



### 6.1 INTRODUCTION:

In the preceding Chapter, the basic data (condensed balance-sheets and income statements) for a period of ten years (1982-91) in respect of the six fertilizer manufacturing units (FACT, ZAFL, GSFC, MCFL, CFL and SPIC) has already been presented, analyzed and interpreted with the objective of evaluating their financial performance, with the help of ratio analysis and trend analysis. In all, 14 ratios and 9 trends were taken up for detailed discussion. In the present Chapter, the broader observations and conclusions emerging from this exercise are being presented.

### 6.2 LIQUIDITY MANAGEMENT:

- (1) During the period 1982-91, the six fertilizer units taken up for study recorded the average Current Ratio of 1.58 times. This can be considered as a proper ratio for the fertilizer industry, as a whole, although it is slightly less than the professional norm.
- (2) In the case of FACT, the current ratio was found to be 1.91 times, nearer the standard norm, indicating good liquidity management; but in the case of SPIC and MCFL, it was found much lower than the standard, indicating poor liquidity management.
- (3) The average liquid ratio of these six units over the study period was 0.83 times. In the case of GSFC, it is at 1.14 times, higher than the standard norm of 1.0 time, indicating the Company's sound

liquidity position. In the case of ZACL, it is nearer the standard norm. On the whole, the liquid ratios of FACT, ZACL and GSFC indicate their sound liquidity position when compared to the remaining three units, namely, MCFL, CFL and SPIC.

It may, therefore, be concluded that based on the liquid ratios, the fertilizer industry has a sound liquidity position.

### 6.3 CAPITAL STRUCTURE MANAGEMENT:

#### (a) Debt:Equity Ratio:

- (1) The average debt:equity ratio collectively for all the six units has been revealed to be 4.25 times (the standard norm being 2:1), indicating that these units place heavy reliance on debt finance.
- (2) In the case of MCFL, this ratio is very very high at 17.57 times, indicating an extreme case of debt finance in the fertilizer industry.
- (3) On the other hand, FACT, ZACL and GSFC have placed lower dependence on debt finance.

#### (b) Solvency Ratio:

- (1) The contribution of the outsiders to the total assets of the fertilizer industry stands at 63.33 percent, as shown by the solvency ratio of all units taken together. In the case of MCFL, this ratio has been registered at 91%, which indicates more reliance on outsiders for financing assets.

In conclusion, it can be said that, to a large extent, almost all Companies rely on debt financing.

#### 6.4 ASSETS' UTILIZATION MANAGEMENT:

As regards the management of assets utilization in the six units taken up for study, the following observations have been made:

(1) Almost all the units have registered better assets' utilization. In the case of GSFC, it is 2.32 times of the total assets, while in the case of the remaining units, it has varied, on an average, between 0.87 and 1.58 times.

##### (a) Debtors' Turnover Ratio:

(2) During the period of 1982-91, the six units' collective debtors' turnover ratio varied between 2.2 and 18.73 times, the average for the industry working out to be 6.0 times.

(3) GSFC and SPIC registered higher debtors' turnover, indicating better debtor management.

##### (b) Working Capital Management:

(4) Working capital management of almost all the units have registered a positive performance, indicating that short-term funds are being utilized for short-term purposes only. The highest amount of working capital has been utilized by the GSFC; MCFL, however, showed negative working capital management during the year 1989. On the whole, maximum working capital turnover has been registered by

SPIC throughout the study period, indicating better working capital management.

(c) Inventory Management:

Inventory holding of all the six units had increased considerably during the period 1982-91.

(5) The highest inventory turnover ratio has been registered by the ZACL, followed by SPIC. The average turnover ratio for the industry has worked out to be 2.44. In the case of MCFL, however, it was found that the inventory is not being managed properly.

(d) Assets Management:

(6) Utilization of fixed assets for generating the turnover was found to be highest in the case of ZACL, followed by SPIC.

(7) Poor performance as regards assets management has been recorded by CFL, which is reflected in its respective ratio throughout the period.

(8) The average for the industry for the fixed assets turnover was found to be 3.12 times during the period 1982-1991.

(9) As regards current assets turnover, better assets management has been recorded by ZACL and CFL, indicating better utilization of current assets for promoting turnover.

(10) Lowest current assets turnover ratio has been registered by GSFC, the average for the industry being 1.91.

#### 6.5 PROFITABILITY ANALYSIS:

- (1) Overall profitability of almost all the units under review remained to be very very low, the prime motive behind setting up the fertilizer units being that of helping the agricultural sector instead of earning profits for the industry itself. As a result, GSFC could record the maximum overall profitability of 8.32%, followed by CFL with 5.79%. For the remaining units, profitability varied between 4.77 and -3.6%.
- (2) Profitability in relation to the capital employed by the fertilizer units remained, on an average, at 12.10%.
- (3) The highest profitability has been registered by SPIC at 15.62%, followed by ZACL with a return of 15.57%; the average for the industry being 12.10%, indicating the financial feasibility of the units.
- (4) Net profit to total assets relationship in respect of ZACL and GSFC remained at 7.11% during the period 1982-91. Remaining units registered lesser performance in the range of 3.0 and 6.83%.

In conclusion, it can be said that though the assets management in the fertilizer industry as a whole has not projected an image of efficiency, it is clear that all the units are economically viable inspite of their objective being non-profit driven.

#### 6.6 CONCLUSIONS:

Based on the above observations, the following conclusions have been drawn:

- (1) Almost all the fertilizer units ~~should maintain~~ liquidity position;
- (2) Almost all the fertilizer units rely on debt financing, which is higher than the professional norm;
- (3) As regards the management of assets, it may be concluded that the fertilizer units exercise relatively good debtors management;
- (4) Most of the fertilizer units manage their financial affairs with minimum stock holding and an efficient use of working capital;
- (5) Since profit-making is not the sole objective of the fertilizer units, their profitability was found to be very low;

#### 6.7 SUGGESTIONS:

The researcher ventures to put forward the following suggestions:

- (1) As far as possible, the fertilizer units should maintain their Current Ratio at 2:1 and the Liquid Ratio at 1:1;
- (2) It would be advisable to reduce the fertilizer units' reliance on debt financing, so that their outside liabilities could be minimum;
- (3) Fertilizer units should not ignore profit element of the enterprise; one way of improving the profitability from within is to ensure effective cost control.

..ooOoo..