



CONCLUSION
&
SUGGESTIONS

CHAPTER NO. 5

CONCLUSIONS AND SUGGESTIONS

INTRODUCTION

The present study, entitled as “A Study of Financial Management of Swadeshi Dyeing and Bleaching Mills Private Limited, Ichalkaranji” is a case study in which an attempt is made by the researcher to analyze liquidity, profitability, leverage, efficiency and profitability by applying various tools of management accounting in order to comment on the financial management practices relating to investment, financing, dividend and liquidity decision. The preceding chapters are devoted to profile of the organization, theoretical framework of the financial management and data analysis. The present chapter deals with the observations and conclusions made on the basis of data analysis and suggestions offered to the organization studied.

A) FINANCING DECISION:

The capital required for financing the project is collected from ownership and borrowed sources. In order to study the capital structure a comparative tables showing the sources of capital and their relative percentage in total funds employed have prepared. Leverage ratios are also calculated in order to analyze the capital structure of the organization. Following conclusions are drawn:

- 1) During the period of study long term investment has increased from Rs.125.79lakh to 226.69lakh.

- 2) Debt-Equity Ratio, Proprietary Ratio and Net Worth to total assets ratio shows the proportion of total debt in the capital structure is more than the equity. Long term borrowed capital has been used for financing fixed assets and meeting working capital needs.
- 3) The effect of the excessive debt can be seen by the interest coverage ratio which has remained below the standard, the average of this is 2.11:1 where is the norm is 6 to 7 times. It clearly points out that the company is using debt more than its ability to afford as nearly 50% of its earning goes to the payment of interest on the borrowed capital.
- 4) The major part of the capital is collected by way of deposits from the members. It is interesting to note that the amount of deposits is even more than the paid up share capital. The main object of this policy could be: a) the company wants to take benefits of leverage by which the rate of return on the equity can be increased b) to reduce the tax liability.
- 5) It means the owners of the company have provided capital through equity shares as well as deposits. This policy is favorable for some members up to same extent. But on point of view of company especially for long term, it may not be satisfactory. Because the cost of debt is more than that of equity.

B) LIQUIDITY POSITION

Liquidity means ability of the firm to pay its short-term liabilities. It indicate short term solvency of the firm. There are three ratios calculated to measure liquidity of Swadeshi Dyeing and Bleaching Mills Pvt. Ltd. Following Conclusions are drowned thereupon:

- 1) Current ratio of the firm was satisfactory. The average of the current ratio was 1.92:1, which just below the norm i.e. 2:1.
- 2) During the period of the study Liquid ratio was more than the standards, reveals the firm has been enough liquid assets to meet its current obligations.
- 3) The cash position ration was not satisfactory. All these liquidity ratios reveal that the major part of the current assets is occupied by the sundry debtors. By considering the nature of the business i.e. job work and the composition of the current assets the liquidity position of the firm is satisfactory.

C) EFFICIENCY OF BUSINESS

In order to evaluate the efficiency of the busing in managing its assets, activity ratios namely inventory turnover ratio, debtors' turnover ratio, creditors turnover ratio, fixed assets turnover ratio, working capital or net current assets turnover ratio and total assets turnover ratio are calculated. Following inferences are drowned thereupon:

- 1) The debtors turnover shows that the average collection period is 81 days as compared to the average collection period of 144 days. It

means firm is enjoying liberal credit facilities. It again makes liquidity position stronger.

- 2) The fixed assets turnover ratio is found 5 to 8 times as against the standard i.e. 5 times, which means the fixed assets are used efficiently by the management.
- 3) The net current assets turnover ratio and the total assets turnover ratio were 7.12 times and 2.23:1 times respectively for the period of six years which is higher than the norm. Thus it can be concluded that the assets has been efficiently used by the management.

D) PROFITABILITY ANALYSIS

In order to analysis profitability of the Swadeshi Dyeing and Bleaching Mills Pvt. Ltd. profitability ratios consisting gross profit ratio, net profit ratio and return on net worth are calculated. On the basis of this following conclusion are drowned:

- 1) Along with the income from processing charges, the gross profit of Swadeshi Dyeing and Bleaching has increased from 61.84lakh in 2000-01 to 131.05lakh in 2005-06. But gross profit ratio was decreased from 22.98% to 18.22%. It means the cost of production has gone up.
- 2) Despite the loss of Rs.13.68 lakh the company earned profit in the every year of the study period. The average net profit ratio was 2.50% in the period of six years.

- 3) It can be observed from the table that even though the increase in the gross profit in 2005-06, the company incurred a net loss of Rs13.68 lakh. It means increasing operating expenses affected the net profit to a large extent.
- 4) It is seen that the major part of the operating expenses consist of interest on the debt. Therefore management should try to liquidate the debt to raise the net profits.
- 5) Return on shareholders funds ratio shows that the company has efficiently used the shareholders fund. The average of this ratio is 19.28% during the period of study.

E) DIVIDEND POLICY

Swadeshi Dyeing and Bleaching Mills Pvt. Ltd. have been following conservative dividend policy. During the period of study, it has not declared dividend and retained the entire profit for the financing the projects. It has played an important roll in strengthening its financial position.

F) Funds flow statement prepared for 5 years disclose the following important facts regarding inflow and outflow of funds of Swadeshi Dyeing and Bleaching Mills Pvt. Ltd.:

- 1) Deposits collected from the members is an important source of finance utilized by the Mill to raise the funds.

- 2) Secured loan from bank has also come out as an important source of funds.
- 3) Except 2005-06 funds generated from operation has played very important roll in financing the business activities.
- 4) In 2001-02 and 2005-06 the working capital was decreased.
- 5) Major funds are applied for acquisition of fixed assets, payment of interest and refund of deposits.
- 6) There is increase in working capital in 2002-03, 2003-04, 2004-05, which is again an application of funds.

G) FUTURE PROSPECTS

An analysis of the data of the last six years clearly shows that the company is growing and expanding its business. The revenues, expenditure, capital, profitability shows an increasing trend. It can be clearly observed from the following trend ratios. For this purpose year 2000-01 is taken as a base year. Percentage of the same item in each year is shown as under:

Table 5.1 : *Trend Ratios Of Swadeshi D/B Mill Pvt. Ltd.*

YEARS	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Net Worth	100.00	126.35	175.24	257.23	300.86	255.40
Long Term Debt	100.00	80.86	116.82	97.39	129.69	246.3
Funds Employed	100.00	88.60	105.99	108.63	134.69	180.2
Current Assets	100.00	88.14	127.68	165.38	192.66	170.8
Current Liabilities	100.00	77.82	133.08	203.27	221.64	199.7
Working Capital	100.00	97.31	122.87	131.11	166.89	145.1
Net Fixed Assets	100.00	94.04	153.87	175.91	212.36	388.4
Total Income	100.00	114.50	147.06	184.76	234.57	266.5
Total Revenue	100.00	113.66	145.58	180.55	236.14	279.2
Expenses						
Net Profits	100.00	144.29	199.86	335.33	178.40	-185.8
Return on Equity	100.00	114.19	114.06	130.38	59.28	0.00

SUGGESTIONS:

- 1) The organization structure of the Swadeshi Dyeing and Bleaching has remained decent throughout all the years of its working. In order to give professional touch to the organization, desirable restructuring in the organizational structure can be thought of. In the organizational structure all the managerial powers are in the hands of chairman. Further Mr. Radheshyam D. Sharma is working as a Manager, who is the head of almost every section including finance. The company is in the phase of growth and expansion therefore it is needed to divide the work into various departments and fix authority and responsibility of each department. It facilitates smooth functioning of the business.
- 2) The level of liquidity is satisfactory, if we consider the current ratio and liquid ratio. But when we go down to the cash ratio the situation goes undesirable. The major part of current assets is occupied by sundry debtors, so the liquidity is mostly depends on the realization of the debtors. However average collection period is not satisfactory; which brings pressure on the liquidity.
- 3) As noted above the debtors turnover ratio and average collection period is not satisfactory the management should take efforts to reduce the average collection period.
- 4) Capital structure play very important roll in the success of the business. As the company is growing and expanding its business, it is necessary to strength the owners equity in the capital structure. It

can be done by increasing paid up share capital. It will increase the creditworthiness and strengthen the financial position of the business.

- 5) It is observed that the major part of the earning goes to the payment of interest on the long term debt. Therefore it is necessary to refund some long term debt. It can be possible through the refunding the deposits of members and increasing the paid up share capital of the same amount.
- 6) All funds of reserve received form the government as a subsidy. The balance on reserve remained the same during the period of study. The company should regularly transfer some amount of its profits to the reserve funds as textile business is largely affected by the economic expansion and depression.
- 7) Throughout the study periods the researcher noticed some interesting points, on the basis of which following suggestions can be made:
 - a) In Ichalkaranji city, there are spinning mills which produces yarns from cottons. There are handlooms, powerlooms, autolooms which produces gray cloths from yarns, there are processing mills which produces ready cloths from gray cloths.
 - b) All these textile units running there businesses from so many years and so the textile business is in blood of all these businessmen. These are able to withstand in any crises.

- c) However, most of these textile units are engaged in only manufacturing business. These only produce goods but do not go for marketing. These just carry out orders of the manufacturing and so depend on the brokers for the raw materials as well as selling the finished goods. So indirectly the major part of their income, efforts, ability to grow and also a risk taking goes to the middlemen.
- d) The researcher suggests that all these textile units along with Swadeshi Dyeing and Bleaching Mills Pvt. Ltd. should go for the marketing activities. For that there should be linkage between spinning mills – handlooms, powerlooms, autolooms – and processing mills, so that the yarns should directly come to looms for production of gray cloth and gray cloth should directly go in the processing mills for the production of the finished cloths.
- e) In order to make it possible, it is necessary that all these textile units should come together and establish a Co-operative Marketing Organization which will make available market to all the textile units in Ichalkaranji for the raw materials and finished products. The said organization can also carry out the research and development activities for solving various problems relating to the textile industry in Ichalkaranji city which is not possible for any single unit, for example now the major problem facing all the industrial firms is lack of electricity, which can be solved by the co-operative efforts of all these industrial units along with the co-operation of Ichalkaranji Municipality. A separate research can be

made on the Feasibility of the Establishment of Co-operative Marketing Organization.

- f) As the textile business is subject to economic cycle of expansion and depression, the researcher suggests that all textile firms should contribute to common reserve funds, which will be useful in the time of economic depression in order to make the units financially stable. The researcher feels that these suggestions if implemented will go long way in improving the working of textile mills.