CHAPTER V

CONCLUSION AND SUGGESTIONS

CONCLUSIONS :

Shri Chh. Shahu S.S.K. ltd. Kagal is one of the well established and developed sugar factories in Maharashtra state. It has started its crushing with 1250 CTD in 1980-81.

Research of this factory has under taken with a view to examine and analyse its solvency, liquidity and profitability position with the help of 'Ratio Analysis.' After close scrutiny of the study following conclusion are drawn. This chapter includes both findings and suggestions. These findings and suggestions are divided into following parts.

I) From View Point of Short Term Solvency

II) From View Point of Long Term Solvency

III) From View Point of Profitability

III) From View Point of Expenses Pattern

I) SHORT TERM SOLVENCY:

Short term solvency means ability of the firm to meet its current obligation without loss. This solvency position is examined with following ratios.

a) CURRENT RATIO:

During the period of study, the ratio varied from 1.69 times in 2003-04 to 1.61 in 2005-06, indicating unsatisfactory short term financial strength of the factory from creditors, point of view and management of working capital from management point of view. In the years 2001-02, 2002-03, 2004-05, 2006-07 factory has to able meet its current obligations.

b) QUICK OR LIQUIDITY RATIO:

This is the true test of going concern solvency of a business. As a general rule, can current assets equal or exceed than current liabilities the financial position may be considered satisfactory.

The liquidity position of the factory is not sounding during the period under the study from 2001-02 to 2005-06. This ratio varied from 0.55 in 2001-02 to 0.41 in 2005-06. Thus it is below the generally accepted norm and indicating a weak short term financial strength. In the year 2006-07 this liquidity position is good to same extent as compared to proceeding years. The reason for falling this ratio is increase in current liabilities but there is no proportion rise in liquid assets.

c) FINISHED INVENTORIES TURNOVER RATIO:

During the period of study the turnover of inventory of finished goods fluctuates from year to year it is on an average 1.88 times. This ratio is just 1.18 times in the year 2001-02 and 2.10 times in 2006-07. It is due to the fact that the amount of sales fluctuates and decreased during 2002-03 and 2003-04. But next two years sales remained more or less some. i.e. sales amounted to Rs.138,75, 62, 338 in 2004- 05 and Rs.156, 04, 15,020 in 2005-06 but due to excess inventories in 2005-06 the ratio does not increase.

II) LONG TERM SOLVENCY:

Long term solvency means ability of the concern to meet its long term obligation without disturbance or loss. This can be tested with various devices.

a) DEBT EQUITY RATIO:

This ratio is more than generally accepted norm which is 1:1. in 2001-02, 2002-03 and 2004-05 it is more than standard requirements. Thus relationship between external equity and internal equity is good. But remaining years the ratio is not satisfactory. Therefore factory has to keep close watch to maintain this position in future period.

b) FIXED ASSETS TO PROPRIETOR'S FUNDS RATIO:

The trend of this ratio fluctuates during the period of study from 1.70: 1 in 2001-02 to 1.14: 1 in 2006-07. This ratio is more than generally norm which is 0.65. There is more investment of shareholders fund in fixed assets and this is not ideal policy of investment which there is execs investment in fixed assets the part of working capital has to supply in the shareholders.

c) CURRENT ASSETS TO PROPRIETORS FUNDS RATIO:

In the year 2001-02, the 3.33 portion of proprietor's funds is used in current assets. Similarly during the all period of study investment in current assets is more than provident funds it indicates that outsider's funds in large extent have been invested in current assets. This ratio should be higher than that of fixed assets to proprietors fund ratio.

d) FIXED ASSETS TO FIXED LIABILITIES RATIO:

Hence, this ratio should be satisfactory in the year 2003-04 and 2006-07, in the remaining years ratios are not satisfactory. So in order to meet long-term obligations without loss or disturbance factory should keep close watch to maintain this ratio at the expected standard level.

III) <u>TURNOVER RATIOS</u>:

a) FIXED ASSETS TURNOVER RATIO:

This ratio registered fluctuating trend. As compared to generally accepted norm, this ratio is quite dull. This is an indication of under utilization of fixed assets. Sales show increasing trend but corresponding ratio sales to fixed assets did not increased.

b) SALES TO TOTAL ASSETS RATIO :

This ratio registered fluctuating trend and varied from year to year, and constituted a range of 0.75 times, which is quite low. This is due to under utilization of assets.

c) SALES TO NET WORTH RATIO:

This ratio has calculated to examine whether proprietors fund are utilize effectively and ideally or not. On an average, this ratio is 2.56 times of net worth. Since 2004-05 there is considerable increase in share capital and reserve hence it decline to 1.75 in 2006-07. But we can say that factory has utilized share holders funds properly and must try to maintain the same position for the coming period.

d) SALES TO WORKING CAPITAL RATIO:

This ratio fluctuates from 1.52 in 2001-02 to 3.71 in 2006-07. Working capital is use more intensively in 2003-04 because of decreasing inventories. In the year, 2005-06 sales have increases but ratio did not increase because of increase in inventories. In 2001-02 this ratio is 1.52 indicating low rate of working capital utilization. An average this ratio is 2.72.So we may say that working capital is used intensively.

IV) <u>PROFITABILITY RATIO:</u>

a) GROSS PROFIT TO NET SALES RATIO:

During the period of study, this ratio is an average 31.67. Through sales is in increasing trend but there is no corresponding increasing in gross profit. This is due to increase in expenses of manufacturing and excess stock of inventories.

b) GROSS PROFIT TO TOTAL ASSETS RATIO:

During the period of study, the trend of this ratio fluctuates from 28% to in 2001-02 to 18% in 2006-08. This declining ratio indicates that factory has not utilized its total assets at optimum level. First three year the total net assets shows decline trend, but next three years this trend has increased. During the last year net total assets increased to Rs. 1,98,67,64,676 but there is no corresponding increases in gross profit margin leaves lower margin to absorb non operating expenses.

C) NET PROFIT TO NET SALES RATIO :

During the period of study there was no profit in the year 2002-03 it means that all the portion of gross profit was absorbed by administrative expenses, general expenses, interest and depreciation.

d) NET PROFIT TO NET WORTH RATIO:

The ratio registered a fluctuating trend and varied from 0.07% in 2001-02 to 0.39% in 2006-2007. This ratio indicates that there is an increase in capital and net profit. This position is good sign. It means factory has to maintain its profitable position.

e) RETURN ON EQUITY CAPITAL EMPLOYED RATIO:

As there have no profit during the year 2002-03. In this year percentage of earned profit to the equity shareholders is zero. In the remaining five years of the study, the ratio is in increasing order and shareholders get satisfactory return in their shares.

V) EXPENSES RATIO:

a) SALES TO INTEREST:

The proportion of interest to sales revenue during the period under study varied from 10.04 in 2001-02 to 59.54 in 2006-07. This ratio shows increasing trend. i.e. proportion of interest coverage to sales is in decreasing order and there by it increases the portion of operating income.

b) SALES TO SALARY :

During the study period, this ratio is in fluctuating order i.e. sale volume covered by salaries is in increasing order every year. Salary of administrative staff increased around Rs.8,40,75,128 during the period of six years. This increase in salary reduces the portion of operating income and there by it reduces the profitability of the factory.

C) SALES TO DEPRECIATION :

A sale to depreciation ratio is fluctuating during the period of study. Since 2003-04 the coverage of depreciation to sales volume is in increasing order because of establishment of distillery plant in the year 2002-03.

d) SALES TO OTHER EXPENSES:

This ratio fluctuates, through out the study period. The major parts of the other expenses are development expenses, electricity, water charges general meeting expenses and miscellaneous expenses. During the period of study Other Expenses has increased from Rs.1,91,29,865 in 2001-02 to Rs.7, 28,50,617 in 2006-07.

SUGGESTIONS:

The "Shri Chh. Shahu S.S.K.Ltd. Kagal, Dist-Kolhapur" has been described earlier as a successful co-operative sugar factory. However in the working of the sugar factory there are some aspects which need greater attention to be made by the management. On the basis of the analysis and interpretation the conclusions have been drawn. All these conclusions explain both the strengths and weaknesses of the factory. In the light of these conclusions the researcher proposed to make the following important suggestions.

1) In case of Current Ratio the factory must pay attention towards proper investment in Current assets. That it will be helpful to meet its Current obligation without any disturbance or loss.

2) The level of liquidity is not satisfactory. It is necessary to maintain the proper balance between liquid assets and current liabilities and factory should not allow falling quick ratio below generally accepted norm.

3) In respect to turnover Ratio the sales department should work sincerely to increase volume of sales. Management must have to take necessary steps to increase the volume of sales and there by it will save storage and maintenance charges.

4) The policy of investment in fixed assets is not ideal, but it is difficult to comment directly. Because business has it own policy about investment in current assets and in fixed assets, but in order to utilize the funds at

optimum level there should be proper allocation of shareholders fund in the factory.

5) The factory has under utilization of assets. So in order to utilize productive assets at the optimum level. Management should take necessary step to increase the operating income and they should try to avoid excess investment in inventories.

6) For the increasing profitability position of the factory and to have sufficient margin of net profit, there should be control over expenses particularly administrative, general and other variable expenses.

7) There is no profit in the year 2002-03. That is why percentage of equity shareholders is zero in this year. So the shareholders get satisfactory return in their shares at regular basis management must take precaution to maintain maximum profit in future period.