

## Case 6

# SUPREME ELECTRONICS LIMITED

### Exhibit V

Supreme Electronics Limited (SEL) is engaged in the assembly of LCD/LED TV, Plasma TV, Colour TV, Music Systems, DVD Players, Home Theatre Systems and Two-in-one/Car Stereos. Its factory is situated in a cosmopolitan city in Northern India. The company was incorporated initially as private limited in late sixties and was converted into a public limited company in the year 1976 in pursuance of Section 43 A of the Companies Act, 1956, with an authorised capital of Rs. 12.50 crore. In the year 1980, its authorised capital and its paid-up capital were Rs. 50 crore and Rs. 23.15 crore respectively, SEL is a closely-held company, and all the shares are held by the members of the same family.

SEL's sales have shown an increasing trend during the period 2007–10. However, the profitability of the company has been quite low. Accordingly, it has become necessary for the management to ascertain the reasons for the declining profitability of the company.

## SALES AND PRODUCTION

Exhibit 1 contains the year-wise data on the volume of sales of different products. Besides sales of these products, a direct source of income is service charges. The income of the company from service contracts and other sources during 2007–10 is as follows:

Year	Income from service contracts	Other income	Total
2007	52.86	30.25	83.11
2008	68.09	33.15	101.24
2009	19.91	42.68	62.59
2010	133.20	23.00	156.20

The company has a formal arrangement for selling its sets to M/s Suman Electronics, an associate company, which in turn sells them to its branches in U.P., Panjab and Haryana. The branches record these transactions as purchases and sales.

(Contd.)

A review of Exhibit I indicates that the company recorded the highest gross sales of Rs. 2,491.12 crore in the year 2010.

The marketing and sales department of the company is supervised by the managing director himself. Under him, sales are supervised by two managers—in charge of marketing and exports respectively. The marketing manager is being assisted by four regional managers and two assistant managers. The distribution channels are the branches, spread all over India, with distributors appointed at various cities, besides an overseas branch. The branches of the company have a network of dealers in most cities in the country. Suman Electronics, the associate company, also acts as an indenting agent for branches. As a result of the sustained publicity and promotional campaign, the company has been able to establish a distinct brand image. Another crucial factor contributing to the successful marketing efforts in this kind of industry is the ability to provide prompt and efficient after-sales service. SEL has stationed trained and experienced technicians at various branches meet after-sales service needs of their customers.

Sales to distributors are based on keeping a margin against each product. The margin varies for different products. No overriding commission is allowed to any distributors for sales in his territory. However, Suman electronics is paid a commission of one-fourth per cent on sales for acting as indenting agent for branches.

The company pays commission to dealers in addition to margin allowed to distributors. No uniform policy is followed in this regard. An account of the commission and margins allowed by the company is given below:

Year	Commission	Distributors Margin	Total
2007	15.29	36.63	51.92
2008	12.84	27.09	39.93
2009	5.81	18.49	24.30
2010	20.49	14.02	34.51

It is evident that the commission and margin allowed by the company have varied erratically.

Exhibit II gives the item-wise production trend in the value of production. From this exhibit, it can be seen production value touched the peak of Rs. 1,485.86 crore in the year 2007. However, in the following year, there was a drop in the production value. It increased again in the next year.

Television constituted the major production line of the company. The production of music systems showed an irregular pattern. The production of CD/DVD players had been showing a decline after the year 2008. On the contrary, the production of car stereos has been showing a steady increase from year to year. The company produced TV Games only in the years 2007 and 2009. The impact of change in product-mix could be examined from the standpoint of contribution. The company, however, does not keep necessary costing records by which contribution margin for each product could be ascertained.

## FINANCIAL PERFORMANCE

Exhibit III gives the sales, contribution and profits of the company for the period 2007 to 2010. Expenses have been approximately divided into fixed and variable components. The variable costs have been increasing. In view of the steep competition, it was not possible for the company to transfer the entire increase in variable costs to the customers by adjusting the selling prices.

The balance sheets for the period 2007 to 2010, as derived from the published in the annual reports and accounts, are given in Exhibit IV. The company seems to have liquidity problem. It has heavily invested its funds in materials and finished goods.

It is also evident that a substantial amount of the company's funds is blocked in book debts. The position of outstanding debts for the period 2007 to 2010 is as follows:

	(Rupees in crore)			
	2007	2008	2009	2010
Total book debts	58.80	88.22	109.22	211.23
Outstanding and doubtful debts for more than 6 months	4.61	10.99	25.32	24.80
Debts considered doubtful	0.59	0.61	0.68	2.34

The company's outstanding debts have been on a steep rise. Major portion of outstanding debts is blocked in the accounts of the companies/concerns in which the directors or their relatives are directly/indirectly interested.

SEL has also been spending large amounts on publicity and travelling which work out to be about 50 per cent of total selling, general and administrative expenses. The amount so spent during the period 2007 to 2010 is given below:

	(Rupees in crore)		
Year	Conveyance and Travelling	Publicity	Total
2007	9.81	102.76	112.57
2008	12.91	61.60	74.51
2009	14.18	39.36	53.54
2010	16.95	43.63	60.58

## COMPETITION

The company has a number of competitors, both Indian and foreign, all over India. There are also other regional competitors who take a sizeable share in regional markets. The company contends that its share in the all-India market is about 13 to 15 per cent. SEL is doing fairly well in northern—particularly in Punjab and eastern parts to India. Sales in Western India have been slowly picking up, while in the South, the company has not been able to penetrate the market.

Prices of products, other than television, are primarily governed by the prices of similar products of competitors. Over the last five years, there has not been any appreciable change in the prices of these products. However, a number of changes in the selling prices of TV sets have taken place since the year 2008.

**DISCUSSION QUESTIONS**

1. Calculate liquidity, activity, and capital structure and profitability ratios for SEL. Also do a trend analysis for important financial analysis.
2. From your analysis of ratios indicate the areas which need further investigation and managerial interventions.

	2010	2009	2008	2007	2010
Profit before tax	49.45	57.22	61.22	69.93	19.65
Provision for tax	30.38	30.38	30.38	30.48	8.56
Profit after tax	19.07	26.84	30.84	39.45	11.09

**Exhibit II**

Note: Value of average gross price (Value of average gross price) for adjusting the change in finished goods stock and includes other income net of expenses.  
 (Figures in crore)  
 Ninety per cent of the firm's sales are on credit basis.

	2010	2009	2008	2007
Total	1,141.23	1,307.62	1,482.86	1,141.23
DVD/CD Player	141.11	109.04	141.11	141.11
TV Games	11.29	13.46	13.46	13.46
Calculator	60.47	83.02	83.02	83.02
Home Theatre System	40.29	42.69	42.69	42.69
Music System	122.26	88.04	88.04	43.01
LED/LCD	928.09	981.83	981.83	1,122.96

Note: The trend in production in Exhibit II does not represent total production as value details of items like video games, video cassette recorder, telephone diallers, etc. are not known.

**Exhibit I****SUPREME ELECTRONICS LIMITED**

Sales Volume\*

(Figures in crore)

	2007	2008	2009	2010
LED/LCD	1,145.15	1,192.93	1,526.88	1,515.20
Music System	40.40	90.65	0175.20	118.14
Home Theatre System	43.78	52.80	88.52	34.35
Calculator	76.06	84.60	76.03	50.45
TV Games	10.46	0.53	1.70	
DVD/CD Player	143.36	110.98	13.44	14.66
Others	47.75	100.75	214.26	448.28
Sales in Foreign Branch	63.25	318.52	310.04	
<b>Total Sales</b>	<b>1,506.96</b>	<b>1,696.49</b>	<b>2,414.55</b>	<b>2,491.12</b>

**Note:** Sales volume are gross of excise duty.

**Exhibit II****SUPREME ELECTRONICS LIMITED**

Production Trend

(Valued at average gross sale price)

(Figures in crore)

Year	Conveyance and Travelling		Publicity		Total
	2007	2008	2009	2010	
LED/LCD	1,152.96	981.83	989.03	958.09	
Music System	43.01	88.04	50.86	125.56	
Home Theatre System	52.51	45.69	12.51	40.59	
Calculator	82.81	83.05	74.08	60.47	
TV games	13.46	0.94			
DVD/CD Player	141.11	109.04	14.11	11.29	
<b>Total</b>	<b>1,485.86</b>	<b>1,307.65</b>	<b>1,141.53</b>	<b>1,196.00</b>	

**Note:**

The trend in production in Exhibit II does not represent total production as value details of items like video games, video cassette recorder, telephone diallers, etc. are not known.

**Exhibit III****SUPREME ELECTRONICS LIMITED**  
**Contribution and Profit Statement**

(Rupees in crore)

(Rupees in crore)

	2007	2008	2009	2010
Sales Value	1,430.50	1,667.86	2,343.29	2,491.12
Less: excise duty	143.12	132.71	151.33	185.40
Net sales value	1,287.38	1,535.15	2,191.96	2,305.72
<b>Variable Expenses</b>				
Raw materials	957.74	1,245.74	1,899.28	1,959.74
Others	142.38	96.65	48.40	51.89
<b>Total</b>	<b>1,10.12</b>	<b>1,342.39</b>	<b>1,947.68</b>	<b>2,011.63</b>
Contribution	187.26	192.76	244.28	294.09
<b>Fixed Expenses</b>				
Interest	18.58	33.46	59.47	70.50
Depreciation	5.45	6.38	6.31	7.20
Others	113.78	150.70	168.57	196.74
<b>Total</b>	<b>137.81</b>	<b>190.54</b>	<b>234.35</b>	<b>274.44</b>
Profit before tax	49.45	2.22	9.93	19.65
Provision for tax	30.38	0.26	0.48	8.56
Profit after tax	19.07	1.96	9.45	11.09

**Note:**

Sales value has been arrived at after adjusting the change in finished goods stock and includes other income net of expenses.

Ninety per cent of the firm's sales are on credit basis.

This first eight items in Part I have already been classified; you should classify the remaining items and be prepared to explain and defend your logic for the chosen classification.

## Exhibit IV

### SUPREME ELECTRONICS LIMITED

Balance Sheet as on December 31

(Rupees in crore)

(Rupees in crore)

	2007	2008	2009	2010
<b>LIABILITIES AND CAPITAL</b>				
Net Worth				
Share Capital*	9.65	11.58	23.15	23.15
Reserves	34.89	34.92	32.80	43.89
Total	44.54	46.50	55.95	67.04
Long-term loans	5.00	8.27	6.79	7.83
Others	49.54	54.77	62.74	74.87
Current liabilities				
Bank borrowings	133.22	264.72	278.50	288.02
Creditors	111.44	195.51	158.02	276.35
Securities & advances	17.99	17.01	26.48	97.45
Other provisions	65.61	122.31	111.91	135.34
Total	328.26	599.55	574.91	797.16
Total Funds	377.80	654.32	637.65	872.03
<b>ASSETS</b>				
Fixed assets (net)	51.54	64.93	63.64	62.76
Current assets				
Raw material	160.05	219.08	223.69	250.11
Stock-in-process	52.15	16.50	10.35	129.40
Finished goods	33.78	59.70	77.52	211.23
Debtors	58.80	88.29	109.22	49.45
Cash in bank	19.78	8.74	13.88	158.73
Loans & advances	53.85	161.43	133.20	326.26
Total	326.26	589.39	574.01	809.27
Total Assets	377.80	654.32	637.65	872.03

\*Capitalized out of reserves Rs. 1.93 crore and Rs. 11.57 crore respectively in 2008 and 2009.

DVD/CD Player	141.11	109.04	14.11	11.29
Total	1,485.86	1,307.65	1,141.53	1,196.00

**Note:**

The trend in production in Exhibit II does not represent total production as value details of items like video games, video cassette recorder, telephone diallers, etc. are not known.