CHAPTER 6

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6.1 CONCLUSIONS

The textile industry is divided into two sectors, organised and unorganised. The organised sector consists of spinning mills and composite mills. The powerloom and handloom sector is considered as unorganised sector. The establishment of spinning mills in co-operative sector is relatively of recent origin. One such spinning mill named as The Banhatti Co-operative Spinning Mill Limited, Banhatti (Dist. Bijapur) was established and registered on 3rd February 1975.

The researcher has conducted the study in respect of financial management practices of the Banhatti Co-operative Spinning Mill Limited, confined to financial analysis to find out financial strength i.e. short-term and long-term financial strength and the sources of finance raised by the said spinning mill.

After the close scrutiny of the present study, the following conclusions are drawn.

The major part of the share capital of spinning mill under study consists of redeemable preference share capital contributed by the Government of Karnataka.

The Banhatti Co-operative Spinning Mill is classified into major class 'Processing Society' sub-class, 'Agricultural Processing Society' and having six classes of members namely, handloom weavers, handloom weavers producers co-operative societies, nominal/symphathiser/associate members and government. The management of the spinning nill is in the hands of Board of Directors, which is formed by the shareholders of the spinning mill. The average spindleage capacity utilisation for production is 73.32 percent during the study period. The mill started its production in the year 1983-84. The financial statements of the spinning mill show losses for the years 1983-84 to 1988-89 and profit for the year 1990. The spinning mill has to create investment allowance, reserve fund and because of the creation of this allowance, there appears a loss for the spinning mill. Otherwise, the mill shows profits for these years also. By taking into consideration this provision, it can be said that the spinning mill is in profit during the study period.

6.1.1 SOURCES OF FINANCE

The main sources of finance of the spinning mill are equity share capital, redeemable preference share capital contributed by Government of Karnataka, reserves and surpluses, long-term loans from IFCI, IDBI, ICICI, and short-term loans from District Central Co-operative Bank, Bijapur.

The spinning mill is financed by long-term sources to the extent of 91 percent on an average during the study period. Whereas, financing with short-term sources is 9 percent, on an average during the study period. It can therefore, be said that the major sources of financing during the study period are long-term loans, share capital and reserves.

The major capital investment of spinning mill is in fixed assets as compared to current assets. The average investment in fixed assets is 76 percent and in current assets 24 percent during the study period.

It is noted that on an average 14.86 percent of the long-term financial sources are utilised for investment in current assets.

6.1.2 SHORT-TERM FINANCIAL STRENGTH

For judging short-term financial strength, current ratio and the quick ratio were calculated and used.

The current ratio of the Banhatti Co-operative Spinning Mill shows a fluctuating trend during the study period. The standard ratio is considered to be 2 : 1 and as such, the ratio is more than two times in the years 1986 and 1987. Hence, the short-term financial strength is satisfactory during these two years. However, in the years 1988, 1989, and 1990, the ratio is less than two and therefore, it can be said that short-term financial position of the spinning mill is unsatisfactory during three years.

The quick ratio is much below the standard for the years 1988, 1989, and 1990, which shows unsatisfactory short-term financial position. However, in the years 1986 and 1987, the ratio is more than the standard, which indicates satisfactory short-term financial position.

The inventories constituted major portion of current assets of the spinning mill. As such, the rule of thumb that the current assets should not be less than twice the current liabilities will apply. The average current ratio during the study period is 2.17 : 1. It is more than the standard norms. It is observed that the spinning mill maintained this ratio at this level throughout the study period. On the other hand, average quick ratio during the study period is 0.40 : 1 and it is below the standard. But considering the two ratios together, it can be said that the short-term financial position of the spinning is better.

6.1.3 LONG-TERM FINANCIAL POSITION

For judging the long-term financial position, debt-equity ratio, fixed assets to net worth ratio and ratio of capital gearing were calculated.

According to the debt-equity ratio, the long-term financial strength of the Banhatti Co-operative Spinning Mill was very sound during the study period as the proportion of debt as is always less than the equity.

According to the capital gearing ratio, it is observed that the spinning mill was highly geared during the study period. This is mainly because in the initial stages, the spinning mill has borrowed amounts from the Government, I. F. C. I., I. D. B. I., and I. C. I. C. I., equity capital is very high.

The fixed assets to net worth ratio of the spinning mill shows a decreasing trend. In the year 1988, the ratio is more than 200 and in 1987 and 1988 the ratio is near 200. It can therefore, be said that fixed assets are financed by borrowed capital to some extent. But, in the years 1986 and 1990, almost all the fixed assets were financed by net worth. This shows good financial position from the creditors point of view.

It is examined that the proportion of debt is always less than the equity and almost all the fixed assets were financed by net worth. So it can be said that the overall performance in respect of long-term performance in respect of long-term financial strength is satisfactory.

6.2 SUGGESTIONS

The researcher would like to make some important suggestions for improvement in the financial strength.

[1] The spinning mill should try to reduce the proportion of inventories in current assets.

[2] The hugecash balance carried by the spinning mill should be properly utilised.

[3] The spinning mill is advised to take steps for fuller utilisation of spindleage capacity for production.

[4] Banhatti Co-operative Spinning Mill Limited has been under constraints of borrowing funds for the short period. This creates interest liability and reduces the profit margin. So, it is suggested that the mill should make all efforts to minimise borrowing by substituting the owned capital and creating sufficient funds for self financing. But, the second one is more preferable i.e. self financing.

[5] The mill is not maintaining the provision for bad and doubtful debts, which is necessary. It should be maintained in future.

[6] The overall study shows that huge amount of working capital is blocked in bill receivable which is not desireable. The mill has to increase its efficiency to collect the debts as early as possible.

[7] The mill should try to increase its sales. So that the stocks of the mill will be reduced and profit is increased.

[8] Necessary steps should also be taken by which production cycle should not be distributed. And for this purpose, financial resources should be made available in time.