Chapter No. 4

# FINANCIAL ANALYSIS

Finance holds key position in all business activities. It is considered as a life of blood of business enterprise. Finance is one of the basic input of all kinds of economic activities. No business can be established or run without finance. The enterprise's success and survival depends upon how efficiently it is able to raise funds as and when needed and their proper utilization.

Business finance implies " that business activity which is concerned with the acquisition and conservation of capital funds in meeting financial needs and overall objectives of business enterprise".

According to Grothman and Dougall business finance can be defined as the activity concerned with planning, raising, controlling and administering of the funds used in the business.1

## 4.1 Meaning of financial Analysis: -

Financial analysis is the analysis of financial statement. The financial statement contents summarized information of the firms financial affairs organized systematically. They are the means to assess firms' financial position to owners, creditors and general public. Preparation of financial statement is the responsibility of top management. Financial statements are prepared from the accounting records and maintained by the firm. Generally accepted accounting principals and procedures are followed to prepare statements. The basic objective of financial statements is to assist in investment decision making. Balance sheet and profit and loss accounts are two basic financial statements.

Financial analysis is the process of identifying financial strength and weakness on the firm by properly establishing relationship between the items of balance sheet and profit and loss account. Financial analysis may be internal and external. Financial analysis gives vital information of the company to creditors, shareholders, Government authorities etc. They obtain certain information about company to assess its financial position and to decide about the conditions on which the funds are to be made available to it. The internal analysis is undertaken by management of the company concerned with a view to improving its financial position and profitability, for this purpose the management may call for detailed statement of internal control primarily, the cash and capital budgets.

IMPORTANCE: -

Financial analysis is an attempt to explain the significance and meaning of financial statement data so that a forecast may be made regarding future earning, ability to pay interest, debt maturities (both current as well as long terms) and profitability, dividend policy etc. According to Mayor financial statement analysis is largely study of relationship among the various financial factors in business as disclosed by a single set of statement and a study of triennial of these factors are as shown in a series of statements.

Financial goals are the important one in all the enterprises including the co-operative spinning mill.

The health of the mill or any commercial organization is judged by net profits and not by cash profits only The mill will be able to honor repayment of term loans and to modernize its machinery from time to time and able to build sufficient inventory for its day today appertains and may declare dividends to share holder's equity .[3]

4.2 Types Of Finance

Finance is the of blood of a business. The business units can not run efficiently if it does not have adequate finance to meet its requirements. The financial requirements of business can be classified in two categories

1) Short term financial requirements

2) Long term financial requirements.

1) Short term financial requirement:

Short-term funds are requirement for meeting working capital. They are usually required for a period up to one year. They are raised from sources which can provides funds only for a short period quickly and at reasonable cost.

2) Long term financial requirements:

The long-term funds required to great extent for meeting the fixed capital requirements of the business. They are required for a period exceeding one year. [4]

4.3 Sources of finance :-

(A) Share capital:

Issue of shares is the most common method of raising long term funds. A Company collects finance by issue of shares as first step in raising the capital.

Shares are contributed by the members as well as by the government to case of co-operatives. 1)The members share contribution is guided by dividend motive. 2)The government contributes in the shares as a assists to the mill for coperative sector.

A] Authorized capital: -

Company decides total capital for establishing mill is called authorized capital. Authorized capital has certain importance because above which company can not collect funds or capital.

B] Paid Up Capital: -

The value of shares, which company taken for selling is, called Paid Up Capital. Time to time as per requirement company sells its shares

In the Table No. 4.1 Share Capital & its composition is presented.

Table 4. 1

Share Capital of the Mill

| Year | Authorized capital | Total Share Capital (paid up) | Members No | Per Members share Rs. | Members share in Rs. | Co-op. Societies | Gov. Share Capital |
|---|---|---|---|---|---|---|---|
| 1990-91 | 100000000 | 81496500 | 4704 | 3188.03 | 14996500 | - | 66500000 |
| 1991-92 | 100000000 | 82858500 | 4871 | 3180.76 | 15493500 | 856500 | 66500000 |
| 1992-93 | 100000000 | 82858500 | 4850 | 3196.28 | 15502000 | 856500 | 66500000 |
| 1993-94 | 100000000 | 82861500 | 4844 | 3200.86 | 15505000 | 856500 | 66500000 |
| 1994-95 | 150000000 | 82843000 | 4812 | 3218.00 | 15486500 | 856500 | 66500000 |
| 1995-96 | 150000000 | 89539500 | 4835 | 4588.00 | 22183000 | 856500 | 66500000 |
| 1997-98 | 150000000 | 95471000 | 4830 | 5820.00 | 28114500 | 856500 | 66500000 |
| 1998-99 | 150000000 | 95505000 | 4827 | 5831.00 | 28148500 | 856500 | 66500000 |

Source: - Annual Reports of Mills During the period (1990-91to 998-99)

Following conclusion can be drawn from table

1) Table shows that growth of share capital of mill during from 1990-91 to 1998-99. It is observed that there is slight increase in the total share capital mainly because of increased contribution from members.

2) The contribution from co-operative society and government does not have any change neither it has increased nor decreased. During the period of 1990-91 the total share capital was 8,14,96,500 the years 1991-92 share capital remained almost constant up to 1994-95 after that it is increased up to 9,55,05,000 in 1998-99.

3) There is increase of 5crore in authorized capital in year 1994-95 compared to increase of 1.57 crore in paid up capital.

4) The company to pay back share capital from co-operative societies and government share capital after paying its loans. The company tries to reduce the interest burden by repaying the loans.

(B) Working Capital:

Working capital is used for the day today transactions such as payments of raw material, wages, incidental charges etc. as the company not returned government share capital it implies that the mill has not come over its initial problems of the concern. It is essential to maintain the production and sales at particular level. Inadequacy of working capital leads to reduction in the production and reduction in sales .In short it is heart of the business activity.

The Working Capital is shown in table 4.2

Table 4.2

Table showing working capital of mill.

| Year | Pre shipment cash credit (in laks) | % | Hypothecation cash credit (in lakh ) | % | Post shipment | % | Total working capital (in lakh) | Growth rate |
|---|---|---|---|---|---|---|---|---|
| 1990-91 | 690 | 95.83 | 30 | 4.16 | Nil | -- | 720 | |
| 1991-92 | 685 | 95.80 | 31 | 4.33 | Nil | -- | 715 | -0.69 |
| 1992-93 | 835 | 96.53 | 30 | 3.46 | Nil | -- | 865 | 20.97 |
| 1993-94 | 960 | 96.00 | 40 | 3.12 | Nil | -- | 1000 | 15.60 |
| 1994-95 | 1240 | 96.87 | 40 | 3.12 | Nil | -- | 1280 | 28.00 |
| 1995-96 | 1800 | 97.29 | 50 | 2.70 | Nil | -- | 1850 | 44.53 |
| 1997-98 | 1900 | 61.99 | 65 | 2.12 | 1100 | 35.88 | 3065 | 65.67 |
| 1998-99 | 1785 | 58.23 | 70 | 2.36 | 1100 | 37.20 | 2955 | -5.59 |
| 1999-00 | 1785 | 58.23 | 70 | 2.36 | 1100 | 37.22 | 2955 | 0.00 |

Source: - Annual report of Mill's in 1990-1999

We get following conclusion from above table

Table shows the growth of working capital of mill during 1990-91 to 1998-99 the table shows that the working capital has increased continuously.

The total working capital classified three cash credits

1) Pre shipment Cash Credit,
2) Hypothecation Cash Credit
3) Post Shipment Cash Credit.

Following conclusion can be drawn from table.

1) During the period of 1990 - 1991 working capital was 720 lakhs. In 1991 - 1992 shows small decrease in working capital. After 1991-92 working capital increased rapidly from 720 lakh to 2955 lakh. in 1999-2000.
2) Initially major contribution in working capital was pre-shipment cash credit around 95.97%. It's proportion get reduced to 58.23% in 1999-2000
3) Initially contribution of hypothication cash credit in working capital was 4% in year 1990-91. In the last ten year hypothication cash credit becomes more than double that is 27 lacks in 1998-99 which contributs 2.3% in total working capital which indicates which contribution has goes down.

4) Company has raised big amount of working capital in last two years through post shipment credit which is around 1100 lacs and its contribution is around 37% in last year 1998-99.

4.4 BORROWINGS :-

SPECIALIZED FINANCIAL INSTITUTIONS FINANCE TO " NAV - MAHARASHTRA CO-OPERTIVE SPINNING MILL."

A large number of specialized financial institutions have set up in the country after independence to meet the specific term financial needs of industrial enterprises They are popularly known as "Development Banks".

A development bank is essentially a development capitalist. It seeks to mobilize them into industrial activities in accordance with plan priorities.

**1) Industrial Finance Co-operation Of India (IFCI)** :

The IFCI was established under the Industrial Finance Corporation Act on 1st July 1948. Its total share capital was Rs. 10 crores. After the establishment of IDBI the share capital is held by IDBI is 50 % by scheduled banks it is 20%, by insurance companies it is 22% and by co-operative banks it is 8% of the total. It provides assistance to limited companies in public and private sectors and co-operative organization, generally of more than Rs. 30 lakhs was requirement. It provides both rupee and foreign currency assistance. It undertakes guaranteeing to shares and debentures of the companies. The loans are secured. The assistance has mainly gone to sugar and cotton textile industries.

The assistance is provided in the following ways:

a) Guaranteeing loans raised by industrial concern, which are repayable within a period not exceeding 35 years.

b) Undertaking of the issue of stocks, shares, bounds, or debentures issued by industrial concerns.

c) Granting loans or advances to or subscribing to debentures of industrial concerns repayable within a period not exceeding 25 years.

The corporation provides financial assistance for setting up new industrial projects, renovations, modernization, expansion, and diversification of existing ones.

During the year 1986-87, The Industrial Finance Corporation of India Act, 1948 was amended which enlarged the operations of IFCI and raised its authorized capital.

The purpose of IFCI is to supplement the flow of financial assistance from various sources and not to supplant them. This model is especially beneficial for the growth of new and small-sized industrial concerns which find it extremely difficult to raise long-term capital from normal banking channels or capital market.

**2) National Industrial Development Corporation (NCDC):-**

The NCDC was established on 20th October 1954. It has an authorized capital of Rs. 1 crore entirely subscribed by the Government of India. It gets additional finance by way of grant for establishment expenses and loans for projects from government of India.

It takes up projects to fill a gap in industrial structure of the country. The project will be sold when it becomes profitable. It subscribed to the shares and debentures of the company, lands money provides machinery. Underwrites the shares and debentures, and guarantees the loan and advances. It may nominate directors and appoint advisors in borrowing companies. It has undertaken several projects and lent for modernization of cotton and jute industries, establishing bio-gas plants etc. Now it is mainly a consulting agency and not financing agency.

**3) Industrial Credit and Investment Corporation of India (ICICI) :-**

The ICICI was incorporated on 5th January 1955. Its head office is in Bombay. It has branches at Calcutta. Madras and Delhi. It deals exclusively with private sector. Its authorized capital is 25 crores. It gets additional finance by borrowing in foreign currency from foreign sources, mainly from the World Bank, bond issues, borrowing from government of India and from IDBI.

The objects of the corporation are to assist industrial enterprises in private sector by:

1) Generating secured loans in rupees repayable over a period of 15 years.

2) Making similar loans in foreign currencies for payments of imported capital equipment's and technical service.

3) Subscribing to equity and preference shares directly and underwriting public and private issues and offer of sale of industrial securities.

4) Furnishing technical and administrative assistance to Indian Industries. So far substantial portion of ICICI`s assistance is claimed by Maharashtra and Gujarat states. Its assistance is mainly to metal products and machinery manufacture.

It has relative freedom in the matter of assisting any type of business unit. It`s financial performance has been good. It declares dividend of 10% to 12%. The defaults also are comparatively less. It has taken initiative in establishing Institute of Financial Management and Research in Madras for executive training and researches in finance.

**4) The Industrial Development Bank Of India (IDBI):-**

The IDBI was established on 1st July 1964. It was wholly owned subsidiary of Reserve Bank of India. On 16th February 1975 it was delinked from the Reserve Bank of India. It is an apex bank. It's authorized capital was raised to Rs. 100 crores entirely held by Reserve Bank of India. It is permitted to undertake all types of financing and developmental roles, forms of assistance and size and type of units. It is expected from payment of income and corporation tayes. It provides refinance and guides their activities. It holds 50% of share capital of IFCI and IRCI and in State Corporations its investment is almost equal to the state contributions.

The bank has been assigned a special role in respect of the following matters: -

1) Planning, promoting, developing, industries to fill the gaps in the industrial structure in India.

2) Co-ordinating the working of the institutions engaged in financing, promoting, or developing industries and assisting in the development of such institutions.

3) Providing technical and administrative assistance for promotion, Management, or expansion of industry and,

4) Undertaking market and investment research and surveys as also techno-economic studies in connection with development of industry.

The scheme of financial assistance operated by IDBI are Project Finance Scheme, Soft Loan Scheme, Technical Development Fund Scheme, Refinance of industrial loans, Bills rediscounting scheme, Seed Capital assistance Scheme, Subscription to shares and bonds. It has constituted Development Assistance Fund to provide assistance with prior approval of the Central Government to concerns, which fail to get assistance from other sources.

It is the largest development bank in the country. About 35% of total assistance bank in the comes from the IDBI. It has remained mainly as a lending agency. The maturity period for direct loans is generally between 8 to 10 years, for refinanced loans between 3 to 25 years and for export credit between 6 months to 10 years.

**5) Commercial Banks: -**

Commercial Banks constitute quantitatively the most important group of Financial intermediaries in India today. The Commercial banking sector broadly consists of scheduled and Non scheduled banks.

Commercial bank in India finance the industries in different ways such as, way of loans and advances, purchase of shares and bonds of the specialized financial institutions, undertaking, underwriting the shares and debentures either independently or jointly with other banks and guaranteeing deferred payments. A bulk of such credit assistance is extended in the shape of loans and advances. The usual method being that of and overdraft facility. A major portion of these loans is for short term.

Term lending by commercial banks is a recent phenomenon particularly after the advent of the second plan. Commercial banks in India have expanded the area of their business activity and assumed the role of the term Institutional Financiers as well. In may, 1975 the Reserve of Bank of India urged the Commercial banks to step up their term lending particularly in the following areas:

a) Deferred export payments.

b) Agricultural sector

c) Industries in the industrially backward areas.

d) Small scale industries.

e) Capital goods industries.

Commercial banks have assisted industrial enterprise by-

a) Granting term loans

b) Subscribing to the shares and debentures of corporate enterprises

c) Underwriting security issue

The Commercial bank is the most important financial institution. In financing day to day transactions of the business world, it enables all other financial institutions to function and contribute directly to their activities.

In the following table the borrowings of the mill from different institutes is presented -

Table 4. 3

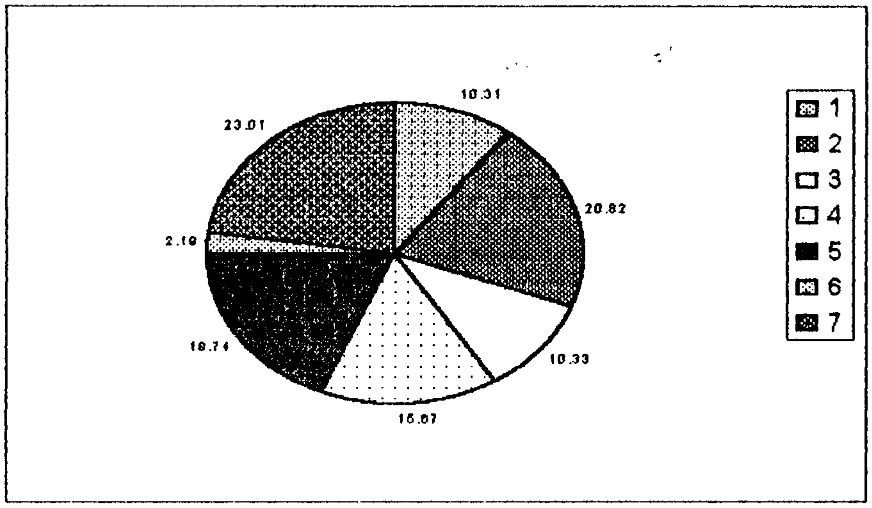
Table showing financial Institution Provides Credit Of mill."

| Financial Institution | 1991-92 % to total | 1992-93 % to total | 1994-95 % to total | 1997-98 % to total | 1998-99 % to total |
|---|---|---|---|---|---|
| 1) IFCI | 9410975<br>10.31 | 7808322<br>9.11 | 11436322<br>8.94 | 5144322<br>3.47 | 4372322<br>2.19 |
| 2)IDBI | 18996630<br>20.82 | 19689630<br>22.98 | 22997630<br>17.98 | 10347630<br>6.98 | 9197630<br>4.62 |
| 3) ICICI | 9434003<br>10.33 | 7722003<br>9.01 | 11436003<br>8.94 | 5144003<br>3.47 | 4572003<br>2.29 |
| 4) BANK OF INDIA | 14300000<br>15.67 | 12959375<br>15.12 | 9383500<br>7.33 | 4030535<br>2.72 | 3418424<br>1.71 |
| 5) GOVE. OF MAHARASTRA | 17100000<br>18.74 | 17100000<br>19.96 | 54600000<br>42.69 | 36138156<br>24.39 | 38104656<br>19.86 |
| 6) S.I.COM (CAPITAL INSENCIVE) | 2000000<br>2.19 | 2000000<br>2.33 | ---- | ----- | ----- |
| 7) ICH. JANTA SAH. BANK | ---- | ----- | ------- | 2500000<br>1.68 | 2500000<br>1.25 |
| 8) GOV. MAHARASTRA(NCDC) | ------- | ------- | ------- | 78903090<br>53.26 | 82179090<br>41.33 |
| M.S.E.B. (MEDIUM TERM LOAN I,II&III) | 21000000<br>23.01 | 18375000<br>21.45 | 18023939<br>14.09 | 5919980<br>3.99 | 14363111<br>7.22 |
| K.D.C. BANK (TERMRYARY LOAN) | ---- | -------- | ------- | ------- | 40129033<br>20.11 |
| Total | 91241608 | 85654330 | 127877394 | 148127716 | 198836269 |

Source: -Various Annual Report of Spinning Mill During 1990-91 to 1999

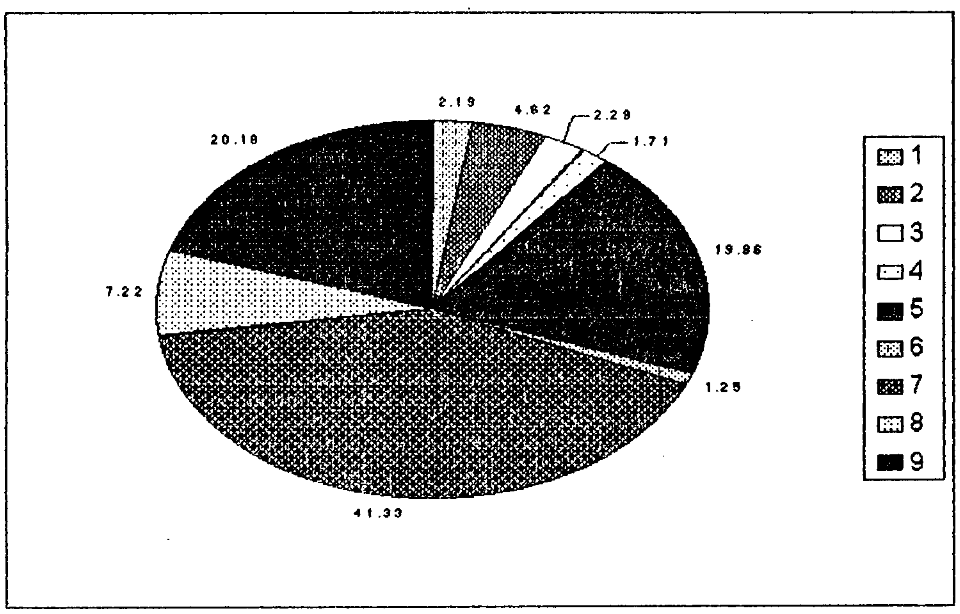
The relative share of different institution is presented here by using pie-chart.

(A) Institutional credit to the Mill 1991-92.




1) IFCI
2) IDBI
3) ICICI
4) Bank of India
5) Govt. of Maharashtra
6) SICOM (Capital Incentive)
7) M.S.E.B.Loans

(B) Institutional credit to the Mill 1998-99.




1) IFCI
2) IDBI
3) ICICI
4) Bank of India
5) Govt. of Maharashtı
6) Ich.Janata Bank.
7) N.C.D.C.
8) M.S.E.B.Loans
9) K.D.C. Bank

Following conclusion can be drawn from table

Ten financial institutes have provided financial credit to mill. Up to 1994-95 the total loan of the mill is increased 127877394 to 19,88,36,270.

1) In the span of ten year the loan from IFCI, IDBI, ICICI, and Bank of India, S I COM and M.S.E.B. are paid back. The loans are retaken from Govt. of Maharashtra, Ich. Janata bank and K.D.C. Bank as Medium term loan and temporary loan. The short-term loans were gone up due to of heavy losses

## 4.5 RATIO ANALYSS AND ITS IMPORTANCE

Alexander Wall made the presentation of an elaborate system of ratio analysis in 1919. Ratio is simply one number expressed in terms another. It is a statistical yardstick that provides a measure of relationship between two figures. The relationship between two figures may be expressed as rate, percent or as a quotient.

Accounting ratios focuses attention on relationship which are significant. Ratios are tools to analysis and interpretation. They are necessary for sound thinking. They help to examine in detail the overall picture portrayed by the financial statements. The analysis and comparison ensures that the financial position of the concern is sound and that there is satisfactory return on the investment of the business. They are employed to the test of solvency, the liquidity of the assets and the profitability of the concern.

Ratio analysis is the study of specific relationship and forms the heart of financial statement analysis. Ratio analysis of the financial statements in order to provide clues about the status of particular aspects of the business.

1) GROSS PROFIT RATIO: -

It expresses the relationship of gross profit on sales to net sales in terms of percentage, representing the percentage of gross profit earned on sales.

Implication of Gross Profit Ratio: -

Gross profit ratio indicates degree to which selling prices of goods per unit may decline without resulting in losses on operations for the firm. From different angle, it shows the average mark up on individual products or products lines. There is no norm for judging the gross profit ratio and, therefore, evaluation is a matter of judgement, In order to analyze the gross profit margin effectively, information should be available with respect to purchasing mark-ups as well as general purchasing policies. However, these data are not usually available to the external analyst.

The gross profit should be adequate to cover the operating expenses and provide for fixed charges, dividends and building up of services.

A low gross profit may indicate unfavourable purchasing and markup policies, the inability of management to develop sales volume, there by making it impossible to buy goods in large valume, marked reduction in selling prices not accompanied by proportionate decrease in cost of goods, over expansion or over investment in plant facilities, unfavorable property locations and excessive competition.

On other hand, an increase in the gross profit ratio may reflect an increase in the sale price of goods sold without any corresponding increase in costs, a decrease in cost without its impacts on the sale price of goods, stock at the commencement of the trading period valued at a figure lower than it should have been, artificial inflation of sales on consignment while the same are included in closing stock, omission of purchase invoices from account over valuation of stock of goods at the end of accounting period.

Formula: -

$$\text{Gross Profit ratio:}\ \frac{\text{Gross profit}}{\text{Net sales}} * 100$$

In the following table gross profit ratio is presented for the period under study.

Table 4. 4

Gross profit ratio

| YEAR | GROSS PROFIT | NET SALE | GROSS PROFIT RATIO |
|---|---|---|---|
| 1990-91 | 11069576 | 133538550 | 8.28 |
| 1991-92 | 53309300 | 189559085 | 28.12 |
| 1992-93 | 48313181 | 263736876 | 18.31 |
| 1993-94 | 39155841 | 299482400 | 13.07 |
| 1994-95 | 32088753 | 362053470 | 8.86 |
| 1995-96 | 22936835 | 320385505 | 7.15 |
| 1997-98 | 41639985 | 316314924 | 13.16 |
| 1998-99 | -22986872 | 393684256 | -5.83 |
| Average | E28190824.87 | E127719383.20 | 11.39 |

Source: - Figures computed on the basis of annual report of the Mills.

Following conclusions can be drawn from table

For profit making company this ratio should as high as possible. It is observed from the table that the overall gross profit ratio after 1991-92 is showing decreasing trend and it is negative side in 1998-99. In the year 1991-92 gross profit ratio is observed higher due to selling of out side material in addition to existing mills material. In 1998-99 Gross profit has came down to negative side and net sale (denominator in ratio analysis) is increase which shows very low gross profit ratio on negative side.

2) NET PROFIT RATIO: -

This ratio goes beyond the gross profit margin and indicates a firms ability to cover administrative and selling costs These cost require cash outlets and depreciation which a company must ultimately provide for.

Formula: -

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}} * 100$$

In the following table Net profit ratio is presented for the period under study.

Table no. 4.5

Net Profit Ratio of the mill

| YEAR | NET PROFIT | SALE | NET PROFIT RATIO |
|---|---|---|---|
| 1990-91 | -8627547 | 133538550 | -6.46 |
| 1991-92 | 15880130 | 189559085 | 8.37 |
| 1992-93 | 528873 | 263736876 | 0.20 |
| 1993-94 | -6377287 | 299482400 | -2.12 |
| 1994-95 | -13422549 | 362053470 | -3.70 |
| 1995-96 | -26493152 | 320385505 | -7.95 |
| 1997-98 | 1060443 | 316314924 | 0.33 |
| 1998-99 | -73127942 | 393689256 | -18.57 |
| Total | -110579031 | 2278760066 | $\Sigma$ net profit = -4.85 |
| Average | -13822378.87 | 284845008.2 | -0.60 |

Source: - Figures computed on the basis of Annual report of the mills.

Following conclusion can be drawn from table

Net profit is effective measure to evaluate the profitability of a business. This is an indicator of the performance of firm and its sales promotion. A ratio insures adequate return to share holders as well to a enable a firm to face adverse economic condition. A low margin has an apposite implication.

Here, there is net loss in 1990-91, 1993-94, 1994-95, 1995-96 and 1998-99. In the remaining three-year very low profit is available, there fore the net profit ratio of the mill shows not any return to share holders.

There is overall net loss Rs.-11,05,79,031 in last eight years. The overall net profit ratio for last year is -4.85.

### 3) WORKING CAPITAL TURN OVER RATIO: -

Larger the net sale in compared with net working capital, less suitable situation is likely to be, if the resultant net working capital turnover has been made possible by the use of an excess of amount of current credit. The real danger lies in a possibility of a decline in sale due to unforeseen circumstances, like -off orders, strikes, depressions, and competitions.

Low turnover ratio may be the outcome of an excess of net working capital, slow turnover of inventories and for acceptance a large cash balance or investment of working capital in the form of temporary investments.

This Ratio relationship between net sale and net working capital. In order to test efficiency working capital turnover ratio and is calculated as,

Formula: -

$$\text{Working capital Turnover Ratio} = \frac{\text{Net Sale}}{\text{Net working capital}} * 100$$

In the following table working capital turnover ratio is presented for the period under study.

Table no. 4.6

Working capital turn over ratio from 1990-99

| YEAR | NET SALE | WORKING CAPITAL | WORKING CAPITAL TURNOVER RATIO |
|---|---|---|---|
| 1990-91 | 133538550 | 72000000 | 1.85 |
| 1991-92 | 189559085 | 71500000 | 2.65 |
| 1992-93 | 263736876 | 86500000 | 3.04 |
| 1993-94 | 299482400 | 100000000 | 2.99 |
| 1994-95 | 362053470 | 128000000 | 2.82 |
| 1995-96 | 320385505 | 185000000 | 1.73 |
| 1997-98 | 316314924 | 196500000 | 1.60 |
| 1998-99 | 393684256 | 185500000 | 2.12 |
| Average | 284844383.2 | 128125000 | 2.35 |

Source: - Computed on the basis of Annual reports of the mills.

We get following conclusion from the table

1) Net sale and working capital both are increased with the year and ratio varied 1.6 to 3.

2) In 1992-93, due to significant increase in net sale compared to increase of working capital, the ratio increased to highest value of 3.04. The main reasons for this high ratio is exporting outside yarn with its own production.

3) In last year the ratio has improved and gone above 2. Which is indicate the efficiency of utilization of working capital improved.

## 4) NET PROFIT AND NET LOSS: -

The main reasons for this company going into losses are as followes.

1) Increased cost of cotton, wages, electricity, packing charges, store and spares.
2) Lower selling prices of yarn.

In the following table Net Profit & Net loss is presented for the period under study.

Table no. 4.7

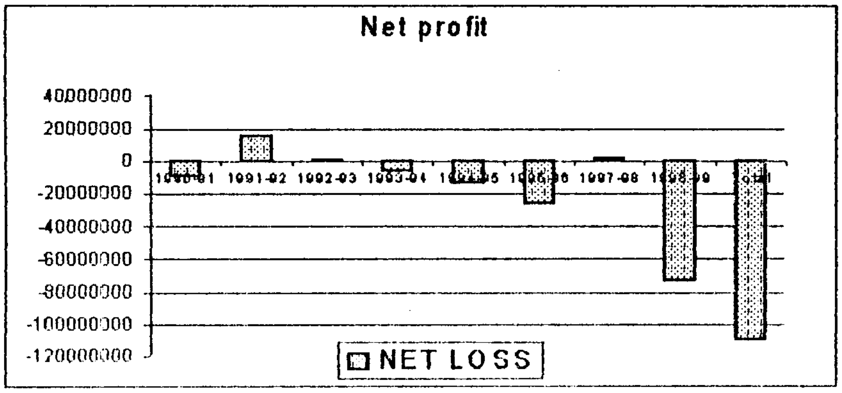
Table shows the net profit & net loss

| YEAR | NET PROFIT & LOSS |
|---|---|
| 1990-91 | -8627547 |
| 1991-92 | 15880130 |
| 1992-93 | 528873 |
| 1993-94 | -6377287 |
| 1994-95 | -13422549 |
| 1995-96 | -25493152 |
| 1997-98 | 1060443 |
| 1998-99 | -73127942 |
| Total | -109578991 |
| Average | -13697373.87 |

Source: - Computed on the basis of annual reports of the mill.

Following graph shows profit & loss of the unit over the period under study.

Net loss for last 8 years = 127048477-17469446 =Rs. 10,95,79,031



From the table we conclude following-

1) In 8 years, the company has made profit in three years and loss in five years.

2) In total 8 years companies total loss is 10.96 crores.

3) The maximum profit earn by company was 1.58 lack in 1991-92 and maximum loss was 7.31 crore in last years 1998-99.

5) <u>RETURN TO SHAREHOLDERS INVESTMENT: -</u>

Return on share holders investment also called return an proprietors funds is the ratio of net profit to proprietors (owners) fund as shown by balance sheet which are the same as total assets less liabilities.

Formula: -

$$\text{Return to share holders Investment} = \frac{\text{Net Profit}}{\text{Share holder's fund}}$$

In the following table return to share holders investment is presented for the period under study.

Table no - 4.8

Table showing Return to Share Holders Ratio's of the Mill.

| YEAR | NET PROFIT | SHARE HOLDERS FUND | RETURN TO SHARE HOLDERS |
|---|---|---|---|
| 1991 | -8627547 | 304311513 | -0.02 |
| 1992 | 15880170 | 324606567 | 0.14 |
| 1993 | 528873 | 343729034 | 0.01 |
| 1994 | -6377287 | 362837062 | -0.01 |
| 1995 | -13422549 | 431592581 | -0.03 |
| 1996 | -25493152 | 340773757 | -0.07 |
| 1997 | -------- | -------- | ------- |
| 1998 | 1060443 | 376113333 | 0.00 |
| 1999 | -73127942 | 382425844 | -0.19 |
| Total | -109578991 | 2866389691 | -0.038 |
| Average | -13697373.8 | 358298711.3 | -0.004 |

Source: -Figures rearranged on the basis of Annual Report of the Mill.

This ratio indicates on the actual returns on share holders investment in the company .If the percentage is high, the share have good return and if it is low, the return to the share holders is very poor.

Form the table it is observed that.

1) Return to share holders is very poor.

2) Net profit of the mill is very low some of year net profit is in minus.

3) If the mill profit percentage is very low, hence the return to the shareholders is very poor.

4) The overall return to share holders is on negative side as -0.038, which indicate poor performance of the unit in terms of return of shareholders.

6) FIXED ASSETS TURNOVER RATIO: -

Fixed Assets turnover ratio measures the efficiency with which the firm is utilizing its investment in fixed assets.

Formula: -

$$\text{Fixed assets turnover ratio} = \frac{\text{Sales}}{\text{Net fixed assets}}$$

In the following table fixed assets turnover ratio is presented for the period under study.

Table no. 4.9

Table showing Fixed Assets Turnover Ratio

| YEAR | SALES | NET FIXED ASSESTS | FIXED ASSESTS TURNOVER |
|---|---|---|---|
| 1991 | 135031004 | 257285713 | 0.52 |
| 1992 | 193666868 | 259858615 | 0.74 |
| 1993 | 276722045 | 266664902 | 1.03 |
| 1994 | 308103313 | 287168398 | 1.07 |
| 1995 | 370932416 | 287937804 | 1.28 |
| 1996 | 344556984 | 293246972 | 1.17 |
| 1998 | 321274827 | 305707312 | 1.05 |
| 1999 | 400255869 | 303361970 | 1.31 |
| Average | 316317915.7 | 282653960.7 | 1.02 |

Source: - Figures rearranged on the basis of annual report of the mill.

The firm fixed asset turnover ratio should be compared with past ratios. Fixed asset turnover ratio measures efficiency with which the firm is utilizing its investment in fixed assets. A high ratio indicates efficient utilization of fixed assets.

Fixed asset turnover ratio shows increasing trend and it is highest in the year 1999, there fore, it is indication of an efficient utilization of fixed asset in generating sales comparing with other nine years over the period.

7) CURRENT RATIO :-

This is ratio of current assets to current liabilities. This is also known as working capital ratio, solvency ratio.

Formulation: -

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

In the following table current ratio is presented for the period under study.

Table no. 4.10

Current ratio of the Mill.

| YEAR | CURRENT ASSESTS | CURRENT LIABILITIES | CURRENT RATIO |
|---|---|---|---|
| 1990-91 | 45037791 | 44086934 | 1.02:1 |
| 1991-92 | 138904704 | 62294220 | 2.22:1 |
| 1992-93 | 116431461 | 55361468 | 2.10:1 |
| 1993-94 | 90856899 | 50786002 | 1.78:1 |
| 1994-95 | 179772940 | 54090354 | 3.32:1 |
| 1995-96 | 144068089 | 75133903 | 1.91:1 |
| 1997-98 | 211554297 | 51486472 | 4.10:1 |
| 1998-99 | 163994149 | 35293893 | 4.64:1 |
| Average | 136327541.2 | 53566655.75 | 2.63:1 |

Source: - Figures rearranged on the basis of Annual report of the mill.

Current assets = Cash and Bank Balance + Deposits, Advances & Debtors + Other Current Assets. Including stock.

Current Liabilities = Short -term loan + other current liabilities including stock.

Current ratio gives the analyst a general picture of the adequacy of working capital and of the company's ability to meet its day to day payment obligations. A current ratio of 2:1, the short-term solvency of the firm is not a position to meet its current liabilities in time as and when they are due to. The ratio is showing increasing trend and it has reached highest value of 4.64. Which indicates the mill is having surplus assets over liabilities.

8) TOTAL INVESTMENT TO LONG TERM LIABILITIES: -

This ratio is proportion of share capital and loan capital.

Formula: -

$$= \frac{\text{Share capital}}{\text{Loan capital}}$$

This makes different approach to the method of financing the business and is based on the principle that there should not be too high a proportion of long term liabilities.

In the following table total Investment to Long term liabilities.

Table no. 4.11
Long Term Liabilities

| YEAR | SHARE CAPITAL [A] | GOV. SHARE [B] | OWN CAPITAL [A-B=C] | % OF C TO A |
|---|---|---|---|---|
| 1991 | 181496500 | 66500000 | 114996500 | 63.36 |
| 1992 | 182850000 | 66500000 | 116350000 | 63.63 |
| 1993 | 182858500 | 66500000 | 116358500 | 63.63 |
| 1994 | 182861500 | 66500000 | 116361500 | 63.63 |
| 1995 | 232842500 | 66500000 | 166342500 | 71.43 |
| 1996 | 239562020 | 66500000 | 173062000 | 72.24 |
| 1998 | 247182667 | 66500000 | 180682667 | 73.08 |
| 1999 | 247206947 | 66500000 | 180766947 | 73.09 |
| Average | 212107579.2 | | 145615076.7 | 68.01 |

Source: - Figures rearranged on the basis of annual report of mill.

Following conclusion can be drawn from table

1) Company total share capital is going on increasing inspite of company showing losses.

2) Government share capital is remained unchanged. Which supposed to be reduced with increasing years.

3) Companies' own capital increased from 63.36% to 73.09% in last 9 years.

Table no.- 4.12

| YEAR | LOAN CAPITAL [C] | GOV.SHARE + LOAN CAPITAL [C+B=D] | TOTAL INVESTMENT TERM LIABILITIES |
|---|---|---|---|
| 1991 | 187640988 | 121140988 | 0.96 |
| 1992 | 183941609 | 250441609 | 0.99 |
| 1993 | 175472331 | 241972331 | 0.99 |
| 1994 | 239981062 | 306481062 | 0.76 |
| 1995 | 296428532 | 362928532 | 0.78 |
| 1996 | 256864178 | 323364178 | 0.93 |
| 1998 | 343854988 | 410354988 | 0.71 |
| 1999 | 366720509 | 433220509 | 0.67 |
| Average | 256363024.6 | 306238024.6 | 0.84 |

Figures rearranged on the basis of annual reports of the Mill.

In initial year this ratio is around 0.97 to 0.99 which is as near as 1:1,afterword the ratio shows down ward trend which indicates instead of upward, which indicates companies liabilities are going on increasing inspite of increasing trend of share capital.

# CONCLUSIONS

1) Company has raised long term funds by issuing shares from members, co-operative societies, and Government-authorized agencies. The mill has raised total working capital [2955 lacks], by Pre-shipment credit [58%], Hypothecation cash credit [2.35%] and Post shipment [37.22%], cash credit.

2) Company has taken loan from different financial institutions. In last year companies total loan was 19.88 crores in which major contribution is from Government of Maharashtra [N.C.D.C.] = 41.33%, K.D.C.Bank [temporary loan] = 25.11, Govt.Of Maharashtra = 19.86%, M.S.E.B. [medium term loan] = 7.22% and other financial institution like IFCI, IDBI, Bank Of India, Ich. Janta Bank contributes 0.5 to 2.3%. In this loans, temporary and medium term loans are higher.

3) Mills gross profit ratio was between 7 to 28 in 1990 to 1998 while in the last year it is on negative side. But companies net profit ratio does not show some trend in last 9 years companies comulative net profit ratio is - 4.85. Which indicates of the company.

4) Companies working capital turnover ratio was ranging between 1.6 to 3.04 in last year working capital turn over ratio was 2.12. Higher capital turn over ratio means efficient use of working capital.

5) In last 8 years mills total loss is 10.95 crores. Mill has made profit in 3 financial year 1991-92 [1.59 crore], 1992-93 [0.05 crores], and 1997-98 [0.1 crore] mill has made highest loss 1998-99 [7.3 crore].

6) In last 8 years overall turnover to share holders is on negative side as -3.8%.

7) Companies current ratio that is current asset to current liabilities ratio is increased from 1:1 to 4.64:1. Which indicates the mill is having surplus assets over the liabilities.

8) Companies total investment to long term liabilities ratio has reduced 96 to 67. Which indicates companies' liabilities has increased compare to share capital.

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