

Financial Performance of Engineering Company: A Case Study of Alfa Laval (India) Ltd Pune

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ABSTRACT

Growth and development of industries is necessary in every Nation. Growth of any industrial unit needs to be gauged in regular intervals. One way of assessing the progress of any entity is by way of evaluating and examining its financial performance. The very existence of any unit is dependent on its revenues, cash flows and financial strength. This paper is an attempt to study the Financial Performance of a MNC Engineering Company registered and having a manufacturing unit in Pune.

Keywords: Financial Performance, Engineering Company, Financial Position, Profitability.

INTRODUCTION:

Industries play a very important role in the Economic Development of any and every Nation. India is a developing Country and therefore Industries play a vital role in the growth and development of the country. Industrial Development contributes to the development of the Nation in different forms. Industrialization will lead to production of variety of goods and services, increase employment opportunities, increase income and savings among individuals and firms, help in capital formation etc. A Nation becomes self-sufficient. Surplus and excess production of goods and services can be exported, thereby attracting foreign income. Therefore for the growth of the Nation, growth of industries is essential. To assess and evaluate the growth of the industries we need to keep a track of the financial performance on a regular basis. Financial growth and financial status of every individual Industrial unit contributes to the National Growth and National Development. Therefore the need arises to pay attention towards the financial performance ¹of all the units in our Country.

The growth and existence of any company and business unit is dependent on factors like- volume of sales, profitability, availability of funds and other resources, utilization of resources, various expenses including finance expenses etc. A Company can exist and sustain only if there are satisfactory profits ²in proportion to the capital invested. The result of business needs to be evaluated and examined at regular intervals. Thorough analysis of financial statements is required to understand the progress in profitability and financial position of the business unit.

LITERATURE REVIEW:

Dwivedi N & Jain A.K (2005) in their research paper focused on the relationship between the financial performance and corporate governance. The research paper highlighted the effect of size of the board of directors and owners on the financial performance of companies from different industrial groups.

Mantravadi Pramod & Reddy Vidyadhar A (2008) in their research paper made an attempt to find the impact of mergers on the profitability and the financial performance. The research paper revealed that banking and finance companies ³operating and financial performance improved after the merger but the financial and operating

¹ Deol .O.S, 2017.

² Jawahar Lal, Seema, 2014.

³ Cornett, 2003.

performance of chemical, pharmaceutical, textiles, agro-based companies post-merger was negative.

Ghosh S and Mondal.a (2009) in their research paper found that the financial performance indicators – profitability, productivity and market valuation have no relation with the intellectual capital. Their research paper revealed that to extent profitability may be affected by intellectual capital but it has no effect on productivity and market valuation of the firm.

Vanitha S & Selvam M (2011) examined the financial performance of companies restructured through takeovers and amalgamations. The concluded that the financial performance of the companies which were taken over by the companies which had better management, the financial performance of those companies also improved after the restructuring and takeovers.

Singla (2013) in the research paper has made a comparative study of financial performance between two steel manufacturing companies. He concluded that the financial performance of Tata Steel Ltd was better than Steel authority of India Ltd.

RESEARCH METHODOLOGY:

Research Methodology	Case Study
Name of the Company Selected	Alfa Laval (India) Ltd
Type of Industry	Engineering – heavy
Method of Data	Financial Analysis done only on Secondary Data
Sources of Data	Alfa Laval Annual Reports(2006-2017)
	https://www.moneycontrol.com/india/stockpricequote/engineering-heavy/alfalavalindia/ALI02
Statistical Tools and Techniques Used	Tabulation, Percentage, Average, Coefficient of Correlation, C.V
Financial Analysis Tools Used	Common Size Statements, Intra Comparison Statements, Ratio Analysis, Trend Analysis

COMPANY PROFILE:

Registered Office Address:	Mumbai Pune Road, Dhapodi, Pune, Maharashtra 411012
E mail of the Company:	investorservice.alil@alfalaval.com
Website of the Company:	http://www.alfalaval.com
Registrar of the Company:	Link Intime India Pvt. Ltd.Pune.
Year of Incorporation:	December1937 in Sweden under the name Vulcan Trading Co
Year of Establishment in India	1961 at Dapodi, Pune to manufacture Plant & Machinery required for food, chemicals, dairy and pharmaceutical Industries
Management of the Company:	Ray Field - Chairman, Henrik Holm-Director, Hans Goran Mathiasson-Director. Ashwani Gupta-Independent Director
Name of the Industry:	Engineering – Heavy
House Name:	MNC Associate
Listed On:	BSE and NSE

OBJECTIVES:

- To assess the financial Performance of established MNC engineering company.
- To assess the profitability of the unit.
- To assess the financial position of the unit.

LIMITATIONS OF THE STUDY:

- This study is conducted for the period starting 2006 till the year ending 2017.
- Values are rounded up to the nearest crore; hence it may have marginal effect on the outcomes.
- Financial analysis tools used for this study have their own Limitations.
- This study is based on secondary data available through the published sources.

ANALYSIS AND INTERPRETATION:

Table No 1: Revenue Growth for the period 2006 to 2017. Of Alfa Laval (India) Ltd.

Year End	Net Sales Rs In Crores	Growth Rs In Crores	Growth %
Dec-06	593		
Dec-07	692	99	16.69
Dec-08	800	108	15.61
Dec-09	888	88	11.00
Dec-10	836	-52	(5.86)
Dec-11	1154	318	38.04
Dec-12	1051	-103	(8.93)
Dec-13	1117	66	6.28
Dec-14	1126	9	0.81
Dec-15	1064	-62	(5.51)
Dec-16	1091	27	2.54
Dec-17	947	-144	(13.20)
AVERAGE	946.58	32.18	5.23
10yr Avg	1,001.87	26.11	4.18
5yr Avg	1,089.80	(12.60)	(1.82)
3yr Avg	1,093.67	(8.67)	(5.39)

Source: Computed from the Published Annual Reports of Alfa Laval (India) Ltd.

Growth Percentage = Increase in Sales /Sales of Immediately preceding previous Year * 100.

- Net Sales is Income from operations less excise duty.
- Growth of sales is the difference between the net sales of current year and net sales of immediately preceding year.
- There is an overall growth of sales from 593 Cr to 947 Cr from 2006 to 2017 amounting to almost 60% growth over a period of 12 years.
- Year on Year growth of sales for 12 year period average is by around 5.23%.
- The sales average growth is negative for the past 3 years and 5 years period.

Table No 2: Expected sales forecasted for the years 2018 to 2020 based on preceding 3yrs average sales.

Year	Expected Sales Rs. In Crores	Change In Sales Rs. In Crores
Dec-18	895.96	(51.04)
Dec-19	847.68	(48.29)
Dec-20	802.00	(45.68)

Table No 3: Expected sales forecasted for the years 2018 to 2020 based on preceding 10yrs average sales.

Year	Expected Sales Rs. In Crores	Change In Sales Rs. In Crores
Dec-18	986.61	39.61
Dec-19	1,027.87	41.36
Dec-20	1,070.86	42.99

Source: Computed from the Published Annual Reports of Alfa Laval (India) Ltd.

- Highest sales were in the year 2011 Rs.1154 Crores.
- Till the year 2011 Sales showed a positive trend.
- Since 2015 sales has dropped and has affected the positive trend slightly.
- Considering the preceding three years average and past 10 years average the expected sales for the next three years may be estimated between Rs.802 to Rs1070 crores.
- Sales for the year 2017 are exactly around twelve year average sales. (Rs.947 Crores)

Table No 4: Operating Profit for the period 2006 to 2017, of Alfa Laval (India) Ltd.

Year End	Net Sales Rs. In Crores	Operating Exp Rs. In Crores	Operating Profit Rs. In Crores	% Op Profit
Dec-06	593	489	104	17.54
Dec-07	692	565	127	18.35
Dec-08	800	664	136	17.00
Dec-09	888	696	192	21.62
Dec-10	836	678	158	18.90
Dec-11	1154	988	166	14.38
Dec-12	1051	890	161	15.32
Dec-13	1117	922	195	17.46
Dec-14	1126	917	209	18.56
Dec-15	1064	845	219	20.58
Dec-16	1091	870	221	20.26
Dec-17	947	777	170	17.95
AVERAGE	946.58	775.08	171.50	18.16
(r between Sales & oper profit)				0.82

Source: Computed from the Published Annual Reports of Alfa Laval (India) Ltd.

Operating Profit % = Operating Profit/ Net Sales *100.

- Operating Profit is the difference between the Sales and Operating Expenses.
- Operating Profits have increased from Rs104 Cr to Rs170 crores from the year 2006 to 2017 almost an increase of around 63.46% .
- On an Average percentage of Increase year on year basis for the period is around 18%.
- Co efficient of Correlation between sales and operating expenses($r = + 0.82$) indicates that there exists a positive relation between operating expenses and sales.

Table No 5: Net Profit Ratio for the period 2006 to 2017, of Alfa Laval (India) Ltd.

Year End	Net Sales Rs. In Crores	EAT Rs. In Crores	NP%
Dec-06	593	70	11.80
Dec-07	692	91	13.15
Dec-08	800	90	11.25
Dec-09	888	123	13.85
Dec-10	836	108	12.92
Dec-11	1154	131	11.35
Dec-12	1051	115	10.94
Dec-13	1117	135	12.09
Dec-14	1126	147	13.06
Dec-15	1064	152	14.29
Dec-16	1091	186	17.05
Dec-17	947	131	13.83
AVERAGE	946.58	123.25	12.96
(r between Sales and EAT)			0.83

Source: Computed from the Published Annual Reports of Alfa Laval (India) Ltd.

Net Profit Ratio = Net Profits (EAT) / Net Sales*100.

- Net Profit (Earnings after Tax) has been calculated after deducting all operating, financial and depreciation expenses from the gross total revenues.
- Twelve year annual average net profit growth rate is 12.96% .
- Net profit ratio in the year 2016 reported the highest 17.06%.
- Accounting year 2014 onwards the net profit ratio is above the twelve year average 12.96%
- Net profits of the company were Rs70 crore in the year 2006 and had increased to Rs131 crores in the year 2017, an increase of almost 87.14% in the twelve year period of the above study.
- Co efficient of Correlation between sales and net profit is ($r = +0.83$) indicates the existence of a positive relation between net profit and sales.
- With every increase in sales net profit has also increased.

Table No 6 : Revenue per Share and Earning Per Share for the period 2006 to 2017 of Alfa Laval (India) Ltd.

Year End	Net Sales in Rs.	No of Eq Shares	Revenue Per Share	EAT in Rs	EPS in Rs.	EPS %
Dec-06	5,930,000,000.00	18160483	326.53	700,000,000.00	38.55	11.80
Dec-07	6,920,000,000.00	18160483	381.05	910,000,000.00	50.11	13.15
Dec-08	8,000,000,000.00	18160483	440.52	900,000,000.00	49.56	11.25
Dec-09	8,880,000,000.00	18160483	488.97	1,230,000,000.00	67.73	13.85
Dec-10	8,360,000,000.00	18160483	460.34	1,080,000,000.00	59.47	12.92
Dec-11	11,540,000,000.00	18160483	635.45	1,310,000,000.00	72.13	11.35
Dec-12	10,510,000,000.00	18160483	578.73	1,150,000,000.00	63.32	10.94
Dec-13	11,170,000,000.00	18160483	615.07	1,350,000,000.00	74.34	12.09
Dec-14	11,260,000,000.00	18160483	620.03	1,470,000,000.00	80.94	13.06
Dec-15	10,640,000,000.00	18160483	585.89	1,520,000,000.00	83.70	14.29
Dec-16	10,910,000,000.00	18160483	600.75	1,860,000,000.00	102.42	17.05
Dec-17	9,470,000,000.00	18160483	521.46	1,310,000,000.00	72.13	13.83
AVERAGE	9,465,833,333.33	18,160,483	521.23	1,232,500,000.00	67.87	12.96
(r= 0.83 Coefficient of Correlation between Revenue per Share and Earnings per Share)						0.83

Source: Computed from the Published Annual Reports of Alfa Laval (India) Ltd.

Revenue Per Share = Net Sales / Number of Equity Shares

Earnings Per Share = Earnings After Tax / Number of equity Shares.

- Net sales and earnings after tax values have been rounded off to the nearest crore and thereafter converted into Rupees for the purpose of calculating revenue per share and earnings per share.
- Alfa Laval (India) Ltd has fully paid up capital of 18.16 crores i.e., 18160483 equity shares of Rs.10 each.
- Twelve year average revenue earned per share is Rs.521.23
- Twelve year average net earnings per share is Rs.67.87 .
- Highest earning per share is recorded in the year 2016 (Rs.102.42) having a face value of Rs.10 (fully paid up).

Table No 7: Debt Equity Ratio of Alfa Laval (India) Ltd for the period 2006 to 2017

Year End	Equity Rs. In Crores	Debt Rs. In Crores	Debt Eq Ratio
Dec-06	232	6	0.03
Dec-07	270	19	0.07
Dec-08	307	5	0.02
Dec-09	377	5	0.01

Dec-10	422	0	0
Dec-11	490	0	0
Dec-12	604	0	0
Dec-13	740	0	0
Dec-14	887	0	0
Dec-15	1038	0	0
Dec-16	1105	0	0
Dec-17	798	0	0
AVERAGE	605.83	2.92	
(r= -0.60 Correlation between Debt & Equity)			(0.60)

Source: Computed from the Published Annual Reports of Alfa Laval (India) Ltd.

Debt Equity Ratio: Long Term Borrowings / Shareholders Funds.

- There exists a negative correlation ($r = -0.60$) between debt and equity in the period of study.
- In the beginning period of the study 2006 to 2009 Alfa Laval (India) Ltd had a very little long term debt to be paid off.
- Company has cleared all its debts by 2010. Thereafter company has not borrowed funds till the end of the study period.
- Equity fund comprises of equity share capital and reserves.
- Equity share capital of Alfa Laval (India) Ltd is fixed at 18.16 crores throughout the study period.
- Equity fund has risen from 232 crores in 2006 to 1105 crores in the year 2016.
- Deducting the equity share capital the net increase in reserves is around Rs.855 crores in a period of 11 years (2006 to 2016).
- Company has become self-sufficient and has huge amount of reserves and surplus.

Table No 8: Common Size Working Capital Statement of Alfa Laval (India) Ltd for the period 2006 to 2017.

Year	Stock	% of CA	Trade Receivables	% Of CA	Cash	% of CA	Loans & Advance	% of CA	other CA	% of CA	Total CA
	Crore Rs		Crore Rs		Crore Rs		Crore Rs		Crore Rs		Crore Rs
Dec-06	128.36	34.43	171.7	46.05	21.81	5.85	50.95	13.67	0	-	372.82
Dec-07	181.71	41.37	172.67	39.31	23.7	5.40	61.13	13.92	0	-	439.21
Dec-08	202.57	42.69	168.18	35.45	35.24	7.43	68.47	14.43	0	-	474.46
Dec-09	175.99	35.83	176.61	35.95	39.51	8.04	99.13	20.18	0	-	491.24
Dec-10	199.46	34.34	198.1	34.10	52.27	9.00	131.05	22.56	0	-	580.88
Dec-11	237.71	30.72	222.28	28.73	107.52	13.89	77.02	9.95	129.28	16.71	773.81
Dec-12	234.24	34.18	196.3	28.64	50.78	7.41	92.42	13.49	111.57	16.28	685.31

Year	Stock	% of CA	Trade Receivables	% Of CA	Cash	% of CA	Loans & Advances	% of CA	other CA	% of CA	Total CA
Dec-13	244.96	33.66	231.49	31.81	51.1	7.02	128.69	17.68	71.49	9.82	727.73
Dec-14	224.48	31.74	231.84	32.78	51.15	7.23	149.44	21.13	50.4	7.13	707.31
Dec-15	196.27	29.10	239.95	35.58	69.01	10.23	111.68	16.56	57.46	8.52	674.37
Dec-16	167.53	26.85	218.57	35.03	85.28	13.67	113.03	18.12	39.49	6.33	623.90
Dec-17	170	25.60	210.59	31.71	111.27	16.75	136.08	20.49	36.19	5.45	664.13
AVG	196.94	33.38	203.19	34.60	58.22	9.33	101.59	16.85	41.32	5.85	601.26

Year End	Trade Payable	% of CL	Other Liabilities	% of CL	Total CL	Year End	Total CA	Total CL	Current Ratio
Dec-06	98.05	42.45	132.95	57.55	231	Dec-06	373	231	1.61
Dec-07	120.35	47.38	133.65	52.62	254	Dec-07	439	254	1.73
Dec-08	142.31	47.12	159.69	52.88	302	Dec-08	474	302	1.57
Dec-09	122.15	36.68	210.85	63.32	333	Dec-09	491	333	1.47
Dec-10	152.99	38.54	244.01	61.46	397	Dec-10	581	397	1.46
Dec-11	191.61	40.51	281.39	59.49	473	Dec-11	774	473	1.64
Dec-12	182.38	48.51	193.62	51.49	376	Dec-12	585	376	1.56
Dec-13	181.51	45.61	216.49	54.39	398	Dec-13	728	398	1.83
Dec-14	154.43	37.21	260.57	62.79	415	Dec-14	707	415	1.70
Dec-15	131.21	36.35	229.79	63.65	361	Dec-15	674	361	1.87
Dec-16	131.18	34.34	250.82	65.66	382	Dec-16	624	382	1.63
Dec-17	156.79	38.24	253.21	61.76	410	Dec-17	664	410	1.62
AVERAGE	147.08	41.08	213.92	58.92	361	AVERAGE	592.8	361	1.64

Source: Computed from the Published Annual Reports of Alfa Laval (India) Ltd.

Current Ratio = Total Current Assets / Total Current Liabilities.

- The Above Table No 8 first tabulation on top shows the proportion of every individual current asset to the total current assets.
- The second tabulation on the left side below shows the proportion of every individual current liability to the total current liabilities.
- The third tabulation on the right side below shows the Current Ratio.

- The Twelve year Average proportion to the Total Current Assets is distributed as follows: Stock and Inventory 33.38%, Trade Receivables 34.60%, Cash & Cash Equivalents 9.33%, Loans & Advances 16.85%, and Other Current Assets 8.55%.
- Company has maintained its Stock Level below the twelve year average since 2016 but has improved the Cash levels above the Twelve year Average, which indicates the efficiency of the Management⁴.
- The Twelve Year Average of Trade Receivables to Trade Payables is little higher in the proportion of 1.38: 1.
- The Twelve year Average of Current Ratio is 1.64. Throughout all the twelve years the individual Current Ratio is almost near the Average Ratio.
- Considering the Average Current Ratio from 2013 to 2015 there is an expectation of improvement of the Current Ratio to an Average of 1.72.

Table No 9: Proprietary Ratio of Alfa Laval (India) Ltd for the period 2006 to 2017.

Year End	Equity Fund	Total Assets	Proprietary Ratio
Dec-06	232	469	49.47
Dec-07	270	543	49.72
Dec-08	307	615	49.92
Dec-09	377	715	52.73
Dec-10	422	820	51.46
Dec-11	490	963	50.88
Dec-12	604	981	61.57
Dec-13	740	1139	64.97
Dec-14	887	1302	68.13
Dec-15	1038	1399	74.20
Dec-16	1105	1487	74.31
Dec-17	798	1208	66.06
AVERAGE	605.83	970.08	59.45
(r= is the correlation between Equity Funds and Total Assets)			0.99

Source: Computed from the Published Annual Reports ⁵of Alfa Laval (India) Ltd.

- Proprietary Ratio = Proprietors Funds / Total Assets *100
- Proprietary ratio is the proportion of the owner's wealth to the total assets.
- The total of proprietors fund is derived by adding equity capital and reserves and surplus.
- Total assets include all tangible and intangible fixed assets, long term investments and all current assets.
- There is a constant improvement in the proprietary ratio from 2006 till 2017.
- In 2006 it was 49.47 and increased to 66.06 in the year 2017.
- In the year 2016 it reported the highest of 74.31%.
- The Financial performance of the company has been gradually and continuously improving in the study period.
- There is a positive association between the proprietary funds and total assets indicated by (r = +0.99) which indicates strength in the financial performance.
- The retained earnings of the company have been constantly increasing expecting better financial performance in the future years.

CONCLUSION & SUGGESTIONS:

- The study for the period 2006 to 2017 reveals a sound financial position of Alfa Laval (India) Ltd.
- The company repaid all the long term debt by the year 2009.
- Company shall not face any difficulty to raise any amount of funds in future due to its current financial position.

⁴ Abdul Raheman , Mohamed Nasr 2007.

⁵ Alfa Laval Annual reports 2017.

- Sales and profitability has been improving throughout the period (except last three years of the study period) indicating better prospects for the future.
- In spite of reduction in the sales volume in last three years the net profit and operating profit Ratio is maintained above the 12 year average indicating improvement in profit margins.
- Earnings per share and the reserves per share have increased more than double in a period of around 11 years from 2006 to 2016 indicating the Efficiency of Management.
- The policy of ploughing back of profits adopted by the management of this company has resulted in improved financial performance in terms of sales growth, profitability, working capital management etc.
- The researcher suggests the above policy to be adopted by all firms for improving the financial performance.
- Similar research can be done for companies belonging to other industries.

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