CHAPTER-V

CONCLUSIONS AND SUGGESTIONS

a) Conclusions

b) Suggestions

CONCLUSIONS :

Ratios are calculated from financial statements based on historical accounting system. Conclusions are drawn by comparing ratios over a period.

Current Ratio :

Current ratio is below standard every year. The standard current ratio is 2:1. This indicates m mill is unable to pay its short term debt, liabilities as and when they matured. And this ability is going on to decrease every year.

The mill is advised to increase in working capital i.e. either decrease in current liabilities or increase in current assets.

Liquid Ratio :

Standard liquid ratio is 1:1. Liquid ratio is also below standard. This implies mill is also unable to pay off quick liabilities using quick assets.

The mill is advised to decrease investment in stock and increase other assets.

Debt Equity Ratio :

The standard ratio is considered as 1:1. In the year 1980-81 and 1984-85 the ratio is below standard. This is unfavourable to shareholders.

Hence it is suggested that to increase outsiders fund, short term funds.

Ratio of Long-term debt to
Shareholders fund :

Every year ratio is low. It is greater security to creditors. Investers consider the mill is safe for investment.

Proprietory or Equity Ratio :

Ratio is generally near to 50% i.e. not higher not lower. This implies total liabilities to total assets ratio is about 50%. Mill can pay its long term debt.

Fixed Assets to Net Worth :

The standard ratio is 65%. Every year ratio is below standard which is unfavourable.

Mill is advised to invest either in fixed assets or change depriciation method.

Solvency Ratio :

For the security of shareholders ratio must be near 50%. The ratio is increasing. At the time of liquidation shareholders are the worst sufferers.

For shareholders it is advised that to reduce total liabilities.

Interest Coverage Ratio :

Lower ratio shows excessive use of debt. Ratio is decreasing every year. Use of borrowed is increasing. Mill is unable to bear interest charges.

Mill is advised to refund loan capital and to collect owners funds.

Fixed Assets Turnover Ratio :

From this ratio we get so that to get clear cut idea about the proportions between these related figures and to determine the changes in investment pattern.

In the year 1980-81 and 1983-84 the ratio is high, which can be resulted in to cover trading on its assets. In the year 1981-82, 1982-83, 1983-84 this ratio is low which results into excessive investment in fixed assets. So finance manager should be very particular while making further investment in fixed assets.

Capital Gearing Ratio :

The mill has low gearing. It indicates equity share-holders are not paid adequate rate of return.

Total Investment to long-term liabilities :

Every year ratio is decreasing. Higher ratio favourable to Mill. It implies higher margin of safety to shareholders.

But actually the situation is being worst, due to decrease in ratio every year.

Ratio of Current Liabilities to Proprietors Fund :

The ratio is about to 50%. Mill has to pay within year 50% liabilities. This does not indicate sould financial position.

Operating Ratio :

Operating ratio is more than 100% every year. This is unfavourable since it will leave small amount of operating income to meet interest, dividend etc.

Manufacturing expenses ratio :

Manufacturing expenses are about 25% to 30%. This proportion must be reduced.

Selling and distribution expenses ratio :

Expenditure incurred on this item is less. But sales are increasing. This means marketing department is working efficiently.

Factory Overheads Ratio :

Irrelevant changes in ratios shows that management is unable to control. These expenses are also optimum.

Managerial Expenses Ratio :

Managerial expenses ratio is increasing every year to the base, year. These expenses must be reduced.

Operating Profit Ratio :

Management is efficient in first three years. After that the efficiency of the management is decreasing. To increase efficiency the ratio must be higher. It is essential to increase operating profit and proportionate increase in sales.

Gross Profit Ratio :

Gross profit must be adequate to recover all revenue expenses. But gross profit less due to increase in casts. It is necessary to decrease cost and increase sales.

Net Profit Ratio :

In the year 1980-81 only there is profit. In subsequent year there is loss. It indicates G.P. margin is inadequate. Management is inefficient in manufacturing administering and selling products.

Return on shareholders Investment Ratio :

In the year 1980-81 returns are positive but too small. In subsequent years returns are negative i.e. loss. This implies return on shareholders investment are inadequate.

Return on Equity Capital :

Return on equity capital are positive only in first year and in subsequent year negative. Return on equity capital is also not satisfactory.

Earnings per share :

Earning per share are also not satisfactory.

Return on Capital Employed Ratio :

Higher the ratio the more efficient the firm in using funds entrusted in it. In first three years ratio is somewhat constant changes are negligible. Managerial policy is stable. But in last two years as ratio is decreasing managerial efficiency is also decreasing.

Inventory Turnover Ratio :

Inventory turnover ratio is low. This suggests inefficient inventory management. Low inventory turnover implies excessive inventory levels than warranted by production and sales activities or slow moving inventory.

Debtors Turnover Ratio :

Higher the ratio indicates the more efficient is management of assets. The rmatio is within the range of 38 to 135 times. The ratio judges the quality of debtors with comparison to average collection period debtors quality is good.

Creditors Velocity :

Comparing average payment period and creditors velocity the ratio is favourable to the firm. As average payment period is higher than average collection period it is favourable situation.

Working Capital Turnover Ratio :

Higher the ratio favourable. Every year ratio is increasing. It means it is becoming favourable. This implies efficient use of working capital.

SUGGESTIONS :

In the light of above findings the researcher would like to give some suggestions like reduction in the investment of inventories so that the working capital requirements would be reduced. Similarly, the management should try to reduce the operating expenses. The company should improve its liquidity position and try to bring it to the standard level.

Due to some uncontrollable reasons company is unable to earn profit.

Asset Utilisation :

The company should try to utilise the net assets at full capacity. So that it can improve the profits on net fixed assets at satisfactory level.

The company should take the necessary steps to maintain the debt equity ratio at the desired level. For this the company should reduce burden of long term debt gradually.

The company has not declared any dividend so far. So to keep the equity shareholders happy the company should declare atleast minimum rate of dividend in the coming years.

1) It should be achieved by cost control technique like, standards, budgets and control to reduce the cost and increase the productivity.

2) Techniques of inventory control should be adopted like ABC Analysis perpetual inventory system, input output ratio to reduce the cost of material, standard norms should be set for normal and abnormal loss to control the losses.

CHAPTER-I

TEXTILE INDUSTRIES

1.1 INTRODUCTION

1.2 OBJECTIVES OF THE STUDY

1.3 METHODOLOGY OF THE STUDY

1.4 LIMITATIONS OF THE STUDY.