A Study of Financial Management with Reference to PIX Transmission Ltd

1Dr. N. R. Dixit  
Principal  
Women's College of Arts & Commerce, New Nandavan,  
Nagpur

2Prof. Prakash V. Pise  
Assistant Professor  
Department of Management  
Sinhgad Institute-SIBACA, Lonavala, Pune

Abstract:  
Financial performance is one of the most pivotal functional areas of management as the effectiveness of a business enterprise significantly depends on the efficient utilization of its financial resources. The growth potential of an enterprise also depends on its financial success as a major portion of investment funds of an ongoing business comes from its retained earnings. The importance of financial management has greatly enhanced during the last decade due to continue inflation. It has had a tremendous effect on the financial operations of manufacturing sector, power and energy sector, service sector and also retail sector. High interest rates have pushed up the cost of capital in the retail sector. High interest rates have pushed up the cost of capital in the retail sector. At the same time, it has increased the need of financial resources for operating of retail functions. Today working capital requirements and financial outlays on replacement, modernization and expansion have greatly increased in this sector. Consequently, financial managers are faced with the problem of raising additional financial resources. Their task has been made more difficult by the government policy of restricting the supply of loanable funds. The tasks of financial manager is more difficult but at the same time more important and more challenging for the financial managers of retail sector.  
Key Words: Financial Performance, Profitability Management, Working Capital Management

Introduction:  
PIX Transmissions Ltd., is the leading manufacturer of Belts and related mechanical transmissions products in India. The Company has state-of-the-art Belt manufacturing units as well as a completely automated Rubber Mixing facility in Nagpur.

PIX Transmission Ltd. enjoys significant brand equity in the Power Transmissions industry, with strong local as well global presence. The company has overseas subsidiary operations in Europe, and Middle-East, in addition to over 250 committed Channel Partners in over 50 countries worldwide. Keeping its overseas customers in mind, PIX has backed its products by building an impressive support infrastructure in several key markets across the globe including UK, Germany, and UAE. These locations are equipped to provide technical, commercial and stock support. PIX is perhaps the only Indian company in its Industry to feature this high level of infrastructure.

The key strength of PIX is its growing network of independent, committed, and loyal Channel partners in India and over 50 countries worldwide. Relationships based on performance and trust have been the hallmark of PIX’ strength in this arena. PIX is also proud to count some of the Market leaders in key application verticals among its many OEM customers.
Product Range: PIX manufactures an extensive range of Industrial V-Belts, Automotive Belts, Agricultural Belts, Special Construction Belts, Taper Lock Pulleys, Bushes & Couplings to suit a wide array of applications.

Conceptual Background:

Concept of working capital: Working capital refers to the cash a business requires for day to day operation, or, more specifically, for financing the conversion of raw materials into finished goods, which the company sells for payment. Among most important items of working capital are levels of inventory, debtors and credits. These items are looked at for signs of a company’s efficiency and strength.

According to Hoagland “working capital is descriptive of that capital which is not fixed. But the more common use of working capital is to consider it as the difference between the book value of the current assets and the current liabilities.

Concept of gross working capital: In the broad sense, the term working capital refers to the gross working capital and represents the amount of funds invested in current assets. Thus the gross working capital is the capital invested in total current assets of the enterprise. Current assets are those assets which in the ordinary course of business can be converted into cash within a short period of normally one accounting year.

Gross Working Capital = Total Current Asset

Concept of net working capital:

In narrow sense, the term working capital refers to the net working capital. Net working capital is the excess of current assets over current liabilities or say.

Net working capital = current assets – current liabilities.

Capital working capital may be positive negative.

Constituent of working capital:

- Current assets
- Inventories
- Trade debtors
- Prepaid expenses
- Loan and advances
- Investment
- Cash and bank balance

Current assets                     current liabilities
Inventories                        Sundry creditors
Trade debtors                      Bank overdraft
Prepaid expenses                   Short –term loans
Loan and advances                  Provisions
Investment
Cash and bank balance

Current Assets: current assets are those which are either in the form of cash or can be converted into cash within a year. Current assets are important to business because they are the assets that used to fund day to day operations and pay ongoing expenses. The main items that comprise current assets are.
1. Inventories: inventories represent raw material and components, work in progress and finished goods.

2. Trade debtors: trade debtors comprise credit sales to customers

3. Prepaid expense: these are those expenses, which have been paid for goods and services whose benefits have yet to be received.

4. Loan and advances: they represent loans and advances given by the firm to other firms for a short period of time

5. Investment: these assets comprise short–term surplus funds invested in govt. securities, shares and short–term bonds

6. Hard cash and bank sense of balance: these assets represent cash in hand and at bank, which are used to meeting operational requirement. One thing can be see here is that this current asset is purely liquid but not non productive.

Cash and bank sense of balance: these assets represent cash in hand and bank, which are used for meeting operational requirements. One thing you can see here is that this current asset is purely liquid but non productive.

**Current liabilities:** current liabilities from part of working capital that represent obligations which the firm has to clear to the outside parties in a short–period, generally within a year. It includes:

1. Sundry creditors: These liabilities trunk out of purchase of raw material on credit terms typically for a period of one to two months.

2. Bank overdraft: This includes withdrawals in excess of credit balance standing in the firm’s current accounts with banks.


4. Provisions: This includes provisions for taxation, proposed dividends and contingencies.

**Concept of profitability Analysis:** The most important part of financial performance is profitability analysis. The tool analysis is required for the calculate or test of earning capacity of the business. Profit is the oxen of every business. It is most important part for the survival of business. Profit is required for the continues growth in competitive business world. The most effective and efficient tool of profitability analysis is ratio analysis. Profit is form of two types operating and non operating. We can said that profitability analysis create clear and comparative position regarding the financial performance of the selected units.

**Objectives of study:** The present study “A Study Of Financial Management With Reference To Pix Transmission Ltd”, has been designed to achieve the following objectives:-
(1) To analyses and evaluate the financial position of Pix Transmission Ltd

(2) To Study of Profitability Pix Transmission Ltd.

(3) To analyze the overall working capital Management of Pix Transmission Ltd.

Scope of the study: The present study is confined to the Pix Transmission Ltd. The study covers a period of five years from 2008-09 to 2013-14.

Research Methodology:

Research design: Descriptive Research Design

Type of data: secondary data

The data from company annual reports, journals and website will be used to collect information for the undergoing study.

Sampling: The balance sheets and P &L a/c statements of 2009-2010, 2010-2011, 2011-2012, and 2012-2013 will be taken for the analysis of the companies in the undergoing study.

Tools for analysis: Various Financial tools like ratios to evaluate the performance of the companies will be used for the analysis and interpretation.

Major results and implications: Financial performance of the company is measured by using yardstick measures like debt –equity ratio, current asset, current liability, working capital. This ratio enables the researcher to compare the financial performance of Pix Transmission Ltd. the operational efficiency. The effort shall be made to improve the financial position. The analysis will indicate the efficiencies and improve investor’s satisfaction. The analysis will also compare net profit, inventory management to evaluate the performance of the company.

Data Collection: For completion of our study only secondary data has been used. The main sources are annual reports. Besides for framing conceptual framework, various books and published material in standard books and newspapers, Journals and websites has been made use of.

Data Analysis

Current Ratio:

One of important function of the financial manager is to maintain sufficient liquidity.

Current ratio is an important criterion to test the liquidity and also the short term Solvency. The ratio of 2:1 is considered as standard of current ratio.

Current ratio shows the relation between current assets and current liability. The current ratio is also known as “working capital ratio”.

Current liability shows the immediate financial obligation of the company says within one year. Current asset are the source of funds which used for repayment of current liabilities. Therefore, current ratio shows the ability of company to pay his financial debt when it arises.
CURRENT RATIO = CURRENT ASSETS/CURRENT LIABILITY

Interpretation: Current ratio of the company is below the standard ratio (2:1), in 2013 the ratio is 1.01 which is below standard. This ratio shows that the company is just in the position to pay its current liability.

Acid Test Ratio:
Quick assets represent current assets excluding certain assets such as stock or inventory and prepaid expenses. Inventory is excluded because it is not possible for the company to convert it into cash as and when there is a need of cash.

Only because of this current asset does not fulfill the overall current liability of the company. To avoid this problem, the company implements the acid test ratio because it shows the ability of the company to pay its debt. Quick ratio of 1:1 is considered as standard.

Acid Test Ratio: $\frac{QUICK\ ASSETS}{CURRENT\ LIABILITIES}$

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratios</td>
<td>2.45</td>
<td>1.1</td>
<td>0.92</td>
<td>1.15</td>
<td>1.65</td>
</tr>
</tbody>
</table>

Interpretation: From the above table and graph, it is clear that the acid test ratio of the company is good and is above the standard company can pay its current liability. It is concluded that the financial position of the Pix Transmission Ltd. is better.

Inventory Turnover Ratio: The inventory turnover ratio shows whether the stock of the company is efficiently utilizing or not. Inventory turnover ratio consider higher better for the company.
Inventory Turnover Ratio:

<table>
<thead>
<tr>
<th>Year</th>
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<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratios</td>
<td>4.25</td>
<td>3.94</td>
<td>5</td>
<td>3.3</td>
<td>4.29</td>
</tr>
</tbody>
</table>

**Interpretation:** Inventory turnover ratio of the company in 2013 is 4.29 and 2012 it is 3.3 means it is increasing which is good for the company, higher ratio shows efficient utilization of inventory.

**Dividend per Share:** Dividend Per Share: = Dividend Paid to Equity Share Holders/ Number of Equity Share =4.50

<table>
<thead>
<tr>
<th>YEAR</th>
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</thead>
<tbody>
<tr>
<td>RATIO</td>
<td>00</td>
<td>00</td>
<td>0.75</td>
<td>00</td>
<td>4.5</td>
</tr>
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</table>

Dividend per share indicates that how much dividend is available with respect to one share, not all the earning is available for distribution as dividend. It is depending on the company whether to declare dividend or not.

**Interpretation:** Above graph shows that the company has declare dividend of RS. 0.75 In 2011 and 4.5 in 2013. This shows that as a when the company is making huge profit they are declaring dividend.

**Operating Ratio:**
Operating Ratio: Operating Income/ Net Sales
Operating ratio consider good for company when it’s low because it shows the higher level management efficiency.

**Operating Profit Ratio:**

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<tr>
<th>Year</th>
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<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratios</td>
<td>15.42</td>
<td>21.76</td>
<td>21.06</td>
<td>19.84</td>
<td>16.22</td>
</tr>
</tbody>
</table>

**Interpretation:** From the above table and graph it is clear that Operating profit ratio of the company is low in 2013 as compare to 2010-2011, 2012-2013, means company is making profit. it can be concluded that the financial position of the company is better.

**Gross Profit Ratio:**

Gross Profit Ratio: Gross Profit / Net Sales *100

This ratio measures the gross margin of profit from sales. The higher the gross profit ratio the better it is.

<table>
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<tr>
<th>Year</th>
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<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>8.41</td>
<td>13.1</td>
<td>12.32</td>
<td>10.5</td>
<td>10.5</td>
</tr>
</tbody>
</table>

**Interpretation:** From the above table and graph it is clear that Gross profit ratio of the company...
in 2009 (8.4), in 2013 is 10.5 means gross profit ratio of the company is increasing. it can be concluded that the Company is making profit.

**Net Profit Ratio:** This ratio indicates net profit of the company with respect to sales. Higher the ratio is the good sign for the company, which means that the company is making profit.

Net Profit Ratio: Net Profit / Net Sales *100

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<thead>
<tr>
<th>Year</th>
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<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratios</td>
<td>-2.22</td>
<td>0.41</td>
<td>1.59</td>
<td>0.28</td>
<td>44.82</td>
</tr>
</tbody>
</table>

**Interpretation:** From the above table and graph it is clear that Net profit ratio of the company in 2009 is negative but form 2013 it is 44.82 Means Company is continuously making profit which is good for the company.

**Debt Equity Ratio:** This ratio indicates owners share in the company. The tax is computed on the profits before any dividend is declared. But a considerable contribution from the proprietors is necessary from the creditor’s point of view to sustain the interest of the proprietors in the venture and also as a margin of safety of the creditors. Besides, excessive liabilities tend to cause insolvency. Debt equity ratio standard format is 2:1 which is consider by all companies.

Debt Equity Ratio:  \[ \text{Debt Equity Ratio} = \frac{\text{Long term Liabilities}}{(\text{Equity or Net Worth})} \] = 0.62

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<tr>
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<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>RATIO</td>
<td>6.98</td>
<td>5.94</td>
<td>5.13</td>
<td>5.41</td>
<td>0.62</td>
</tr>
</tbody>
</table>

**Interpretation:** From the above table and graph it is clear that In 2009 the debt equity ratio of the company is 6.98, and then after that it is continuously changing in 2010 it was 5.94 then in 2011 it also change to 5.13. After that in 2013 it was drop down to 0.62.
Limitations of the study: To know the extent to which the study is reliable it is necessary to note the limitations under which the study has been completed. The following important limitations have been noted while conducting the present study:-

1) The main source of information is annual reports. They represent financial information/position on particular date. What happened between such two dates cannot easily be presumed or predicated.

2) The annual reports mostly contain quantitative and financial information and as regards to qualitative aspect of financial performance, my source was limited due to far away location of head offices of the selected units.

3) The financial performance covering a large period say 20 years or 30 years can give a much clear picture of management practices of financial performance. Our study covering a period of 5 years can touch only a part of the problem.

Conclusion: The management of finance is very important for the success of every organization. The term financial performance is very distinct in nature as compare to any other financial term. As the time changing the term financial performance is also changing with the time. In present time is the only important factor for the financial performance. So, here i m doing the analytical study of financial performance with reference to PIX TRANSMISSION LTD.

While doing analysis on financial performance of PIX TRANSMISSION LTD, we included certain terms such as working capital and profitability of the company.

From the analysis it is concluded that:

Total Turnover (net of excise) for the year under review is ₹ 23,209.19 Lacs. The profit before interest and depreciation and tax is ₹ 4,327.20 Lacs

The profit before tax from operations is ₹ 1,116.16 Lacs after providing ₹ 1,882.86 Lacs for Interest and ₹ 1,328.19 Lacs for Depreciation.

During the year the Company sold its Hose Division located at Bazargaon, Nagpur on Slump sale basis as at the close of 10th July, 2012. Exceptional profit before tax of ₹ 13,396.19 lacs shown in the statement of Profit and Loss includes profit on sale of Hose Division.

- The net worth of the company is continuously increasing from financial year 2010-11 to 2012-13
- The PAT for financial year 2009-10 has been increased about 17083%
- Company distributes dividend per share 4.50 financial year 2013 to its shareholder
- The has been a decrease in secured loans of the company from Rs. 144.77 core’s to 65.25 core’s(decrease of 57 % ) During the financial year 2012-13
- Sundry debtors registered a increase of 28 % during the financial year 20012-13 (reduced from Rs. 42.79 core’s to Rs. 59.71 core’s)
- Loans and advances stood at Rs. 27.54 core’s to Rs. 74.10 core’ Increase in loans & advances is about 62.83% during the financial year2012-13
• Gross Total Income FY 2012-13 Rs. 219.85 core’s to 376.92 comes high by 41.67%
There was a proper synchronization between different depts. of manufacturing unit and business unit for a successful accounting system. There was a proper and correct flow of information and data. There are advanced method of maintaining records. The monitoring of all books which constitutes significant portion of annual maintenance or records was in appropriate manner.

Reference: