CHAPTER IV

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4.1 Introduction

A number of tools and techniques are used for financial analysis. Amongst various tools of financial analysis, the 'ratio analysis' is an important, useful, popular and widely used technique. Therefore, it is selected for analysis and interpretation of operational results of Lotus Hospital.

Ratio analysis can be done in 3 ways i.e.

1) Traditional Classification or statement Analysis.

2) Significant Ratios or Ratios According to Importance.

3) Functional Classification or Classification according to tests.

The operational results of Lotus Hospital are analyzed on Functional Classification basis. The Functional Classification is divided into four parts viz.

1. Activity Ratios;
2. Liquidity Ratios – Short Term Solvency Ratios;
3. Long-Term Solvency and Leverage Ratios;
4. Profitability Ratios.

Activity ratios are concerned with measuring the asset management efficiency. These ratios are also called **efficiency ratios or asset utilization ratios**. The efficiency with which the assets are used would be reflected in the speed with which the assets are converted into income. The rate of 'turn over' or conversion, is a measure of efficiency. For this reason these ratios are also designated as **"turn over ratios"**. Activity ratios thus evolve a relationship between income and various assets. A proper balance between income and assets generally reflects that assets are managed well. Several activity ratios can be calculated to judge the effectiveness of asset utilization. Some of such ratios are:

1. Inventory Turnover;
2. Debtors Turnover;
3. Payables (Creditors) Turnover;
4. Fixed Assets Turn over;
5. Working Capital Turnover
6. Total Assets Turnover; and
7. Capital Employed Turnover.

After careful analyses, it was found that the first three ratios do not throw much light on the performance. E.g. an inventory turnover is a good ratio, but for Lotus Hospital, the inventory is of medicines and surgical tools, the cost of which is normally recovered immediately and hence does not form part of Hospital cost or income. Consequently, the inventory turnover ratio, does not give any useful figure. Similarly, the debtors & creditors ratios also are of not much significance. Therefore, the analysis is carried out, in respect of following four ratios:

*Fixed Assets Turn over;

*Working Capital Turnover;

*Total Assets Turnover; and

*Capital Employed Turnover.

The analysis & interpretation is based on the audited Balance Sheets and Profit & Loss Accounts of Lotus Hospital, which have been given in Annexure 1(without schedules).

4.2 Fixed Assets Turn over Ratio

This ratio measures as to how many times fixed assets are rotated in a year in relation to total income. A firm's ability to achieve maximum income from the amount invested in fixed assets is an important parameter of its operating efficiency. Unutilized or under utilized assets increase cost of production. The fixed assets are net of depreciation. Consequently their value would go on decreasing from year to year (unless substantial new investment is done in the fixed assets in the intervening years). Therefore, the ratio should be interpreted carefully and judiciously. A high ratio therefore, may not mean high profits.

The Fixed Assets turnover is given by following equation:

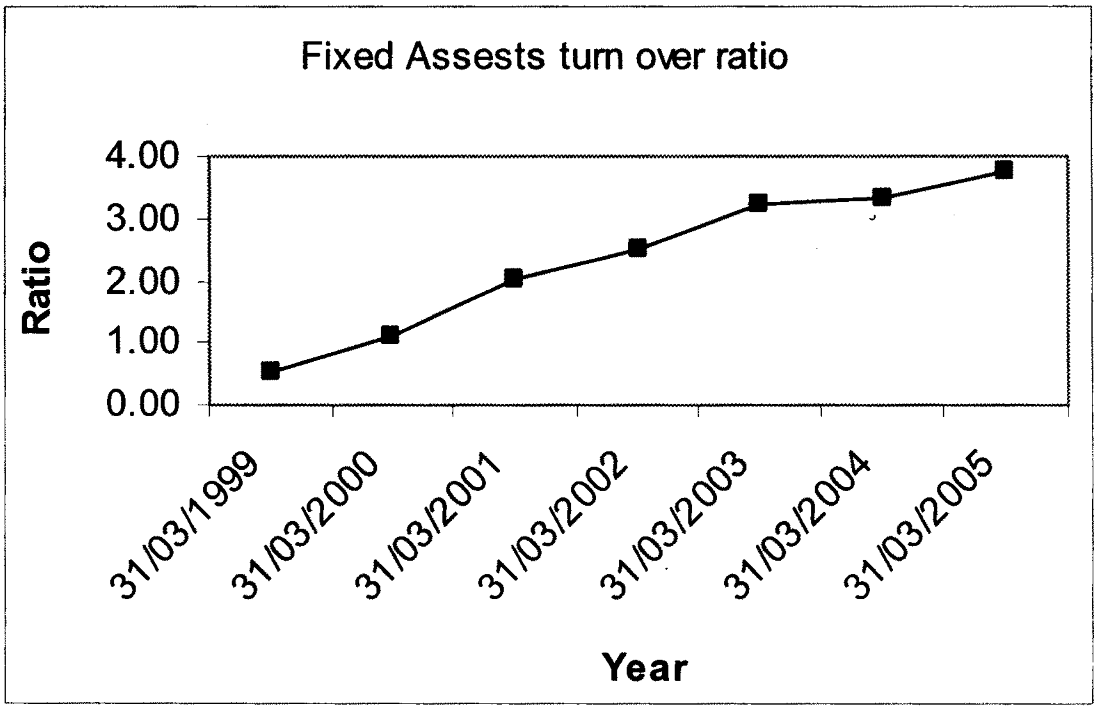
$$\text{Fixed Assets Turnover ratio} = \frac{\text{Total Income}}{\text{Net Fixed Assets (i.e. Gross Fixed Asset – Depn.)}}$$

TABLE NO. 4 .1

Showing Fixed Assets Turnover ratio

Year	Total Income	Net fixed Assets	Ratio of
	A	B	A/B
	(RS. Lakhs)		
3/31/1999	81.37	150.66	0.54
3/31/2000	144.80	128.07	1.13
3/31/2001	214.67	105.08	2.04
3/31/2002	227.29	90.06	2.52
3/31/2003	240.94	74.20	3.25
3/31/2004	200.49	60.56	3.31
3/31/2005	176.15	47.00	3.75

Source:- Audited Financial Statements



The following points can be deduced from the Table No. 4.1

1. The total income shows increasing trend from 1999 i.e. 81.37 to 240.94 in 2003, but it has started declining from 2004 onwards.

2. The fixed assets are shown at depreciated value and therefore show a declining trend right from 1999 onwards. This also means that no new substantial equipment has been added.

3. The Fixed Asset turnover ratios show a steadily increasing trend from 1999 i.e. o.54 to 3.74 in 2005 - a 7 times increase.

4. This means the depreciation of Fixed assets has not affected their efficiency and they have been used effectively to achieve substantial income, which shows that the equipment have been maintained in a good working condition.

4.3 Ratio of Total Income to Net Working Capital

The working capital turnover is calculated by dividing the Total Income by Net Working Capital. The formula is:

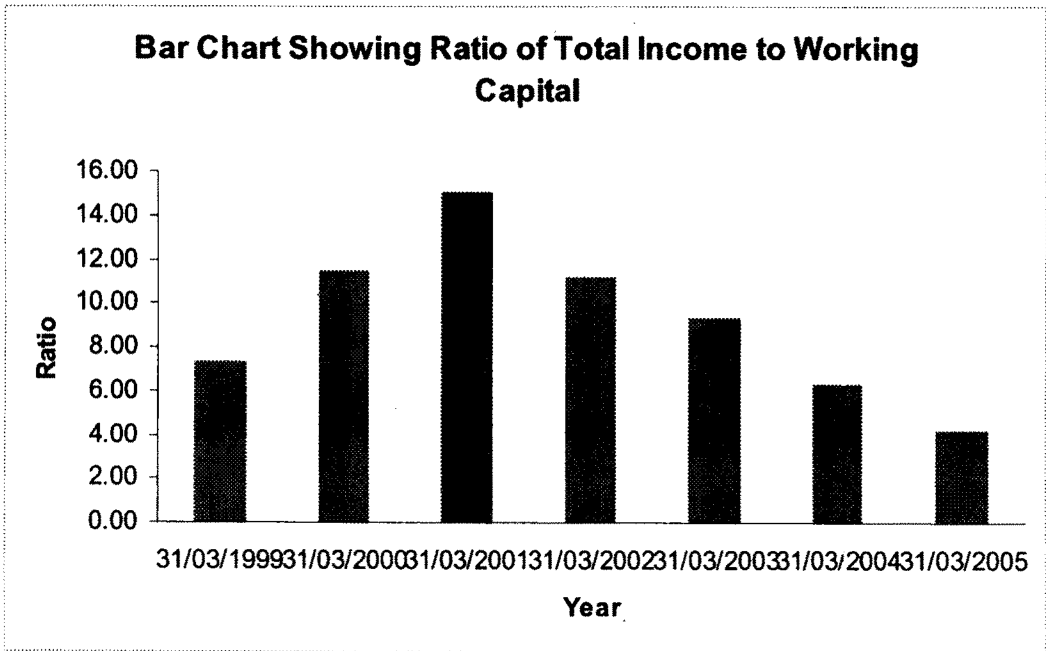
$$\text{Working Capital Turnover} = \frac{\text{Total Income}}{\text{Net Working Capital}}$$

This ratio indicates the velocity of the utilization of the Net Working Capital i.e. Number of times the Net Working Capital is turned over in a year.

Table no. 4.2 showing Total Income to Net Working Capital Ratio

Year	Current Assets	Current Liabilities	Net Working Capital	Total Income	Ratio
		Rs. in Lakhs	A	B	B/A
3/31/1999	23.62	11.70	11.92	81.37	6.82
3/31/2000	24.23	11.64	12.59	144.80	11.50
3/31/2001	32.70	18.50	14.20	214.67	15.11
3/31/2002	37.32	17.02	20.30	227.29	11.20
3/31/2003	52.82	27.11	25.71	240.94	9.37
3/31/2004	51.41	19.56	31.86	200.49	6.29
3/31/2005	60.45	18.62	41.83	176.15	4.21

Source :- Audited Financial Statements



A bird's eye view of the above Table -

1) Current assets show an increasing trend from 1999 i.e. 23.62 to 60.46 in 2005.

2) Current liabilities show many variations. It shows an increasing trend upto 2001 and decrease to 17.02 in 2002 then again an increase to 27.11 in 2003 then again decrease upto 2005 i.e. 18.62.

3) Working capital shows an increasing trend from 1999 i.e. 11.92 to 41.84 in 2005.

4) The ratio shows an increasing trend from 1999 i.e. 7.38 to 15.11 in 2001 and then a decreasing trend from 2002 i.e. 11.20 to 4.21 in 2005.

4.4 The Ratio of Total Income to Total Assets

It would be interesting to know the combined effect of these two in relation to Total Income. It is also common knowledge that funds are strictly not earmarked between revenue and capital. Intermingling takes place at all times. Therefore, the total assets to total income have also been given.

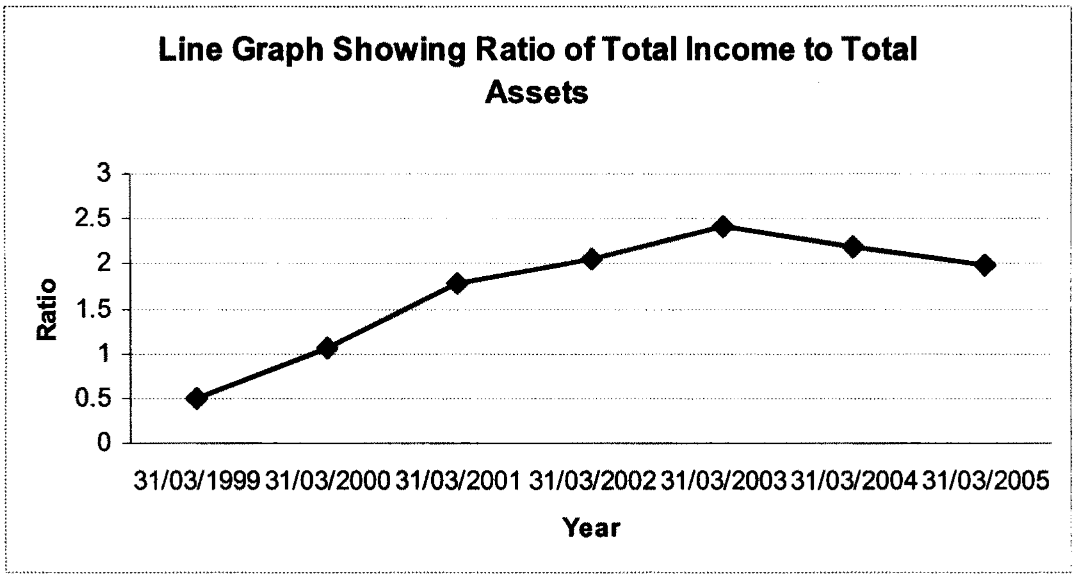
Total Assets = Net Fixed Assets + Working Capital

$$\text{Total Income to Total Assets} = \frac{\text{Total Income}}{\text{Total Assets}}$$

Table no. 4.3 showing Total Income to Total Assets ratio

Years	Net Fixed Assets Rs. in Lakhs	Working Capital	Total Assets A	Total Income B	B/A
31.3.1999	150.66	11.92	162.58	81.37	0.50
31.3.2000	128.07	12.59	140.66	144.80	1.03
31.3.2001	105.08	14.20	119.28	214.67	1.80
31.3.2002	90.06	20.30	110.36	227.29	2.06
31.3.2003	74.20	25.71	99.91	240.94	2.41
31.3.2004	60.56	31.86	92.42	200.49	2.17
31.3.2005	47.00	41.83	88.83	176.15	1.98

Source :- Audited Financial Statements



From the above table it is observed that-

1) Total Assets have been decreasing continuously from 150.06 in 1999 to 47.00 in 2005. That is about 70% decrease.

2) Despite decrease in total assets the Income turnover ratio is improving and goes upto 5 times till 2003 which is a good sign, but from 2004 it starts decreasing due to decrease in income and unreasonable increase in working capital.

4.5 Ratio of Total Income to Net Worth

This ratio would show how the shareholders funds (net worth) stands in relation to the Total Income. The net worth means the subscribed share capital plus the accumulated profit, minus the accumulated loss, minus deferred revenue expenditure.

Table no 4.4 Ratio of Total Income to Net worth

Year (a)	Total Income (b) Rs. in Lakhs	Net worth a/b	Ratio
31.3.1999	81.37	8.19	9.93
31.3.2000	144.80	-14.31	-
31.3.2001	214.67	-02.26	-
31.3.2002	227.29	20.96	10.84
31.3.2003	240.94	38.63	6.23
31.3.2004	200.49	46.83	4.28
31.3.2005	176.15	53.89	3.26

Source :- Audited Financial Statements

Following conclusions can be drawn from the above table:

1) For Lotus Hospital there was considerable accumulated loss in the earlier years, therefore, the net worth figure is as such reduced by such a loss and in the earlier years has become negative, meaning that the proprietors' funds had been completely wiped out.

2) From 2002 the ratio shows positive improvement, but it is on declining trend.

4.6 Conclusions

1. The Fixed Assets turnover ratio is showing improving trend, which shows efficient use of assets.

2) Fixed assets show continuous reduced amount due to depreciation charged and no substantial new assets have been added.

3) The ratio of Total Income to Working capital shows a decline in the later years. This is mainly due to holding of high stock of medicines and also steady decline in the income.

4) The ratio of total income to total assets was showing improvement upto 2003, but for the last two years it has started declining and has come down below 2 due to decline in income.

5) The ratio of income to net worth has also been declining in the later years for the reasons mentioned above. i.e. decrease in Income.