

CHAPTER - VI

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VI : SUMMARY AND CONCLUSION

Financial Management is concerned with raising of funds and their proper use so as to attain a stage of share price maximisation. This is attained through achievement of the two sub-objectives of (i) minimisation of the cost of capital and (ii) maximisation of the Rate of Return on investment while taking financing decisions and dividend decisions.

Financial Management in co-operatives :

Financial Management in cooperatives however differs from that in any other form of organisation of private organisation. This is because the main principles of cooperatives like voluntary and open membership, Democratic Organisation Management and control, limited rate of interest on capital, disposal of surplus in proportion to participation in business etc. dominate the scene and necessitates a different style of management in the cooperatives.

Management of cooperatives must take into account the fact that besides economic organisations the cooperatives are association of human beings and the cooperative organisation is expected to promote economic well being of the human being

coming together as members. Secondly major difference arises on account of the various limiting provisions in the cooperative law, eg., limitations on raising capital and distribution of dividend. Thirdly there is no question of maximisation of value of the share of a cooperative the financial objectives of a cooperative have to conform with its overall objectives.

Profile of the Organisation :

'MAYUR' was registered on 5th September 1966. At the time of registration its classification was "General Society" but later on changed to "Producer's Society" and further classified as "Industrial Producers' Society".

MAYUR was started with the main objective of bringing together small workshopowners and industrial workers and give them work by asking them to execute orders of the big industrial units and by producing and selling diesel engines, electric motors, power tillers etc.

The constitution of MAYUR is provided in its by law. The first Board of Directors was nominated by the Government of Maharashtra and was in existence till April 1977. The Board of Directors consists of 17 elected Directors and 5 nominees

who along with others include Government nominee and M.S.C. Bank nominee.

The Maharashtra Industrial Development Corporation has allotted a plot at Shirol, where 'MAYUR' has built its administrative and factory buildings and installed plan and machinery. The authorised share capital of the MAYUR is Rupees one crore and paid up capital as on 30th June 1986 was Rs. 28.97 lakhs divided into shares of Rs. 500/- each.

Managing Director or General Manager is the chief executive and ex-officio members of the Board. For supervision over day to day working separate executives are appointed by the Board. Under the Managing Director Officers like Chief Accountant, Business Officer, Production Manager, Marketing Manager and Personnel Manager work and perform specific duties connected with the specific functions.

MAYUR has been a multi-product organisation. It has been producing and selling diesel engines, electric motors, power tillers, rubber tyre bullock-carts, cane harvesting knives and various other agricultural implements. The area covered by MAYUR is divided into Northern Region, Eastern Region, Southern Region, and Western Region. MAYUR also exported

diesel engines and pumpsets in all the five years of this study.

Data Presentation :

For the purpose of data presentation, the researcher has mainly considered the latest five years (i.e. from 1981-82 to 1985-86, both inclusive) for which data are available.

Data presented for the five years are :

- i) Manufacturing & Trading Account,
- ii) Profit & Loss Account,
- iii) Balance Sheet and
- iv) Sources & Application of Funds Statement (alongwith statement showing changes in working capital)

Manufacturing & Trading Account shows gross profit for the first three years & gross loss for the last two years of this study. Net profit however, is earned only for the first year of this study. For the remaining four years, MAYUR has incurred net loss and the loss is heavy particularly during the last two years. This accumulation of net loss has badly affected the net worth which has eroded heavily, particularly during the last two years. Borrowings during these last two years are heavy. It is seen from the Funds Flow Statement

that MAYUR's management with regard to working capital deteriorated during the five years under study.

Analysis and Interpretation of Data :

Generally parties interested in Financial statements are creditors, potential suppliers, debentureholders, Commercial Banks, potential investors, employees and trade unions, members of Parliament, taxation authorities, the Company Law Board, Registrar of Companies, and stock exchanges etc.

But parties interested in financial statements in case of cooperatives are slightly different from those of limited company. They are Co-operative Banks. There may or may not be debenture holders, Registrar of cooperatives and cooperative department of the concerned State Government.

Financial analysis therefore comprises breaking the statements by a process of the rearranging regrouping and calculation of ratios. For the purpose of financial analysis tools like Comparative Balance sheets, Income Statements, Common Size Statements and Ratio Analysis are used. Ratios are mainly classified into four groups; liquidity ratios, profitability ratios, turnover ratios, and ownership ratios.

Evaluation of Financial Management Practices at 'MAYUR' :

Evaluation of Financial Management Practices at 'MAYUR' can be summarised with the help of following points.

- 1) Management attitude towards MAYUR's business is directionless and lethargic one.
- 2) MAYUR's Management has totally failed in its marketing functions.
- 3) Ultimately, it resulted in higher cost of sales, continuous decline in sales and financial shortages.
- 4) Improper capital mix ultimately resulted into burden of interest charges.
- 5) Accumulated losses resulted in reduction of net worth to the extent of more than 50% by the end of 1986.
- 6) EBIT and PAT show a negative trend for last four years and five years respectively.

With regard to funds raising MAYUR's Management has relied, very heavily on external borrowings particularly during the last two years of this study. Raising of funds by issuing share was nominal throughout the five year period.

Funds raised must be deployed in fixed as well as current assets in the most judicious manner. These assets must be

acquired, utilised & managed in the most efficient manner. MAYUR's investment in the fixed assets during the five years of study was limited. During the last two years, there was decrease in the net working capital. Fixed assets remained unutilised to a great extent. Asset turnover was low & it showed a declining trend with a marginal revival in the year 1985-86 during the five years of this study. Management of cash, debtors & inventory was inefficient during the five year period.

During the five years of this study, profitability of MAYUR has continuously declined. Gross profit was earned during the first three years only. For the remaining & last two years there was gross loss. MAYUR has earned a net profit of Rs. 10,000/- in the first year only. For all the remaining four years it has incurred a net loss. This loss was very heavy particularly, in 1983-84, and 1985-86. MAYUR has not distributed any profits in the form of dividend to the shareholder-members during the five years of this study. Reserves created during the five year period amounted to Rs. 1.81 lakhs only.

Sick Unit :

Management of MAYUR in general and its financial management in particular was lethargic and directionless. Declining sales rising costs declining profits and in later years incurring heavy losses and inefficient use of fixed and current assets were the visible danger signals that could be easily noted by an alert and sincere management. Management of MAYUR did not pay any attention to these danger signals. As per the provisions contained in Sick Industrial Companies (special provisions) Act, 1985, MAYUR may be declared as a "Sick Unit" and necessary actions may be taken at the Government level to revive it.