

CHAPTER - V



OBSERVATIONS AND SUGGESTIONS OF  
THE STUDY

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SR.NO.	TOPIC	PAGE NO.
1	OBSERVATIONS OF THE STUDY	102
2	SUGGESTIONS OF THE STUDY	107

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V.1 : OBSERVATIONS OF THE STUDY :

Based on the data analysis presented in Chapter No. 5 following observations regarding financial performance have been made.

- 1) Current ratio indicates relatively weak liquidity position as current ratios of DSSSK consistently remained to be less than the standard conventional current ratio indicating sound liquidity position i.e. 2:1. The range of current ratio is 0.53 to 1.29 times.
- 2) Acid test ratios calculated, force to conclude that in the composition of current assets, stock constitutes major proportion which indicates that the quick assets are low than the current liabilities. Resultantly the short term financial position highlighted by the ratios is poor. Further it is noticed that the acide test ratios are declining and always remained to be less than the standard i.e. 1:1. The minimum acid test ratio is 0.25 time and maximum current ratio is 0.81 time of the current liabilities. In the year 1982-83 the ratio is very low. In the years 1985-86 and 1986-87 the acid test ratios remained constant and for the rest of the years the ratios are fluctuating which indicates unsound liquidity position.

- 3) It is concluded from the table of Bank finance to working capital Gap ratio that the Tondon Committee norms are not being observed by the organisation and there is no consistency in the financial management practices, which shows in the organisation does not take care of the recommendations of the committee as this ratio should not be exceed 0.75.
- 4) The relationship established in stock and total current assets shows that stock to current assets proportion is quite high which is accrued an account of excess stock of finished goods. The stock to current assets ratios range from 0.28 to 0.65. In the year 1980/81 the stock to current assets ratio is very low i.e. 0.28 time and for rest of the period they are fluctuating.
- 5) Debt equity ratio indicates that there is excess amount of outsiders' liabilities than share holders funds and burden of fixed charges is high. In the year 1985-86 and 1986-87 long term loans decreased and they are replaced by fixed deposits from sugar-cane growers.
- 6) Long term debt to equity ratios show that equity funds have been increasing in study period except in the years 1984-85 and 1985-86. As regards to long term debt it has also increased up to 1984-85 and for rest of the period they have registered a decreasing trend. From the DE ratios computed it can be concluded that DE ratios of DSSSK showed a

- fluctuating trend for the period covered under study. which remained to be fluctuating from 0.96 to 1.67.
- 7) The debt and assets, table shows that there is constant increase in assets in earlier part of the study and these assets are financed by borrowed funds to the large extent (74% to 84% of total assets.) In the later period the proportion experienced during 1980-84 is not changed except a slight increase around 2 to 3 percent.
  - 8) Interest <sup>X</sup>expense of the DSSSK has registered an increasing trend. This situation is the out come of utilisation of excessive borrowed funds which has affected the profitability of the concern to large extent. As regards the interest coverage ratio it is more than PBIT for the years 1981-82 and 1986-87. For rest of the years it is in the range of 26% to 90% of PBIT. For commercial concern appropriate interest coverage ratio is 6 to 7 times in the light of this statement the interest coverage ratio of DSSSK is not at all favourable.
  - 9) It is clear from the table of proprietary ratio, that maximum funds are invested by outsiders. Utilisation of own funds is remained at very low level i.e. 14% to 26%
  - 10) It is clear from the table of fixed assets to net worth that the DSSSK is very successful in acquiring fixed assets from owned funds instead of going for borrowed funds. Fixed assets to Net worth ratios

are in the range is 0.84 to 4.57%.

- 11) Stock turnover of DSSSK remained fluctuating in study period and indicated high amount of inventory in the store. But this situation is the outcome of Government policy according to which high amount of inventory is held in Godown. Minimum inventory was held in the year 1980-81 and 1985-86. The range of stock turnover ratios in remained between 1.86 to 14.18%.
- 12) It is seen from the table of total Assets Turnover that DSSSK could not give maximum sales in relation to its total assets. The favourable ratio is 2:1 but DSSSK could not maintain this position. In the year 1981-82 and 1982-83 the ratio were very poor as assets, acquisition was more in relation to sales. The stock turnover ratios of DSSSK remained between 0.65 to 1.69%.
- 13) It is clear from the table of fixed assets turnover that except in the year 1979-80 DSSSK could not attain the favourable fixed assets utilisation which indicates under utilisation of fixed assets and absence of fixed assets' control. Normally 5:1 is considered as a favourable indication of fixed assets utilisation. In case of DSSSK's ratio 1.80 is the minimum and 5.99 is the maximum ratio in the period covered under study.
- 14) Current assets turnover ratios indicate that the current assets employed DSSSK have been utilised

effectively for registering more and more sales in later part of the study which is 3.05 to 3.93 times of the current assets. Thus effective utilisation of the current assets was made in the period 1983-84 to 1986-87 as compared to earlier period of study i.e. 1979-80 to 1982-83.

OBSERVATIONS REGARDING GENERAL PERFORMANCE -

- 15) DSSSK is successful in involving more and more farmers in the activity undertaken which is indicated by the increasing trend of membership and the annual average growth rate of increased in membership of DSSSK which is 113.34%. Further increase in share capital is also supporting the conclusion made in this respect.
- 16) Consistent increase in the fixed assets of DSSSK is observed in the study period, index calculated for the period covered under study is 754 considering fixed assets of 1979-80 as base.
- 17) As cane crushing is an important aspect of the sugar industry. It is found that DSSSK has registered good performance in this respect by increasing its sugarcane crushing except in the period 1983-1986.
- 18) As regards to recovery DSSSK could maintain sugar recovery above 11.49 and upto 12.35 and has bagged an award for 'Best Recovery'.
- 19) Sales figures of DSSSK also indicate satisfactory performance of production department registering a constant increase in sale of sugar.

20) As earning profits, is not a main objective of co-operative sugar factories but to give maximum price to the sugarcane cultivators for the sugar cane supplied to the factory. Here an attempt is made to calculate excess price given by DSSSK than the minimum price fixed by the Govt. Taking in to account the excess price, adjusted profits have been determined which indicate the profitability of DSSSK is fairly attractive but reported profits are low because they are distributed indirectly by giving excess price to the farmers for their sugarcane supply, as giving more price for sugarcane supply, as giving more price for sugarcane supply is a prime objective of Co-Op. sugar factory. Based on adjusted profits profitability of DSSSK shows a favourable picture of over all performance. In the conclusion profitabilitywise the unit under study can not be considered a weak unit.

#### V.II SUGGESTIONS OF THE STUDY

Based on data analysis and observations made therefrom, here an attempt is made to give some of DSSSK fruitful suggestions to the management Liquidity Ratios of DSSSK indicate unsound short term financial position. Though this position is not affecting directly on day to day operations of the factory it may affect on timely payments of sugarcane suppliers. It is therefore suggested that management should follow the norms of professional financial management and maintain liquidity position.



- 2) In the composition of current assets stock occupies large, proportion which results in to blocking of capital funds which may be minimised which will result into minimum store-expenses and will contribute to net profit.
- 3) On fixed Deposits accepted from the sugar-cane suppliers competitive rate of interest may be given.
- 4) In future, no expansion scheme should be undertaken unless 'debt burden' comes down to a adequate level.
- 5) Operating cost of the factory should be curtailed down as far as possible to provide a proper cushion for interest burden.
- 6) The permanent workers may be given shares of the factory to increase equity base of the factory which may lead to a sound base for 'Workers participation in management.'

In the conclusion it can be said that the DSSSK has proved to be a good example of a sugar-cane producer's co-operative organisation and contributed fairly well for economic upliftment of the farmers involved in the factories affairs and regional development of the command area.