

Chapter-V

Conclusion

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5.1 INTRODUCTION

In the present investigation we have tried to understand the basis of financial performance of foundry unit and found that, the profitability, liquidity and operational efficiency of foundry unit. The findings, observations and suggestions have been presented in this chapter.

5.2 FINDINGS

In the preceding the basic data for a period of seven years in respect of the foundry unit has already been presented, analyzed and interpreted with the objective of evaluating their financial performance with the help of ratio analysis and Z score model. All the ratios and trends were taken up for detailed discussion. In the present chapter the broader observations and conclusions emerging from this exercise are being presented.

A) Findings Related to Growth

1. Trend of Share capital has remained constant in the year 2005 to 2009. It has increased after the year 2009 that is more than an average. (Table 4.1)
2. Long term fund shows increasing trend over a study period but in the year 2006 trend was 87 which are below the base year. Compound growth rate is 20.28% which indicates foundry unit not good growth on its long term fund. (Table 4.1)
3. In the year 2007 to 2011 Working capital of the foundry designated increasing trend and above an average but in the year 2006 it is below the base year. (Table 4.1)
4. Total assets of the foundry have increased substantially during the study period and compound annual growth rate of total assets is 28.86% which shows good performance of the foundry as a whole. (Table 4.1)
5. In all the study period sales trend of the foundry shows the increasing trend and foundry's sales compound growth rate is 17.17% it is very low.(Table 4.1)

B) Findings Related to Profitability

1. Foundry's net profit ratio for the year 2005-06 to 2010-11 under study period. In the year 2004-05 foundry suffered from net loss of one year. Hence it is seen that the foundry is unable to maintain its profitability consistency for the period under study. (Table 4.2)
2. The average for the foundry for the gross profit to sales was found to be 13.42% during the period. (Table 4.3)
3. Operating profit ratio is very low is an average 0.96% during the study period. In the last year 2010-11 ratio was 2.22% which shows better operating efficiency of the management as compared to other years. (Table 4.4)
4. Foundry gets fair return on its capital employed and hence it is concluded that foundry make efficient utilization of available capital. (Table 4.5)
5. From the shareholder's point of view foundry is having satisfactory return on their funds except for the year 2004-05. (Table 4.6)

C) Findings Related to Operational Efficiency

1. Inventory turnover ratio shows high trend which indicates increasing efficiency in converting stock into sales. The highest inventory turnover ratio has been registered by the foundry.(Table 4.7)
2. The working capital turnover ratio of foundry unit taken as a whole was more than 6 times throughout the period of the study. In the year 2005-06 working capital turnover ratio was 245 times due to increase in current liabilities and decrease in current assets which leads to decline in net working capital.(Table 4.9)
3. Whole observing fixed assets turnover ratio it is concluded that foundry has full to make an efficient utilization of total assets in attaining sales. (Table 4.10)
4. Large amounts in days sales in average debtors turnover ratio states the group was not very successful at converting debtors into cash because it look a long time in all seven years. By the year 2009 the foundry could collect cash in 2.87 months that is not good as well. But a noticeable point is the foundry could change debtors into cash in almost 1 month in 2005 and 2006. (Table 4.11)

5. Foundry's creditor's collection period indicates that foundry makes prompt payment for creditors which are useful for regular supply of resources and increase goodwill of the foundry. Foundry enjoyed high credit period 5.53 months in 2010-11 and low credit period 4.08 months in 2004-05 from creditors. (Table 4.12)

D) Findings Related to Liquidity

1. Average of the current ratio is 1.55 times it is near the standard norm and which indicating good liquidity management. (Table 4.13)

2. According to liquidity ratios foundry in all over period had a stronger financial position and quite sufficient liquid assets to maintain business operations. Foundry could pay its current liabilities with its current assets during the period. However, foundry was more capable of paying its current liabilities with its current assets in 2006-07 to 2010-11. But in 2004-05 and 2005-06 it did not have enough liquid assets to maintain operations. (Table 4.14)

E) Findings Related to Solvency

1. The long term financial strength has been analyzed with the help of Debt equity ratio. Debt equity ratio of the foundry taken as a whole revealed a continuous decreasing trend from 10.92 times to 1.85 times. It revealed that the foundry depends profoundly on outsider's fund which is harmful for foundry. (Table 4.15)

2. Lesser is the percentage of proprietary ratio the weaker is the financial position of the foundry as it indicates more dependence on external finance which is dangerous because foundry's solvency position is not sound. (Table 4.16)

3. Foundry's has fixed assets ratio in the range 1.69:1 to 0.64:1 during the study period which shows sufficient investment of long term funds in fixed assets.(Table 4.17)

F) Findings Related to Prediction

1.From the year 2006-07 to 2010-11working capital to total assets ratio specifies that the foundry had very high level of investment in current assets and which shows that too much of its current funds are blocked in the form of

current assets instead of investing them in the potential investments.(Table 4.20)

2. Average ratio of the retained earnings to total assets of foundry was 0.024 and fluctuating trend of retained earnings during the study period indicates the unsustainable growth.(Table 4.20)

3. During the study period Earnings before interest and tax to total assets ratio shows inability of the foundry to ensure earnings against its total assets.(Table 4.20)

4.In the years 2005-06 to 2007-08 and 2009-10 to 2010-11, Z score of the foundry unit is above 3.00 it means foundry is having very good financial position throughout the period. (Table 4.20)

G) Findings Related to Testing of Hypotheses

1. There is significant growth in sales over a period of time but, there is no significant growth in profit over a period of time. (Table 4.22)

2. There is significant increase in size of business in terms of sales and number of employees but, there is no significant increase in size of business in terms of profit over a period of time. (Table 4.23)

3. There is significant change in GPR, ROCE, ROSF, ITR, TATR, FATR, DCPR and CCPR over a period of time but there is no significant change in GPR, OPR and WCTR over a period of time. (Table 4.24)

4. The financial position of the selected unit is significantly strong.

5.3 SUGGESTIONS

The present study was undertaken to study the financial performance of foundry unit. On the basis of detailed analysis and interpretation of the collected data related to the foundry researcher made some suggestions which are useful to the foundry in increasing its efficiency in general and improving its financial performance.

In the light of these findings and conclusions the researcher proposed the following suggestions.

1. Foundry should try to proper utilization of the available resources like green sand. Recycling the green sand for safe environment and with the help of minimize the direct expenses.

2. Foundry should provide the financial and non-financial service to the employees and motivate them.
3. The foundry should give proper attention towards the maximum utilization of fixed assets because huge fund is blocked up in fixed assets, if the efficient utilization of these assets is not made then it adversely affect the profitability of the foundry. Old machinery should be sold and new advanced technological machinery purchase and improve the production capacity.
4. Foundry should increase the profitability and it is suggested to control the cost of goods sold and operating expenses. The management should try to adopt proper cost reduction techniques in their foundry to get over this critical situation.
5. It is suggested to the foundry that to undertake further developing scheme like advertising, relation with customers which ensures increase in sales which results in high profit earning of the foundry.
6. Foundry should adopt CRM technique and to create new customers. Even in economic recession create in future that time foundry has sufficient customers to avoid this recession period.
7. The foundry should try to match the amount of working capital with the sales trends. Where there is a deficit of working capital as in the foundry, they should try to build an adequate amount of working capital. Where there is an excessive working capital, it should be invested either in trade securities or used to repay borrowings.
8. Since last two years net profit of the foundry is improving hence it is suggested that foundry should maintain the same in future so for that foundry decrease the indirect expenses like manufacturing and other expenses.
9. The foundry should give proper attention to increase the production so as to get economies of large scale production. It will assist in raising the rate of return on capital employed.
10. The foundry should improve its financial strength with the help of increasing liquidity position to meet its short term obligation so, for that foundry should increase investment in current assets to meet current liabilities in time, which ensure sound short term liquidity position of the foundry and foundry should always keep cash in hand.

11. Foundry mostly depends upon the outsider's fund which is harmful in future, so foundry should increase the equity fund and allowed the various schemes for shareholders.
12. Working capital is lifeblood of any firm but the foundry's working capital turnover ratio is showing decreasing trend and hence it is suggested to the foundry to make proper arrangement for working capital.
13. Foundry should increase operating efficiency of the management and strict control over operating cost.
14. The foundry should increase and improve the solvency position for the ability of the foundry to continue operating after a major financial adversity.
15. Foundry should determine the budget for future plan and also determine the specific vision and achieving this vision foundry should try to work properly.

5.4 CONCLUSION

The study has examined the pioneer research of an analytical study of financial performance of foundry units: A case study of Yash Metallica Pvt. Ltd., Kolhapur. This particular case study has motivated by objective i.e. evaluate the financial performance of foundry units and to assess the growth in terms of sales, profit, share capital etc. Researcher has four pre set hypotheses and testing for these hypotheses used statistical test like One Sample 't' test and Z score model. The analysis and interpretation have been made in terms of profitability, operational efficiency and financial strength of foundry unit. For the study purpose used ratios, trend analysis, compound annual growth rate have been used. It is revealed that the foundry's management scored a notable success in terms of profitability, operational efficiency, financial strength and prediction.

Financial strength of the foundry assist the major strength its indicates that the foundry has enough cash to meet obligation on efficient inventory management policy and adequate capital structure all of which are necessary to achieve the goals and financial health of the foundry. After analyzing the financial performance of the foundry it can be concluded that though the financial position of the foundry is found quite satisfactory as the foundry's

sales is rising continuously. Researcher concluded that the foundry's performance has improved much in the last few years as almost all the sources of fund as well as net profit of the foundry have increased. Even in economic downturn foundry's sales remained stable. Finally it can be concluded that the overall financial health of foundry is good. This study will be useful for the development of foundry.