# CHAPTER VI

# OBSERVATIONS, CONCLUSIONS AND SUGGESTIONS

## 6.1 Observations

**A] Company Profile :**

- Shreem Capacitors Pvt. Ltd. Is located at L.K.Akiwate Co-operative Industrial Estate Jaysingpur Tal. Shirol Dist. Kolhapur.
- Shreem Capacitors Pvt. Ltd. is established in 1976.
- Shreem Capacitors Pvt. Ltd. secured the awards for excellence at national level it suggest that company is working properly.
- The shreem group consist five companies.
- The turnover of the Shreem Capacitors Pvt. Ltd. is increasing continuously.
- Shreem Capacitor produces the shunt capacitors, Harmonic filters, furnace duty capacitors, Surge & Energy storage capacitors, Low transmission capacitors, LT automatic power factor correction, panel control & relay panels, design manufacturing & Galvanization of steel structures and towers.
- Shreem Capacitors Pvt. Ltd. sells there products in India as well as abroad. In this way company is contributing for earning the foreign currency.
- The Shreem Capacitors has its own network of branch offices at Mumbai, Chandigarah, Pune, Vadodara, New Delhi, Bangalore, Kolkata, Chennai, Jabalpur & Nagpur it indicates the company has covered wide geographical area and it is working at national level.

- Shreem Capacitors Pvt. Ltd. supplied most of the products to state electricity board and private companies.
- The company has well grown up company and it is developing one. It has bright future.

**B] Financial Analysis :**

- The company has utilized all the sources of fixed capital- own capital ( except preference capital ) plus long term loans.
- The company transfers the full amount of Net Profit to Reserve & Surplus every year.
- For the purpose of expansion and development company has raised long term secured as well as unsecured loans for most of the years.
- There is cash inflow for the first half of the period under study and cash outflow for the second half from operations.
- For all the years company has invested money in various securities.
- For all the years company has taken the finance from various financial institutions.
- For all the years working capital, net profit and operating profit shows increasing trend.
- Liquidity ratio shows the liquidity position of the company was sound.
- Solvency ratio shows the solvency position of the company was average.
- A turnover ratio of the company was average.
- Profitability ratio shows the company has earning profit at very low rate.

## 6.2 Testing of Hypothesis –

The hypothesis established in chapter I are tested as below –

1. The Shreem Capacitors Pvt. Ltd. Is financially sound due to better financial planning and its implementation.

The discussion in chapter V 'Financial Analysis', under the heading Fixed Capital Analysis, Working Capital Analysis and table Nos. 5.1 to 5.30 clarifies that the company is financially sound, the financial planning is better and all the financial plans are implemented in a right manner which leads to the development of the company.

Objectives set in the I chapter are also achieved. The first objective was to study functions of the finance department of the company. The functions of the management are discussed in the chapter IV- 'Theoretical Framework of Financial Management', under the heading functions of finance department. All the functions explained are carried by Shreem Capacitors Pvt. Ltd., Jaysingpur

The second objective was to understand the importance of Fixed Capital and Working Capital of company. The Researcher discussed in detail theoretical part of Fixed Capital and Working Capital in chapter IV 'Theoretical Framework of Financial Management', under the heading types of capital and in chapter V 'Financial Analysis', both the capital analysed in all respect.

The third objective was to make the financial analysis with the help of Financial Tools and Techniques. The Researcher has employed four tools i.e. Fixed Capital Analysis, Cash Flow Analysis, Funds Flow Analysis and Ratio Analysis. The techniques used such as tabulations, graphs, statistical averages, ratios, percentage etc.

With the help of the study and the analysis of the data the researcher suggested some measures for the better Financial Management of the company which is given in this chapter.

## 6.3 Conclusion

### A. Fixed Capital Analysis

- It is found that the company has utilized nearly 49% capital raised through secured loans. The share of reserve and surplus in financing is about 30% and the contribution of share capital and unsecured loans is nearly same i.e. 11%. It shows that company had relied more on secured loans.
- During the period 2002-03 to 2007-08 share capital increased nearly by 5 times. In the year 2002-03 it was 233.65 lakhs by increasing with slight variations it reached to 1036.51 lakhs in the year 2007-08. It was clear that the company has raised finance from share capital as per requirement for expansion and development purpose.
- Every year the company has transferred the total profit to general reserve. Therefore the amount of reserve and surplus increased year by year and it its fully ploughed back. During this period the amount of reserve and surplus increased from 605.77 lakhs to 2454.93 lakhs. It means it is increased more than 4 times.
- During the period from 2002-03 to 2007-08 secured loans, the largest source of finance of the company, increased from 922.07 lakh to 5007.56 lakhs. It means it is increased more than 5 times. The rate of increase shows variations from 18% to 74%. More ever the source of finance mainly used for expansion of the plant and installing new plants.

- An unsecured loan shows variations regarding the amount as well as the rate of increase or decrease. In general it is increased from 386.98 lakhs to 2002-03 to 825.99 lakhs in the year 2007-08. In the year 2003-04 company has made some repayment of secured loans but in the year 2006-07 it has taken unsecured loans on large scale.

**B) Cash Flow Statement**

- During the period under study cash flow statement shows inflow for all the years except the year 2003-04 when there was outflow of Rs. 9.40 lakhs. In the year 2007-08 there was highest inflow of cash which shows the figure as high as 389.53 lakhs.
- Cash flow from operating activities shows inflow for first 3 years and outflow for last 3 years. There is high variation in the amounts of inflow and outflow. In general the amount of outflow is far higher than the amount of net inflow. The net inflow is the effect of loans taken by the company.
- For all the years there is outflow in respect of investing activities. It is good sign because every year the company has invested money in various securities which gives sound financial strength and an income by way of interest and dividend. In the year 2002-03 there was very short outflow i.e. about Rs. 25 lakhs but in the year 2006-07 the company has invested large amount and hence the amount of net outflow shows the highest amount Rs.1161.81 lakhs. In all the years there is variation in amount of outflow.
- During the period under study financing activities shows net inflow of cash for all the years except the 1st year, when there was outflow of Rs. 10.06 lakhs. From the year 2003-04 to 2006-07 the net inflow increased repidely from 301.81lakhs to 1925.16 lakhs.

In the last year it is decreased to Rs. 872.76 lakhs. It means the company has raised loans every year.

**C) Funds Flow Analysis**

- For all the years current assets are higher than current liabilities so for the any year there is no minus working capital. The amount of working capital and the amount of increase in working capital both shows increasing trend during this period working capital increased by 4-5 times. It shows company has expanded operating activities year by year.
- For all the year there is operating profit, there is no operating loss, the amount of operating profit increased continuously year after year. In the year 2002-03 the amount of funds from operation was Rs. 203.33 lakhs it increased to Rs. 1334.18 lakhs in the year 2007-08. It means it increased by nearly 6.60 times.
- Bank loan and operating profit are the main sources of funds. Repayment of loans and purchase of fixed assets are the main application of funds. Total funds are utilized by the company increased year by year.

**D) Ratio Analysis :**

1. **Current Ratio:** Current ratio of the company is good. During the period from 2002-03- to 2006-07 it increased from 2.44 times to 3.38 times. In the year 2007-08 it decreased up to 1.90 times. The average ratio is 2.69 times. It means liquidity position of the company was strong except the last year under study.
2. **Quick Ratio:** Quick ratio of the company was very strong. During the year 2002-03 to 2006-07 the ratio was increased from 2.36 times to 3.31 times. In the year 2007-08 it decreases up to 1.85 times. The

average ratio is 2.63 times. It indicates that the financial position of the company is very good.

3. **Debt Equity Ratio:** Debt equity ratio of the company is very strong. During the year 2002-03- to 2007-08 it fluctuates between 1.24 to 1.76 times. The average ratio is 1.52 times. It indicates that the solvency position of the company is very strong.
4. **Debt to Total fund Ratio:** Debt to total fund ratio of the company is below the standard ratio. During the year 2002-03 to 2007-08 the ratio ranges from 0.55 to 0.64 times. 0.60 times is the average ratio. It means that the company has utilized less loan funds for long term finance.
5. **Proprietary (equity) Ratio:** Proprietary ratio of the company is an average. . The ratio fluctuates between 0.19 times to 0.31 times. The average ratio is0.27times. It means that the company can invest only share holders funds and long term funds in fixed assets
6. **Fixed Assets to Net Worth Ratio:** A fixed asset to net worth ratio of the company was good. During the year 2002-03 to 2007-08 it fluctuated between 58% to 78%, the ratio is above 50% which indicates better utilization of shareholders funds. The average ratio is 65.17%.
7. **Fixed Assets to long Term funds Ratio:** Fixed assets to long term funds ratio was below the standard ratio. During the year 2002-03 to 2007-08 it fluctuated between 0.21 to 0.28 times. The average ratio is 0.26 times. It means that the firm has adopted the impudent policy of using short term funds for acquiring fixed assets.
8. **Debt service (interest coverage) Ratio:** Debt service ratio of the company was below the standard ratio. During the year 2002-03 to 2007-08 it fluctuated between 2.42 to 5.34 times. The average ratio is

3.64 times. It indicates that the excessive use of debt and points out that the firm should improve the operating efficiency or repay the debt to improve the coverage.

9. **Total Assets Turnover Ratio:** The total assets turnover ratio was increasing but it is below the standard ratio. During the year 2002-03 to 2007-08 it fluctuated between 1.14 to 1.69 times. The average ratio is 1.46 times. It means that the company is used the total assets inefficiently.

10. **Fixed Assets Turnover Ratio:** Fixed assets turnover ratio was more than standard ratio. During the year 2002-03 to 2007-08 it fluctuated between 6.94 to 10.68 times. The average ratio is 8.50 times. It means that the company is used the fixed assets efficiently and it also shows the overtrading.

11. **Inventory/Stock Trading Ratio:** Inventory turnover ratio of the company was continuously increased except last year. During the year 2002-03 to 2006-07 it increased from 46.01 to 112.51 times, it decreased in the year 2007-08 up to 84.37 times. The average ratio is 80.11 times. It means the inventory of the company is fast moving or there is no absolute and unsellable goods laying in stock.

12. **Debtors Turnover Ratio:** The debtors turnover ratio has decreased from the year 2002-03 to 2006-07 from 0.49 to 0.27 times but in the last year it has increased slightly and reached to 0.32 times. The average ratio is 0.36 times. It shows that the company has not recovered the debts in normal time. The amount was locked up nearly 150-180 days in a year.

13. **Working Capital Turnover Ratio:** Working capital turnover ratio of the company was average. During the year 2002-03 to 2007-08 it ranges between 2.16 times to 3.19 times. The average ratio is 2.80

times. It means that the company should try to lower the investment in working capital with respect to sales. This will lead to effective utilization of working capital.

14. **Return on Equity Ratio:** During the years 2002-03 to 2007-08 the Return on equity ratio of the company was fluctuated between 69.63% to 128.50%. The average ratio is 97.80%. It means that the equity shareholders get much return or good return.

15. **Earnings per Equity Share:** The ratio shows that for the first year it has given 81.10% return for the second year 64.62% return and for all the other years more than 100% return per share. The earnings per share is Rs. 328.37. It means that earning per equity share is very good.

16. **Return on Capital Employed Ratio:** During the years 2002-03 to 2007-08 the ratio ranges between 12.04% to 19.09%. The average ratio is 14.34 %. It means that the company gives more return than the prevailing interest rates given by banks and financial institutions.

17. **Return on Investment Ratio:** The return on investment ratio of the company was increased in first four years and last two years it is decreased. In the year 2002-03 to 2007-08 it fluctuated between 20.29% to 24.64%. The average ratio is 21.64%. It means that investors are getting almost double return than the return given by banks and financial institutions.

18. **Gross Profit Ratio:** The rate of Gross profit ratio was fluctuated between 13.19% to 18.62%. The average ratio is 15.47 %. In general it can be said that the rate is low. The company has fewer margins in the sales. The company has fixed very competitive rate.

19. **Net Profit Ratio:** For all the years the rate of net profit is less than 4.55%. For the last year it is further decreased and had gone down to

2.80%. The average ratio is 3.99%. It shows that company's earning profit is at very low rate.

## 6.4 Suggestions :

1. The company should device the policy for Management of Receivables and tries to reduce the amount and collection period of debtors by trying to collect the debtors as early as possible.
2. The company should device the policy for Management of Payables. This may help the company to procure the material at competitive price and best alternative use of saved money. The company should take sufficient period of time for payment that will enable the company to collect from the debtors and proceeds can be utilized for payments.
3. The company shall also think upon to accept advances from customers against order. This may infuse cash inflow to substantial extent.
4. Company should make more expenditure on Research and Development to improve the new technology and reduce the consumption of raw material.
5. The division of profit is not shown in any of the year under study. The total profit is added in General Reserve. It shows that company is not giving any return to shareholders. The return to shareholders should be specifically mentioned.
6. Company has utilized more own funds. The ratios regarding own funds and loan funds shows the figures less than the standard ratio so the company should utilized more loan funds for long term finance.
7. The solvency position of the company is good but still company should take efforts to make it better.

8. The turnover of the company is increasing steadily. The company should take steps to increase the turnover at higher rate.
9. The company should produce such products which can be purchased by individuals for household purposes to increase turnover.
10. The company should open further branches in the states where there is no branch of the company. That the company will increase the turnover and profit of the company.
11. The company should try to establish manufacturing at various places. It will help to reduce transportation charges.
12. Overall performance of the company is remarkable. Overall approach and style of managing working capital is prudent and far sighted. The company should try to maintain the same performance and zeal in future.