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# BANGALORE UNIVERSITY



## A Project Report On

**“A Study on Financial Analysis of Indira Steel and Hardwares in Retail Segment”**

Submitted in partial fulfillment for the award of the degree in

**UNDER GRADUATE DEGREE**

In

**BACHELOR OF BUSINESS ADMINISTRATION**

Submitted By:

**HITESH PODDAR  
15A1C26013**

Under the guidance of

**PROF. SABITA RANILAL  
Specialization – FINANCE**



**DEPARTMENT OF BBA**

**NEW SHORES INTERNATIONAL COLLEGE  
Banaswadi, Bengaluru, Karnataka 560043**

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## **CERTIFICATE FROM THE COLLEGE**

This is to certify that this project work titled “**A Study on Financial Analysis of Indira Steel and Hardwares in Retail Segment**” is based on an original project study conducted by **HITESH PODDAR**, Bangalore University Register Number **15A1C26013** of VI semester BBA under the guidance of **PROF.SABITA RANILAL**.

This project work is based on original and has not formed the basis for the award of any degree by Bangalore University or any other university.

**Principal**

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## **CERTIFICATE FROM THE CHAIRMAN**

This is to certify that the dissertation entitled “**A Study on Financial Analysis of Indira Steel and Hardwares in Retail Segment**” is a record of independent research work done under my guidance by **HITESH PODDAR**, Bangalore University Register Number **15A1C26013** the student of final year BBA, New Shores International College, Bangalore.

This dissertation has not been submitted for the award of any Under Graduate Degree, Associate ship or other similar title.

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## **CERTIFICATE FROM THE GUIDE**

This is to certify that the dissertation entitled “**A Study on Financial Analysis of Indira Steel and Hardwares in Retail Segment**” is a record of independent research work done under my guidance by **HITESH PODDAR**, Bangalore University Register Number **15A1C26013** the student of VI semester BBA, New Shores International College, Bangalore.

This dissertation has not been submitted for the award of any Under Graduate Degree, associate ship or other similar title.

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## **DECLARATION**

I hereby declare that this project titled “**A Study on Financial Analysis of Indira Steel and Hardwares in Retail Segment**” has been prepared under the guidance and supervision of **PROF. SABITA RANI LAL, New Shores International College, Bangalore** in partial fulfillment of the requirements for the award of the Under Graduate Degree in

**“BACHELOR OF BUSINESS ADMINISTRATION”**

I also declare that this project is the result of my own effort and that it has not been submitted to any other university for the award of any other Under Graduate Degree.

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This is to certify that **Mr. HITESH PODDAR** (15A1C26013) student of New Shores International College, Banaswadi. Branch BBA, has successfully completed his internship program at Indira Steel and Hardwares, Hebbagodi.

During the internship he has closely worked as a part to

**“The study on financial analysis of Indira Steel and Hardwares in Retail Segment.”**

under Mr. Pankaj Poddar, and Pratik Sihani.

He demonstrated good accounting, marketing skills and strategy with self-motivated attitude to learn new things. His contribution to creative ideas, sales presentation and study of different strategy to purchase kept the company in good profits.

We wish him all the best for his future endeavours.

For INDIRA STEEL AND HARDWARES

*Uma Devi Poddar*  
Proprietor

Mrs. Uma Devi Poddar  
Proprietor



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# **CHAPTER – 1**

# **INTRODUCTION.**

## **1.1 COMPANY PROFILE.**

Indira Steel and Hardwares was established in 2014 by Chairman & Managing Director Mrs. Uma Devi Poddar and Mr. Pankaj Poddar and became successful at an amazing pace. Breaking upon the unbeatable quality, unrivalled services and industry-leading Competitively priced products, today we are positioned as the forerunners in supplying building materials for engineering and construction industry. The main vision of the company is to become one stop shop solution for the customers. The company has been started with the guidance of their parents who hold a high experience in the field. The quality and the services are what Indira Steel and Hardwares stand for ISAH deals with many products in store like Iron & Steel, MS Angle & Channel, Hr & Cr Pipes, PVC & CPVC Pipes & Fittings, Rolling Shutters, Colour Coated & Poly Carbonate Sheet, Cements and its Products, Paints & Hardwares items, Sanitary ware & Fittings, All kinds of fabrication items, Tiles and its Adessives, and Safety tool with its Kits. Indira Steel and Hardwares is expanding towards Plywood and Glass industry.

Managing Director, Mr. Pankaj Poddar has been experienced in the field past 30 years. His Skills and strategy in the field is getting the company to the position its been recognised locally. The future of Indira Steel and Hardwares is to be in the Share Market list in the field of Manufacturing and getting the products exported and import the raw materials. Indira Steel and Hardwares is been prestigious by becoming the dealer of multinational producing companies. The main companies in dealing steel are Kamadenu Steel, Tata Steel, Meenakshi Steel, Kay2 Steel, Aone Steel. The companies in cements are Ramco Cements, Chettinard Cements, Priya Cements, Deccan Cements. There are many other various companies which ISAH deals with like Shri Lakshmi Steel and Suppliers, Durastrong. Asian Paints pvt ltd, Gem Paints.

The company has a vision to acquire the market by producing products directly to the builders, wholesalers, Retailers and consumers.

## **Financial Analysis on Indira Steel and Hardwares in Retail Segment**

### **1.2 ABSTRACT**

Financial Statements tells us about the health of the company. Analysis of Financial Statements involves reviewing and analysing a company's Financial Statements to provide useful financial information and taking fruitful financial decisions. The main purpose of doing an analysis of financial statements of a company is to determine the trend of various items of Balance Sheet and Income/Profit & Loss Statements which help in predicting the future outcome and workings of the company. It is also done to ascertain financial problems of the company, identify key areas of importance and lay emphasis on improving on those problems. This analysis would be of utmost importance to the stakeholders of the company ie. its Promoters, Shareholders, Investors, Management, Employees, Government, Creditors, Customers and General Public. These people are interested in the workings of the company. An analysis of Financial Statements involves Horizontal/Comparative Statement Analysis, Vertical/Common Size Statement Analysis, Ratio Analysis and Trend Analysis. In India, Analysis of Financial Statements is done by Professionals or Investment Banking firms who study the Financial Statements of the company before coming up with any conclusion about the company. This analysis provides valuable insight to the company as they can allocate their funds accordingly and park any extra funds for earning best possible return on investment. It occupies a very important position in modern day Investment. However, a company cannot be said to be sound or appropriate for investment just by looking at its financial statements, there are other factors like tax compliances, corporate governance, management support, internal control etc which need to be looked upon before investing. Retail customer segmentation is an invaluable tool to identify consumers whose needs have not yet been met. When a company effectively determines those segments of its consumer base, the company can use that data to make positive changes in service offerings and create distinctive products that appeal to the specific needs and interests of these individuals.

### 1.2.1 Strategic Retail Customer Segmentation

The driving force behind the purpose of customer segmentation is understanding consumers' needs, interests, and values. Marketing professionals can catapult company growth to the next level simply by dividing their customer base into various groups with shared characteristics, such as:

- Interests and needs
- Gender and age
- Spending history

An important factor in using segmentation effectively is to identify the most profitable consumers and focus tailored, 1-to-1 marketing strategies on that specific segment. A fluid data analysis must be applied to ensure that the consumer information received is relevant to changes in the market and individual purchase history.

Companies that implement an accurate retail consumer segmentation analysis program will reap several benefits, which include the following:

- **Assessing Value** – Segmentation data can assist in the process of listing products and services at the optimal selling price for both the company and the consumer.
- **Product Expansion** – Companies can streamline research and development time for new products by effectively analyzing and integrating consumer segmentation data.
- **Individualized Strategy** – Consumers will be more engaged through the delivery of data-driven content, site personalization and tailored marketing strategies.
- **Effective Highlighting** – Analysis of segmentation data assist in choosing which products and services to feature across all marketing channels to optimize sales.
- **Consumer Experience** – Creating the right consumer benefits package maximizes satisfaction and cultivates long-term patronage of the company.

Selling consumer goods or services to customers through multiple channels of distribution to earn a profit. Retailers satisfy demand identified through a supply chain. The term "retailer" is typically applied where a service provider fills the small orders of a large number of individuals, who are end-users, rather than large orders of a small number of wholesale, corporate or government clientele. Shopping generally refers to the act of buying products. Sometimes this is done to obtain final goods, including necessities such as food and clothing; sometimes it takes place as a recreational activity. Recreational shopping often involves window shopping and browsing: it does not always result in a purchase.

Retail markets and shops have a very ancient history, dating back to antiquity. Over the centuries, retail shops were transformed from little more than "rude booths" to the sophisticated shopping malls of the modern era. Some of the earliest retailers were itinerant peddlers.

Most modern retailers typically make a variety of strategic level decisions including the type of store, the market to be served, the optimal product assortment, customer service, supporting services and the store's overall market positioning. Once the strategic retail plan is in place, retailers devise the retail mix which includes product, price, place, promotion, personnel and presentation. In the digital age, an increasing number of retailers are seeking to reach broader markets by selling through multiple channels, including both bricks and mortar and online retailing. Digital technologies are also changing the way that consumers pay for goods and services. Retailing support services may also include the provision of credit, delivery services, advisory services, stylist services and a range of other supporting services.

Retail shops occur in a diverse range of types and in many different contexts – from strip shopping centres in residential streets through to large, indoor shopping malls. Shopping streets may restrict traffic to pedestrians only. Sometimes a shopping street has a partial or full roof to create a more comfortable shopping environment – protecting customers from various types of weather conditions such as extreme temperatures, winds or precipitation. Forms of non-shop retailing include online retailing (a type of **electronic-commerce** used for **business-to-consumer (B2C)** transactions) and mail order.

Thus analysis of financial statements and valuation of shares helps to highlight the facts and relationships related to corporate efficiency, managerial performance, financial strength and weakness and credit worthiness of the company.

## **1.3 DEFINITIONS**

### **1. What is Finance.?**

Finance is a broad term that describes two related activities: the study of how money is managed and the actual process of acquiring needed funds. It encompasses the oversight, creation and study of money, banking, credit, investments, assets and liabilities that make up financial systems.

### **2. Definition of Financial Analysis**

The process of evaluating businesses, projects, budgets and other finance-related entities to determine their suitability for investment. Typically, financial analysis is used to analyze whether an entity is stable, solvent, liquid, or profitable enough to be invested in. When looking at a specific company, the financial analyst will often focus on the income statement, balance sheet, and cash flow statement. In addition, one key area of financial analysis involves extrapolating the company's past performance into an estimate of the company's future performance.

### **3. Meaning of Financial Analysis**

Financial analysis is the examination of a business from a variety of perspectives to fully understand the greater financial situation and determine how best to strengthen the business. A financial analysis looks at many aspects of a business from its profitability and stability to its solvency and liquidity.

### **4. Concept of Financial analysis**

Financial analysis is the process of evaluating the cash flows associated with different management scenarios in order to determine their relative profitability. This is clearly an important factor to consider in evaluating alternatives, but not necessarily the only one. At first glance, you may think it should be obvious that alternatives that generate the most money, after expenses, are the most profitable. This is true; however, it can and does get a bit more complicated than that. The primary factor that complicates financial analysis is the fact that the timing of a cost or revenue can have a large effect on the value of the cost or revenue.



## **5. Role of Financial Analysis**

The Financial Analysis function performs in-depth analysis of the institution's financial and operating results independently of the business units and prepares management reports for Senior Management and the Board. This function is generally found as a separate unit only in larger institutions.

## **6. Purpose of Financial Analysis**

Individual investors or firms that are interested in investing in small businesses use financial analysis techniques in evaluating target companies' financial information. By examining past and current financial statements -- balance sheets, income statements and cash flow statements -- potential investors can form opinions about investment value and expectations of future performance. Financial analysis can also assist small-business owners as they weigh the effect of certain decisions, such as borrowing, on their own companies.

## **7. Need of Financial Analysis**

Financial analysis (also referred to as financial statement analysis or accounting analysis or Analysis of finance) refers to an assessment of the viability, stability and profitability of a business, sub-business or project. It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. These reports are usually presented to top management as one of their bases in making business decisions.

- Continue or discontinue its main operation or part of its business;
- Make or purchase certain materials in the manufacture of its product;
- Acquire or rent/lease certain machineries and equipment in the production of its goods;
- Issue stocks or negotiate for a bank loan to increase its working capital;
- Make decisions regarding investing or lending capital;
- Other decisions that allow management to make an informed selection on various alternatives in the conduct of its business.

## **8. Objectives of Financial Analysis**

The objective of a Financial Analysis is to provide information's to all the users of these accounts to help them in their decision-making. Note that most users will only have access to published Financial info.

Interpretation and analysis of Financial Statement involves identifying the users of the accounts, examining the information, analyzing and reporting in a format which will give information for economic decision making.

**9. Types of users: -**

- Investors – look at the risk of the investment, profitability and future growth.
- Managers/Employees – have access to more information and will want to know the stability of the company and profitability.
- Creditors – are interested in the liquidity, as they just want to be paid in time.
- Banks – are interested in the performance and liquidity of organization for leading purposes.
- Government departments – have various uses. Other groups including the local community on green issues, jobs, etc.

**1.4 IMPORTANCE OF FINANCIAL ANALYSIS**

The financial analysis is important for different reasons:

**1. Holding of Share**

Shareholders are the owners of the company. Time and again, they may have to take decisions whether they have to continue with the holdings of the company's share or sell them out. The financial statement analysis is important as it provides meaningful information to the shareholders in taking such decisions.

**2. Decisions and Plans**

The management of the company is responsible for taking decisions and formulating plans and policies for the future. They, therefore, always need to evaluate its performance and effectiveness of their action to realize the company's goal in the past. For that purpose, financial statement analysis is important to the company's management.

**3. Extension of Credit**

The creditors are the providers of loan capital to the company. Therefore, they may have to take decisions as to whether they have to extend their loans to the company and demand for higher interest rates. The financial statement analysis provides important information to them for their purpose.

#### 4. Investment Decision

The prospective investors are those who have surplus capital to invest in some profitable opportunities. Therefore, they often have to decide whether to invest their capital in the company's share.

The financial statement analysis is important to them because they can obtain useful information for their investment decision making purpose.

### 1.5 Ways of Financial Analysis

One of the most common ways of analysing financial data is to calculate ratios from the data to compare against those of other companies or against the company's own historical performance. For example, return on assets is a common ratio used to determine how efficient a company is at using its assets and as a measure of profitability. This ratio could be calculated for several similar companies and compared as part of a larger analysis.

These elements are typically reviewed in a financial analysis:

1. **Profitability:** The business needs to review the levels of current and past profitability and decide what they need to do to increase profitability in the future.
2. **Solvency:** Businesses are also concerned with making sure that they do not fold because they are in debt. A financial analysis will highlight the debts they owe and help create a pay-off plan.
3. **Liquidity:** A business needs to understand its cash position and make sure that it has the ability to maintain a positive cash flow, while still being able to pay for what they need immediately.
4. **Stability:** The business also wants to make sure that it is financially stable and does not have components that could cause it to fold. They are thinking long term about the future of the company. They want to make sure they do not get into financial trouble.

### 1.6 METHODS OF FINANCIAL ANALYSIS

Financial analysts often compare financial ratios (of solvency, profitability, growth, etc.):

- Past Performance - Across historical time periods for the same firm (the last 5 years for example),
- Future Performance - Using historical figures and certain mathematical and statistical techniques, including present and future values, this extrapolation method is the main source of errors in financial analysis as past statistics can be poor predictors of future prospects.

- Comparative Performance - Comparison between similar firms.

These ratios are calculated by dividing a (group of) account balance(s), taken from the balance and / or the income statement, by another, for example :

- Net income / equity = return on equity (ROE)
- Net income / total assets = return on assets (ROA)
- Stock price / earnings per share = P/E ratio

Comparing financial ratios is merely one way of conducting financial analysis. ratios face several theoretical challenges:

- They say little about the firm's prospects in an absolute sense. Their insights about relative performance require a reference point from other time periods or similar firms.
- One ratio holds little meaning. As indicators, ratios can be logically interpreted in at least two ways. One can partially overcome this problem by combining several related ratios to paint a more comprehensive picture of the firm's performance.
- Seasonal factors may prevent year-end values from being representative. A ratio's values may be distorted as account balances change from the beginning to the end of an accounting period. Use average values for such accounts whenever possible.
- Financial ratios are no more objective than the accounting methods employed. Changes in accounting policies or choices can yield drastically different ratio value

## **1.7 FUNDAMENTAL ANALYSIS**

Financial analysts can also use percentage analysis which involves reducing a series of figures as a percentage of some base amount. For example, a group of items can be expressed as a percentage of net income. When proportionate changes in the same figure over a given time period expressed as a percentage is known as horizontal analysis. Vertical or common- size analysis reduces all items on a statement to a “common size” as a percentage of some base value which assists in comparability with other companies of different sizes. As a result, all Income Statement items are divided by Sales, and all Balance Sheet items are divided by Total Assets. Another method is comparative analysis. This provides a better way to determine trends. Comparative analysis presents the same information for two or more-time periods and is presented side-by-side to allow for easy analysis.

### 1.7.1 Documents used in Financial Analysis

The three main sources of data for financial analysis are a company's balance sheet, income statement, and cash flow statement.

- **Balance Sheet**

The balance sheet outlines the financial and physical resources that a company has available for business activities in the future. It is important to note, however, that the balance sheet only lists these resources, and makes no judgment about how well they will be used by management. For this reason, the balance sheet is more useful in analyzing a company's current financial position than its expected performance. The main elements of the balance sheet are assets and liabilities. Assets generally include both current assets (cash or equivalents that will be converted to cash within one year, such as accounts receivable, inventory, and prepaid expenses) and noncurrent assets (assets that are held for more than one year and are used in running the business, including fixed assets like property, plant, and equipment; long-term investments; and intangible assets like patents, copyrights, and goodwill) Both the total amount of assets and the makeup of asset accounts are of interest to financial analysts.

The balance sheet also includes two categories of liabilities, current liabilities (debts that will come due within one year, such as accounts payable, short-term loans, and taxes) and long-term debts (debts that are due more than one year from the date of the statement). Liabilities are important to financial analysts because businesses have same obligation to pay their bills regularly as individuals, while business income tends to be less certain. Long-term liabilities are less important to analysts, since they lack the urgency of short- term debts, though their presence does indicate that a company is strong enough to be allowed to borrow money.

- **Income Statement**

In contrast to the balance sheet, the income statement provides information about a company's performance over a certain period of time. Although it does not reveal much about the company's current financial condition, it does provide indications of its future viability. The main elements of the income statement are revenues earned, expenses incurred, and net profit or loss. Revenues consist mainly of sales, though financial analysts may also note the inclusion of royalties, interest, and extraordinary items. Likewise, operating expenses usually consists primarily of the cost of goods sold, but can also include some unusual items. Net income is the "bottom line" of the income

statement. This figure is the main indicator of a company's accomplishments over the statement period.

- **Cash Flow Statement**

The cash flow statement is similar to the income statement in that it records a company's performance over a specified period of time. The difference between the two is that the income statement also takes into account some non-cash accounting items such as depreciation. The cash flow statement strips away all of this and shows exactly how much actual money the company has generated. Cash flow statements show how companies have performed in managing inflows and outflows of cash. It provides a sharper picture of a company's ability to pay bills, creditors, and finance growth better than any other one financial statement.

### **1.7.2 Quality of Financial Analysis**

The following statements describe the rating categories for the assessment of the Financial Analysis function's independent analysis and reporting of the institution's financial and operating results for Senior Management and the Board. An overall rating of the Financial Analysis function considers both its characteristics and the effectiveness of its performance in executing its mandate. Characteristics and examples of performance indicators that guide supervisory judgment in determining an appropriate rating in the context of the nature, scope, complexity, and risk profile of the institution are set out below.

- **Strong**

The mandate, organization structure, resources, methodologies and practices of the Financial Analysis function meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Financial Analysis has consistently demonstrated highly effective performance. Financial Analysis characteristics and performance are superior to generally accepted industry practices.

- **Acceptable**

The mandate, organization structure, resources, methodologies and practices of the Financial Analysis function meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Financial Analysis performance has been effective. Financial Analysis characteristics and performance meet generally accepted industry practices.

- **Needs Improvement**

The mandate, organization structure, resources, methodologies and practices of the Financial Analysis function generally meet what is considered necessary, given the nature, scope, complexity and risk profile of the institution, but there are some significant areas that require improvement. Financial Analysis performance has been generally effective, but there are some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. Financial Analysis characteristics and/or performance do not consistently meet generally accepted industry practices.

- **Weak**

The mandate, organization structure, resources, methodologies and practices of the Financial Analysis function are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Financial Analysis performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Financial Analysis characteristics and/or performance often do not meet generally accepted industry practices.

### **1.7.3 How to establish sound financial management for your non-profit organisation and why it is important.**

Financial management is more than keeping accounting records. It is an essential part of organisational management and cannot be seen as a separate task to be left to finance staff or the honorary treasurer. Financial management involves planning, organising, controlling and monitoring financial resources in order to achieve organisational objectives.

You can only achieve effective financial management if you have a sound organisational plan. A plan in this context means having set objectives and having agreed, developed and evaluated the policies, strategies, tactics and actions to achieve these objectives.

Sound financial management will involve you in long-term strategic planning and short-term operations planning. This financial planning should become part of your organisation's ongoing planning process.

## Benefits of good financial management

Good financial management will help your organisation to:

- make effective and efficient use of resources
- achieve objectives and fulfil commitments to stakeholders
- become more accountable to donors and other stakeholders
- gain the respect and confidence of funding agencies, partners and beneficiaries
- gain advantage in competition for increasingly scarce resources
- prepare for long-term financial sustainability.

### 1.7.4 What makes good financial management

There are four components of good financial management:

1. a clear finance strategy
2. a plan for generating income
3. a robust financial management system
4. a suitable internal environment.

### 1.7.5 Financial management systems

There is no one model of a financial management system that suits all organisations, but there are some basics that must be in place to achieve good practice in financial management.

It is helpful to identify certain principles when developing a financial management system. These will act as a guide to your trustees and managers when making decisions.

### 1.7.6 Guiding principles for financial management systems

- **Consistency:** your financial policies and systems must remain consistent over time.
- **Accountability:** you must be able to explain and demonstrate to all stakeholders how you have used your resources and what you have achieved.
- **Transparency:** your organisation must be open about its work and its finances, making information available to all stakeholders.
- **Integrity:** individuals in your organisation must operate with honesty and propriety.



- **Financial stewardship:** your organisation must take good care of the financial resources it has been given and ensure that they are used for the purpose intended.
- **Accounting standards:** your organisation's system for keeping financial records and documentation must observe accepted external accounting standards.

### 1 Key questions to consider during financial planning

- Are we satisfied with our budgeting process and other financial planning?
- What objectives are our financial management systems designed to meet? Is the link clear in practice?
- What are our key principles for financial management?
- How do our staff respond to the system? Do people use it? Is it a 'live' tool?
- Does our financial management system enable effective decision making when allocating resources?

### 2 Explain financial modelling.

Financial modelling is a big part of a financial analyst's job, so it's likely some question about the subject will be asked in an interview. You should be able to give a succinct answer to the question, such as, "Financial modeling is a quantitative analysis commonly used for either asset pricing or general corporate finance. Essentially, hypothetical variables are used in a formula to determine the likely impact on market behaviour, profitability or economic conditions." It is also a good idea to supplement your answer with an example. For instance, you could explain how financial modeling might be used to determine the effect rising crude prices could have on jet fuel costs for an airline.

### 3 What do you think is the single best metric for analyzing a company's stock?

This is another question with no "right" answer, but you should be able to point to a specific metric and explain your reasoning.

For example, you could answer by saying that the first metric you look at when evaluating a company is its operating profit margin, and you prefer this metric because it provides not only an indication of basic profitability, but of how well managed the company is overall. Alternately, you could say the price/earnings to growth ratio (PEG) is the most complete equity valuation metric because it factors in the projected earnings growth rate, making it superior to the commonly used price/earnings ratio (P/E).<sup>2</sup>

### **1.7.7 Objectives of Financial Statement Analysis:**

The major objectives of financial statement analysis are to provide decision makers information about a business enterprise for use in decision-making. Users of financial statement information are the decision-makers concerned with evaluating the economic situation of the firm and predicting its future course.

Financial statement analysis can be used by the different users and decision makers to achieve the following objectives:

#### **1. Assessment of Past Performance and Current Position:**

Past performance is often a good indicator of future performance. Therefore, an investor or creditor is interested in the trend of past sales, expenses, net income, cash flow and return on investment. These trends offer a means for judging management's past performance and are possible indicators of future performance.

Similarly, the analysis of current position indicates where the business stands today. For instance, the current position analysis will show the types of assets owned by a business enterprise and the different liabilities due against the enterprise. It will tell what the cash position is, how much debt the company has in relation to equity and how reasonable the inventories and receivables are.

#### **2. Prediction of Net Income and Growth Prospects:**

The financial statement analysis helps in predicting the earning prospects and growth rates in the earnings which are used by investors while comparing investment alternatives and other users interested in judging the earning potential of business enterprises. Investors also consider the risk or uncertainty associated with the expected return.

The decision makers are futuristic and are always concerned with the future. Financial statements which contain information on past performances are analysed and interpreted as a basis for forecasting future rates of return and for assessing risk.

#### **3. Prediction of Bankruptcy and Failure:**

Financial statement analysis is a significant tool in predicting the bankruptcy and failure probability of business enterprises. After being aware about probable failure, both managers and investors can take preventive measures to avoid/minimise losses.

Corporate managements can effect changes in operating policy, reorganize financial structure or even go for voluntary liquidation to shorten the length of time losses.

In accounting and finance area, empirical studies conducted have suggested a set of financial ratios which can give early signal of corporate failure. Such a prediction model based on financial statement analysis is useful to managers, investors and creditors. Managers may use the ratios prediction model to assess the solvency position of their firms and thus can take appropriate corrective actions.

Investors and shareholders can use the model to make the optimum portfolio selection and to bring changes in the investment strategy in accordance with their investment goals. Similarly, creditors can apply the prediction model while evaluating the creditworthiness of business enterprises.

#### **4. Loan Decision by Financial Institutions and Banks:**

Financial statement analysis is used by financial institutions, loaning agencies, banks and others to make sound loan or credit decision. In this way, they can make proper allocation of credit among the different borrowers. Financial statement analysis helps in determining credit risk, deciding terms and conditions of loan if sanctioned, interest rate, maturity date etc.

#### **5. Techniques of Financial Statement Analysis:**

Various techniques are used in the analysis of financial data to emphasise the comparative and relative importance of data presented and to evaluate the position of the firm.

**Among the more widely used of these techniques are the following:**

- (1) Horizontal Analysis,
- (2) Vertical Analysis,
- (3) Trend Analysis, and
- (4) Ratio Analysis.

##### **(1) Horizontal Analysis:**

The percentage analysis of increases and decreases in corresponding items in comparative financial statements is called horizontal analysis. Horizontal analysis involves the computation

of amount changes and percentage changes from the previous to the current year. The amount of each item on the most recent statement is compared with the corresponding item on one more earlier statements.

The increase or decrease in the amount of the item is then listed, together with the per cent of increase or decrease. When the comparison is made between two statements, the earlier statement is used as the base. If the horizontal analysis includes three or more statements, there are two alternatives in the selection of the base.

First, the earliest date or period may be used as the basis for comparing all later dates or periods or second, each statement may be compared with the immediately preceding statement.

Exhibit 17.1 and 17.2 present the comparative balance sheet and profit and loss account respectively of a company with the amount of increase or decrease and percentage changes shown.

**The per cent change is computed as follows:**

$$\text{Percentage change} = \text{Amount of change} / \text{Previous year amount} \times 100$$

**(2) Vertical Analysis:**

Vertical Analysis uses percentages to show the relationship of the different parts to the total in a single statement. Vertical analysis sets a total figure in the statement equal to 100 per cent and computes the percentage of each component of that figure.

The figure to be used as 100 per cent will be total assets or total liabilities and equity capital in the case of balance sheet and revenue or sales in the case of the profit and loss account.

**(3) Trend Analysis:**

Using the previous year's data of a business enterprise, trend analysis can be done to observe percentage changes over time in selected data. In trend analysis, percentage changes are calculated for several successive years instead of between two years.

Trend analysis is important because, with its long-run view, it may point to basic changes in the nature of the business. By looking at a trend in a particular ratio, one may find whether that ratio is falling, rising or remaining relatively constant. From this observation, a problem is detected or the sign of a good management is found.

Trend analysis uses an index number over a period of time. For index number, one year, the base year is equal to 100 per cent. Other years are measured in relation to that amount. For example, an analyst may be interested in sales and earnings trends for the past five years. For this purpose, sales and earnings data of a company are given to prepare further the trend analysis or percentages.

**A B C Company**

<b>Annual Performance</b>	<b>(Rs. '000)</b>				
	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>
<b>Sales</b>	202.0	215.0	243.0	320.0	415.0
<b>Net Earnings</b>	10.9	11.7	13.5	15.4	18.8

The above data show a fairly healthy growth pattern but the pattern of change from year to year can be determined more precisely by calculating trend percentages. To do this, a base year is selected and then the data are divided for each of the other years by the base year data.

The resultant figures are actually indexes of the changes occurring throughout the period. If year 1 is chosen as the base year, all data for year 2 through 5 will be related to year 1, which is represented as 100%. To create the following table, each year sales is divided—from year 2 through years 5—by Rs. 202, the year 1 sales. Similarly, the net earnings for years 2 through 5 are divided by Rs. 10.9, the year 1 net earnings.

**Annual Performance (Percentage of Base Year)**

	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>
<b>Sales</b>	100	106	120	158	205
<b>Net Earnings</b>	100	107	124	141	172

The trend percentages reveal that the growth in earnings outstripped the growth in sales for years 2 and 3, and then fell below the sales growth in the last two years.

It is clear in this analysis of comparative statements that a disproportionate increase in operating expenses emerged in year 5. One may analyse the year 4 data to determine if net income was affected for the same reason or if the reduced growth was caused by other factors.

**(4) Ratio Analysis:**

Ratio analysis is an important means of expressing the relationship between two numbers. A ratio can be computed from any pair of numbers. To be useful, a ratio must represent a meaningful relationship, but use of ratios cannot take the place of studying the underlying data.

Ratios are guides or shortcuts that are useful in evaluating the financial position and operations of a company and in comparing them to previous years or to other companies. The primary purpose of ratios is to point out areas for further investigation. They should be used in connection with a general understanding of the company and its environment.

Comparison of income statement and balance sheet numbers, in the form of ratios, can create difficulties due to the timing of the financial statements. Specifically, the profit and loss account cover the entire fiscal period, whereas the balance sheet is for a single point in time, the end of the period.

Ideally then, to compare an income statement figure such as sales to a balance sheet figure such as receivable, we usually need a reasonable measure of average receivables for the year that the sales figure cover.

However, these data are not available to the external analyst. In some cases, the analyst should take the next best approach, by using an average of beginning and ending balance sheet figures. This approach smooth's out changes from beginning to end, but it does not eliminate problem due to seasonal and cyclical changes. It also does not reflect changes that occur unevenly throughout the year.

#### **6. Common Size Statements:**

Common size statements involve expressing comparisons in percentages. Common size statements may be prepared in order to compare percentages of a current period with past periods, to compare individual business, or to compare one business with industry percentages published by trade associations and financial information services.

Common size financial statements contain the percentages of a key figure alone, without the corresponding amount figures. The use of percentages is usually preferable to the use of absolute figures. An illustration will make this clear. If company A earns Rs. 10,000 and Company B earns Rs. 1,000, which is more profitable? The answer is likely to be company A.

However, the total shareholder's equity of company A is Rs. 10,00,000 and company B is Rs. 10,000 the return on equity will be as follows:

$$\begin{aligned}\text{Return on Equity} &= \frac{\text{Earnings}}{\text{Equity}} \\ \text{Company A} &= \frac{\text{Rs. 10,000}}{\text{Rs. 10,00,000}} = 1\% \\ \text{Company B} &= \frac{\text{Rs. 1,000}}{\text{Rs. 10,000}} = 10\%\end{aligned}$$

Comparing the return on equity, it can be clearly said that company B is more profitable than company A.

The use of common size statements can make comparisons of business enterprises of different sizes much more meaningful since the numbers are brought to common base, i.e., per cent. Such statement allows an analyst to compare the operating and financing characteristics of two companies of different sizes in the same industry.

Care must be exercised in the use of common size statements when the absolute figures are small, because a small absolute change can result in a very substantial percentage change. For example, if net profits last year amounted to Rs. 1,000 and increased this year to Rs. 5,000, this would be an increase of only Rs. 4,000 in net profits, but represents a substantial increase in percentage terms.

Common size statements can be prepared in vertical analysis and horizontal analysis formats. In vertical analysis format, a figure from a year is compared with a base selected from the same year. For example, if advertising expenses were Rs. 10,000 in 2008 and sales were Rs. 10,00,000, the advertising expenses will be 1% of sales. In horizontal analysis format, the amount of an item (an account) is expressed in terms of that same account figure for a selected base year. For example, if sales were Rs. 8,00,000 in 2008 and Rs. 12,00,000 in 2009, then sales increased to 150% of the 2008 level in 2009, an increase of 50%.

# CHAPTER – 2

# RESEARCH STUDY



## **2.1 INTRODUCTION**

Published financial statements are the only source of information about the activities and affairs of a business entity available to the public, shareholders, investors and creditors, and the governments. These various groups are interested in the progress, position and prospects of such entity in various ways. But these statements howsoever, correctly and objectively prepared, by themselves do not reveal the significance, meaning and relationship of the information contained therein. For this purpose, financial statements have to be carefully studied, dispassionately analyzed and intelligently interpreted. This enables a forecasting of the prospects for future earnings, ability to pay interest, debt maturities both current as well as long-term, and probability of sound financial and dividend policies. According to Myers, “financial statement analysis is largely a study of relationship among the various financial factors in business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements” Thus, analysis of financial statements refers to the treatment of information contained in the financial statement in a way so as to afford a full diagnosis of the profitability and financial position of the firm concerned.

The process of analyzing financial statements involves the rearranging, comparing and measuring the significance of financial and operating data. Such a step helps to reveal the relative significance and effect of items of the data in relation to the time period and/or between two organizations. Interpretation, which follows analysis of financial statements, is an attempt to reach to logical conclusion regarding the position and progress of the business on the basis of analysis. Thus, analysis and interpretation of financial statements are regarded as complimentary to each other.

Financial statement analysis is very much helpful in assessing the financial position and profitability of a concern. The main objectives of analysing the financial statements are as follows:

1. The analysis would enable the present and the future earning capacity and the profitability of the concern.
2. The operational efficiency of the concern as a whole as well as department wise can be assessed. Hence the management can easily locate the areas of efficiency and inefficiency.

3. The solvency of the firm, both short-term and long-term, can be determined with the help of financial statement analysis which is beneficial to trade creditors and debenture holders.
4. The comparative study in regard to one firm with another firm or one department with another department is possible by the analysis of financial statements.
5. Analysis of past results in respects of earning and financial position of the enterprise is of great help in forecasting the future results. Hence it helps in preparing budgets.
6. It facilitates the assessments of financial stability of the concern.
7. The long-term liquidity position of funds can be assessed by the analysis of financial statements.

## **2.2 LIMITATIONS OF FINANCIAL ANALYSIS**

1. Owing to the fact that financial statements are compiled on the basis of historical costs, while there is a market decline in the value of the monetary unit and resultant rise in prices, the figures in the financial statement loses its functions as an index on current economic realities. Again the financial statements contain both items. So an analysis of financial statements cannot be taken as an indicator for future forecasting and planning.
2. Analysis of financial statements is a tool which can be used profitably by an expert analyst but may lead to faulty conclusions if used by unskilled analyst. So the result cannot be taken as judgments or conclusions.

## **2.3 METHODS OF FINANCIAL ANALYSIS**

The analysis of financial statements consists of a study of relationship and trends, to determine whether or not the financial position and results of operations as well as the financial progress of the company are satisfactory or unsatisfactory. The analytical methods or devices, listed below, are used to ascertain or measure the relationships among the financial statements items of a single set of statements and the changes that have taken place in these items as reflected in successive financial statements. The fundamental objective of any analytical method is to simplify or reduce the data under review to more understandable terms. Analytical methods and devices used in analyzing financial statements are as follows:

1. Comparative Statements
2. Common Size Statements
3. Trend Ratios
4. Ratio Analysis
5. Cash Flow Statements
6. Fund Flow Statement.

Here we are discussing the Ratio analysis method in details, as it is very important to measure the profitability, liquidity and leverage situation of the company for the Mergers and Acquisitions.

## **2.4 RATIO ANALYSIS**

Ratio analysis is used to evaluate relationships among financial statement items. The ratios are used to identify trends over time for one organization or to compare two or more organizations at one point in time. Ratio analysis focuses on three key aspects of a business: liquidity, profitability, and solvency. Ratio Analysis is a important tool for any business organization. The computation of ratios facilitates the comparison of firms which differ in size. Ratios can be used to compare a firm's financial performance with industry averages. In addition, ratios can be used in a form of trend analysis to identify areas where performance has improved or deteriorated over time. Ratio is the symptoms like the blood pressure, the pulse or the temperature of an individual. Just as in the case of an individual, a doctor or a valid by reading the pulse of a patient or by studying the blood pressure or the temperature of a patient can diagnose the cause of his ailment, so also a financial analyst through ration analysis of the employment of resources and its overall financial position. Just as in medical science the symptoms are passive factors, to diagnose them properly depends upon the efficiency and the expertise of the doctor, so also to derive right conclusions from ratio analysis will depend upon the efficiency and depth of understanding of the financial analyst.

## **2.5 ACCOUNTING RATIOS**

An absolute figure often does not convey much meaning. Generally, it is only in the light of other information that significance of a figure is realized. A weighs 70 kg. Is he fat? One cannot answer this question unless one knows A's age and height. Similarly, a company's profitability cannot be known unless together with the amount of profit and the amount of capital employed. The relationship between the two figures expressed arithmetically is called a ratio. The ratio between 4 and 10 is 0.4 or 40% or 2:5. "0.4", "40%" and "2:5" are ratios. Accounting ratios are relationships, expressed in arithmetical terms, between figures which have a cause and effect relationship or which are connected with each other in some other manner. Accounting ratios are a very useful tool for grasping the true message of the financial statements and understanding them. Ratios naturally should be worked out between figures that are significantly related to one another. Obviously no purpose will be served by working out ratios between two entirely unrelated figures, such as discount on debentures and sales. Ratios may be worked out on the basis of figures contained in the financial statements. Ratios provide clues and symptoms of underlying conditions. They act as indicators of financial soundness, strength, position and status of an enterprise.

Interpretation of ratios forms the core part of ratio analysis. The computation of ratio is simply a clerical work but the interpretation is a taste requiring art and skill. The usefulness of ratios is dependent on the judicious interpretations.

## **2.6 USES OF RATIO ANALYSIS**

A comparative study of the relationship, between various items of financial statements, expressed as ratios, reveals the profitability, liquidity, solvency as well as the overall financial position of the enterprises.

Ratio analysis helps to analyze and understand the financial health and trend of a business, its past performance makes it possible to have forecast about future state of affairs of the business. Inter firm comparison and intra firm comparison becomes easier through the analysis. Past performance and future projections could be reviewed through the ratio analysis easily. Management uses the ratio analysis in exercising control in various areas viz. budgetary control, inventory control, financial control etc. and fixing the accountability and responsibility

of different departmental heads for accelerated and planned performance. It is useful for all the constituents of the company as discussed under:

1. Management Management is interested in ratios because they help in the formulation of policies, decision-making and evaluating the performances and trends of the business and its various segments.
2. Shareholders With the application of ratio analysis to financial statements, shareholders can understand not only the working and operational efficiency of their company, but also the likely effect of such efficiency on the net worth and consequently the price of their shares in the Stock Exchange. With the help of such analysis, they can form opinion regarding the effectiveness or otherwise of the management functions.
3. Investors Investors are interested in the operational efficiency, earning capacities and 'financial health' of the business. Ratios regarding profitability, debt-equity, fixed assets to net worth, assets turnover, etc., are some measures useful for the investors in making decisions regarding the type of security and industry in which they should invest.
4. Creditors Creditors can reasonably assure themselves about the solvency and liquidity position of the business by using ratio-analysis. Such analysis helps to throw light on the repayment policy and capability of an enterprise.
5. Government The Government is interested in the 'financial health' of the business. Carefully worked ratios will reflect the policy of the management and its consistency or otherwise with the overall regional and national economic policies. Such ratios help in better understanding of cost-structures and may justify price controls by the Government to save the consumers.
6. Analysts Ratio analysis is the most important technique available to the financial analysis to study the financial statements to compare the progress and position of various firms with each other and vis-a-vis the industry.

## **2.7 CLASSIFICATIONS OF RATIOS**

Different ratios calculated from different financial figures carry different significance for different purposes. For example, for the creditor's liquidity and solvency ratios are more significant than the profitability ratios, which are of prime importance for an investor. This means that ratios can be grouped on different basis depending upon their significance. The classification is rather crude and unsuitable to determine the profitability or financial position of the business. In general, accounting ratios may be classified on the following basis leading to overlap in many cases.

According To The Statement Upon Which They Are Based Ratios can be classified into three groups according to the statements from which they are calculated:

- 1) **Balance Sheet Ratios** They deal with relationship between two items appearing in the balance sheet, e.g., current assets to current liability or current ratio. These ratios are also known as financial position ratios since they reflect the financial position of the business.
- 2) **Operating Ratios or Profit and Loss Ratios** These ratios express the relationship between two individual or group of items appearing in the income or profit and loss statement. Since they reflect the operating conditions of a business, they are also known as operating ratios, e.g., gross profit to sales, cost of goods sold to sales, etc.
- 3) **Combined Ratios** These ratios express the relationship between two items, each appearing in different statements, i.e., one appearing in balance sheet while the other in income statement, e.g., return on investment (net profit to capital employed); Assets turnover (sales) ratio, etc. Since both the statements are involved in the calculation of each of these ratios, they are also known as inter-statement ratios. Since the balance sheet figures refer to one point of time, while the income statement figures refer to events over a period of time, care must be taken while calculating combined or inter-statement ratios. For example while computing assets turnover ratio, average assets should be taken on the basis of opening and ending balance sheets.

**Classification According To "Importance"** This classification has been recommended by the British Institute of Management for inter-firm comparisons. It is based on the fact that some ratios are more relevant and important than others in the process of comparisons and decision-making. Therefore, ratios may be treated as primary or secondary.

- **Primary Ratio** Since profit is primary consideration in all business activities, the ratio of profit to capital employed is termed as 'Primary Ratio'. In business world this ratio is known as "Return on Investment". It is the ratio which reflects the validity or otherwise of the existence and continuation of the business unit. In case if this ratio is not satisfactory over long period, the business unit cannot justify its existence and hence, should be closed down. Because of its importance for the very existence of the business unit it is called 'Primary Ratio'
- **Secondary Ratios**  
These are ratios which help to analyze the factors affecting "Primary Ratio". These may be sub-classified as under:

**2.7.1 Supporting Ratios:** These are ratios which reflect the profit-earning capacities of the business and thus support the "Primary Ratio". For example sales to operating profit ratio reflects the capacity of contribution of sales to the profits of the business. Similarly, sales to assets employed reflect the effectiveness in the use of assets for making sales, and consequently profits.

**2.7.2 Explanatory Ratios:** These are ratios which analyze and explain the factors responsible for the size of profit earned. Gross profit to sales, cost of goods sold to sales, stock-turnover, debtors turnover are some of the ratios which can explain the size of the profits earned. Where these ratios are calculated to highlight the effect of specific activity, they are termed as 'Specific Explanatory Ratios'. For example, the effect of credit and collection policy is reflected by debtor's turnover ratio.

## **2.8 INTRODUCTION TO RETAIL INDUSTRY IN INDIA**

The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry. The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behaviour, ushering in a revolution in shopping in India. Modern retailing has entered into the Retail market in India as is observed in the form of bustling

shopping centres, multi-storied malls and the huge complexes that offer shopping, entertainment and food all under one roof. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the services sector are going to be the key factors in the growth of the organized Retail sector in India. The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph helping the newer businessmen to enter the India Retail Industry. In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster. Indian retail is expected to grow 25 per cent annually. Modern retail in India could be worth US\$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile Phone Retail Industry in India is already a US\$ 16.7 billion business, growing at over 20 per cent per year. The future of the India Retail Industry looks promising with the growing of the market, with the government policies becoming more favourable and the emerging technologies facilitating operations.

## **2.9 THE INDIAN RETAIL SCENE**

India is the country having the most unorganized retail market. Traditionally it is a family's livelihood, with their shop in the front and house at the back, while they run the retail business. More than 99% retailers function in less than 500 square feet of shopping space. Global retail consultants KSA Technopunk have estimated that organized retailing in India is expected to touch Rs. 35,000 crore in the year 2005-06. The Indian retail sector is estimated at around Rs 900,000 crore, of which the organized sector accounts for a mere 2 per cent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer. Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Indian retailers need to advantage of this growth and aiming to grow, diversify and introduce new formats have to pay more attention to the brand building process. The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself. In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own stores as brands to reinforce their marketing positioning, to communicate quality as well as value for money. Sustainable competitive advantage will be dependent on translating core values combining products, image and reputation into a coherent retail brand strategy. There is no doubt that the Indian retail scene is



booming. Several large corporate houses Tata, Raheja's, Piramal's, Goenka's have already made their foray into this arena, with beauty and health stores, supermarkets, self-service music stores, new age book stores, every-day-low-price stores, computers and peripherals stores, office equipment stores and home/building construction stores. Today the organized players have attacked every retail category. The Indian retail scene has witnessed too many players in too short a time, crowding several categories without looking at their core competencies, or having a well thought out branding strategy.

## **2.10 BUSINESS MODEL**

A business model is a company's plan for how it will generate revenues and make a profit. It explains what products or services the business plans to manufacture and market, and how it plans to do so, including what expenses it will incur.

### **BREAKING DOWN 'Business Model'**

A business model lays out a step-by-step plan of action for profitably operating the business in a specific marketplace. The business model for a restaurant is significantly different from the business model for an online business for instance.

To put together a good business model, you need to know the value proposition for the business. A value proposition is a straightforward statement of what a company offers in the form of goods or services that is of value to potential customers or clients, ideally in a way that differentiates the company from its competitors.

A business model should also include projected start-up costs and sources of financing, the target customer base for the business, marketing strategy, competition, and projections of revenues and expenses. One of the most common mistakes leading to the failure of business start-ups is a failure to project the necessary expenses to fund the business to the point of profitability, i.e., the point in time when revenues exceed expenses.

If possible, a business model should include any possible plans for partnering with other existing businesses. An example of this would be an advertising business that aims to establish an arrangement for referrals to and from a printing company.

### 2.10.1 Types of Business Models

There are many different types of business models. Direct sales, franchising, advertising-based and brick-and-mortar are all traditional business models. Brought about by the internet, there is also a click-and-mortar business model, which combines a physical presence with an online presence.

Even if two businesses operate within the same industry, they likely have different competitive advantages and disadvantages and, therefore, need different business models.

Think about the shaving industry. Gillette is happy to sell its Mach3 razor handle at cost, or even lower, because the company can go on to sell you the profitable razor refills over and over. The business model rests on giving away the handle and making profits from a steady stream of high-margin razor blade sales. This type of business model is called the razor-razorblade model, but it can apply to companies in any business that sell one good at a discount while the second dependent good is sold at a considerably higher price.

Companies that sell electric shavers have a different business model. Remington, for example, makes most of its money up front on the sale of the razor rather than from a stream of blade refill sales.

### 2.10.2 Comparing Business Models

Successful businesses have developed business models that enable them to fulfil client needs at a competitive price and sustainable cost. Over time, circumstances change, and many businesses revise their business models frequently to reflect changing business environments and market demands.

Analysts use the metric gross profit as a way to compare the efficiency and effectiveness of business models. Gross profit is a company's total revenue minus the cost of goods sold.

During the dotcom boom, analysts went in search of net income. They knew the internet was a disruptive technology with the ability to revolutionize certain industries, but where was the cash flow? When analysts couldn't find cash flow, they settled for the business model to legitimize the industry. Instead of looking at net income, calculated as gross profit

minus operating expenses, analysts concentrated on gross profit alone. If the gross profit was high enough, analysts theorized, the cash flow would come.

The two primary levers of a company's business model are pricing and costs. A company can raise prices and it can find inventory at reduced costs. Both actions increase gross profit.

Gross profit is often considered the first line of profitability because it only considers costs, not expenses. It focuses strictly on the way in which a company does business, not the efficiency of management. Investors that focus on business models are leaving room for an ineffective management team and believe the best business models can run themselves.

As an example, assume there are two companies and both companies rent and sell movies. Prior to the internet, both companies made \$5 million in revenues and the total cost of inventory sold was \$4 million. Gross profit is calculated as \$5 million minus \$4 million, or \$1 million. Gross profit margin is calculated as gross profit divided by revenues, or 20%.

After the advent of the internet, company B decides to offer movies online instead of renting or selling a physical copy. This change disrupts the business model in a positive way. The licensing fees do not change, but the cost of holding inventory is down considerably. In fact, the change reduces storage and distribution costs by \$2 million. The new gross profit for the company is \$5 million minus \$2 million, or \$3 million. The new gross profit margin is 60%.

Company B isn't making more in sales, but it figured out a way to revolutionize its business model, which greatly reduces costs. Managers at company B have an additional 40% in margin to play with while managers at company A have little room for error.

### **2.10.3 Assessing the Business Model**

So, how do you know whether a business model is any good? That's a tricky question, but Joan Magritte, former editor of the Harvard Business Review, highlights two critical tests for sizing up business models. When business models don't work, she states, it's because they don't make sense, and/or the numbers just don't add up to profits.

Because it includes companies that have suffered heavy losses in the past and even bankruptcy, the airline industry is a good place to find a business model that stopped making sense. For years, major carriers like American Airlines, Delta and Continental built their businesses

around a "hub-and-spoke" structure, in which all flights routed through a handful of major airports. By ensuring that seats were filled, the business model produced big profits for airlines.

But the business model that was once a source of strength for the major carriers became a burden. It turned out that competitive carriers like Southwest and JetBlue could shuttle planes between smaller centres at a lower cost— in part because of lower labour costs, but also because they avoided some of the operational inefficiencies that occur in the hub-and-spoke model.

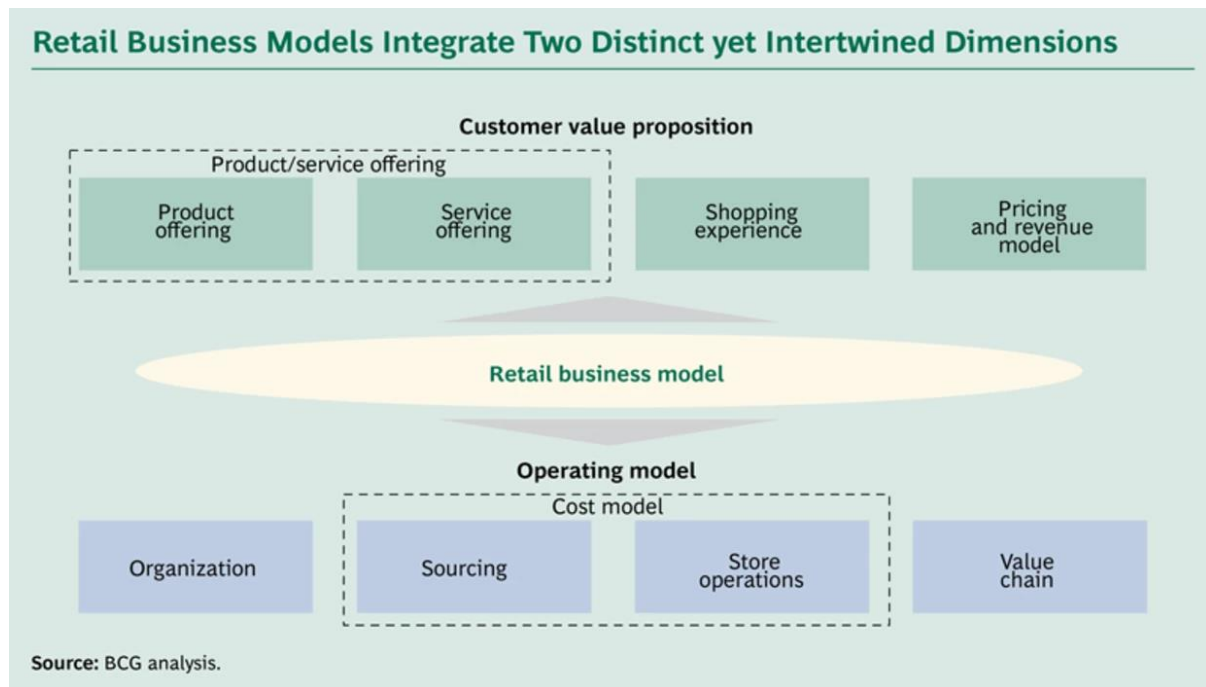
As competitors drew away more customers, the old carriers were left to support their large, extended networks with fewer passengers— a condition made even worse when traffic began to fall in 2001. To fill seats, the airlines had to offer more and deeper discounts. No longer able to produce profits, the hub-and-spoke model no longer made sense.

For an example of a business model that failed the numbers test, we can look at U.S. automakers. In 2003, to compete against foreign manufacturers, Ford, Chrysler and General Motors offered customers such deep discounts and interest-free financing that they effectively sold vehicles for less than it cost to make them. That dynamic squeezed all the profits out of Ford's U.S. operations and threatened to do the same to Chrysler and GM. To remain viable, the big automakers had to revamp their business models.

When evaluating a company as a possible investment, learn exactly how it makes its money. Then think about how attractive and profitable that business model is. Admittedly, the business model doesn't tell you everything about a company's prospects, but investors with a business model frame of mind can make better sense of the financial data and business information.

## 2.10.4 The Elements of a Retail Business Model

Some retailers assume that a little tinkering with the value proposition is all it takes to adapt to changes in the marketplace. Although it is almost always necessary to keep the value proposition aligned with shifts in the market, the most successful retailers make significant improvements in their operating model as well, because the value proposition and operating model together are responsible for the entire business model's success. (See the exhibit.)



The value proposition is the differentiating offer the company makes to its customers. It includes the following elements:

The product or service, including the depth and breadth of assortment, private-label options, and product quality

The customer's shopping experience, including the physical layout of the store and the arrangement of merchandise

The pricing and revenue model, including the pricing strategy (such as high-low or everyday low prices) and value-added services, such as free delivery

The operating model supports the value proposition by enabling the retailer to fulfil its pledge to its customers. It includes the cost model (sourcing and store operations), the value chain

structure (degree of integration with suppliers and logistics, for example), and the organizational processes.

Most managers' time and resources tend to be focused on changes to only one or two elements of the business model. Few companies think about changing it entirely.

We recommend that a retailer begin optimizing its business model by using deep “customer discovery” techniques to identify what its target customers like and dislike in the product and shopping experience, as well as their shopping patterns. It can then develop a value proposition that serves those target customers and an operating model that enables the company to effectively deliver it.

A business model developed in this way evolves with changes in the environment, and the value proposition continues to be aligned with the needs of consumers. The retailer should also leverage opportunities that the operating model provides to create differentiating features in its value proposition.

Consider Grand Frais, a growing French retailer specializing in ultra fresh fruits, vegetables, fish, cheese, and meat. It leveraged the abilities and know-how of its owners—most of which are wholesalers specializing in specific categories, such as fish (Zeus Faber) and fruits and vegetables (Prosol Gestion)—to create a competitive offering in each category combining optimized product assortment and very attractive prices. The result was a new business model that has succeeded in capturing a growing share of the highly competitive French market.

### **2.10.5 Business to Consumer - B To C**

The B2C model focuses on direct selling and marketing between a business and a consumer via an e-commerce website. A lower purchase volume of higher priced products typically characterizes B2C companies. Since the model depends on individual transactions and eliminates the wholesale purchaser, the company can make a higher profit while the consumer spends the same amount of money or sometimes less. B2C is effective for smaller companies since individual consumers are not as concerned with company recognition as they are with getting the product for the best price.

#### **Types**

B2C companies divide into five major categories: direct sellers, online intermediaries, advertising-based models, community-based models and fee-based models. Each type is so

different from the others that they are not directly comparable. In fact, some B2C businesses utilize more than one type to reach different audiences.

### **1. Direct Sellers**

Direct sellers, such as online retailers, sell a product or service directly to the customer via a website. You can further divide direct sellers into e-trailers and manufacturers. E-trailers are electronic retailers that either ship products from their own warehouses or trigger deliveries from other companies' stocks. Product manufacturers use the Internet as a catalogue and sales channel to eliminate intermediaries.

### **2. Online Intermediaries**

Online intermediaries perform the same function as any other broker. The business allows non-B2C companies to reap some of the benefits. Brokers offer buyers a service and help sellers by altering the price-setting processes, according to economics professors Thierry Pénard of the University of Delaware and Michael A. Arnold of the University of Rennes in Rennes, France.

### **3. Advertising-Based Models**

Popular websites rely on advertising-based models. These websites offer a free service to consumers and use advertising revenue to cover costs. They draw many visitors, making them ideal advertising streams for other companies. Advertisers will pay a premium to sites that deliver high traffic numbers.

### **4. Community-Based Models**

Community-based models combine the advertising method that relies on traffic at sites that focus on specialized groups to create communities. Community sales and advertising take advantage of social and network marketing by focusing on specific groups that want specific products. For example, sites used by computer programmers are perfectly placed to advertise computer hardware and software products. At least one social media website uses member information to target advertisements to interests and locations.

### **5. Fee-Based Models**

Pay-as-you-buy or paid subscription services fall under fee-based models. The most common of these are online subscriptions to journals or movie sites such as Netflix. These

companies rely on the quality of their content to convince consumers to pay a usually nominal fee.

## **6. Diversifications in B2B Business Models**

As you might have imagined, a model as complex as B2B ought to be divided into several categories. They are divided into 3 types basically.

### *A) Supplier Centric Model*

Supplier centric models form the type of business where a supplier sets up a marketplace and intends to sell his customized solutions to various businesses. Most of them price their solutions according to the needs of the client/buyer.

### *B) Buyer Centric Model*

This type of business model is most popular among the big corporates who involve in transactions with huge purchasing capacity and high-volume purchases. The company here sets up a portal, mostly online to accept quotations from different sellers. The sellers then approach the company with their quotations and the company chooses to go with a seller that they deem profitable after thorough analysis.

### *C) Intermediary Centric Model*

Intermediaries in the marketplace are the ones who provide a common platform for Buyers and Sellers to come together and interact, interactions in this sector can be in the form of transactions or plain communication. They maintain a database of buyers and sellers and their main goal is to profit from these associations.

## **B2B Business Model Example: Apple & Samsung**

As we discussed above, Apple and Samsung working together on iPhone is a great example of B2B business model. Samsung is a reliable provider of Processor chips for Apple and these processors are used on the latest Apple iPhones.

Even though there is a rivalry among the companies, both stuck with this B2B model because Samsung can meet the huge demand of processors for Apple and Apple pays a hefty sum for each processor Samsung delivers.



## **B2C – How Businesses Profit from Consumers**

Now that you are familiar with the B2B type of business model, let us move on to the next common type of business model. You would be surprised to know that every individual who has ever transacted online or offline has contributed to this model.

B2C business model is the type of model where the business sells directly to the consumers. These businesses produce a product which is appropriately priced and then marketed to the public.

This model is closer to the end user and consumers are more familiar with B2C models because they interact with and form a part of this model. Recent ones are the online shopping sites like Amazon.

## **Diversifications in B2C Business Models**

Reaching out to consumers and selling products to them is the primary goal of a B2C business model. To accomplish this, B2C has been divided into different categories based on the type of audience and the type of targeting used to reach them.

### *A) E-Retail or E-Tailing*

E-Retailing has become the latest trend. Most consumers have an online presence these days and reaching them online is the cheapest and fastest mode. Businesses have realized this and have started setting up websites and marketing campaigns to reach and sell products to netizens.

### *B) Brick & Click Retail*

You are all familiar with the typical brick and mortar shops, the kind where you walk in, select your goods, pay at the counter and take your goods.

Now these businesses have realized the potential of Internet and have started reaching out to a wider audience by setting up websites for their shops.

The best example of Brick and Click retail is TATA owned electronic showroom chain Croma. They began with a brick and mortar shop which spread throughout the country garnering loyal

customers for over a decade. Recently they started advertising their products through cromax.com website and now even have a dedicated online shopping portal called tatacliq.com

### *C) Virtual Malls*

Visiting a mall is an experience in its own, you get overwhelmed with the abundant choices that they portray, always providing a fair level of competition to all businesses. Now imagine an online version of the same, that is the whole concept of Virtual Malls.

It is a website hosting several merchants, giving them a space on the web to showcase their products. The website owners charge a nominal fee from sellers to display and sell products.

These types of malls are better for businesses who want to market their Books, Music, Movies, Software or something along that line.

### **B2C Business Model Example: Amazon**

Amazon is consumer centric company that has aced the B2C business model. Their tremendous user base and gigantic inventory makes them the ultimate online store. They have mastered consumer satisfaction with their array of customer support agents and product return policies, these features helped them retain customers.

### **B2B and B2C Business Models – The Contrasts**

Business to Business and Business to Consumer models differ in many aspects,

The galore of raw materials and subcomponents used in manufacture of a product results in a large volume of transactions in the B2B model-based companies whereas the only transaction in a B2C model is the one between the company and the consumer i.e. the sale of final product.

From a marketing perspective, B2B campaigns are focused on the value of a product that will entice other businesses to opt for them. These campaigns are more professional in nature rather than casual since they target a more corporate audience.

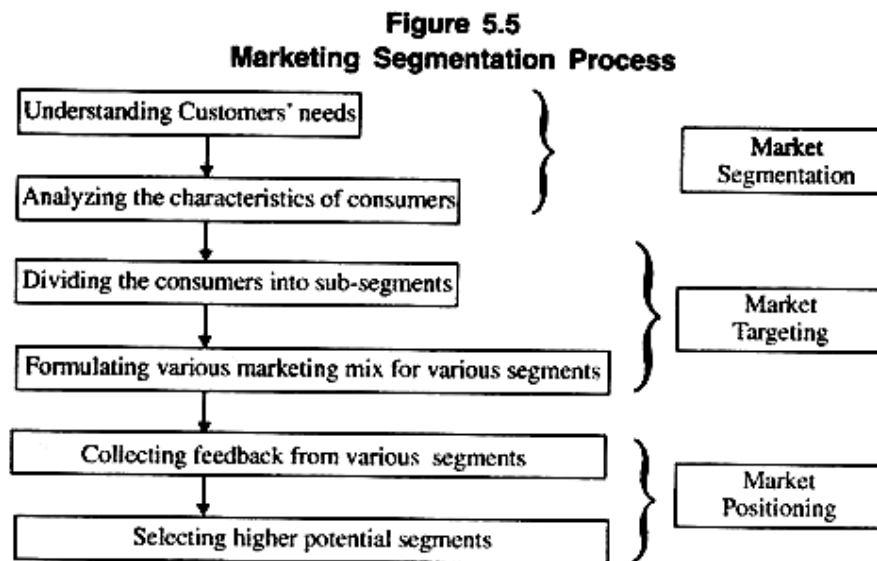
B2C marketing campaigns are geared towards the public hence there is an emotional appeal to these campaigns. The targeted audience resonate more to a casual approach of advertisement therefore these campaigns contain witty lines, catch phrases or jingles.

## **2.11 RETAIL MARKET SEGMENTATION PROCESS**

Market segmentation is one of most important approaches to understand target groups. In the traditional marketing approach, business houses look at the total market as though all its parts are same and market accordingly. In the market-segmentation approach, the whole is viewed as being made up of several smaller segments, each different from the other.

This approach enables business houses to identify one or more appealing segments to which they can advantageously target their products and marketing efforts. A typical market-segmentation process involves multiple steps (as shown in figure 5.5).

Possible bases for dividing a total market are different for consumer markets than for industrial markets. The most frequent elements used to separate consumer markets are demographic factors, psychographic characteristics, geographic location, and perceived product benefits.



Although demographic, geographic, and organizational differences enable marketers to narrow their opportunities, they rarely provide enough specific information to decide on dividing the market. Psychographic data, operational lines, and perceived consumer benefits and preferred business practices are better at pinpointing buyer groupings—but they must be considered against the broader background.

Thus, the key is to gather information on and consider all pertinent segmentation bases before deciding. This task becomes easy if retailers understand the marketing segmentation process and device their strategies accordingly. The market segmentation process is generally regarded as consisting of six stages.

*1. Understanding Customers' Needs:*

Understanding customers' needs and wants is the very first step in a typical market segmentation process.

**It includes collecting knowledge and data about customers' likings and disliking, it includes answering following questions:**

- a. What customers want?
- b. When they want?
- c. Where they want?
- d. How they want? – In which form? and
- e. What they want?

The reasons to understand customers' choice is that better you understand your customers, better you'll be able to serve with low/no complaints.

*2. Analysing the Characteristics of Consumers:*

It means thoroughly understanding the varied characteristics of customers.

**Usually in the retailing world, customers have four essential characteristics:**

**I. Particular Demand:**

Most of the customers have some sort of demand. They have all kinds of needs including basic survival needs (e.g., food, clothing, shelter and health), rational needs (e.g., dependability, durability, economy), and emotional needs (e.g., love, sex appeal, status, security, acceptance, and power).

## **II. Capacity to Buy:**

It is imperative for each retailer to know whether they have enough money to buy what you are selling. Being a retailer, remember that just because someone wants to purchase something you are selling does not mean they have enough money to buy it.

## **III. Decision Making Power:**

The explanation here is to spend your time wisely with customers. Find the customer who has the actual authority to make the choice of buying your product or service.

## **IV. Ease of Availability:**

Being an astute retailer, make sure that visitors have easy access to your product or service. Accessibility is important. For instance, if you wish to sell baked goods to people in your neighbourhood, you must either provide your goods directly to your customers or have a small outlet where they can come to you.

**Based on these characteristics, retailer must answer the following four questions:**

- a. What need does my product or service satisfy?
- b. Who needs and can afford what I am offering?
- c. Who has the authority to say “yes” to the product or service I am offering? and
- d. How accessible is my product or service to my customers?

Your answers to these questions from the base what a retailer need to learn from marketing research efforts. Once retailer knows what he is looking for, he can find more about the specific characteristics of the customers he proposes to target by looking at their liking, disliking, ages, heritage, income level, gender, family status, education level and occupations/professions. These factors are nothing but the demographic variables.

**The following questions are associated with analysing the characteristics of consumers and knowledge:**

- (a) Are the customers experienced in dealing with technology?
- (b) Are the customers’ expectations of the end product pragmatic?

(c) Are the floor employees trained enough to answer any type of customer queries about the product or service offered?

(d) Can the floor staff respond to the customer's requests in a timely manner?

(e) Will the floor staff provide proper information about how to use safely and in best manner to customers upon delivery?

### *3. Dividing the Consumers into Sub-segments:*

Market segmentation is an important pre-requisite for establishing programme goals and analysing the determinants of consumers' behaviour. Market segmentation forms an important basis for the success of a marketing campaign, since finding homogenous sub-segments help to devise and implement programme goals and to reach the desired target groups. That is, the markets should be segmented at least to some extent.

In market segmentation process, after analysing the customers' characteristics, consumer markets are split into sub-segments that differ from each other in respect to their outlook, values and socio-demographic features {primarily concerned with income, gender, class, age and education, etc.}.

A comprehensive and organized segmentation would involve finding out some key characteristics of the markets, in consumer markets, for example, the type of household (single households, couples without children, couples with children, joint families, aged alone households etc.) or geographic differences.

However, in market segmentation it should be kept in mind that each individual has several alternatives and overlapping roles. Initially, people act in double roles as consumers and citizens. As consumers, people look for direct fulfilment of needs and wants without considering sustainability.

As citizens their actions are guided by long-term orientation taking environmental matters into consideration. Secondly, people have different roles in their daily lives in work, at home, and in social circles and leisure time activities.

**This can be achieved as follows:**

Segregate the market into identifiable groups of customers and, taking each group in turn, develop it into a sub-segment by carefully listing what the customers in the group regard as their key features for discriminating between competing offers (referred to as 'Key Discriminating Features' – KDFs). When differences are known to occur within a group, capture these differences as separate sub-segments.

Recognizing KDFs from the customer's point of view will provide the link to understand the needs and wants that customers want to fulfil. This is because customers seek out specific characteristics not for their own sake but for the particular benefits that they deliver. It is also based on the fact that generally customers don't buy features, they buy the benefits delivered by the features. For this sequence to be successful, however, retailer needs to imagine of features as consisting of both the tangible and intangible components of an offer.

Now retailer should indicate the relative importance of the KDFs to each sub-segment and when significant differences are known to occur within a sub-segment, develop additional sub-segments to accommodate them. An alternative to the above can be to list the customers found in your market (generally suitable for markets with small customer base).

An additional substitute is to obtain a sample through a market research exercise using a systematic designed sample frame. In many in-company workshops, participants have been surprised at how much they know about their markets when this stage has been conducted rigorously. As best as possible, attribute a size to each sub-segment (volume or value) which reflects how much of the market each sub-segment represents.

*4. Formulating various marketing mix for various segments:*

The next stage of the market segmentation process is to formulate various marketing mix for various segments to fulfill the needs, as well as market conditions of each specific target segment. Although many subject experts limit the market segmentation process to market identification rather on the key elements of the entire process, most companies fail to give due importance to other stages in market segmentation such as product positioning and mix development (Sarabia, 1996).

Once the firm has chosen a market segment it must choose a generic competitive strategy. At this point it is also necessary to review the selected strategy across segments and explore

general strategic approaches. In some cases it might become apparent that a counter-segmentation strategy is applicable. In other cases, the development of distinct mixes for each segment uncovers inconsistencies or lack of resources at the corporate level and so it is necessary to revert to the segment evaluation stage.

At this point in the process the company selects those ways in which it will distinguish itself from its competitors. In most cases the differentiation involves multiple elements. In fact, “most successful differentiation strategies involve the total Segmentation – Targeting – Positioning organization, its structure, systems, people, and culture.” (Aaker, 1996).

One way to differentiate is through brand equity building. A strategy based on brand is likely to be sustainable because it creates competitive barriers. A brand strategy permits the strategist to work with complex concepts and not limit the differentiation strategy to just a few competitive differences. This approach is consistent and reinforces the STP approach. A successful brand strategy builds barriers to protect the selected position by creating associations of the positioning variables with the brand name in the prospect’s mind.

Thus differentiated marketing is used when retailer has to approach multiple marketing mixes. This will involve multiple products, targeted towards multiple segments. For example, a clothing brand such as Peter England- will have multiple marketing mixes to approach various consumers’ segments. This practice is common in the world of retail and is best suitable to fulfill the needs and wants of multiple segments.

##### *5. Collecting feedback from various segments:*

The retailer’s main task here is to collect feedback from various sub-segments to know where company should focus its resources, along with their relative importance to each other. Each segment is then assessed against these factors in terms of how well it can meet your requirements and by taking the relative importance of these factors into account an attractiveness score is determined.

The results are then transposed onto the vertical axis of a portfolio matrix as this is a useful tool for constructing a strategic picture of your market.



Measuring the positive impact on the business will help to determine whether the methods used to collect relevant data, evaluate, and implement segmentation:

- i. Are effective and competitive – in sales/market results/savings and or in process efficiency,
- ii. Are they requiring further improvement?

The criteria to collect feedback involve the following aspects:

<b>Orders</b>	<ul style="list-style-type: none"> <li>● Average number of orders</li> <li>● Average rupee value;</li> <li>● Number of orders in past 30, 60 and 90 days;</li> <li>● Rupee amount of orders in past 30, 60 and 90 days.</li> </ul>
<b>Payment</b>	<ul style="list-style-type: none"> <li>● Average paid per customer;</li> <li>● Ratio of payments to order;</li> <li>● Payments in past 30, 60 and 90 days;</li> <li>● Proportion of payments on credit card.</li> </ul>
<b>Returns</b>	<ul style="list-style-type: none"> <li>● Average returns per customer;</li> <li>● Ratio of returns per customer;</li> <li>● Returns in past 30, 60 and 90 days.</li> </ul>
<b>Activity Status</b>	<ul style="list-style-type: none"> <li>● Time in days since last communication;</li> <li>● Time in days since last order;</li> <li>● Time in days since last payment.</li> </ul>
<b>Customer Lifetime Value*</b>	<ul style="list-style-type: none"> <li>● Customer retention rates;</li> <li>● Spending rates;</li> <li>● Costs of marketing; and</li> <li>● Discount rates</li> </ul>
<b>Response</b>	<ul style="list-style-type: none"> <li>● Ratio of orders to offers for cross-sell/retention.</li> </ul>
<b>Customer Service Inquiries</b>	<ul style="list-style-type: none"> <li>● Questions;</li> <li>● Change of address;</li> <li>● Billing errors</li> </ul>

*\*CLV analysis is a powerful tool for evaluating marketing strategies and estimating the effect of adopting new programmes. It is a measure of customer profitability over the lifetime of the organization/customer relationship. The value of lifetime revenue potential minus lifetime costs, essentially lifetime profitability, is the foundation for calculating CLV. Customer Lifetime Value may be calculated as the net present value of the profits expected from the average customer during a given number of years.*

*6. Selecting Higher Potential Segments:*

After collecting feedback from various segments, retailer's job is to decide which and how many segments to serve.

**Focusing Single Segment:**

As the name implies, in this case, a retail company selects a single segment. Through concentrated marketing, the firm gains a deep knowledge of the segment's expectations and achieves a competitive market position in that particular segment. In addition, the company enjoys operating economies through specializing its production, distribution, and promotion.

In case company is able to become leader in the segment, the firm can earn a high return on its investment. However, concentrated marketing always involves higher than normal risks. A particular market segment can turn sour any time or a competitor may march into the segment. For these reasons, most of the retailing firms prefer to operate in more than one segment.

**Focusing Selective Segment:**

In this case, the company selects a number of segments each independently striking and appropriate, given the firm's objectives and resources. There may be less or no synergy among the segments, but each segment promises to be a moneymaker.

Selective segment coverage strategy has the benefit of diversifying the company's risk. Selective specialization is becoming quite popular in FM radio broadcasting. Radio broadcasters that want to appeal both to younger and older listeners can do so by having two different stations in the same market. Similarly most of the car companies, have adopted policies of more than one models to satisfy various income groups.

**Focusing Product Specialization:**

In this case, the company concentrates on producing or acquiring a certain product that it sells to various segments. Product specialization strategy enables a firm in building a strong goodwill in the specific product area. The main shortcoming in adopting such policy is that the product may be replaced by an entirely new technology any time resulting in huge losses to the firm.

**Focusing Market Specialization:**

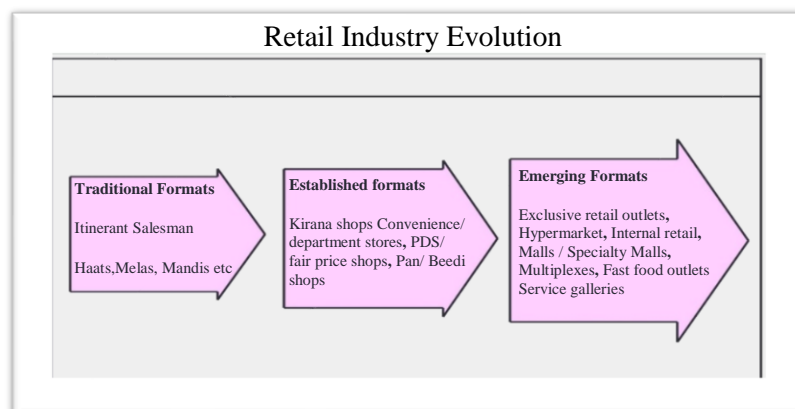
In this case, the company concentrates on serving varied needs of a particular customer group. The firm gains a strong reputation for specializing in serving the customer group and becomes a channel for all new products that the customer group could feasibly utilize. The shortcoming of this policy is that the customer group may have its budgets cut resulting in losing customers and market share.

**Focusing Full market:** In this case, as the name implies, the company attempts to serve all customer groups with all the products that they might need. Adopting full market specialization seems to be attractive and lucrative but can be undertaken by only large companies. Large companies can full market in two broad ways, through undifferentiated marketing or differentiated marketing.

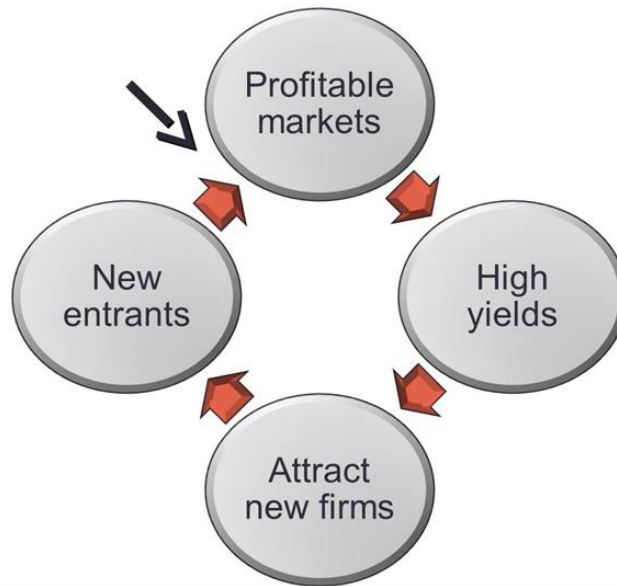
**Figure 5.6  
Various Market segments of Indian Corporate**

Single Segment	Merc, BMW
Selective Segment	Kidodent toothpaste (only for kids)
Product Segment	JCB machines, Studs Helmets
Market Segment	Hindustan Unilever
Full coverage Segment	Mother Dairy Milk, Pepsi, Coco-Cola, Nokia

Retailing in India is one of the pillars of India’s economy and accounts for 14 to 15 percent of its GDP. Organized retailing, in India, refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the publicly traded **supermarkets**, corporate- backed **hypermarkets** and **retail chains**, and also the privately owned large retail businesses. Organised retailing accounts for 4% of total retailing. Retail Industry Evolution Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the **local corner shops**, owner manned **general stores**, **paan/beedi shops**, **convenience stores**, **hand cart and pavement vendors**, etc



## THREAT OF NEW ENTRANTS

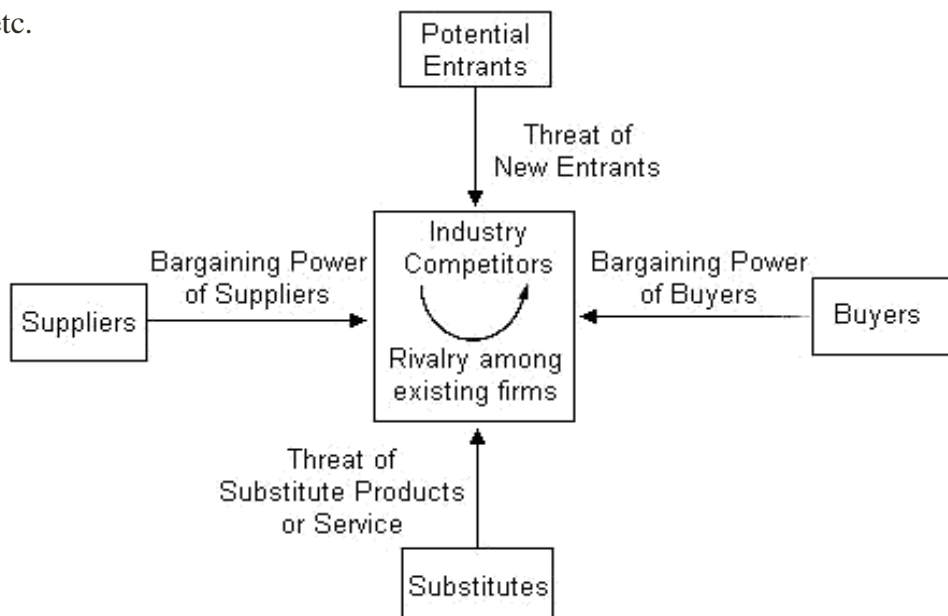


## 2.12 MICHAEL PORTER'S FIVE FORCES MODEL IN RETAIL INDUSTRY – METHODOLOGY.

Michael Porter (1980) considers that rivalry (competition) on the market is result of the five variables or main forces: rivalry level, bargaining power of customers and that of suppliers, the threat of new entrants and of substitute products.

These variables are interconnected. They are illustrated in the matrix of the five competitive forces of Porter.

These forces are using in several industrial sectors. Like Retails, Telecom, Airline, Pharma etc.



## IN RETAIL SECTOR

<p style="text-align: center;"><b>THREAT OF NEW ENTRANTS</b></p> <ul style="list-style-type: none"> <li>• Independent retailers decreased.</li> <li>• Chain stores</li> <li>• Centralized buying competitive advantage</li> </ul>	<p style="text-align: center;"><b>THREAT OF SUBSTITUTES</b></p> <ul style="list-style-type: none"> <li>• Deal with various products.</li> <li>• Chances of shifting is high.</li> </ul>
<p style="text-align: center;"><b>POWER OF SUPPLIERS</b></p> <ul style="list-style-type: none"> <li>• Historically, exploit the relationship.</li> <li>• Less power</li> </ul>	<p style="text-align: center;"><b>POWER OF BUYERS</b></p> <ul style="list-style-type: none"> <li>• Lower bargaining power</li> <li>• High quality products – retailers' honest</li> </ul>
<p style="text-align: center;"><b>RIVALRY AMONG EXISTING FIRMS WITHIN AN INDUSTRY</b></p> <ul style="list-style-type: none"> <li>• Cut throat Competition</li> <li>• Reduce – frequent fliers, memberships, loyalty cards, etc..</li> </ul>	

### 1.Threat of New Entrants.

One trend that started over a decade ago has been a decreasing number of independent retailers.

Walk through any mall and you'll notice that a majority of them are chain stores.

While the barriers to start up a store are not impossible to overcome, the ability to establish favourable supply contracts, leases and be competitive is becoming virtually impossible.

Their vertical structure and centralized buying gives chain stores a competitive advantage over independent retailers.

## 2. Bargaining power of suppliers

Historically, retailers have tried to exploit relationships with suppliers.

Bargaining power of buyers is moderate because of the size and concentration of major retailers.

To reduce power and you retain customers, retailers seek to differentiate products and create strong brands.

Individual private customers have a relatively low bargaining power in front of large retail chains, however, their power is greater for small retailers, who are less organized.

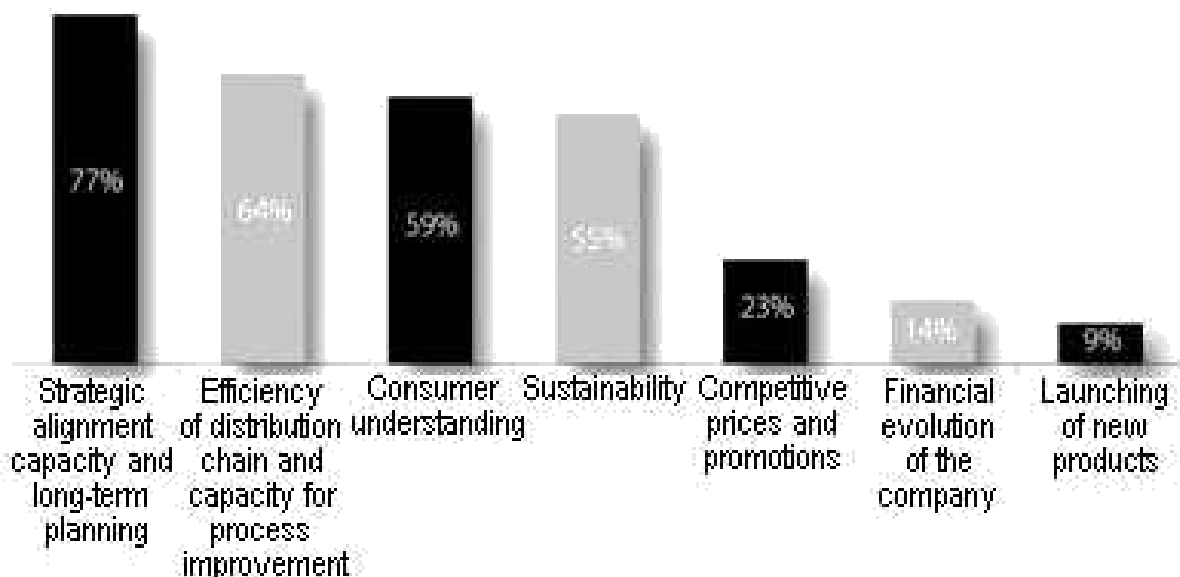
A contract with a large retailer such as Wal-Mart can make or break a small supplier. In the retail industry, suppliers tend to have very little power.

## 3. Power of Buyers.

Individually, customers have very little bargaining power with retail stores. It is very difficult to bargain with the clerk at Safeway for a better price on grapes. But, if customers demand high-quality products at bargain prices, it helps keep retailers honest.

## 4. Threat of substitute products.

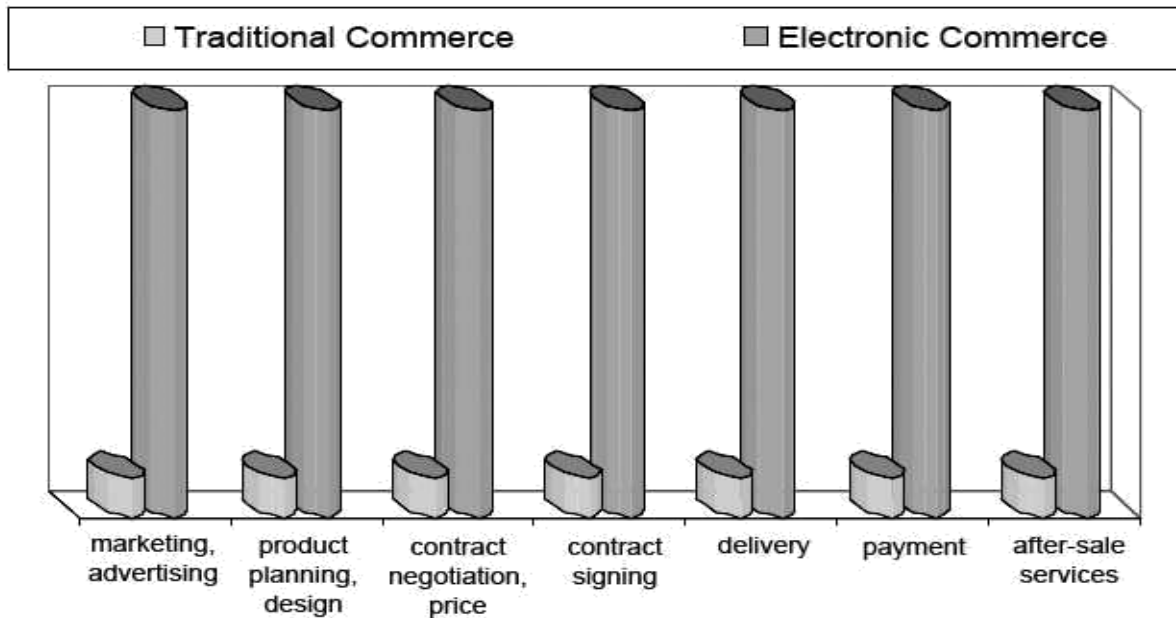
The tendency in retail is not to specialize in one good or service, but to deal in a wide range of products and services.





This means that what one store offers you will likely find at another store.

Retailers offering products that are unique have a distinct or absolute advantage over their competitors.



**Productivity surplus got through the use of e-commerce, in comparison with the classic model**

### 5. Competitive Rivalry

Is increased by equal size and power of dominant retailers who are pushing to increase market share.

The trend of extinction of small retailers through acquisitions, mergers alliances and high cost to exist this market.

Among leading group there are More, Reliance store, Big bazar and Flipkart that are dominating the large markets of retail sector in India.

Is increased by equal size and power of dominant retailers who are pushing to increase market share.

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Among leading group there are More, Reliance store, Big bazar and Flipkart that are dominating the large markets of retail sector in India.

<b>Analysis of Indira Steel and Hardwares.</b>	
5 Forces	Analysis
2. Rivalry among the competitor	High, To many shops in the area
3. Threat of Entrants	Area developing around, Opportunity for new dealers
4. Bargaining power of suppliers	Current Brands Losing Crowd, New Companies dealing in advance cash, no proper branding.
5. Bargaining power of buyers	Due to improper branding no buyers, Market competitors reducing the margin sales, lack in quality the buyers reduce the cost.
6. Threats of substitutes	Technology, competitive price, new unknown companies, market segmentation.

**Conclusion:**

In conclusion the industry is attractive for incumbent firms. However, it is very attractive for new entrants. To compete within this industry firms need to compete on quality. In order to achieve this quality firms need to establish relationships with suppliers and establish processes to create high quality materials. Also, although buyers don't have traditional switching costs, buyers are loyal to particular firms in the industry. Therefore, it would take a long time for firms to gain recognition and a long time to build a strong customer base, thus making this industry not very attractive for new entrants.



# **CHAPTER – 3**

# **COMPANY PROFILE.**

## INDIRA STEEL AND HARDWARES.

### 3.1 Product Types.

#### 3.1.1 Iron & Steel

The **iron and steel industry** is one of the most important industries in India. During 2014 through 2015, India was the third largest producer of raw steel<sup>[1]</sup> and the largest producer of sponge iron in the world. The industry produced 91.46 million tons of total finished steel and 9.7 million tons of pig iron. Most iron and steel in India is produced from iron ore.<sup>[2]</sup> The Indian Ministry of Steel is concerned with: the coordination and planning of the growth and development of the iron and steel industry in the country, both in the public and private sectors; formulation of policies with respect to production, pricing, distribution, import and export of iron and steel, ferro alloys and refractories; and the development of input industries relating to iron ore, manganese ore, chrome ore and refractories etc., required mainly by the steel industry.

#### Current steel plants in India

There are more than 50 iron and steel industries in India. Their locations are given below in the following table:

Name	Location	Owner
Jindal Steel and Power Limited	Raigarh, Angul, Odisha	
Tata Steel Limited formerly Tata Iron and Steel Company Limited (TISCO)	Jamshedpur, Jharkhand	Tata Steel
Tata Steel Limited	kalinganagar, odisha	Tata Steel
Visvesvaraya Iron and Steel Plant	Bhadravati, Karnataka	SAIL
Bhilai Steel Plant	Chhattisgarh	SAIL
Durgapur Steel Plant	Durgapur, West Bengal	SAIL

Bokaro Steel Plant	Jharkhand	SAIL
Chandrapur Ferro Alloy Plant	Chandrapur, Maharashtra	SAIL
IISCO Steel Plant	Asansol, West Bengal	SAIL
Salem Steel Plant	Tamil Nadu	SAIL
Rourkela Steel Plant	Odisha	SAIL
JSW Steel	Hospet, Bellary, Karnataka	JSW Steel
Visakhapatnam Steel Plant	Visakhapatnam, Andhra Pradesh	Rashtriya Ispat Nigam Limited
Bhushan Steel Limit	Angul, Odisha	Bhushan steel limited
Rimjhim Ispat Limited	Kanpur, Uttar Pradesh	Yogesh Agrawal

### Steel prices

Price regulation of iron and steel was abolished on 16 January 1992.<sup>[4]</sup> Since then steel prices have been determined by an interplay of market forces. Domestic steel prices are influenced by trends in raw material prices, demand, supply conditions in the market, and international price trends among others. An Inter-Ministerial Group (IMG) is functioning in the Ministry of Steel, under the chairmanship of the secretary (Steel) to monitor and coordinate major steel investments in the country. As a facilitator, the government monitors the steel market conditions and adopts fiscal and other policy measures based on its assessment. Currently, basic excise duty for steel is set at 12.5% and there is no export duty on steel items. The government has also imposed an export duty of 30% on all forms of iron ore except low grades, which carry a duty of 10%, while iron ore pellets have an export duty of 5% to control ad-hoc exports of the items and to conserve them for the long-term requirements of the domestic steel industry.

It has also raised the import duty on most steel imports by 2.5%, taking the import duty on carbon steel, flat products to 10% and that on long products to 7.5%.

List of the Companies Sold at store.

7. <b><u>Bhuwalka Premier Group of Companies</u></b>	7. Kamadenu Steels
8. <b><u>Minox Metal Pvt Ltd</u></b>	8. Meenakshi steels pvt ltd
9. <b><u>Shankara Building Products Ltd</u></b>	9. Kay2 steels pvt ltd.
10. <b><u>Sunvik Steels Pvt Ltd</u></b>	10. Tata Steels
11. <b><u>Aone Steels India Pvt Ltd</u></b>	11. Kamakchi steels

<b>TMT Size</b>	<b>TMT Rods Per Bundle</b>	<b>TMT Weight Per Bundle</b>
8mm (1 Bundle)	10	47 Kg
10mm (1 Bundle)	7	53 Kg
12mm (1 Bundle)	5	53.4 Kg
16mm (1 Bundle)	3	56.88 Kg
20mm (1 Bundle)	2	59.2 Kg
25mm (1 Bundle)	1	46.2 Kg
32mm (1 Bundle)	1	75.72 Kg

**Note:** Length of TMT Steel rod will be 12 meters or 40 feet.

### **3.1.2 MS Angle & Channel,**

Indira Steel and Hardwares is a wide range of Mild Steel (MS) Angels. MS Angels are used for manufacturing of truck-trailers, EOT cranes and Gantry, escalators and elevators,ship building, factory sheds, bus body, communication and transmission towers, conveyors, boilers, agricultural equipment, and construction of bridges, scaffolding and many more fabrication and engineering industries.

MS Equal Angles : 25 x3mm to 130 x 12mm



Size in mm	Average Weight	
	KG/MTR	KG/FT
25 x 25 x 3	1.10	0.30
25 x 25 x 4.5	1.60	0.49
25 x 25 x 5	1.80	0.50
25 x 25 x 6	2.10	0.60
30 x 30 x 3	1.40	0.40
35 x 35 x 3	1.60	0.50
35 x 35 x 4	2.10	0.60
35 x 35 x 5	2.60	0.80
37 x 37 x 3	1.70	0.50
40 x 40 x 4	2.40	0.70
40 x 40 x 5	3.00	0.90
40 x 40 x 6	3.50	1.10
45 x 45 x 4	2.70	0.80
45 x 45 x 5	3.40	1.00
45 x 45 x 6	4.00	1.22
50 x 50 x 3	2.30	0.70

## MS Channels

Indira Steel and Hardwares a wide range of Mild Steel (MS) Channels. MS Channels are used for manufacturing of truck-trailers, Tippers, generators frames, EOT cranes, ship building, factory sheds, conveyors, Cable Trays, boilers, agricultural equipment, Bus body, Mechanised parking system, construction of bridges and many more engineering industries.

MS Channels : 75 x 40mm to 200 x 75mm (Light Wt. /Med. Wt. /STD .Wt.)



Size in mm	Average Weight	
	KG/MTR	KG/FT
70 x 35	4.20	1.30
75 x 40	5.20	1.58
75 x 40 STD	7.10	2.20
75 x 40 MED	6.50	2.00
75 x 40 LIGHT	5.70	1.70
100 x 50 STD	9.56	2.90
100 x 50 MED	9.20	2.80
100 x 50 LT MED	8.70	2.60
100 x 50 LIGHT	7.90	2.40
120 x 55	13.10	3.99
125 x 65	13.10	4.00

## Hr & Cr Pipes/Sheet,

### Types of Stainless Steel

Cold Rolled (CR)	Hot Rolled (CR)
<ul style="list-style-type: none"> <li>• Cold Rolled Coils</li> <li>• Strips / Sheets</li> <li>• Cut Blanks</li> </ul>	<ul style="list-style-type: none"> <li>• HR Plates</li> <li>• Sheets</li> <li>• Coils</li> </ul>

### Thickness Ranges Available

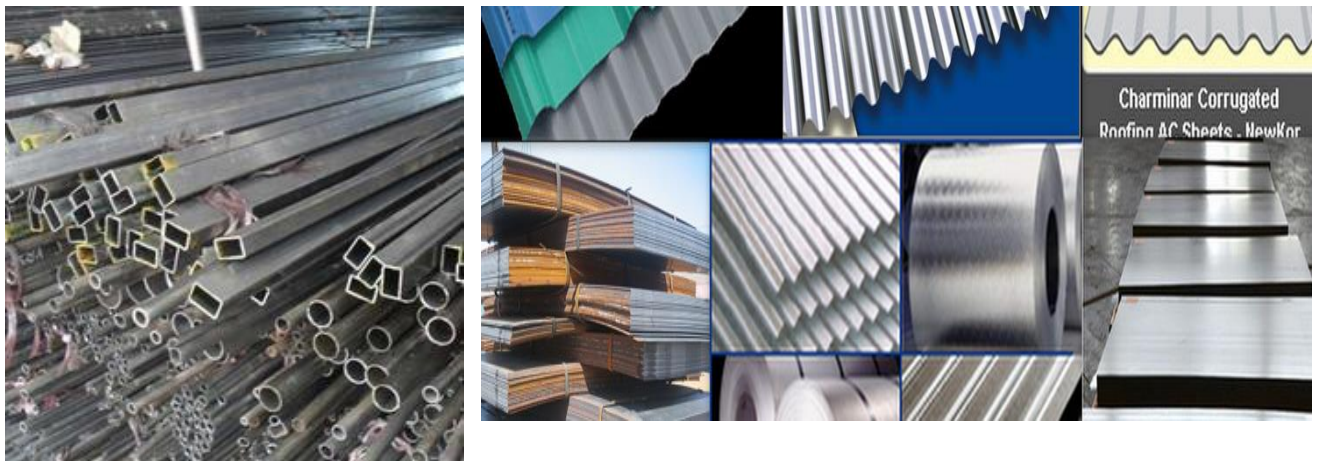
HRAP Coils	1.45	6.0
HRAP Plates	5.0	80.0
CRAP Coils	0.40	5.0

### Width Ranges Available

- Standard Widths available are 1000 mm, 1250 mm, 1270 mm and 1600 mm
- Any other customized Width on CR/HR ranges from 21 mm to 1600 mm

### Length Ranges Available

- Standard Lengths available are 2000 mm, 2500 mm, 5000 mm and 6000 mm
- Any other customized Length in CR/HR ranges from 400 mm to 6000 mm



## **PVC & CPVC Pipes & Fittings,**

PVC pipes have been used for more than 60 years and show that they have very long-lasting material properties. They are easy to install, strong and durable and, when they eventually reach the end of their service life, they can be recycled back into new PVC pipes. As a result, PVC pipe systems are very cost efficient.

Until the late 1990s heat stabilisers based on lead salts were widely used to make PVC pipes. These salts are toxic, but once incorporated into the finished pipe or fitting, they are locked inside the matrix and do not leak out. Nevertheless, the use of these lead salts has now been largely discontinued in Europe in favour of other types of heat stabiliser, thus eliminating the exposure of workers who made the lead salts. This was initiated in the framework of the Voluntary Commitment of the European PVC industry, Vinyl 2010, a 10-year programme to move the PVC industry towards more sustainability and now continued as [VinylPlus](#). The lead stabiliser producers committed to replace lead-based stabilisers by the end of 2015 in the EU.

**Chlorinated polyvinyl chloride (CPVC)** is a thermoplastic produced by chlorination of polyvinyl chloride (PVC) resin, which is significantly more flexible and can withstand higher temperatures than standard PVC. Uses include hot- and cold-water pipes and industrial liquid handling. CPVC, as PVC, is deemed safe for the transport and use of potable water, potable meaning water used for drinking, cooking, and bathing.<sup>[3]</sup>

### **PVC vs CPVC**

You're probably familiar with PVC pipe. It's the white plastic pipe commonly used for plumbing and drainage. PVC stands for polyvinyl chloride, and it's become a common replacement for metal piping. PVC's strength, durability, easy installation, and low cost have made it one of the most widely used plastics in the world. PVC is a thermoplastic material that is molded into different shapes to create pipes, fittings, valves and other liquid handling supplies. There are a few other differences between the two materials. Most North American PVC pipe uses a Nominal Pipe Size (NPS), while CPVC is available in either NPS standard sizing -OR- CTS (Copper Tube Size) sizing. The copper tube sizing system is an entirely different sizing system from Nominal Pipe Size, and as the name implies it is the same system used for copper tube pipe.



## Colour Coated & Poly Carbonate Sheet

With aesthetics and daylight solution both playing important roles in building construction, decorative color coated roofing sheets have been gaining popularity as roofing solution for all sorts of buildings, especially in urban and industrial areas. These sheets can not only be used in large industrial or commercial buildings as daylight facilitator but also are being used in many residential buildings as alternatives to the conventional galvanized iron (GI) sheets or similar products, primarily for aesthical reasons. Colour coated roofing sheets are commonly available in three forms – corrugated, troughed and tiled. They usually come with self drilling and self tapping screws with compatible washers. These sheets can be of metallic as well as non-metallic varieties. Metallic ones are usually galvnised steel sheets that have colour coats on both surfaces. The base material can be hot dipped galvanized steel and the steel can be either hot rolled or cold rolled. These high tensile strength structural steel sheets are initially coated with alloys of metals like Zinc or Aluminium. Thereafter, both sides of the sheets are given surface treatments with pigmented coats. The colour coating usually consists of two coats, the base coat and the top coat. Colour coatings of various types and thicknesses may be applied in order to suit different requirements or applications. A typical example of a base or bottom coat is a 6 micron thick epoxy primer coat and an example of top or the finish coat is a 20 micron thick polyester coat. While the thickness of the base coat can be as high as 18 to 20 micron that of the top coat can be upto 50 microns or so.

Some commonly used paints for colouring roofing sheets for various applications are: Silicone Modified Polyesters (SMP), Poly Vinylidene Flouride (PVDF), Regular Modified Polyesters (RMP) etc. Besides industrial, commercial or residential buildings, these roofing sheets can also be quite suitable for hotels and resorts, farmhouses, airport hangers, clubhouses, sports complexes and so on for enhancing the overall appearance of the structures. Non-metallic colour coated roofing sheets are usually plastic sheets. A good example of this variety is polycarbonate roofing sheets which are often UV coated on both sides. These thermoplastic sheets are regarded as superior to fibreglass and are said to be 250 times stronger than ordinary glass. Besides being transperent, they are lightweight and thus easy to install. Coloured Polycarbonate sheets are widely used for north-light glazing, industrial skylights, greenhouses, patios, multiplexes, shopping malls.

## Cements and its Products,

A **cement** is a binder, a substance used for construction that sets, hardens and adheres to other materials, binding them together. Cement is seldom used on its own, but rather to bind sand and gravel (aggregate) together. Cement is used with fine aggregate to produce mortar for masonry, or with sand and gravel aggregates to produce concrete.

Cements used in construction are usually inorganic, often lime or calcium silicate based, and can be characterized as being either **hydraulic** or **non-hydraulic**, depending upon the ability of the cement to set in the presence of water (see hydraulic and non-hydraulic lime plaster).

**Non-hydraulic cement** will not set in wet conditions or under water; rather, it sets as it dries and reacts with carbon dioxide in the air. It is resistant to attack by chemicals after setting.

**Hydraulic cements** (e.g., Portland cement) set and become adhesive due to a chemical reaction between the dry ingredients and water. The chemical reaction results in mineral hydrates that are not very water-soluble and so are quite durable in water and safe from chemical attack. This allows setting in wet conditions or under water and further protects the hardened material from chemical attack. The chemical process for hydraulic cement found by ancient Romans used volcanic ash (pozzolana) with added lime (calcium oxide).

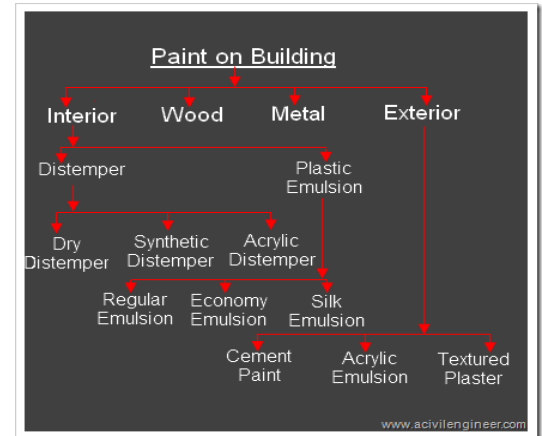
The word "cement" can be traced back to the Roman term opus caementicium, used to describe masonry resembling modern concrete that was made from crushed rock with burnt lime as binder. The volcanic ash and pulverized brick supplements that were added to the burnt lime, to obtain a hydraulic binder, were later referred to as *cementum*, *cimentum*, *cäment*, and *cement*. In modern times, organic polymers are sometimes used as cements in concrete.

Cement Companies sold in Store.	
1. Zuri Cements.	12. Peena Cements
2. Ramco Cements.	13. Jsw Cements
3. UltraTech Cements	14. Chettinard Cements
4. Acc Cements.	15. Birla Cements
5. India Cements	16. Dalmia Cements.

## Paints & Hardwares items,

There are many purposes for using paint in building construction. These includes increase the visual appeal of building surface, protect surface against weathering impact, make the surface water proof, protect surface from termite attack and increase the surface durability. In building, you will find four types of places to paint on. Such as –

1. Interior wall and ceiling
2. Exterior wall surface
3. Wooden surface and
4. Metal



### 1. Interior wall and ceiling

To increase the visual appeal and smoothness of wall surface and ceiling interior paint is done. Following types of paints can be used as interior paint –

**Distemper:** Distemper is common type paint used in interior wall and ceiling for protecting and decorating brick wall, concrete and plastered surface. Variety of distemper are available in the market. Such as acrylic distemper, synthetic distemper, dry distemper etc. Acrylic distemper is washable and can be applied on plaster, wall and asbestos. Synthetic and dry distemper are not washable.

**Plastic paint:** It is also called plastic emulsion paint or interior emulsion paint. It is water base paint. This paint is durable and can be washed. They are available in three categories –

*Regular emulsion*

*Economy emulsion* and

*Premium emulsion*

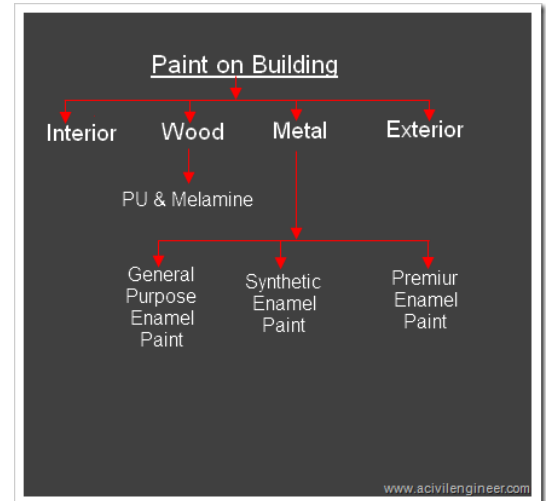
## 2. Exterior

Exterior paint must have weather resisting capability. It can be oil based or water based. But oil based paint is not generally recommended for exterior painting. Following types of exterior paint are available in market –

**Cement paint**– It is water based paint. It gives nice finish to newly constructed building.

**Acrylic emulsion**– It has high capability to withstand against weathering impact. It gives surface a nice and durable finish.

**Textured plaster**– It is also emulsion based paint. But the surface protection capability of textured plaster is much better than other emulsion paint.



## 3. Wood

Traditional paint for wood is varnish. But now a days many people choose modern version of varnish “polyurethane and melamine” for wood finishes. It allows wood grains to see through it unlike varnish.

## 4. Metal

Enamel paint is commonly used for metal. This is oil based paint.

Following types of enamel paints is used on metal surface in building construction –

a) *General purpose enamel paint*

b) *Synthetic enamel paint*

c) *Premium enamel paint*

a) **General purpose enamel paint** – This type of enamel paint’s protecting capability is lower than other two. But using two coat of this paint can give long protection to metal surface.

b) **Synthetic enamel paint** – This type of paint gives metal surface a good finish with atmospheric protection. Synthetic enamel paint can also be used on wooden surface.

c) **Premium enamel paint** – It has excellent protective capability against atmospheric attack on metal. It also gives glossy effect with nice surface finish.

There are also some other places in building construction where special painting is needed. Such as water proofing paint, anti-termite paint etc.

listed the top 10 paints companies in India which are competing to become a market leader.

### **Akzo Nobel India Ltd**

Akzo Nobel India Ltd was founded in the year 1993. It is headquartered in Amsterdam, Netherlands. Its product range includes Basic and industrial coatings, chemicals, decorative paints, industrial (re)finishing products. The company is known for its innovative products

### **Asian Paints Ltd**

Asian Paints Ltd is an Indian multinational paint company headquartered in Mumbai, Maharashtra. It was founded in the year 1942. The Company is engaged in the business of manufacturing, selling and distribution of paints, products related to home decor, coatings, bath fittings and providing related services. It is one of the top 10 paint companies in India.

### **Berger Paints Ltd**

Berger Paints Ltd was founded in the year 1923. Its product range includes paints, coatings, wallpapers, chemicals, construction and allied products. Its headquarter is located in Kolkata, India. The company is present in international locations including Poland, Nepal, Bangladesh, and Russia. It is one of the fastest growing company in every quarter. Its product range includes

Exterior Wall Coatings, Interior Wall Coatings, Berger Metal & Wood Paints, Undercoats, Express Painting and Construction Chemicals.

### **Kansai Nerolac Paint Ltd**

Kansai Nerolac Paint Ltd was founded in the year 1920. It is headquartered in Mumbai, Maharashtra. Its product range includes decorative paints, coatings, industrial (re)finishing products, basic and industrial chemicals etc. It develops and supplies paint systems used on the finishing lines of the cycle, material handling equipment, bus bodies, electrical components, containers and furniture industries.

### **Pidilite Industries Ltd**

Pidilite Industries Ltd was founded in the year 1959. It is founded by Balvant Parekh. Its headquarter is located in Andheri, Mumbai India. Its product range includes construction, chemicals, and Adhesives. The manufacturing facilities of the company are in Vapi (Gujarat), Kala Amb (Himachal Pradesh), Mahad ( Maharashtra) etc.

### **Jenson & Nicholson India Ltd**

Jenson & Nicholson India Ltd was founded in the year 1922. It is one top paint companies in India. It is providing world class products prepared by using the latest technology.

### **Shalimar Paints Ltd**

Shalimar Paints Ltd was founded in the year 1902. It is headquartered in Gurgaon, Haryana. It is founded by AC Turner and AC Wright. The company is involved in manufacturing and marketing of industrial coatings and decorative paints. Many of Indian iconic buildings are painted by Shalimar Paints Ltd.

### **British Paints India Ltd**

British Paints was launched in India in the year 1947. It is offering an innovative range of architectural and industrial coatings. It is offering decorative paints like enamel, texture, and waterproofing solutions.

## Sanitary ware & Fittings,

Sanitary ware is a division of ceramic wares. It is proven that ceramic sanitaryware wares are cost effective and good for long run. Sanitary wares can with stand more than 400 kg load and excellent resistance to chemical attacks. Sanitaryware items can be easily cleaned because of its glossy surface properties. sanitaryware items are made up of ceramic ware that used in bathrooms. Some of the sanitary ware products are

- Toilets.
- Washbasins.
- Pedestals.
- Bidet.
- Urinals.
- Sinks.
- Bath tubs.



Accessories like:

- Soap holder/trays.
- Ash trays.
- Towel Rod.
- Toilet paper holder.

And some other products are made by ceramics.

sanitary ware Meaning

Sanitary - Hygienic and Clean. Ware - Product / article

Sanitaryware Definition

Sanitaryware is a vitreous china body fired above 1200°C to get the required sanitary model to use for domestic and industrial purpose.

Properties

Some of the essential properties that are required for sanitaryware body.

- Water absorption should be below 0.5%.

- Can with stand minimum of 400 Kgs load.
- Good glossy surface for easy cleaning.

Sanitary Ware is made using three main components.

1) Clay

- [Ball clay](#)
- [China clay](#)

2) Quartz

3) Feldspar All these raw materials are mixed in a proper position, cast and fired to get the final sanitary ware product. Some of the Sanitaryware products are Wash basins, pedestals, Urinals, Wall hung, one piece toilet, bathtubs and toilet tanks.

Sanitary ware is made in different colours as per the requirement. it can bear the heavy load and has good scratch resistance property.

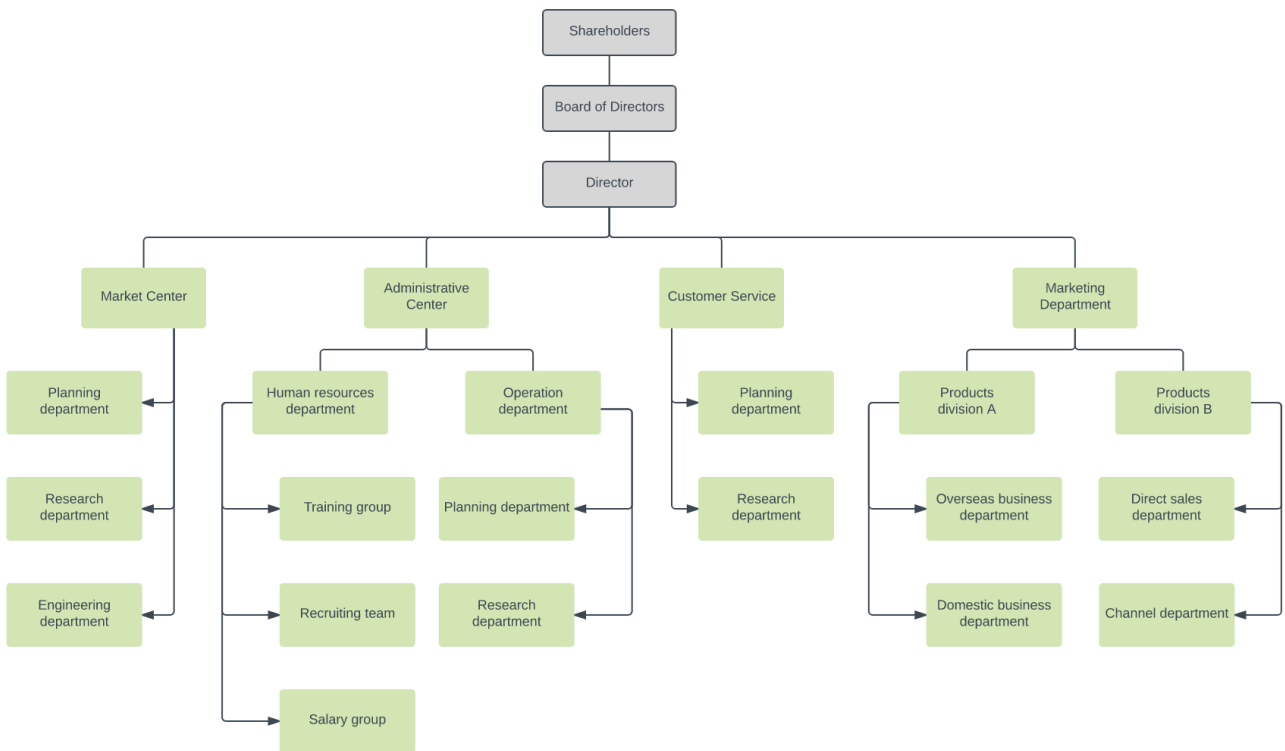
**Here is the Sanitaryware Manufacturing company Brand List:**

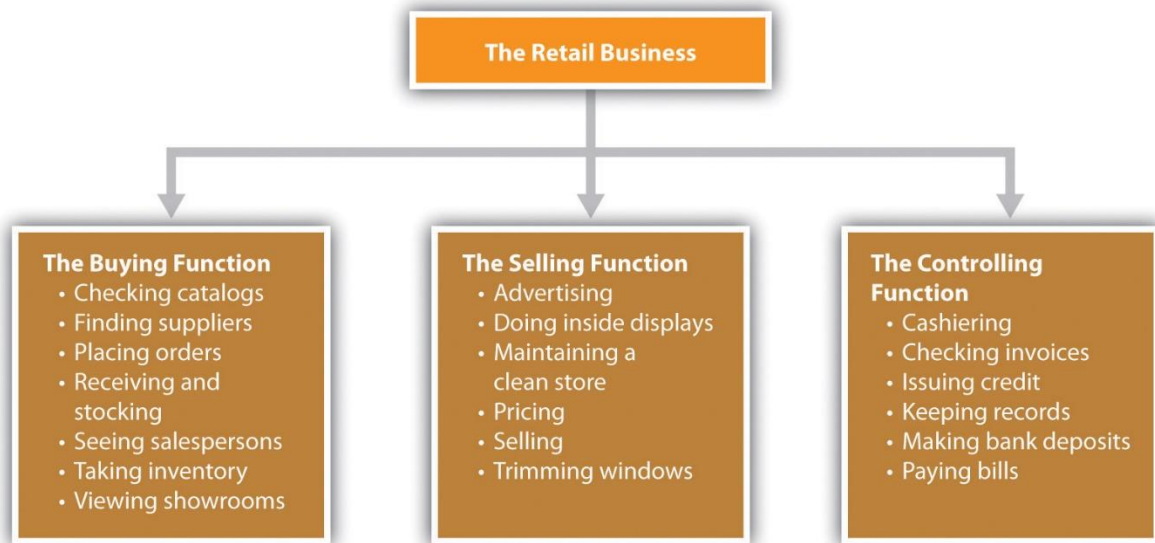
### **Contents**

- 1. Kohler India
- 2. Hindustan Sanitaryware Limited:
- 3. Cera Sanitaryware Limited:
- 4. Parryware Roca India:
- 5. TOTO
- 6. RAK Ceramics India:
- 7. Duravit sanitaryware Pvt Ltd
- 8. Tessa Sanitaryware
- 9. Eros:



## Organisational Chart of Indira Steel and Hardwares.





## PRODUCTION DEPARTMENT

Production management refers to the application of management principles to the production function in a factory. In other words, production management involves application of planning, organizing, directing and controlling to the production process.

Production function can offer competitive advantage to a firm in the following areas

1. Shorter new-product lead time.
2. More inventory turns
3. Shorter manufacturing lead time
4. Higher quality
5. Greater flexibility
6. Better customer service
7. Reduced wastage

Manufacturing unit of Indira Steel and Hardwares Mattress Company is situated at Eleंबरampara, Taliparamba. The manufacturing unit is under control of factory manager.

Manufacturing and factory operations are carried out efficiently and effectively. The marketing office of the company is located in Parassinikadavu, very near to the Dharmasala high way.

## **PRODUCTION PROCESS**

Indira Steel and Hardwares follows a highly efficient and well planned production system. Indira Steel and Hardwares produce the product on the basis of the work order given by marketing department. The product passes through different stages from the beginning to the end. Indira Steel and Hardwares factory uses highly sophisticated machineries and equipment imported from different countries like America. The following are the process required for production the mattresses.

1. Preparation Compound Latex.
2. Rope Drying
3. Untwisting
4. Sheet Making
5. Sheet Cutting
6. Pre Pressing
7. Hydraulic Pressing
8. Vulcanizing
9. Size Cutting
10. Side Cutting
11. Pasting and Furnishing
12. Dispatching and Marketing

## **QUALITY CONTROL DEPARTMENT**

### **QUALITY POLICY:-**

Indira Steel and Hardwares product and services will meet the requirement of customers .Enhancement of customer satisfaction is the goal of the company.

Indira Steel and Hardwares's quality management system is continually reviewed to improve its effectiveness.

### **OBJECTIVES:-**

Measurable quality objective have been established functionally to achieve enhanced customer satisfaction through

- a) Continuous improvement of product, services and customer relation.
- b) Better competitiveness through reduction of cost by reducing wastage, quick response to customer feedback and corrective and preventive action.

## **QUALITY REQUIREMENT**

Indira Steel and Hardwares has implemented a QMS considering the aspects of design personnel inputs, design/engineering technology and facility for the various activities .Function such as marketing /sales, design, and QA, manufacturing and PE, materials, etc, have been evolved and are smoothly functioning .The skills and other personnel requirements have been defined .The referred process flow chart depicts the sequence of operations, their inter relationships, and the facilities for effective operations.

A documented QMS has been established, implemented, maintained and its effectiveness improved continually as per requirements of ISO 9001:2000.The process needed for the QMS have been identified and applied throughout INDIRA STEEL AND HARDWARES.

## **HUMAN RESOURCE DEPARTMENT**

Human resources are the most important asset of an organization and their effective management is the key success. Success of an organization depends up on the ability of its human resources. Human resources management has a significant role to play in the overall development of organization. Production is the result of joint efforts of land, labor, capital and business enterprises. Manpower is the most important factor among them. Manpower planning is also needed in order to identify areas of surplus personnel or areas in which there is a shortage of personnel. Human resource planning is the responsibility of both line and staff manager.

### **Organizational Policies and Programs**

In Indira Steel and Hardwares, the administrative cum personnel officer is the head of personnel Department. All the personnel and administrative decisions are taken by Personnel department. The administrative cum personnel officer give advice to top level management with regard to personnel policies and programs. He advises functional heads on various aspects of human resource planning, recruitment, selection, training, compensation, etc..

Indira Steel and Hardwares has well established manpower strength. The Company employs 450 and more workers, including 75 permanent 30 temporary workers.

Workers of the company are classified in to three categories. They are

- Skilled workers
- Semi Skilled workers
- Unskilled workers

Recruitment takes place in an organization due to vacancies created by various causes like retirement, promotion, death etc. Types or sources of recruitment include both internal and external recruitment.

## **Method of Recruitment:-**

In Indira Steel and Hardwares, the recruitment is made through advertising in newspaper according to the manpower required. The administrative cum personnel officer prepares notification by the approval of Board of Directors. Candidates who are recruited through external recruitment process can bring fresh outlook and new ideas. It will improve the overall performance of the organization.

In Indira Steel and Hardwares, the personnel department scrutinize the applications that are received from the applicant. The applicants who are process required qualification must be called for interview.

In Indira Steel and Hardwares trainers are trained at the work place itself. At the time of training supervisor in charge is responsible for training.

Various resources required for performing quality work in every aspect has been identified. The resources include qualified / experienced , manpower, suitable machines procedure method and also vendors who supply material to the company.

## **Human Resource**

It is ensured that adequate qualified / skilled personnel are assigned to various projects and activities.

## **Competence, Awareness and Training**

Job description of Executive identifies skill and qualification requirements for the specific tasks. Training needs of any, of personnel for performing a competent job, and identified and provided continuously, by the GM, company work output and others like behavioral pattern with earlier level, monitors the effectiveness of such training and is carried out by the GM/HOD. The role of the individual is communicated to all personnel written to achieving the quality policy and objectives.

Administrative staff maintains appropriate records of education, training, skills and experience.

## Work Environment

The various physical and human factors of facility and work environment has been identified ,provided and are reviewed over time to ensure smooth operation .GN directly manages to enable a conducive work environment.

Keeping Personnel Records:-

In Indira Steel and Hardwares, the personnel department is maintaining a full record of all the workers in the company. The record include

Name and address

Department

The name of the former employees and reasons for leaving the organization.

Date of employment

Category

Rate of pay

Promotion

Reason for leaving

### STRUCTURE OF PERSONNEL DEPARTMENT

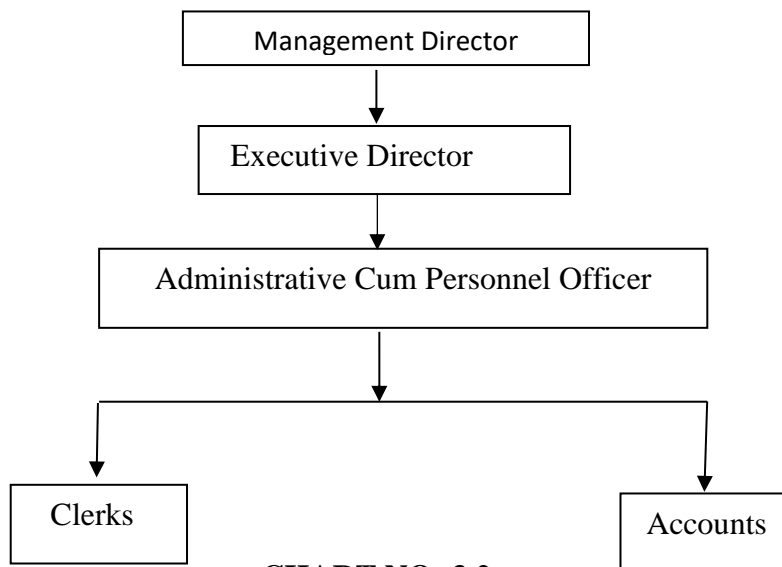


CHART NO: 3.2

## **PURCHASE DEPARTMENT**

Purchasing is the function of buying machinery, tools general suppliers, raw materials, etc. required by the organization.

The work of purchasing is performed by the purchase section and in the broader sense; their functions and responsibilities are as follows.

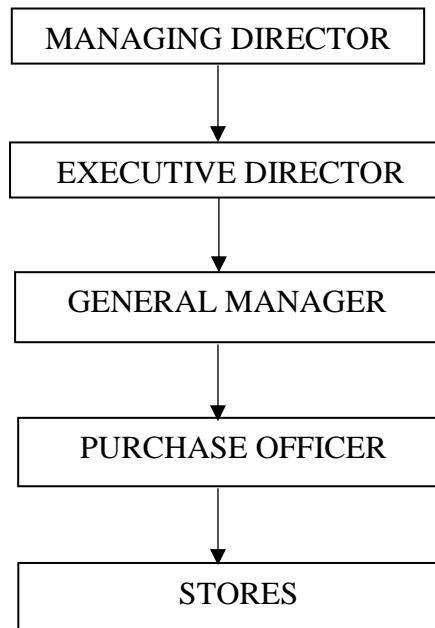
### **FUNCTIONS OF PURCHASE DEPARTMENT**

1. Responsibilities fully delegated to the purchasing functions.
2. Obtaining prices.
3. Selecting vendors
4. Placing purchasing orders
5. Follow up and delivery promises.
6. Adjusting and setting complains.
7. Selecting and training purchasing personnel.
8. Vendor selection.

Suitable raw materials and inputs are purchased to achieve manufacturing quality. HOD (material) is responsible for purchase department. The purchasing process starts with the receipt of a purchase requisition from concerned department. The flow chart provides the sequence of purchase activities and the persons responsible for each. Following are the procedures required for the purchase function.



## STRUCTURE OF PURCHASE DEPARTMENT



## FINANCE DEPARTMENT

Finance is the life blood of the business .Finance is required for commencement and growth of the business. Finance management is very important for every organization because if the organization facing over capitalization and under capitalization. This situation says that the finance department not working well.

The account manager is head of the finance or accounts department .He has seven accounts officer under him. All financial decision is taken by account department.

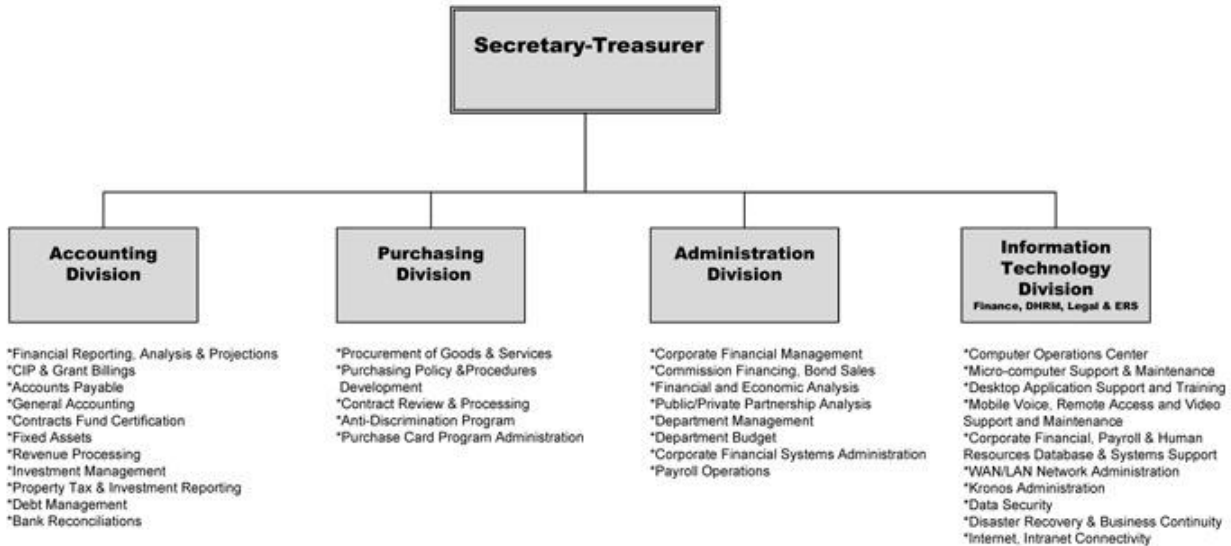
Finance officer has the top most authority in his department. Under finance manager there is account manager. There are clerk and a cashier working under them. In this

## FUNCTIONS OF FINANCE DEPARTMENT

1. Budget marking and set target to be achieved
2. Finalization of account
3. Preparation of wage sheet
4. Disbursement of wage and salary
5. Maintenance of investment records, tax deduction and deposits with revenue authorities

6. Supply of all kinds of accounting and financial information to the management.
7. To prepare cost records
8. Set out financial requirements loans income

## DEPARTMENT OF FINANCE



**CHART NO: 3.3**

## MARKETING DEPARTMENT

Marketing is a comprehensive term and it includes all resources and a set of activities necessary to direct and facilitate the flow of goods and services from producer to consumer in the process of distribution.

Marketing department is headed by marketing manager .He is responsible for achievement of target fixed for division .Marketing and sales functions are under effective management and control.

General Manager / ED and HOD are responsible for marketing activities.

### **System:-**

The company has entrusted marketing to Indira Steel and Hardwares India Pvt.Ltd.

## **Price List**

Price for natural rubberized coir product such as mattresses, cushions, pillows are prepared by HOD (marketing) in consultation with GM/ED.

## **Order Receipt and Acceptance:-**

The order of acceptable is reviewed by HOD (marketing) and then examined for commercial acceptance, delivery and other requirements are verified.

1. The price /discount are checked
2. Duty and tax checked
3. Conformance on the other terms viz payment terms, delivery, mode of dispatch, distribution, etc, are checked as per policy/agreement with customer.

Technically and commercially acceptable orders are registered with an order registration number.

Verbal orders if any will automatically get ratified on the issue of work orders. In case, orders are received for products outside the capability of supply the order regretted .The HOD (MKTG) is the authorized person on regret such order.

Work order prepared by HOD (MKTG) is triplicate copy is forwarded to HOD (MFG) will schedule and place the production.

## **Work order review/ Contract review**

Work orders review meeting shall be conducted once in a week concentrated at the plant for reviewing the following the points. The meeting shall be attended by HOD (MFG), HOD (MKTG), HOD (Stores), HOD (R&D, Design).

1. Work order /production status
2. Specialty products / critical requirements
3. Any other matter connected with the order / contract for meeting contractual requirements.

## Customer Feedback and customer Satisfaction

The customer complaints are reviewed by HOD (MKTG) who maintains a register indicating the compliant details and the details communicated to HOD (mfg), HOD (QA), and HOD (stores).

The complaints shall be studied by the HOD concerned and necessary corrective actions shall be taken and informed to HOD (MKTG) to inform customer and close the complaints.

Customer satisfaction is monitored through periodic visits and interaction, questionnaire, survey, etc.

### SALES TARGET AND DISTRIBUTORS GRADE

SALES TARGET	GRADE
100000 and above	A
50000 to 100000	B
25000 to 50000	C
up to 25000	D

TABLE NO: 3.1

## SALES TURNOVER

Sales turnover in the year 1997 to 2009 represented graphically are as follows.

## MARKETING MIX OF INDIRA STEEL AND HARDWARES COMPANY

For each segment or sub division of the market, Indira Steel and Hardwares formulate a combination of a number of devices or types of marketing activities that are coordinate in to single marketing programs to reach a particular target or market segment. The combination of these marketing method or device is known as marketing mix.

Element of marketing mix:-

1. Decision on product and services
2. Decision on price
3. Decision on promotion
4. Decision on distribution

### **1. Product Mix:-**

Product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need .It includes physical object, services, persons, places organization and idea.

Indira Steel and Hardwares is producing various types of product that satisfy the consumer's needs and then decide the type, shape, size and design, package etc, of the product .So the products of Indira Steel and Hardwares are satisfying the customer need. Indira Steel and Hardwares mattresses are available in various surface patterns that care the youth today .The material used for the surface are technically tested and vary to suit your liking and requirements. Indira Steel and Hardwares luxury mattresses are manufactured at 5 styles to suit various life style and budgets. They are Indira Steel and Hardwares president, fantasy plus, heritage, excelsior, tranquil, and also produce cushions, pillows and bolsters and so on.

### **2. Price Mix:-**

Indira Steel and Hardwares charges reasonable price for quality products and enables the consumers to pay for the product .While fixing the price of a product, the management considers certain factors such as cost, ability of consumers, availability of raw materials, market competition.

### **3. Promotion Mix :-**

Promotion consists of all activities aimed at inducing and motivation to buy the product .The selection of alternative determines the success of marketing .Thus promotion includes advertising, public, relation, personal selling and sales promotion. Indira Steel and Hardwares has also some promotional programmers for promoting sales.

## 1. Advertising

Indira Steel and Hardwares used to give its advertisement through advertising tools such as newspapers, TV, wall printing, magazine, hording and other local media. Advertising budget is 65 lakhs per year,

## 2. Sales Promotion

Sales promotion is the tools and a technique to promote sales Indira Steel and Hardwares is generally uses short-term tools to stimulate immediate increase in demand .Sales promotion activities include shows exhibitions, etc..Main object of sales promotion is immediate purchase of the product .The sales promotional activities of Indira Steel and Hardwares are mainly aimed at consumers. Retailers and company's sales personnel's Indira Steel and Hardwares provide one-year guarantee to the product. If any damage occurs, the product within one-year Company will replace it.

Sales force promotion include the activities include the activities which induce and motivate the sales persons. The aim of sales force promotion is to make the sale effort more effective. Bonus is provided for the sales force if sales force if sales target is achieved .Marketing manager makes sales meetings, seminars and conferences in every 3 months.

## CHANNELS OF DISTRIBUTORS

Indira Steel and Hardwares is distributing their product through exclusive Retailers, distributors as well as through depots. Indira Steel and Hardwares has depots throughout India. Now Indira Steel and Hardwares has 180 Retailers and 20 authorized distributors outside Kerala. It has 11 depots outside Kerala .Through these depots ,goods are provided to the distributors .The selection of Retailer ship is done by considering some of concerned party such as financial strength ,past channel experience ,marketing policies ,target meeting ability ,go down facility etc.

## **MAJOR COMPETITORS**

1. Jai Bhavani Hardware
2. Maruthi Enterprise
3. Meenakshi Steel and Traders
4. Sree Poddar Industrial Store
5. Druga Ceramics
6. Shri Lakshmi Steel Suppliers
7. Sri Shyam Steel Exchange

## **AREA SALES OFFICES**

1. Bengaluru
2. Hyderabad
3. Pune
4. Goa
5. Bhubaneshwar
6. Mangalore
7. Surat
8. Ranchi
9. Kannur
10. Wayanad
11. Perumbavoor
12. Bhilai
13. Coimbatore

## STRUCTURE OF MARKETING DEPARTMENT

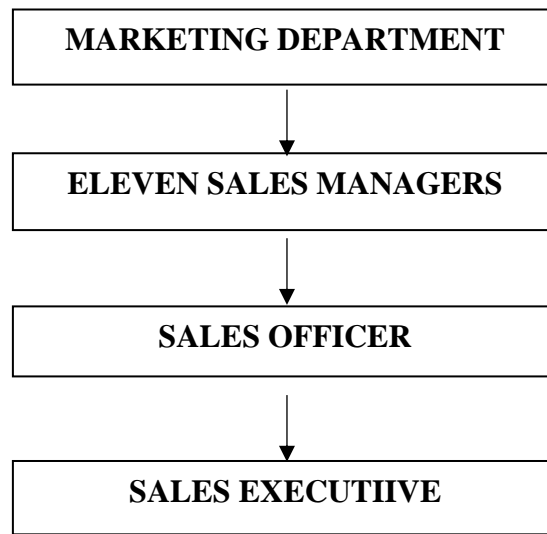
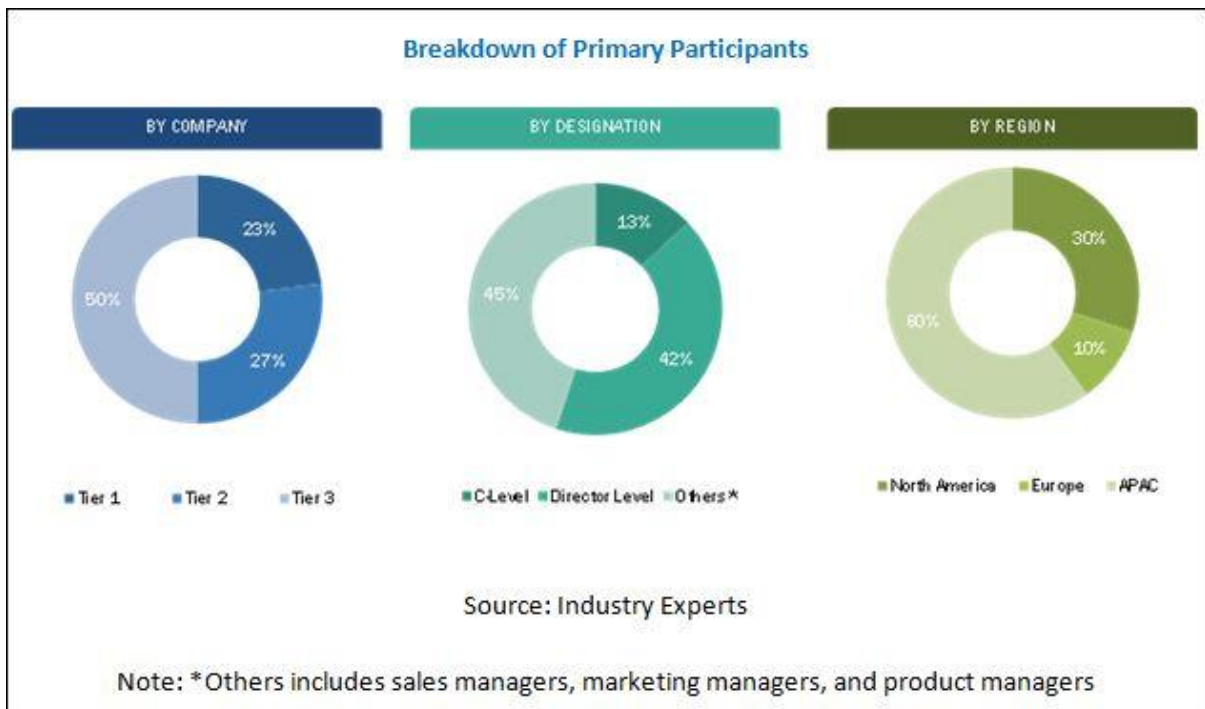


CHART NO: 3.4





**CHAPTER – 4**  
**DATA ANALYSIS and**  
**INTERPRETATION**

## RATIO ANALYSIS

### 1. CURRENT RATIO

Current ratio may be defined as the relationship between current assets and current liabilities. It is also known as working capital ratio; it is a measure of general liquidity and is most widely used to make the analysis of short – term financial position or liquidity of a firm.

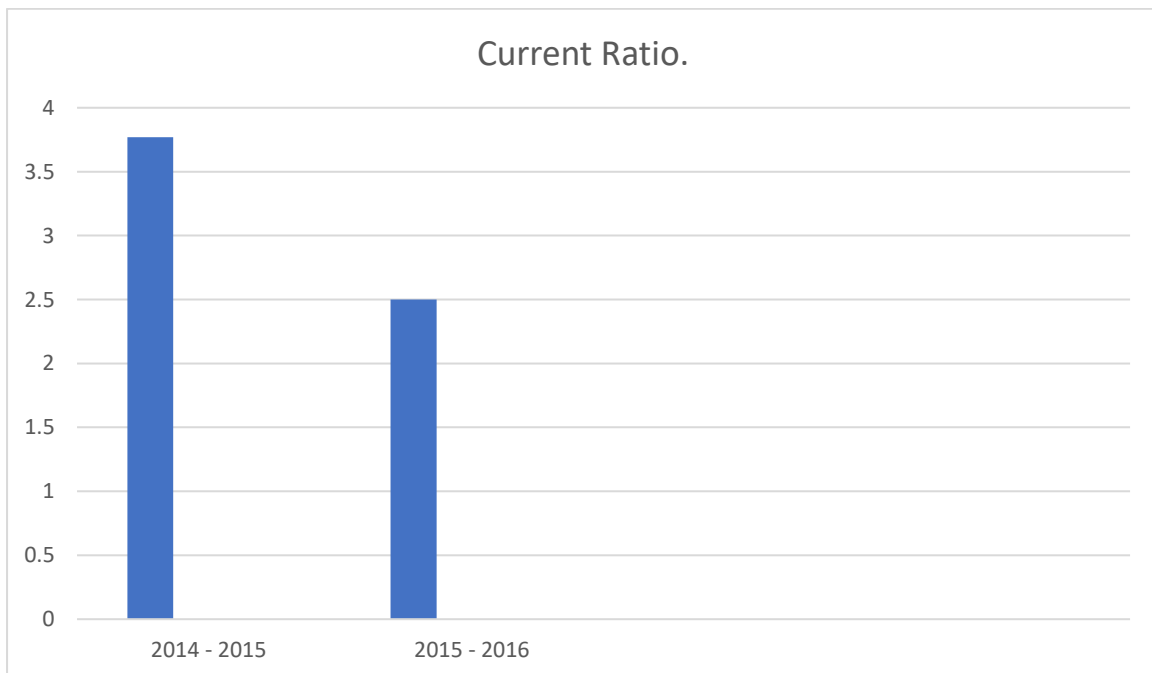
$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSET}}{\text{CURRENT LIABILITY}}$$

**Table 4.1**

YEAR	CURRENT ASSET	CURRENT LIABILITY	CURRENT RATIO
2014-2015	48174898	12795432	3.77
2015-2016	60306557	22637231	2.66

**Analysis:**

The current ratio ranges from 11.32 – 22.34. It is highest in 2014 – 2015 and lowest I 2014 – 2015.



**Interpretation:**

The current ratio ranges from 11.32 – 22.34. It is highest in 2014 – 2015 and lowest 2014 – 2015. The average current ratio for the period of study is 3.215. The standard thumb rule is 2:1. The Company’s short – term liquidity position is above standard.

**2. QUICK RATIO**

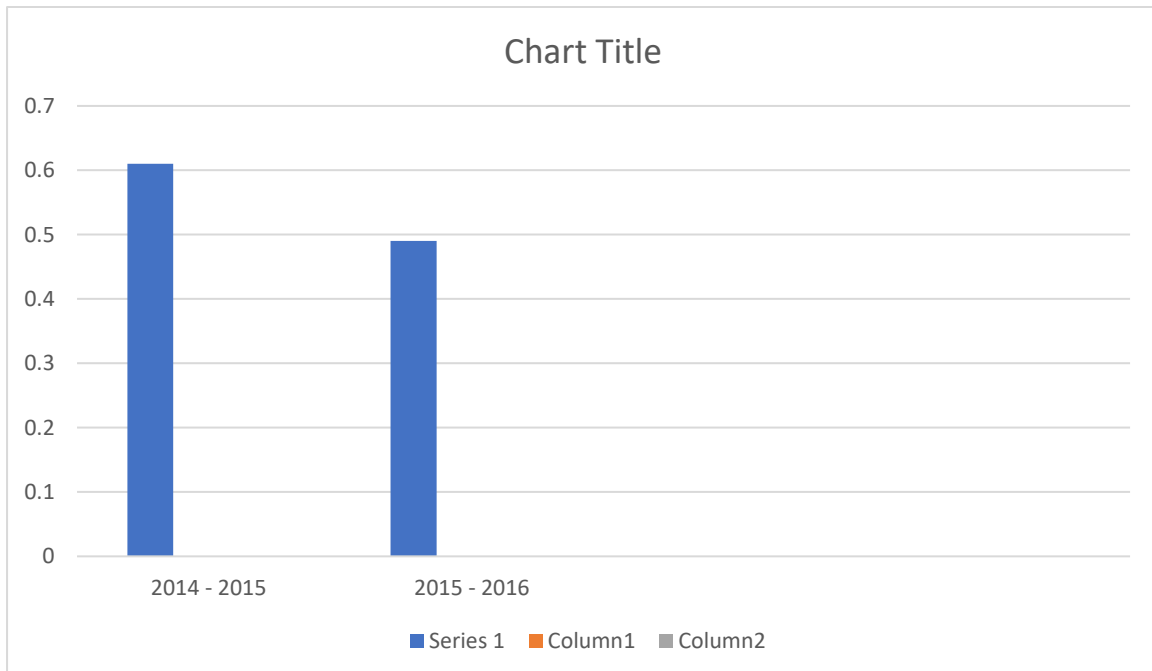
$$\text{QUICK RATIO} = \frac{\text{QUICK ASSET}}{\text{CURREN LIABILITY}}$$

**Table 4.2**

<b>YEAR</b>	<b>CURRENT ASSET</b>	<b>CURRENT LIABILITY</b>	<b>QUICK RATIO</b>
2014-2015	196736	318801	0.61
2015-2016	209702	419801	0.49

**Analysis:**

The average quick ratio of the Company for the period under study is 3.1



**Interpretation:**

The ideal quick ratio is 1.1. The quick ratio of the Company ranges from 1.3 to 1.1 the average quick ratio of the Company for the period under study is 3.1 the current year quick ratio is only 1.1. The average quick ratio is not satisfactory.

**3. CASH RATIO**

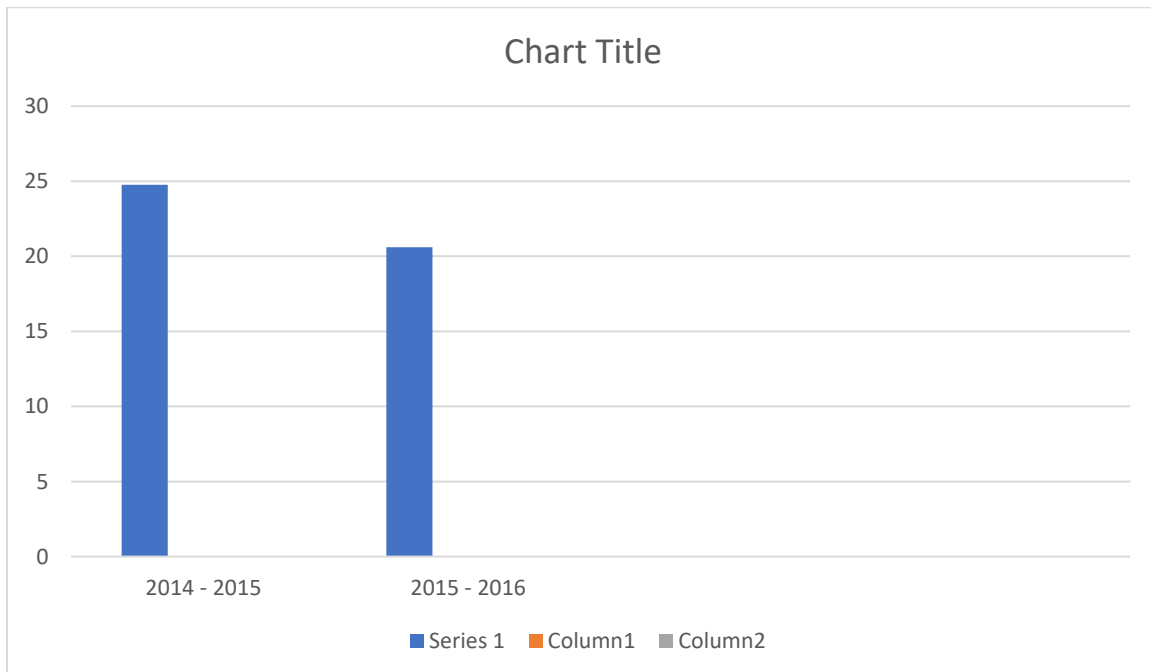
$$\text{CASH RATIO} = \frac{\text{CASH}}{\text{CURRENT LIABILITY}}$$

**Table 4.3**

<b>YEAR</b>	<b>CASH</b>	<b>CURRENT LIABILITY</b>	<b>CASH RATIO</b>
2014-2015	7899811	318801	24.77
2015-2016	8654321	419801	20.61

**Analysis:**

Cash ratio is highest in the year 2011-2012 and lowest in 2012-2013



Interpretation:

The cash ratio is lowest in the year 2014 - 2015 and highest in 2015-2016. It is not satisfactory

#### 4. INVENTORY OR STOCK TURN-OVER RATIO

$$\text{STOCK TURN-OVER RATIO} = \frac{\text{COST OF GOODS SOLD}}{\text{AVERAGE STOCK}}$$

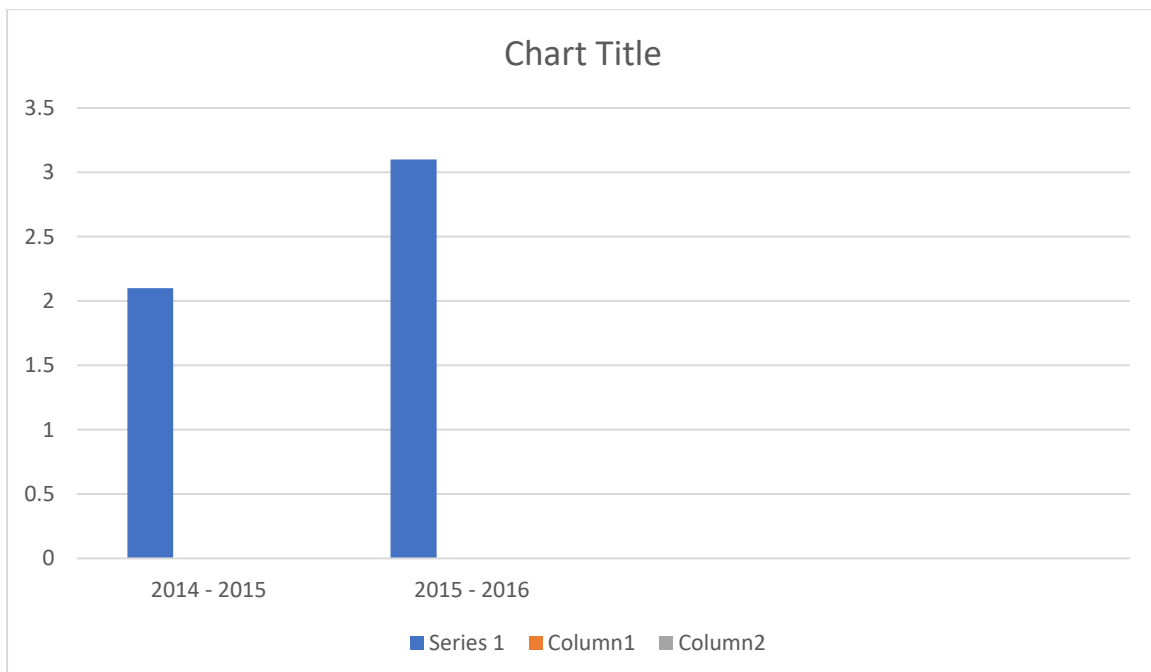
$$\text{AVERAGE STOCK} = \frac{\text{OPENING STOCK} + \text{CLOSING STOCK}}{2}$$

Table 4.4

YEAR	COST OF GOODS SOLD	AVERAGE INVENTORY	RATIO
2014-2015	98761	43210	2.1
2015-2016	109071	67654	3.1

Analysis:

It has its maximum turn– over 2011-2012 in and minimum in 2015-2016



Interpretation:

The average inventory turn – over ratio for the period of study is 4.1. It has its maximum turn – over in 2011-2012 and minimum in 2015-2016

**5. DEBTORS TURN –OVER RATIO**

$$\text{DEBTORS TURN –OVER RATIO} = \frac{\text{SALES}}{\text{AVERAGE DEBTORS}}$$

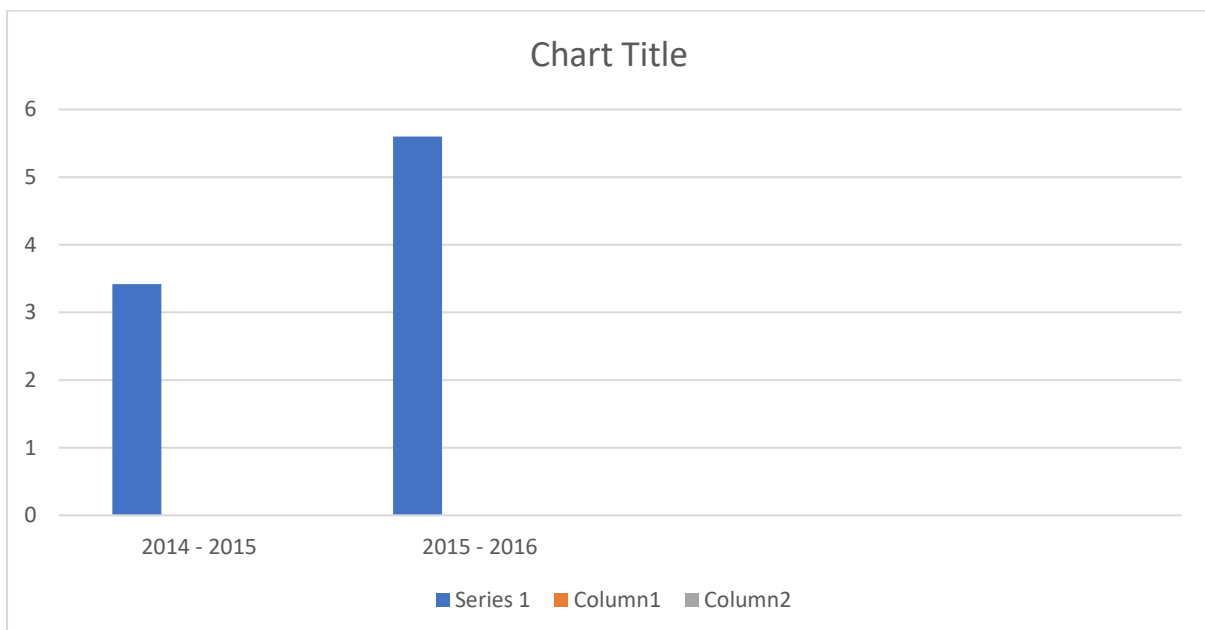
$$\text{AVERAGE DEBTORS} = \frac{\text{OPENING DEBTORS} + \text{CLOSING DEBTORS}}{2}$$

**Table 4.5**

YEAR	SALES	AVERAGE DEBTORS	DEBTORS TURN – OVER RATIO	AVERAGE COLLECTION PERIOD(ON DAYS)
2014-2015	81431	21686	3.42	28
2015-2016	89730	30169	5.6	49

Analysis:

Debtors turn – over ratio is high in the year 2015-2016 (5.6) and lowest in the year 2014-2015 (3.42).



**Interpretation:**

Debtors turn – over ratio is high in the year 2013-2014 (9,58) and lowest in the year 2014-2015 (3,42). Current years debtors turn – over ratio is (5,6) and average collection period is 2015-2016 , is satisfactory.

**6. DEBTORS CURRENT ASSET RATIO**

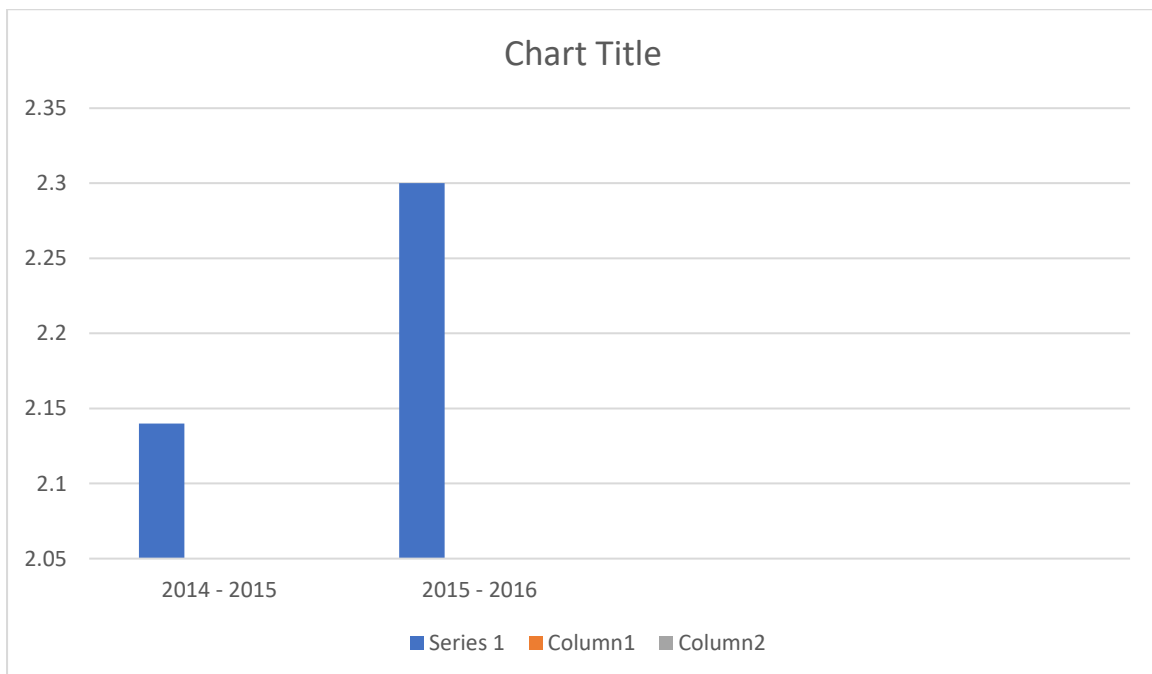
$$\text{DEBTORS CURRENT ASSET RATIO} = \frac{\text{DEBTORS}}{\text{CURRENT ASSETS}}$$

**Table 4.6**

Analysis:

<b>YEAR</b>	<b>DEBTORS</b>	<b>CURRENT ASSETS</b>	<b>DEBTORS TO CURRENT ASSET RATIO</b>
2014-2015	421589	196736	2.14
2015-2016	483569	209702	2.30

Table showing the ratio of debtors to current asset.



Interpretation:

It is high in 2014-2015 (0.047) and low in 2015-2016(0.039).

### 7. FIXED ASSETS TURN – OVER RATIO

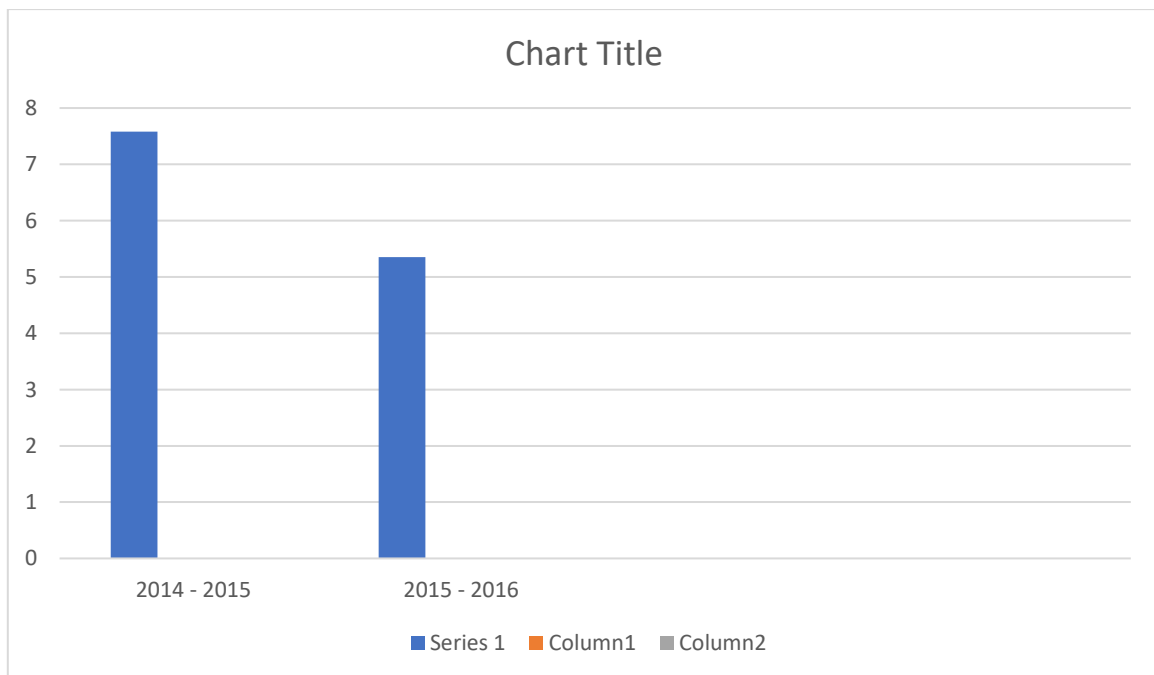
$$\text{FIXED ASSETS TURN – OVER RATIO} = \frac{\text{SALES}}{\text{FIXED ASSETS}}$$

Table 4.7

YEAR	NET SALES	FIXED ASSET	FIXED ASSET TURN – OVER RATIO(IN TIMES)
2014-2015	569782	75136	7.58
2015-2016	463259	86523	5.35

Analysis:

Fixed asset turn – over ratio is highest during the year 2015-2016 (0.44) and lowest in the year 2011-2012 (0.122).





Interpretation:

Fixed asset turn – over ratio is highest during the year 2015-2016 (0.44) and lowest in the year 2011- 2012 (0.122). Average fixed asset ratio for the period of study is 0.243. Current year’s ratio is above average.

**8. CURRENT ASSET TURN – OVER RATIO**

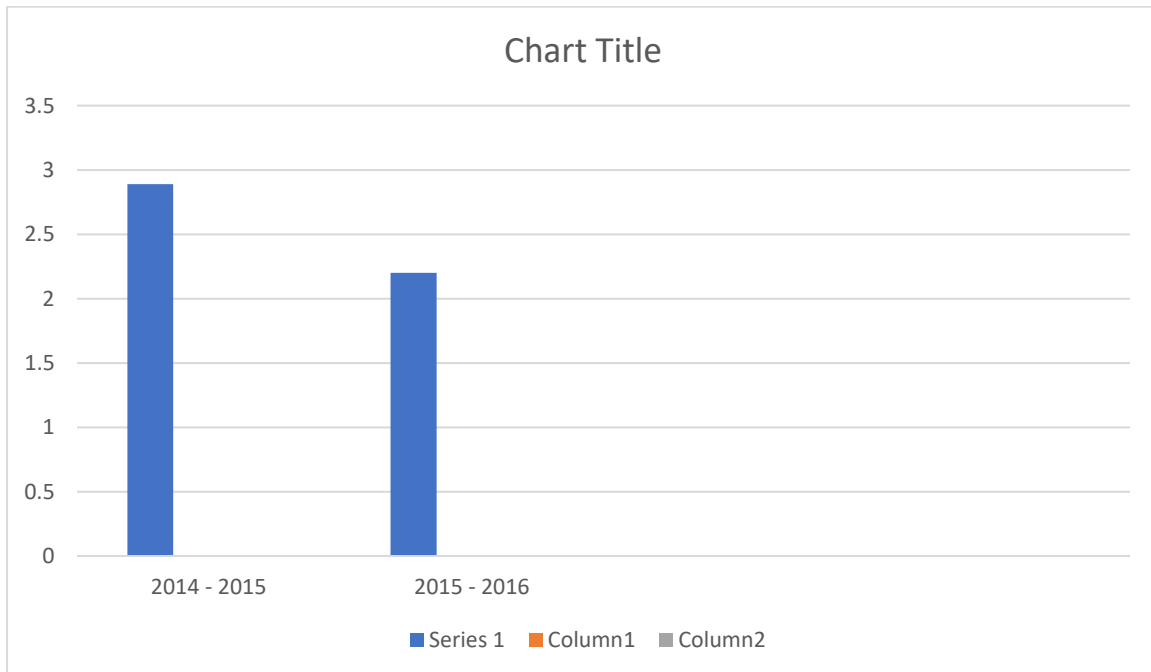
$$\text{CURRENT ASSET TURN – OVER RATIO} = \frac{\text{SALES}}{\text{CURRENT ASSET}}$$

Table 4.8

YEAR	NET SALES	CURRENT ASSET	CURRENT ASSET TURN – OVER RATIO
2014-2015	569782	196736	2.89
2015-2016	463259	209702	2.20

Analysis:

Current asset turn – over ratio is highest in the year 2012-2013(0.242) and lowest in the year 2014-2015 (0.217)



Interpretation:

Current asset turn – over ratio is highest in the year 2012-2013 (0.242) and lowest in the year 2014-2015 (0.217). The average of the ratio is 0.224. Current asset ratio turn- over is not satisfactory.

### **9. NET WORKING CAPITAL TURN – OVER RATIO**

$$\text{NET WORKING CAPITAL TURN – OVER RATIO} = \frac{\text{SALES}}{\text{NET WORKING CAPITAL}}$$

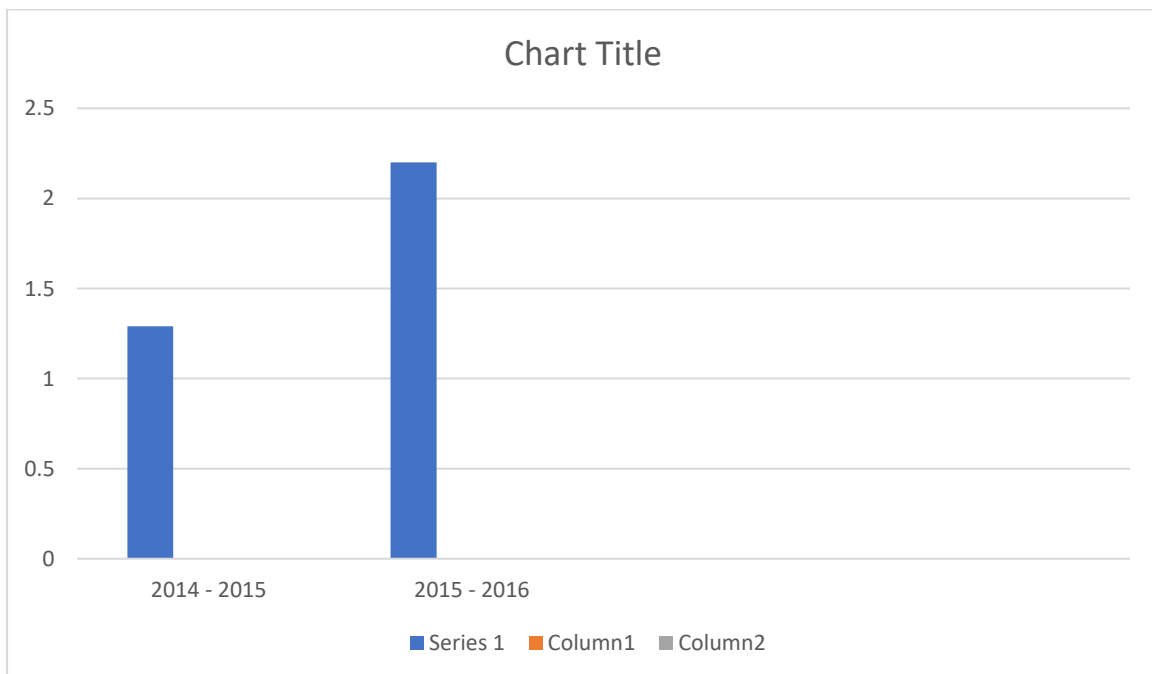
**Table 4.9**

<b>YEAR</b>	<b>NET SALES</b>	<b>WORKING CAPITAL</b>	<b>WORKING CAPITAL TURN – OVER RATIO</b>
2014-2015	569782	439441	1.29
2015-2016	463259	209941	2.20

Analysis:

Table showing the working capital turn – over ratio.

A low working capital turn – over indicates that working capital is not efficiently utilized.



Interpretation:

The ratio is low during the year 2014-2015 and inclining.

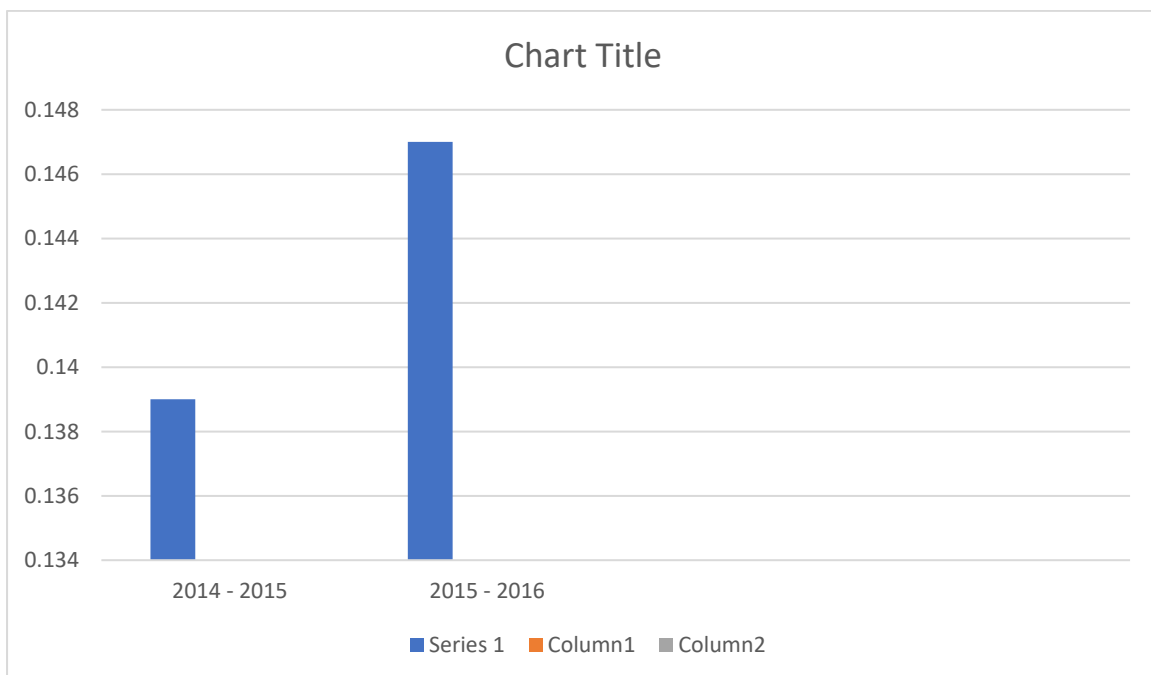
**10.TOTAL ASSET TURN – OVER RATIO**

$$\text{TOTAL ASSET TURN – OVER RATIO} = \frac{\text{SALES}}{\text{TOTAL ASSET}}$$

**Table 4.10**

YEAR	NET SALES	TOTAL ASSET	TOTAL ASSET TURN – OVER RATIO
2014-2015	569782	271872	2.09
2015-2016	463259	286225	1.61

Analysis: Total asset turn – over ratio is at its lowest during 2015-2016.



Interpretation

Total asset turn – over ratio is at its lowest during 2014-2015 . The average of this ratio for the period under study is 0.105. Current year’s ratio lies above this. It means, underutilization of fixed asset. The traditional standard for this ratio is 2 times. Current year’s ratio is much below standard.

## 11.RETURN ON CAPITAL EMPLOYED

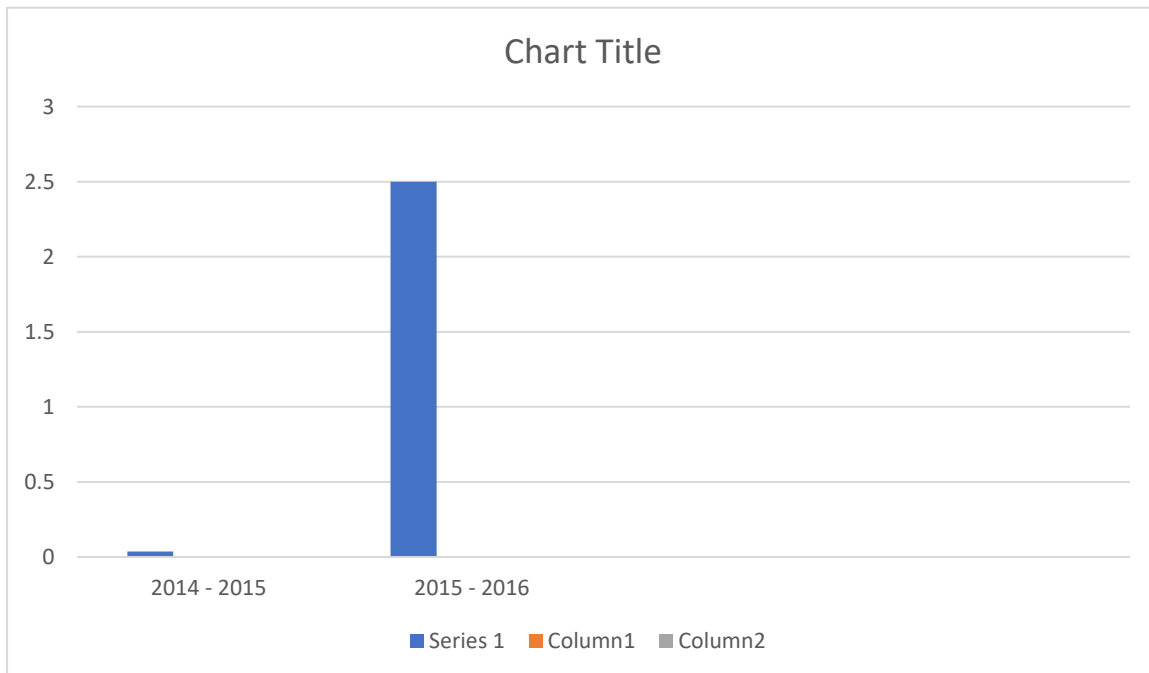
$$\text{RETURN ON CAPITAL EMPLOYED} = \frac{\text{NET PROFIT}}{\text{CAPITAL EMPLOYED}}$$

**Table 4.11**

YEAR	NET PROFIT	CAPITAL EMPLOYED	RISE (IN %)
2014-2015	-489966	96521	0.037
2015-2016	-782078	98756	0.030

Analysis:

Return on capital employed is at its highest during 2013-2014 0.050% and is lowest during the year 2011-2012



Interpretation:

Return on capital employed is at its highest during.i.e, 0.050% and is lowest during the year 2011-2012.i.e, 0.028% the average return on capital employed is 60.972%.

## 12.CAPITAL TURN – OVER RATIO

$$\text{CAPITAL TURN – OVER RATIO} = \frac{\text{SALES}}{\text{CAPITAL EMPLOYED}}$$

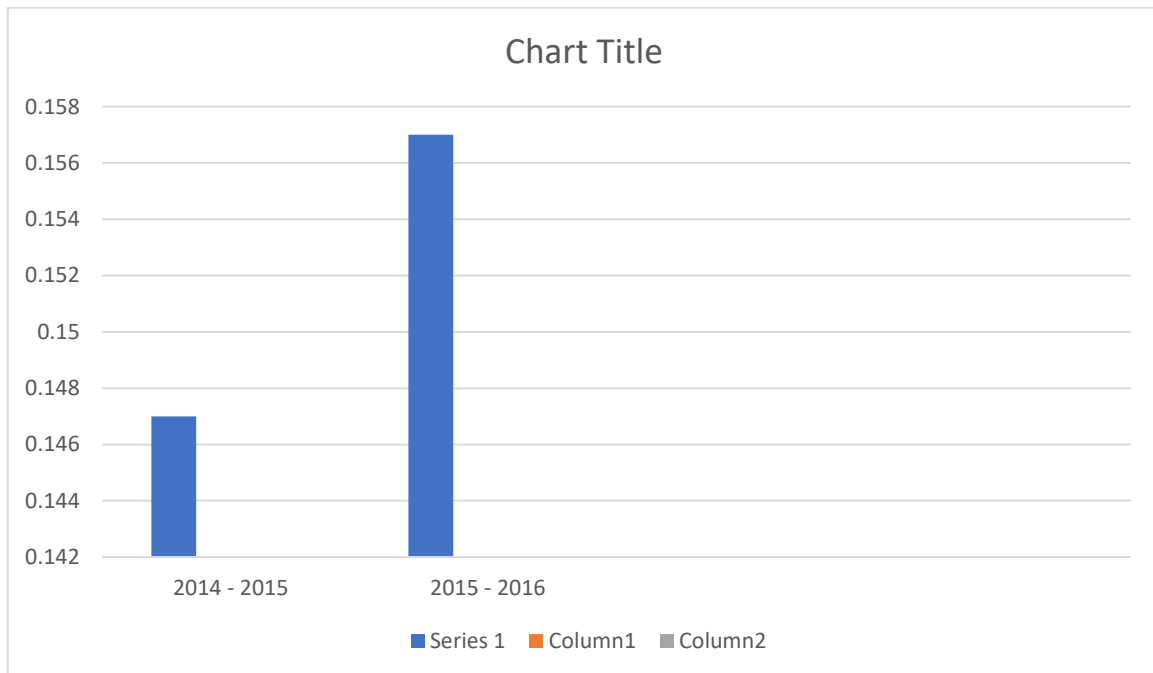
$$\text{CAPITAL EMPLOYED} = \text{FIXED ASSETS} + \text{NET WORKING CAPITAL}$$

**Table 4.12**

YEAR	NET SALES	CAPITAL EMPLOYED	CAPITA TURN – OVER RATIO
2014-2015	569782	96521	0.147
2015-2016	463259	98756	0.157

Analysis:

The ratio is highest during the year 2015-2016.i.e, 0.157 and lowest during the year 2011-2012.i.e, 0.079



Interpretation:

The ratio is highest during the year 2015-2016.i.e, 0.157 and lowest during the year 2011-2016.i.e, 0.079. The average of this ratio during the period under study is o.110. The current ratio is above the average.

**13.NET PROFIT RATIO**

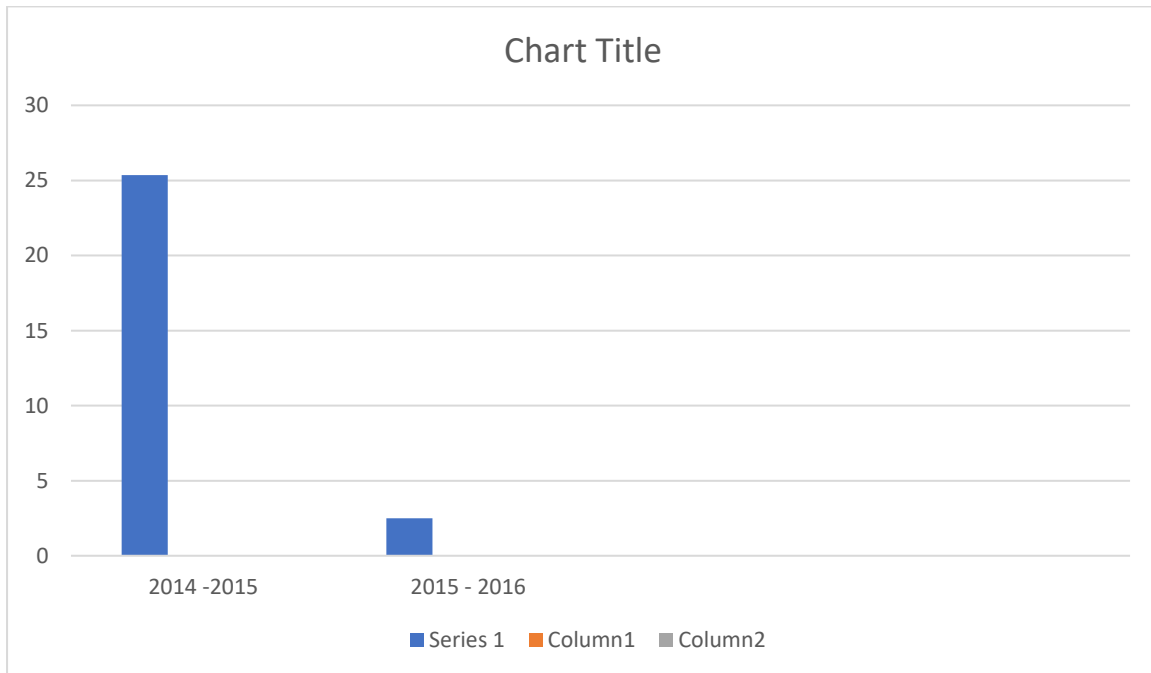
$$\text{NET PROFIT RATIO} = \frac{\text{NET PROFIT} * 100}{\text{SALE}}$$

**Table 4.13**

YEAR	NET PROFIT	NET SALES	NET PROFIT RATIO (%)
2014-2015	-489966	569782	25.35
2015-2016	-782078	463259	19.73

Analysis:

Net profit is lowest during the year 2013-2014.i.e, 5.88% and highest in the year 2010-2013.



**Interpretation:**

The average net profit ratio of the Company for the last five years is 27.47. The current year's net profit ratio is 19.73.

**Trend analysis:**

Trend analysis enables to know the changes in the financial function and operating efficiency between the time period chosen. By studying the trends of each item we can know the direction of changes and based upon the direction of changes, the opinions can be formed. Under this method trend percentage are calculated for each item of the financial statements taking the figure of base year as 100. The starting year is usually taken as the base year.

**CHAPTER – 5**  
**FINDINGS &**  
**RECOMMENDATIONS.**



## FINDINGS

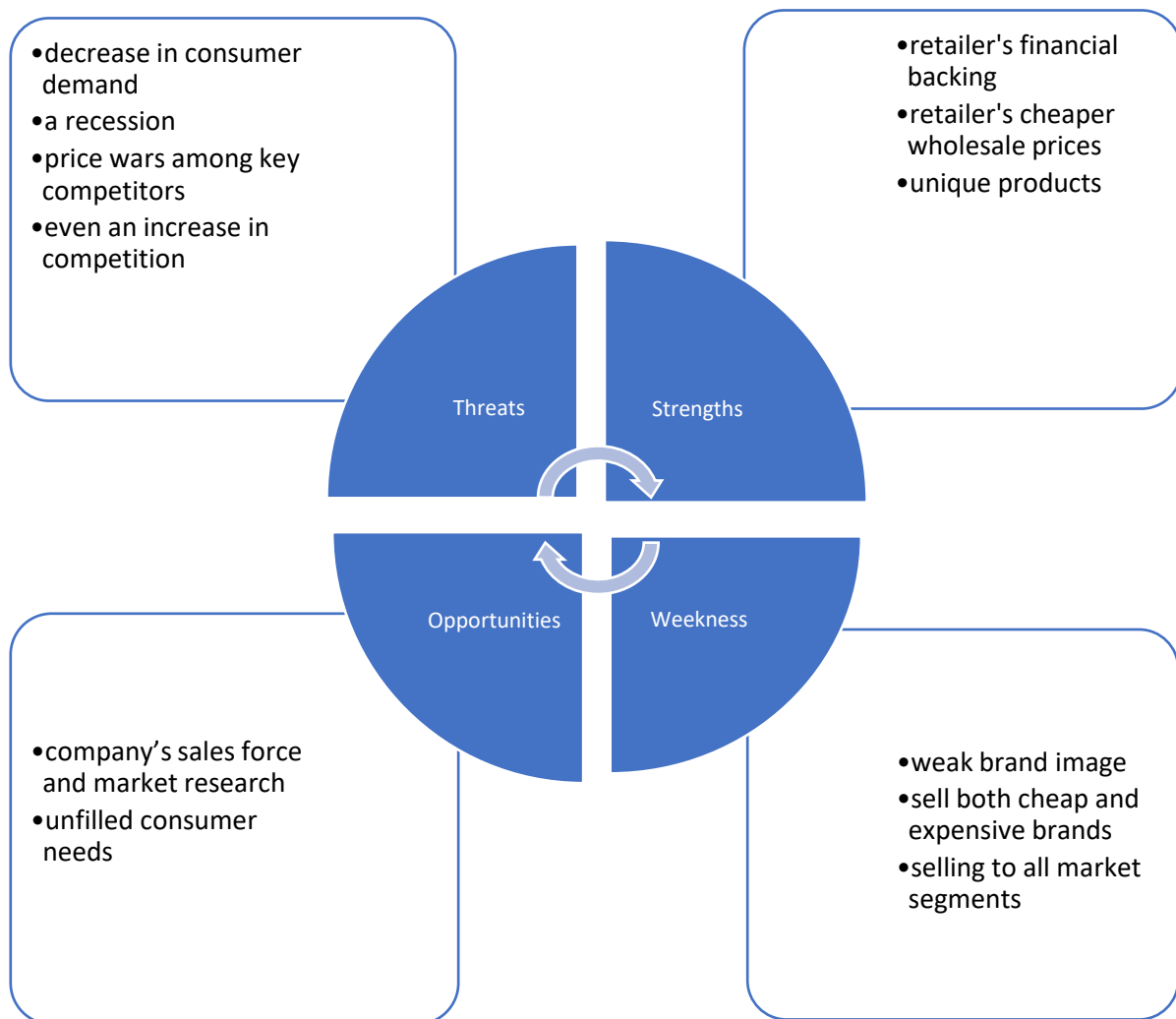
- Current ratio of FCRI ( Fixed Charge Covererage Ratio ) is high when compared to the standard of 2:1. This indicates that, the firm has inadequate employment of short – term funds as well as excessive liquidity.
- Quick ratio of FCRI is also high when compared to the standard of 1:1. This indicates the presence of idle asset in the firm.
- The debtors turn – over ratio is above satisfactory. Higher the value of debtors turn – over, the more efficient is the management of debtors. The firm maintains a high liquidity by blocking of funds with the debtors.
- Fixed asset turn – over ratio is low. It is not satisfactory, which means that, assets are not used efficiently. Since, FCRI is not a manufacturing firm; it does not affect the performance.
- On an average, it can be seen that, working capital is on an increasing trend.
- The company is keeping major portion of its profit as reserve.
- Company is trying to make more investments presently when compared to previous years.
- Debtors of the company are showing an increasing trend. This may be due to more credit sales.
- There is good co-ordination among various departments.
- Lack of modernization in production technology.

## SUGGESTIONS

- As a non – productive asset, cash and bank balances should not be allowed to grow more than 5% of the total current asset otherwise; it will result in idle cash without return. So sufficient care should be taken to maintain a minimum required level of cash balances.
- Proper internal check system must ensure so that, frauds and errors can be minimized.
- A more efficient management of current asset and fixed assets would magnify revenue, thereby contributing to the profit of the Company.
- The firm can introduce new technologies in flow products industry.
- More investments to be made in fixed assets by using long term funds. This will lead to optimum production and thus generate more sales.
- The company should make revision in its debt collection policy.
- Domestic sales of the company should be improved
- The company should take steps to explore the raw materials at near locality. So that the cost involved in bringing the raw materials can be reduced.
- Introduce new business strategies like TQM, ERP system etc.
- Supervision in the company should be improved to bring more co-ordination among various departments.
- Modernization of technology in production to optimize production.

## **SWOT Analysis.**

Retail companies, like other businesses, often use a SWOT (strengths, weaknesses, opportunities and threats) analysis to evaluate their businesses. A SWOT analysis for retail is a detailed look at the retailer's strengths, weaknesses, opportunities and threats versus key competitors in the marketplace. Strengths and weaknesses are considered internal factors, over which a retailer has more control. Opportunities and threats are external factors, which are positive and negative situations that retailers continuously face.



### **List Strengths**

The first step in doing a SWOT analysis for a retail company entails identifying strengths. One possible strength may be the retailer's financial backing if it has plenty of capital and access to bank loans. Another strength may be the retailer's cheaper wholesale prices. Additionally, the company may offer unique products compared to other retailers. For example, a clothing store may sell high-quality but

slightly defective clothing at a low price. Whatever the case, a retailer should make a list of all its strengths versus key competitors.

### **Identify Weaknesses**

A retail company should identify its most palpable weaknesses in a SWOT analysis. Through market research, the retailer can check if it has a weak brand image versus key competitors or lack of identity in the marketplace. For instance, the store may sell both cheap and expensive brands, so it lacks a defined place in the minds of consumers. Essentially, the store selling to all market segments may mean it has no competitive advantage that sets it apart from other retailers.

### **Look for Opportunities**

Another step in a retail SWOT analysis is identifying key opportunities in the market, often through a review of a company's sales force and market research. Opportunities can include unfilled consumer needs. For example, a small web design company may see an opportunity to add consulting services, if it identifies customers who desire it when conducting marketing research. Or a retail company may identify an opportunity to purchase a smaller retailer to increase market share through a SWOT analysis.

### **Pinpoint Potential Threats**

A retailer can identify certain threats through a SWOT analysis. Threats can include a decrease in consumer demand, a recession, price wars among key competitors or even an increase in competition. Even a change in shopping habits can be a major threat to a retailer. For example, when people started migrating to the suburbs in the 1950s and 1960s, downtown retailers, which represented the traditional way of shopping, were affected. These days, the growing popularity of online shopping represents an ongoing threat to bricks-and-mortar retailers.

### **Analyse SWOT for Better Decision-making**

Retailers should not just identify their strengths, weakness, opportunities and threats; they must also use this analysis to develop effective marketing strategies. This can be accomplished by matching an internal variable, like strengths, to an external variable, like opportunities. For example, the owner of a chain of gift shops may have a tech-savvy marketing team -- a strength -- so she may see the opportunity to increase sales and profits through social media campaigns over the Internet that the marketing team can spearhead.

SWOT analyses can also be integrated into a retailer's hiring practices. Asking a potential manager prospect to complete a SWOT on the business or a competitor as part of the vetting process can reveal helpful information and identify candidates with the analytical skills to improve the company's bottom line.

# **CHAPTER – 6**

# **CONCLUSIONS**

Financial performance is the overall planning, organizing, controlling the financial activities of a firm. A sound financial performance analysis is one which ensures profitability, proper liquidity and sound structural health of the Organization.

To conclude, the Company has a satisfactory liquidity position, but, should try very hard in order to increase its operational efficiency. The study on “The Financial Performance” of Sulfex Mattress” reveals the existing financial position of the concern. The company’s current financial performance is much better compared to the previous years. The sales and profits of the concern are showing an increasing trend. Similarly the earning power of the company has also increased which may lead to increase in the market value of the shares. This may enable the company to compete with similar concern. Further the company can provide fair return to its shareholders and can also undertake more research and development activities if it has strong financial backing

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# **ANNEXURE &** **APPENDICES**

**Trading and Profit & Loss Account of the Year Ended 31<sup>st</sup> March 2015**

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
Cost of goods sold	35065490	Sales	47688456
Gross profit	12622966		
	47688456	Gross profit	47688456
Administrative other Expense	1047374	Other Income	12622966
Managerial Remuneration	807928	Deffered Tax	1873467
Depreciation	3552000		34779
Provision for Taxation	1879871		
Fringe benefit Tax	1050176		
Net Profit	6193863		
	14531212		14531212

**Trading and Profit & Loss Account of the Year Ended 31<sup>st</sup> March 2016**

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
Cost of goods sold	37985443	Sales	65875463
Gross profit	27890020		
	65875463		65875463
Administrative other Expense	1158991	Gross profit	27890020
Managerial Remuneration	984936	Other Income	1812409
Depreciation	10599922	Differed Tax	52788
Provision for Taxation	2162346		
Fringe benefit Tax	1109028		
Net Profit	13739994		
	29755217		29755217

**BALANCE SHEET OF THE YEAR ENDED 2015**

PARTICULAR	AMOUNT
<u>CAPITAL and LIABILITIES</u>	
Share Capital	1318500
Reserves and surplus	62657973
<u>Current Liability and Provision</u>	
Current Liabilities	12795432
Provision	5891539
Total	94526444
<u>Current Assets and Loans and Advances</u>	
Current Assets	48174898
Debtors	23085939
Cash and Bank Balance	8227239
Loans and Advance	2614962
Fixed Asset	12089202
Miscellaneous Expenses not Written Off	384204
Total	94526444

**BALANCE SHEET OF THE YEAR ENDED 2016**

PARTICULAR	AMOUNT
<u>CAPITAL and LIABILITIES</u>	
Share Capital	1318500
Reserves and surplus	52314920
<u>Current Liability and Provision</u>	
Current Liabilities	22637231
Provision	31524711
Total	119658362
<u>Current Assets and Loans and Advances</u>	
Current Assets	60306557
Debtors	32186401
Cash and Bank Balance	5671922
Loans and Advance	2517830
Fixed Asset	18975652
Miscellaneous Expenses not Written Off	----
Total	119658362