not in a good position.

Solvency Position

It is observed from the Table -8 that during the year 2005-06, the debt equity ratio of Synergies Castings Limited showed 0.65:1 in 2006-07, has increased to 1.01:1 which was not a good sign for the company especially in 2006-07 financial year because as per accounting standards, the debt equity ratio should be less than one. During the 2007-08 the ratio come down to 0.28:1. This indicates redemption long-term liabilities during this financial year 2007-08. It will be better to maintain the same ratio for the subsequent periods. Proprietary Ratio of Synergies Castings Limited is observed from the Table -9 that the total assets has abnormally increased from 75.326 crores in 2005-06 to 191.773 crores in 2007-08 due to 168 percent increase of proprietor's funds in Synergies Castings Ltd. It is a good sign that the company maintains a funds for the operations and investments.

Turnover Position

There is no thumb rule for working capital turnover ratio but a higher ratio indicates the efficient utilization of working capital and a low ratio indicates under utilization of working capital. From the 2005 – 2006 to 2007–2008 the working capital turnover ratio of synergies casting limited is increasing year by year, that is 1.11, 1.67 and 1.84 during 2005-06, 2006-07 and 2007-08 respectively (Table-10). It represents improvement in the efficiency of the management in

utilization of working capital. It shows that the company's current Assets were increased a higher rate than the current liabilities.

Debtors Turnover ratio indicates the relationship between net credit sales and trade debtors. It shows the rate at which cash is generated by the turnover of debtors. From the Table -11, it was identified that in the year 2005-06, the debtors turnover ratio of Synergies Castings Limited shows 5.32 times against credit sales. It was reduced to 5.10 in 2006-07 again, it was increased to 5.55 times during 2007-08. The average debtors increased in the proportion of credit sales. It helps to the company to maintain standard liquidity to the concern.

The Inventory Turnover Ratio of Synergies Castings Limited given in Table -12, reveals that the stock turnover ratio is 1.04 in the year 2005-06, 2.23 in the year 2006-07 and 2.53 in 2007-08 which shows that the average stock available is more than two times from 2005-06 to 2007-08. This is good sign to the company for the forthcoming periods.

A Comparative View

The sales from 2005-06 to 2006-07 increased by 182% (Table -13) but at the same time, the cost of goods sold increased by 195%. The company was unable to keep control on cost of goods sold otherwise the gross profit rate would increase more. Though the company expected higher net profit which could not be achieved due to increase in costs. It was not an achievement of the company but the overall profitability position of the company is satisfactory.

As per the Table 14A the Synergies Castings Limited invested more funds on fixed assets in the year 2007 compared to 2006 i.e. Rs. 93289. It appreciatively increased by 613% and at the same time, company withdrew the full amount in the year 2007. Therefore, there is no much impact of fixed assets turnover due to increase in the fixed assets.

Table -14B, reveals that the loans and advances are increased substantially in the current year 2008 compared to 2007 i.e. 742.30%. It indicates the firm spent more funds on advances to suppliers. The depreciation fund increased in the current year but there was comparatively a slight decrease in 2008.

At the same time, the company's secured loans were - 48.5% in the current year. If we observe the overall performance of the company, it utilized more funds from depreciation account and secured loans. More over, investment in current assets also increased during this period . It shows the firm's the liquidity position and financial strength are good.

Conclusion

Synergies Castings Ltd. was incorporated in the year 2005 with an initial investment of Rs.50 crores and with an annual production capacity of 6000 tones of alloys/castings. The main objective of Synergies was to move towards production of quality products with technological advancement, environment friendly practices, better manufacturing efficiency and price competitiveness demanded by global consumers. With a vision to provide best quality alloy products and to cater the customer's need both in domestic and foreign market, Synergies Casting Ltd. gained a brand name in the field of alloy manufacturers and allied products. As the study of financial analysis and its interpretations is an effective tool and paramount importance, the

case study after analyzing important financial indicators of Synergies Castings Ltd during the period of 2005-06 to 2007-08, finds that the profitability, liquidity and solvency position of Synergies are all up to the mark and moving towards the fulfillment of its objectives, for better results and for better performance in the long run.

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Table - 1 : Profitability of Synergies Castings Ltd.

Year	Net Sales (in Rs.'000)	Gross Profit (in Rs.'000)	GP Ratio (in %)	Net Profit (in Rs.'000)	NP Ratio (in %)
2005-06	3,93,410	1,19,737	30.44	21,728	5.52
2006-07	11,08,889	3,02,749	27.30	58,826	5.30
2007-08	16,13,596	4,66,224	28.89	77,938	4.83

Table - 2: Operating Ratios of Synergies Castings Ltd.

Year	Cost of Goods Sold * Oprtg. Expenses (in Rs '000)	Net Sales (in Rs. '000)	Ratio (in %)
2005-06	3,64,816	3,93,410	92.73
2006-07	9,97,240	11,08,889	89.93
2007-08	14,42,712	16,13,596	89.41

Table - 3: Return on Capital Employed in Synergies Castings Ltd.

Year	Net Profit before Interest and Tax (in Rs '000)	Capital Employed (in Rs '000)	Ratio (in %)
2005-06	29,363	3,69,936	7.94
2006-07	1,08,041	7,71,378	14.01
2007-08	1,62,489	9,94,908	16.33

Table - 4 : Return on Proprietors Fund of Synergies Castings Ltd.

Year	Net Profit (in Rs. '000)	Proprietors Fund (in Rs. '000)	Ratio (in %)
2005-06	21,728	3,69,936	5.87
2006-07	58,826	7,71,378	7.63
2007-08	77,938	9,94,908	7.83

Table -5 : Return on Equity Capital of Synergies Castings Ltd.

Year	Net Profit (in Rs. '000)	Equity Share Holders Fund (in Rs. '000)	Ratio (in %)
2005-06	21,728	3,11,656	6.97
2006-07	58,826	7,21,594	8.15
2007-08	77,938	9,45,124	8.25

Table - 6 Current and Quick Ratios of Synergies Castings Ltd.

Year	Current Assets (in Rs '000)	Quick Assets (in Rs '000)	Current Liabilities (in Rs '000)	Current Ratio	Quick Ratio
2005-06	4,57,858	1,95,138	1,03,030	4.44	1.89
2006-07	8,02,839	3,41,652	1,39,958	5.74	2.44
2007-08	10,59,023	6,07,120	1,82,685	5.80	3.32

Table - 7 : Absolute Liquid Ratios of Synergies Castings Ltd.

Year	Cash in Hand & Bank + Investments (in Rs. '000)	Current Liabilities (in Rs '000)	Ratio
2005-06	58,615	1,03,030	0.57
2006-07	7,442	1,39,958	0.05
2007-08	1,21,773	1,82,685	0.67

Table -8 : Debt Equity Ratios of Synergies Castings Ltd.

Year	Long Term Debts (in Rs '000)	Equity Share Holder's Funds (in Rs '000)	Ratio
2005-06	1,78,598	2,75,970	0.65
2006-07	3,96,337	3,91,952	1.01
2007-08	2,40,415	8,62,895	0.28

Table -9 : Proprietors Ratios of Synergies Castings Ltd.

Year	Proprietors Fund (in Rs '000)	Total Assets (in Rs '000)	Ratio
2005-06	3,69,936	7,53,260	0.49
2006-07	7,71,378	12,80,247	0.60
2007-08	9,94,908	19,17,731	0.52

Table -10: Working Capital Turnover Ratios of Synergies Castings Ltd.

Year	Sales (in Rs '000)	Working Capital (in Rs '000)	Ratio
2005-06	3,93,410	3,54,728	1.11
2006-07	11,08,889	6,62,881	1.67
2007-08	16,13,596	8,76,338	1.84

Table -11: Debtors Turnover Ratios of Synergies Castings Ltd.

Year	Credit Sales (in Rs '000)	Average Debtors (in Rs '000)	Ratio
2005-06	3,93,410	73,881	5.32
2006-07	11,08,889	2,17,192	5.10
2007-08	16,13,596	2,90,419	5.55

Table -12: Inventory Turnover Ratios of Synergies Castings Ltd.

Year	Cost of Goods sold (in Rs '000)	Average Stock (in Rs '000)	Ratio (in times)
2005-06	2,73,673	2,62,430	1.04
2006-07	8,06,140	3,61,133	2.23
2007-08	11,47,372	4,54,155	2.53

Table -13 : Comparative P& L accounts of Synergies Castings Ltd.

Particulars	2006 (in Rs. '000)	2007 (in Rs '000)	Absolute Change (in Rs '000)	Absolute Change
Gross Sales	4,31,741	12,01,380	7,69,639	178.26
(-) Sales Returns	38,331	92,491	54,160	141.30
Net Sales	3,93,410	11,08,889	7,15,479	181.87
(-) Cost of Goods Sold	2,73,673	8,06,140	5,32,467	194.56
Gross Profit	1,19,737	3,02,749	1,83,012	152.84
(-) Operating expenses	91,143	1,91,100	99,957	109.67
Operating Profit	28,594	1,11,649	83,055	290.46
(+) Non Operating Incomes	3,468	8,226	4,758	137.20
(-) Non operating Expenses	32,062	1,19,875	87,813	273.88
Profit Before Interest & taxes	29,363	1,08,041	78,678	267.95
(-) Interest	6,932	37,482	30,550	440.71
Profit Before taxes	22,431	70,559	48,128	214.56
(-) Taxes	703	1,1733	11,030	1568.99
Net profit	21,728	58,826	37,098	170.74

Table -14 A: Comparative Balance sheet of Synergies Castings Ltd.

Particulars	2006 Rs in '000	2007 Rs in '000	Absolute Change in Rs	Absolute Change in %
Fixed Assets	15,208	1,08,497	93,289	613.42
Investment	50,117	0	-50,117	-100
Inventories	2,62,430	4,59,836	1,97,406	75.22
Sundry debtors	1,47,542	2,86,842	1,39,300	94.41
Cash & bank balances	8,498	7,442	-1,056	-12.42
Other Current assets	8,272	18,451	10,179	123.05
Loans & advances	31,116	30,268	-848	-2.72
Misc expenditure	34,989	27,259	-7,730	-22.09
Total Assets	5,58,172	9,38,595	3,80,423	68.15
Capital	1,64,391	1,78,695	14,304	8.7
Reserves & Surplus	1,11,579	2,13,257	1,01,678	91.12
Secured loans	1,36,352	3,59,340	2,22,988	163.53
Unsecured loans	42,246	36,997	-5,249	-12.42
Deferred tax liability	0	7,271	7,271	0
Depreciation fund	474	3,077	2,603	549.15
Current liabilities	1,03,130	1,39,958	36,828	35.71
Total Liabilities	5,58,172	9,38,595	3,80,423	68.15

Table -14B: Comparative Balance sheet of Synergies Castings Ltd.

Particulars	2007 Rs in '000	2008 Rs in '000	Absolute Change in Rs	Absolute Change in %
Fixed Assets	1,08,497	1,18,570	10,073	9.28
Investment	0	90,967	90,967	100
Inventories	4,59,836	4,48,475	-11,361	-2.47
Sundry debtors	2,86,842	2,93,996	7,154	2.49
Cash & bank balances	7,442	30,806	23,364	313.94
Other Current assets	18,451	30,798	12,347	66.91
Loans & advances	30,268	2,54,948	2,24,680	742.302
Misc expenditure	27,259	42,051	14,792	54.2646
Total Assets	9,38,595	13,10,611	3,72,016	39.63
Capital	1,78,695	2,32,028	53,333	29.84
Reserves & Surplus	2,13,257	6,30,867	4,17,610	195.82
Secured loans	3,59,340	1,86,667	-1,72,673	-48.05
Unsecured loans	36,997	53,748	16,751	45.28
Deferred tax liability	7,271	10,442	3,171	43.61
Depreciation fund	3,077	14,174	11,097	360.64
Current liabilities	1,39,958	1,82,685	42,727	30.52
Total Liabilities	9,38,595	13,10,611	3,72,016	39.63