CHAPTER V

ANALYSIS OF THE PERFORMANCE & POSITION OF THIS PATSANSTHA

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5.1 Introduction

5.2 Meaning of Ratio Analysis

5.3 Classification of Ratios

5.3.1 Current ratio

5.3.2 Debt equity ratio

5.3.3 Net profit ratio

5.3.4 Return on share capital ratio

5.3.5 Administrative expenses ratio

5.3.6 Credit deposit ratio

5.3.7 Fixed charges cover ratio

5.3.8 Fixed asset ratio

5.3.9 Proprietary ratio

5.1 INTRODUCTION :

In order to judge the financial strength of this patsanstha, the technique of 'Ratio Analysis' are used in this chapter.

To facilitate the study of various ratios, the financial statements of patsanstha have been used. The study covers last 6 years from year 1998-99 to 2003-04

5.2 MEANING OF RATIO ANALYSIS :

Ratios are simply a means of highlighting in arithmetical terms the relationship between figures drawn from various financial statements.

Ratio analysis mean the process of computing, determining and presenting relationship of items and groups of item, in the financial statement.

5.3 CLASSIFICATION OF RATIOS :

Financial management is interested in involving analytical tools that will measure costs, efficiency, liquidity and profitability with view to making intelligent decision.

Therefore, financial ratios have been classified in several ways i.e. according to nature of items which are reclassified into Balance Sheet ratios, Profit and Loss account ratios and Composite ratios for the purpose of study.

Following ratios are taken into consideration

1. Current ratio
2. Debt Equity ratio
3. Net profit Ratio
4. Return on Share Capital ratio
5. Administration Expense ratio
6. Credit Deposit ratio
7. Fixed charges cover ratio
8. Fixed asset ratio
9. Proprietary ratio

5.3.1 Current Ratio :

Current ratio, also called working capital ratio, is most widely used ratio. It is a ratio of current asset to current liabilities symbolically.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

Significance :

This ratio indicates the solvency of the business i.e. ability, to meet the liabilities of the business as and when they fall due.

Generally 2:1 is considered, as an ideal ratio for business. Thus, if the current assets are two times of the current liabilities there will be no adverse effect on business operation when the payment of current liabilities is made. If the ratio is less than 2, difficulty may be experienced in the payment of current liabilities and routine operation of the business. In case the ratio is higher than 2, it is very comfortable for the creditors but for the concern or business, it is an indicator of idle funds, this will result in considerably lowering down the profitability of the concern.

For the computation of this ratio (of this patsanstha) current assets included cash in hand, cash at bank, debtors outstanding loans, stock and current liabilities included creditors, accrued expenses and the liabilities which are maturing in the current year.

Now, let us consider current ratio position of the patsanstha.

Table No 5.1

Current Ratio of the Patsanstha.

Year	Current Assets	Current Liabilities	Current Ratio
1998-1999	1,83,46,469	44,94,973	4.08
1999-2000	1,58,420,69	89,22,366	1.80
2000-2001	1,29,73,866	1,47,48,625	0.88
2001-2002	1,73,36,177	1,48,133,77	1.17
2002-2003	1,93,11,802	1,94,56,973	1.00
2003-2004	1,41,12,487	2,46,726,93	0.57
Average			1.56

Source : Annual Report of Patsanstha .

The above table reveal unstable trend in the current ratio of the patsanstha during the period covered under study because in the year

1998-99 the ratio was four. It was very high and in the year 2003-04 the ratio was is very low 0.57. The ratio is below the norm 2:1 throughout the period from 1999-00 to 2003-04 except year 1998-99 because in this year ratio was very high above norm.

The average current ratio was 1.56 which was below the norm. It is a red signal to the management, which shows that less liquidity and the solvency position of the patsanstha was not sound for all the year except 1998-99. In this 1998-99 year large amount of working capital locked up for short term creditors.

On the basis of the above analysis it can be concluded that the liquid position of the patsanstha is not good but not very bad also.

5.3.2 Debt to Equity Ratio :

It is a measure of the relative claims of creditors and owners against the assets of the firm. It is calculated as under :

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Networth or Equity}}$$

The term "Total debt" includes all debts i.e. long term loan, mortgage, debentures and any borrowed funds etc. Whereas the term "Networth" means equity share capital, preference share capital, reserve and surplus i.e. proprietors funds or equity 1:1 ratio is acceptable.

Significance :

This ratio shows relationship between borrowed funds and owner's capital and there by measures the long term solvency of a firm .

The purpose of this ratio is to drive an idea, of the amount of capital supplied by the owners and of assets 'cushion' available to creditors on liquidation. Generally 1:1 ratio is acceptable. The greater the interest of the owners compared with that of the creditors, the more satisfactory is the financial structure of the business because in such a situation the management is less handicapped by interest charges and debt repayment requirements.

A high ratio suggests that the claims of creditors greater than those of the owners. While low ratio implies a smaller claim of creditors. A very high ratio is unfavourable from the firms point of view.

This table shows the debt-equity ratio of the patsanstha for the period 1998-99 to 2003-04.

Table No 5.2

Debt to Equity Ratio of the Patsanstha

Year	Total Debt	Total Equity	Debt Equity Ratio
1998-1999	15,23,18,416	2,11,39,234	7.20
1999-2000	21,40,51,878	2,09,75,426	10.20
2000-2001	28,34,57,737	2,63,34,099	10.76
2001-2002	31,71,77,286	3,14,80,147	10.07
2002-2003	32,60,78,185	4,20,79,755	7.75
2003-2004	33,87,78,475	4,49,58,620	7.53
Average			8.92

Source : Annual Report of Patsanstha .

The above table shows that the debt equity ratio for all the years under study was above the norm of 1:1 . The Average of this ratio was 8.92 which is more than the norms, and in the year 1999-00 to 2001-02 this ratio is more than average ratio i.e. above 10 times. This suggest that the claims of the creditors are greater than those of the owners.

On the basis of the above analysis it can be concluded that the financial structure of the patsanstha was not in good condition.

5.3.3 Net Profit Ratio :

Net Profit is that proportion of net sales which remains to the owners or the shareholders after all costs, charges and expenses including income tax, have been deducted. It is calculated as under :

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales/Loans}} \times 100$$

It differs from the ratio of Operating profits to Net Sales in as much as it is calculated after adding non-operating incomes like interest, dividend on investments etc., to operating profits and deducting non-operating expenses, such as loss on sale of old assets, provision for legal expenses etc. from such profits.

Significance :

The ratio is widely used as a measure of overall profitability and is very useful to the proprietor. Reading it along with the operating ratio gives an idea of the efficiency as well as profitability of the business to a limited extent.

Table No 5.3

Net Profit Ratio Of the Patsanstha

Year	Net profit	Net Loans	Net profit ratio (in %)
1998-1999	24,81,354	15,23,18,416	1.63
1999-2000	25,94,474	21,40,51,878	1.21
2000-2001	29,28,570	28,34,57,737	1.03
2001-2002	34,48,215	31,71,77,286	1.09
2002-2003	46,51,155	32,60,78,185	1.43
2003-2004	49,00,126	33,87,78,475	1.45
Average			1.31

Source : Annual Report of Patsanstha .

The above table shows the net profit of the patsanstha, for the period of study. The percentage of profit shows decreasing trend from 1998-99 to 2003-04 .From the year 2000-01 the profit rate has fallen down and during the next 3 years i.e. 2003-04 it again improved that 1.45%. The average percentage of profit was 1.31% from the above table it is concluded that, for the year 2000-01 and 2001-02 the patsanstha had not maintained effective cost control programme.

On the basis of the above analysis it can be concluded that the overall profit earning capacity of the patsanstha is good. It indicates that the patsanstha had effective cost control programme.

5.3.4 Return on Shareholders Investment Ratio :

This ratio is also called Return on Proprietor's funds, is a measure of the percentage of net profit to shareholders funds. This ratio is ascertained as follows :

$$\text{Return on shareholders Investment Ratio} = \frac{\text{Net Profit}}{\text{Shareholders Funds or Equity}} \times 100$$

Here ,

Net Profit = Net profit after payment of interest on long term liabilities and taxes.

Shareholders Equity = Equity share capital, Preference share capital, Reserve &Surplus (Less accumulated loss if any)

Significance :

The ratio shows how well the firm has used the resources of the owners. This ratio is a measure of the profitability of an enterprise. The business can survive only when the return on capital employed is more than the cost of capital employed in the business.

Table No 5.4

Return on Shareholders Investment Ratio Of the Patsanstha

Year	Net profit	Equity	Return on Shareholders Investment Ratio (%)
1998-1999	24,81,354	2,11,39,234	11.73
1999-2000	25,94,474	2,09,72,426	12.37
2000-2001	29,28,570	2,63,34,099	11.12
2001-2002	34,48,215	3,14,80,147	10.95
2002-2003	46,51,155	4,20,79,755	11.05
2003-2004	49,00,126	4,49,58,620	10.90
Average			11.35

Source : Annual Report of Patsanstha

The above table shows that the return on shareholders investment ratio was at 11.73% in 1998-99. It improved marginally to 12.37% in 1999-2000 and again return to 11.12% in 2001-02 it went down to 10.95% and same percentage was 10.90% in 2003-04. The average return on shareholders investment ratio was 11.35%.

As studied from the above ratio of return on shareholders investment, it is found that the average return is 11.35% which is much satisfactory and the patsanstha has well used their resources of the owners.

5.3.5 Administrative Expenses Ratio :

This ratio explains the relationship between administrative expenses and turnover. It is calculated as follows :

$$\text{Office \& Admn. Exp. Ratio} = \frac{\text{Office \& Admn.Exp.}}{\text{Turnover}} \times 100$$

In computing this ratio, Administrative Expeses include the salaries, rent paid, depreciation of fixed asset, printing and stationary, insurance, lighting and other miscellaneous expenses incurred in administration of patsanstha. The turnover refers to the advances made by the patsanstha during the year.

Significance :

This ratio shows the operational efficiency and their turnover of the patsanstha. It is desirable to minimize this ratio to the possible extent in order to enhance the operational efficiency of the patsanstha.

Table No 5.5

Administrative Expenses Ratio Of the Patsanstha

Year	Total Loan	Total Expenses	Administrative expense ratio (%)
1998-1999	15,23,18,416	69,30,555	4.55
1999-2000	21,40,51,878,	62,12,946	2.90
2000-2001	28,34,57,737	81,42,837	2.87
2001-2002	31,71,77,286	1,23,60,619	3.90
2002-2003	32,60,78,185	1,87,42,872	5.75
2003-2004	33,87,78,475	1,82,37,483	5.38
Average			4.22

Source : Annual Report of Patsanstha .

The above table shows 4.55% for the year 1998-99 which has suddenly reduced to 2.90% and 2.87% in the two immediately succeeding co-operative years. This two years ratio are low. And in the year 2001-02 ratio was 3.90% and again next two years it was increased 5.75% respectively. The average rate was 4.22%.

The said ratio are very high, especially in view of the fact that they are supposed to operate economically within the small margin between their rates of borrowing and lending.

5.3.6 Credit Deposit Ratio :

Credit deposit ratio establishes the relationship between the total deposits and total loans and advances. The ratio should be calculated by using the following formula.

$$\text{Credit Deposit Profit Ratio} = \frac{\text{Total Loans \& Advances}}{\text{Total Deposits}} \times 100$$

The total loan and advances include all short, long term loan and the total deposits include all fixed, saving and other types of deposits.

Significance :

This ratio indicates the sound or weak position of the patsanstha. A high ratio favourable from the firms point of view and low ratio give small margin of profitability to the firm. This ratio indicates that utilization of borrowed money means deposit used for lending purpose to the creditors and through this patsanstha get margin.

Table No 5.6

Credit Deposit Ratio Of the Patsanstha

Year	Total loan	Total Deposit	Ratio (in%)
1998-1999	15,23,18,416	20,31,00,228	75.00
1999-2000	21,40,51,878	27,30,30,072	78.39
2000-2001	28,34,57,737	32,73,92,915	86.58
2001-2002	31,71,77,286	37,34,60,569	84.92
2002-2003	32,60,78,185	42,31,92,486	77.05
2003-2004	33,87,78,475	46,59,73,295	72.70
Average			79.10

Source : Balance Sheet of Patsanstha

The above table shows that average credit deposit ratio was 79.10% and in the year 1998-99 ratio was less i.e. 75.00% and year 2003-04 ratio was very less i.e. 72.70%. But during the year 1998-99 to 2000-01 patsanstha has increased it upto 86.58%. From the year 2001-02 to 2003-04 credit deposit ratio has been brought down to 72.70%.

On the basis of the above analysis it can be concluded that, the overall performance of position of patsanstha was sound but because of the reducing credit deposit ratio patsanstha position becoming weak.

5.3.7 Fixed Charges Cover Ratio :

This ratio also called Interest coverage ratio or Debt service ratio. It is calculated as under :

$$\text{Fixed charges cover Ratio} = \frac{\text{Net Profit before interest \& taxes}}{\text{Total Interest Charges on long-term debts}}$$

$$= \text{Number of times}$$

Significance :

This ratio aims at ascertaining the interest paying capacity of the patsanstha. It shows as to how many times (say 10 times, 15 times etc.) the interest charges are covered by the funds that are ordinarily available to pay the interest charges. The standard for coverage fixed is six to seven times. The weakness of the ratio would indicate difficulty in securing additional funds from outside sources. However, too high ratio mean that very conservative use of debt is being made by the firm. A lower ratio indicates excessive use of debt and points out that the firm should improve that operating efficiency or repay the debt to improve the coverage.

The following table shows that the average of the fixed charges cover ratio of the patsanstha is 1.09% for last six years and this is below the standard norm of six to seven times. Of course, for all the six years, the ratios are below the standard norm it means that patsanstha cannot easily meet its interest burden.

Table No 5.7

Fixed Charge Cover Ratio Of the Patsanstha

Year	Net profit before Interest & Taxes	Total Interest Charges on long term debts	Ratio (in times) (%)
1998-1999	2,52,05,994	2,27,23,140	1.10
1999-2000	3,76,95,309	3,50,92,550	1.07
2000-2001	4,44,61,690	4,15,30,089	1.07
2001-2002	4,88,07,721	4,53,57,006	1.08
2002-2003	5,68,10,009	5,21,56,279	1.09
2003-2004	5,61,88,932	5,12,86,306	1.10
Average			1.09

Source : Financial Statement of the Patsanstha

On the basis of the above analysis it can be concluded that the financial position of the patsanstha is weak.

5.3.8 Fixed Asset Ratio :

This ratio is also called Fixed Asset to Networth or Capital to Fixed asset Ratio. It is calculated as Under :

$$\text{Fixed Asset Ratio} = \frac{\text{Depreciated Value of Fixed Assets}}{\text{Proprietors Funds}} \times 100$$

Significance :

This ratio is an important tool for judging the margin of safety for long term creditors. Normally a proprietor should provide all the funds required to purchase fixed assets. If the ratio exceeds 100%, it indicates that the company has used short term funds for acquiring fixed assets. This policy may not be desirable. The lower the ratio the greater margin in safety for long term creditors. The ratio should generally be 65%.

Table No 5.8

Fixed Asset Ratio Of the Patsanstha

Year	Depreciated value of fixed assets	Proprietors funds	Ratio (in %)
1998-1999	2,03,36,253	2,11,39,234	96.20
1999-2000	2,53,02,872	2,09,72,426	120.62
2000-2001	2,61,22,957	2,63,34,099	99.19
2001-2002	2,94,81,181	3,14,80,147	93.65
2002-2003	2,91,45,128	4,20,79,755	69.26
2003-2004	2,95,26,609	4,49,58,620	65.67
Average			90.71

Source : Balance Sheet of Patsanstha

The above table shows that the fixed asset to net worth ratio is near 100%. The average of this ratio was 90.71% for last 6 years. In the year 1999-00 ratio was 120.62%. Which indicates that patsanstha has used short term funds for acquiring fixed assets. Only last year i.e. 2003-04 ratio is 65.67% which is equal to standard norm. .

On the basis of the above analysis, it can be concluded that the margin of safety for long term creditors is lower. Thus, the long term financial position of the patsanstha is not in good position.

5.8.9 Proprietary Ratio or Equity Ratio :

Ratio of Net Worth to Total Asset is also called as proprietary ratio or Capital to Total assets ratio or Net worth to Total outside debt ratio. It is calculated as :

$$\text{Proprietary Ratio} = \frac{\text{Proprietors funds (i.e. share capital reserve/surplus)}}{\text{Total asset or Total capital}}$$

Significance :

This ratio indicates the extent to which the total assets are being financed by the share holders and by the creditors. Greater is the percentage of proprietors fund, the stronger is financial position of the concern. This ratio is normally a test of strength of creditworthiness of the concern. If the ratio is less than 50%, it shows in alarming situation since it would mean that outsiders investment in the business is more than that of shareholders. It is a symptom of under capitalization.

A high proprietary ratio is however, frequently indicative of over capitalization and an excessive investment in fixed assets in relation to actual needs.

The following table shows that the average of the proprietary ratio is 0.08 for six years under study, it indicates that the assets are financed to the extent of 8% by the owners fund and balance is financed by the creditors. Lesser is the percentage, the weaker is the financial position of the patsanstha, as it indicate more dependence on external finance. However a low proprietary ratio is a symptom of under capitalization and it indicate greater risk to the creditors .

Table No 5.9

Proprietary Ratio of the Patsanstha

Year	Proprietary fund	Total Asset	Ratio (in times)
1998-1999	2,11,39,234	23,12,15,791	0.09
1999-2000	2,09,72,426	30,55,19,339	0.07
2000-2001	2,63,34,099	37,14,04,211	0.07
2001-2002	3,14,80,147	42,32,02,304	0.08
2002-2003	4,20,79,755	48,93,85,391	0.09
2003-2004	4,49,58,620	54,08,04,733	0.08
Average			0.08

Source : Balance sheet of Patsanstha

On the basis of the above analysis it can be concluded that the financial position of the patsanstha is very weak, as it indicates more dependence on external finance. The credit worththiness of the patsanstha is not satisfactory because in the event of losses, there is a greater risk to the creditors.