



CHAPTER 7

**CONCLUSION &
SUGGESTIONS**

CONCLUSION

Nina Foods, one of the renowned food processing industry in western Maharashtra, is a very promising unit in food industry. For the last 15 years it has been striving hard to achieve success and has successfully passed through all the ups and downs of a manufacturing unit. Nina foods mainly being an agro based industry has adopted a novel idea of contract farming which has been gaining importance world wide at present. The unit has tried to solve its raw material problem through contract farming and not only has it helped to acquired raw material easily but has been able to acquire good quality raw material as per the specifications of the domestic as well as export market.

Initially the industry was more reliant on owners funds but gradually the industry shifted to borrowed funds. The reason behind it can be understood as the exports of the company increased. The demand for more capital was met by acquiring loans, deposits from farmers, relatives as well as bank. The amount of subsidy was received in the year 2005-2006 and it increased substantially in 2006-2007. The percentage of fixed assets decreased from 2004(28.6%) to 2007 (23%). Whereas current assets percentage increased from 68% in 2004-2005 to 77% in 2006-2007. Comparatively the current liability percentage decreased from 28.6% to 19.9%. This show that there was a steady rise in working capital every subsequent year.

Through the sales have increased its percentage has been showing a decreasing trend. The direct incomes are seen only in

the year 2006-2007. The closing stock is more (65 Lacks) in the year 2005-2006. This matches with low sales during the same year. The exports are also low (i.e. 73.95) as compared to the years 2004-2005 & 2006-2007. The year 2005-2006 shows a bit shaky condition but it has managed to remain in profitable position.

The reason behind this was understood from the owners of Nina foods. It was the floods that Maharashtra had to face (western part in particular) during this year which washed away the precious crops sown by the farmers resulting in shortage of raw material. The industry had to go through a bad phase during this period. Adding to this condition was the drastic changes in the monetary field of currency. The change in the value of dollar led to considerable losses. The stable exchange rate has become yet another precondition for exports today. The rate of dollar changes frequently and therefore the industrialists are unable to execute the orders at the same rate of booking. Thus exports can prove to be a gamble. The international market study can somewhat improve the position but the instability is unforeseen & thus the risk attached to the exports remains.

Financial analysis consisting of ratio analysis reveals many hidden points which can prove useful to the management in future decision making. The conclusions drawn from the study of various ratios can be summarized as follows:

- 1) The current ratio of the first 2 years i.e. 2004 to 2006 is also according to the standard of 2:1 while as 2006-2007 shows a very sound 4:1 current ratio. The logic of standard ratio i.e. to cover 100% margin of safety has been successfully achieved

by Nina foods & that also it has been maintained during all the three years. Thus it can be concluded that the current ratio of 4:1 in the year 2006-2007 shows a sound position but the position in the year 2004-2005 & 2005-06 is also not unsatisfactory.

2) The quick ratio is satisfactory during 2004-05 & 2006-07 but it is a bit less in the year 2005-06. Generally an acid test ratio of 1:1 is satisfactory as a firm can easily meet all the acid test ratio is more than the standard limit. Thus it shows a fair liquidity position.

LIQUIDITY

From the current ratio and quick ratios of the 3 years it can be concluded that the liquidity position of Nina foods is considerably maintained at higher level, especially in the year 2006-2007.

3) A reasonable gross margin to ensure adequate coverage of operating expenses of the firm & sufficient returns to the owners is satisfactory. In case of Nina foods the GP ratio is 17.8% in the first year, 19% in the second year & 19% in third year. This shows that the GP ratio has been maintained fairly enough in all the 3 years.

4) Return on investment ratio in the year 2004-05 is minus as there is no net profit in that year. But the firm has managed to achieve 1% ROI ratio in the year 2005-2006 & further it

has shown 2% ROI ratio in 2006-2007. Though a rise in ratio is noticed much more rise is expected.

- 5) The ratio of return on capital employed must be higher in order to show more efficient use of capital employed. In case of Nina foods the year 2004-05 shows loss. Hence return on investment ratio is negative. In the year 2005-2006 the ratio is 1% & the ratio is 2% in the year 2006-2007. To conclude it can be said that the ROI ratio is not upto the mark in all the 3 years.

PROFITABILITY

The comparative study of the above profitability ratios of the 3 years Vig. 2004-05, 2005-06 & 2006-07 point out that through the ratios have maintained the standard limit, much more profitability is expected. The profitability position of Nina Foods can be summarized as a fairly well or average position.

- 6) Debtors Turnover ratio is satisfactory in case of Nina foods. The year 2006-07 has been the most successful year. In this respect because debtors turnover ratio is found at 4 times.
- 7) The debt equity ratio points out that the firm Nina Foods has increased its borrowed funds. But at the same time the capital employed by the partners has also increased to some extent. Proprietary ratio establishes the relationship between proprietors funds to that total resources of the unit. In case of Nina foods the ratio in the three years is 0.13:1, 0.15:1 &

0.31:1 respectively. Though the ratio has shown a rise a more higher ratio is expected.

ACTIVITY RATIOS

The case study of Nina Foods reveals that the activity ratios are above average especially inventory turnover ratio & debt equity ratio show a good position. The proprietary ratio shows a proprietors & outsiders funds provided. In case of Nina foods it shows an increase in proprietors contribution year by year. Thus the activity side of Nina foods is in good position. .

SUGGESTIONS

Various ratios calculated during the study of financial position of Nina Foods for the years 2004-2005, 2005-2006, 2006-2007, shows that the firm is at the stage of take off. The current ratio in the year 2006-2007 is 4:1 showing a sound position but preceding years position is not good. The firm should maintain its high current ratio in future. The liquidity position of the firm must be at a higher level. Nina Foods should strive hard to maintain its liquidity position.

The profitability position of Nina Foods must be taken care of because the position at present is not satisfactory. For this purpose a study on the part of management of Nina foods should be conducted. In this study matters regarding investment proposals, fruit full utilization of funds invested in the production activity, control of expenses to increase gross & net profits etc. should be studied.

The activity ratio however shows a good position. But to maintain this position is a challenge for the management. After the study of the financial aspects of Nina Foods, it is observed that Nina Foods is at the stage of takeoff i.e. it has just been able to manage its funds (borrowed, owned), its expenses (direct, indirect), its assets (fixed, current), its liabilities successfully. At present the firm has just left behind its crawling position & stood erect. But still there is a long way ahead to establish itself on sound lines.

Few suggestions could be stated here as guidelines to improve the performance & position of Nina Foods.

- 1) Firm steps have to be taken to overcome its raw material problem in unforeseen natural calamities.
- 2) The contract farming base has to be made more widespread.
- 3) To overcome problem of exchange rate fluctuations the firm has to set aside proper funds as a provision. Also the firm can succumb to forward booking method. For this purpose various banks can be approached & convinced. This would lead to safe exports.
- 4) There is a good demand for all the products of Nina Foods in domestic market also. Supply side has to be taken good care of as the turnover and liquidity. The two major factors are achieved easily through this method.
- 5) A good care of all aspects has to be taken as this stage of taken off is very delicate matter to handle and a minute mistake may lead to heavy payoff.

The main advantage that Nina Foods enjoy is its management by all the family members. The captain of the ship, Mr. Sunil Kale with his promising dynamic personality leads the firm with full confidence . Thus the bright future of Nina Foods can be easily visualized.