CHAPTER VII

FINDINGS AND SUGGESTIONS
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Like a traveller, who, after completing his long and arduous journey, reaches his destination and looks back at the area covered by him for recapitulating the important landmarks he came across, we deem it desirable to review the various aspects of our study and sum up the important observations. As such, this chapter epitomises the major findings and offers a new suggestions for the financial appraisal of state level public enterprises in Haryana.

Having appraised the financial health of the corporations from the different angles such as capital structure analysis, fixed assets analysis, working capital analysis, profitability analysis etc; it will be proper to sum up the major findings of the study. We also venture to make some of the suggestions for the redressal of the financial health. Major findings of different corporations are as under:-

HFC:-

As regards the capital structure, it has been found that about 80 per cent of the funds have been raised through secured and unsecured loans. This view has also been verified through various ratios. Interest coverage ratio revealed that the corporation has been able to pay its interest out of profits. Thus, the corporation has a levered capital structure.

From fixed assets analysis, it has been found that the fixed assets constituted a very low proportion of total assets. A little increase in fixed assets results in a high increase in the sales. The fixed assets have been efficiently utilised. From financing point of view, the ratio analysed that assets have been financed out of long term funds which is good for the health of a
half of these assets have been written off as depreciation. Thus, the corporation has low fixed assets base due to the nature of business carried on by it.

It has been further studied in the course of analysis that current assets constituted a considerable large portion of total assets. The size of current assets has registered a regular increase throughout the period. The utilisation of working capital, as reflected by the ratio of current assets in terms of number of days of sales, is certainly better. The liquidity position of the corporation has been found satisfactory. The loans and advances constituted to the extent of 93.51 per cent of total current assets. An analysis of the circulation of various current assets has highlighted that the cash turn over ratio has also been encouraging. The analysis of financial pattern of working capital has brought to the light that major sources for financing the working capital are the long term sources.

Profitability analysis helps in critically analysing and interpreting the current and prospective earning capacity of a business corporation. The indices of profits are reliable indicators of the operational efficiency and organisational effectiveness of the firm in utilising its resources to earn satisfactory earnings. The return on capital employed has been sufficient during the period under study. Overall, the profitability of the corporation has been quite satisfactory throughout the period.

The foregoing analysis lead to the conclusion that the corporation is a growing one. Financial performance has been improved over the time. It has levered capital structure, low fixed assets base and high investment in current assets. The profitability has also been satisfactory throughout the period.
The corporation is a service providing institution and gives loans to small scale industries in Haryana. Its financial health can be improved if the corporation is treated as a commercial institution.

**HSSI & EC:**

The analysis of capital structure revealed that in HSSI & EC the proportion of owned funds in total capital available has been slightly more than that of the outsider's funds. The same fact has been testified through various ratios. But total debt to net worth ratio, when current liabilities are also taken together, indicated that the outsider's funds has been more than the owner's fund.

The analysis of fixed assets highlighted that the corporation has sufficient fixed assets to carry on its activities. All these assets have been financed mainly through net worth. Turnover ratio revealed that the fixed assets have been efficiently utilised throughout the period. Further, the ratio of depreciation to sales, lowest among the corporations, speaks of the adequacy of sales in relation to depreciation charges.

The working capital analysis has revealed that the major portion of the total assets has been found in form of current assets and the size of current assets has been increasing throughout the period. As far as composition analysis is concerned, about 70 percent of current assets have been blocked together in inventory and loans and advance component. Turnover ratio revealed that the performance of the corporation has been relatively better on this front. The corporation has sound liquidity position. The analysis of financing pattern of working capital has brought to light that all the sources for financing the working
capital have been used almost in equal proportions.

Profitability analysis indicated that the major percentage of sales has been incurred on operating costs. Profitability in relation to turnover reflects relatively better utilisation of all the assets. From capital employed point of view, the corporation has positive profits throughout the period. Overall performance of the corporation has been satisfactory during the period of study.

From the above analysis, it has been concluded that the corporation has an optimum capital structure, sufficient fixed assets and larger investment in current assets. It has earned profits throughout the period except the year 1987. It may be said that the performance of this corporation needs to be strengthened. The government may help in this direction by way of reserving the items manufactured by SSI units for exclusive purchase through co-operation by government departments.

HWC:-

As far as the capital structure composition is concerned, it has been found that the owned funds have been relatively more than the outsiders funds. However, the debt equity ratio remained fluctuating over the time. Interest coverage ratio, the highest among the corporation, indicated that the interest can be paid out of profits. Thus, the corporation has low levered capital structure.

Fixed assets of the corporation, the highest among the corporations, constituted more than half share of total assets. From financing point of view, on an average, nearly 94 per cent of the net worth has been used for this purpose. Turnover ratio revealed that the corporation has large fixed assets base.
Depreciation to gross block ratio indicated that quite a considerable portion of fixed assets has been written off as depreciation. Thus, the corporation has excessive investment in fixed assets not justified by existing sales volume, but the nature of the operations of the corporation speaks of its justification.

Working capital analysis highlighted that the current assets constituted relatively lower proportion of total assets and the size in absolute terms has been found increasing throughout the period. As regards the composition of working capital, the average trend of inventory and receivables components have greatly moved to the higher side. Turnover of current assets vary significantly at 1 per cent level from the overall average. Liquidity position has been sound inspite of lower proportion of current assets. For financing the working capital, the major source is long term finance.

The corporation has been able to earn profits throughout the period. The gross profit and operating ratio could not be calculated due to non-availability of figures. Turnover ratio highlighted that the corporation's existing sales volume did not largely justify the investments in all assets. From capital employed point of view, the corporation has relatively better position, and return on net worth has been the highest during the period.

It has been emerged from the above discussion that the corporation has been growing continuously throughout the period. The overall performance has been showing the better position. It has low levered capital structure. While appraising the fixed
assets investment, it has been found that it has much investment in fixed assets. Liquidity position has been sound inspite of low investment in working capital. From profitability point of view, it has relatively better position throughout the period. The financial health of the corporation is sound. Further, to improve the financial health, the corporation should use more debt capital.

WSIDC:-

As regards the capital structure it has been observed that the corporation has owned and borrowed capital almost in balanced proportion. But over the time, the composition experienced a little shift in favour of borrowed capital resulting into increased proportion of debt capital. Interest coverage ratio reflected on the adequacy of profit margin throughout the period. In nut shell, the capital structure has been described as a balanced one. The amount of accumulated reserves has been on an average quite low. The structure of the corporation may be further strengthened through improving the position on accumulated reserves.

Fixed assets analysis of the corporation has brought to light that it has high fixed assets base. Turnover ratio revealed that the fixed assets have not been efficiently utilised throughout the period. From financing point of view, the corporation has been able to manage it with net worth. Depreciation to gross block ratio indicated that quite a considerable portion of fixed assets has been written off as depreciation.

Working capital analysis indicated that a major portion of total assets has been found in current assets. The size in
absolute terms has been regularly increased throughout the period. The utilisation of current assets has been far from satisfactory. The analysis of composition revealed that inventory, and loans and advances are the major components which together account for more than 87 per cent of the current asset investments. Liquidity position of the corporation seems to be satisfactory and receivable turnover has been very encouraging. As far as the financing of working capital is concerned, the major sources for working capital finance are the long term sources and other current liabilities.

From profitability analysis point of view, it has been studied that the corporation has no gross profit and stock due to nature of operations of business. Fixed assets turnover, lowest among the corporations reflected the inefficiency of the use of fixed assets. The corporation has adequate profit from capital employed and net worth front. Overall position of the corporation may be said relatively better in this respect.

The above analysis highlighted that the corporation has an optimal capital structure, high investment in fixed assets and current assets. It has no manufacturing activities. It has good financial help throughout the period. The financial performance can be improved by treating it as commercial institution and using the services of financial experts.

**HSMITC:**

The capital structure analysis of HSMITC indicated that the major portion of capital has been raised in the form of borrowed capital. The high debt equity ratio further strengthened this view. The net worth of the corporation has gone negative due
to inadequate earnings. The corporation has been suffering losses throughout the period so it has not been able to make payment of interest liability. All the interest has been capitalised resulting into a decrease in capital. The position is worsening every consecutive year. The highly levered capital structure can not be regarded as satisfactory one because it is not possible for the corporation to bear it with present earnings. The corporation should try to increase its internal funds by increasing its activities.

The analysis of fixed assets highlighted that the corporation has relatively higher fixed assets during the period. The existing sales volume does not justify the existing fixed assets base. As far as financing of fixed assets is concerned, long term funds are sufficient for this purpose but net worth position has been far from satisfactory on this front. Depreciation to gross block indicated that quite a considerable portion of fixed assets has been written off as depreciation. Thus, the existing fixed assets level in the corporation needs to be corrected through improved efficiency in their use.

The analysis of working capital revealed that the current assets constituted a large portion of total assets. The utilisation of current assets, as reflected by the ratio of current assets in terms of number of days of sales, is not relatively better. The major portion of current assets has been blocked in receivables. An analysis of circulation of various current assets has highlighted that the receivable turnover has been far from satisfactory. From financing pattern of working
capital, it has been observed that the working capital has been financed mainly through long term sources and other current liabilities. Overall, the liquidity position has been sound.

Profitability of the corporation has been relatively better on gross margin front because of effective and efficient operations of business. Profitability in relation to sales reflected on inefficiency in the utilisation of all the assets. The corporation has positive profits for gross capital employed but has negative profits i.e. losses in relation to net capital employed and net worth. The corporation has been suffering losses throughout the period. Overall performance of the corporation has been far from satisfactory.

The above analysis leads to conclusion that the corporation has highly levered capital structure. But the corporation has been suffering losses throughout the period. Profits are not sufficient even to make payment of interest on loan. Therefore, the interest has been capitalised which caused capital erosion. The fixed assets have not been efficiently utilised. Existing sales volume does not justify the fixed assets level. It has major proportion of receivables which indicates the lenient credit policy of the corporation. It has been suffering losses throughout the period. Therefore, the corporation should try to increase the amount of receivables by adopting a strict credit policy. It should raise the internal funds to improve the position. The govt. should do for improving the performance of the corporation by reserving rates and if not possible then compensate it with subsidy.
The capital structure analysis revealed that about 80 per cent of the total funds have been raised through borrowed funds. After 1983 onwards, the net worth has become negative except the terminal year. Interest coverage ratio reflects on inadequacy of profit even to meet interest liability. The corporation is eating its own capital to meet debt liability. On the whole, the capital structure cannot be regarded good one. It needs to be improved through increased funds particularly accumulated reserves.

In this corporation, about 32.65 per cent of total assets have been found in the form of fixed assets. Fixed assets turnover highlighted that fixed assets have been efficiently utilised over the time. For financing point of view, sufficient long term funds have been available but net worth has negative values for this purpose. Depreciation to gross block ratio revealed that about 40 per cent of these assets have been written off as depreciation. Depreciation to sales speaks of the improved position over the time on this front.

Working capital analysis has brought to light that the share of current ratio in total assets has been found 67.35 per cent and in absolute size it registered a regular increase during the period. As regards the composition of current assets, it has been observed that inventory components constituted more than half share of investment in current assets. The view has been justified by the circulation of current assets. The analysis of financing pattern of working capital indicated that major sources used for financing are long term sources and other current liabilities. Overall the liquidity position of the corporation may be said
The corporation suffered losses throughout the period. Operating ratio indicated that the operating expenses have been more than the revenue resulting in operating losses. Profitability in relation to sales revealed that the corporation has relatively better level on this front. It depicts that the corporation has been trying to use its fixed assets properly although it suffered losses. The return on net capital employed and net worth has always been negative values. The performance of the corporation is poor in this respect. Adequate profits are necessary for its survival.

It has been emerged from the above discussion that the corporation has highly levered capital structure. It has adequate amount of fixed assets throughout the period. To analyse the working capital investment it has been found that there has always been blockade in the form of inventory because of seasonal nature of input. Even then the corporation's liquidity position may be said satisfactory. The performance on profit front has been found poor because it has been suffering continuous losses upto 1988. Overall the financial health of the corporation may not be said satisfactory. It should try to use more owned capital instead of borrowed funds.

In HLRDC, the capital structure comprised owned and borrowed funds almost in balanced proportions. Over the time, owned funds increased a little shift in favour of reserves and surpluses. The net worth ratio speaks of the poor net worth level of the corporation. Interest coverage ratio revealed that upto
1984 the corporation has negative values but after that the ratio has improved. In nutshell, the corporation seems to have balanced capital structure.

Fixed assets analysis of the corporation revealed that the corporation has high fixed assets base. Its turnover ratio reflected on the same view that it has not been efficiently utilising its fixed assets throughout the period. From financing point of view, it has been able to manage sufficient long term funds but so was not with the case of net worth. About 50 percent of these assets have been written off as depreciation. Depreciation to sales ratio indicated that quite a considerable portion of sales has been consumed as depreciation charges during the period under study.

As regards the analysis of working capital, it has been studied that current assets investment shared 68.94 percent of the investment in total assets and absolute size has registered regular increase. The composition analysis indicated that the inventory shared more than 50 per cent of the total current assets. Because of so much inventory, quick ratio has been found quite a low. From financing pattern of working capital, the main source of finances are long term source and other current liabilities. Thus, the overall liquidity position has been upto the expected norms inspite of lesser investment in current assets.

Profitability analysis revealed that from gross margin front, position of the corporation has been relatively better but over the time it has been declining. The profitability in relation to sales indicated that it has inefficiency in the use of current assets. From capital employed point of view, the corporation has
positive values but for net worth it suffered losses. This reflected that the increase in profit has not been commensurate with the increase in net worth. On the whole, the performance of the corporation may be termed as good.

The above discussion revealed that the corporation seems to have balanced capital structure. The fixed assets have not been efficiently utilised throughout the period. Here again more amount of working capital has been blockade in inventory. Even then the liquidity position has been upto the expected norms. From profitability point of view, it has been observed that the corporation earned profit after 1984. Overall, the performance of the corporation may be termed as good. To become commercially viable, it is essential to diversify the activities of corporation.

HS:DC:-

The capital structure analysis of HS:DC highlighted that owned funds constituted around one third of total funds available. The debt equity ratio revealed that the corporation used debts more than the desired level. The same view has been testified by quite low net worth ratio. Interest coverage ratio revealed that the corporation has adequate profits to meet its interest liability from 1989 onwards, but before 1989, the corporation has low earnings. Overall, the capital structure may be described as a levered one. It needs to be strengthened through increased proportion of owned capital.

The fixed assets of HS:DC shared 39.47 per cent of total assets. Turnover ratio revealed that the existing assets level has not been justified through existing sales volume. Depreciation to sales ratio supports the same view. From financing point of view
adequate long term funds have been available but net worth position was deplorable. Hence, the corporation has high fixed assets base to carry on its activities.

It has been further studied that in course of analysis the current assets constituted on an average 60.63 per cent of total assets. The current assets turnover ratio revealed that the existing sales volume do not justify the investment in current assets. The analysis of composition highlighted that inventory and loans and advances constituted 90 per cent of the current assets. As far as the circulation of working capital is concerned, cash turnover has been very encouraging. For financing of working capital, the major source are long term source. This corporation too, due to larger inventory size, has low quick ratio. On the whole, liquidity aspect has been up to the expected norms.

Profitability analysis reflected that the corporation has not been able to exhibit any operating efficiency by earning operating profits. The turnover ratio also strengthened the same view. From capital employed point of view, it has positive profits but has poor return on net worth. On the whole, the performance of the corporation seems to be satisfactory.

It has been observed from the above analysis that the corporation has levered capital structure. It has high fixed assets investment to carry on its business. Again, there has always been blockade of funds in the form of inventory. So, they are facing the problem of working capital requirement. It has been suffering losses over the time. Overall, it can be said that the performance of this corporation is not so good. It should take the help of state govt. to solve the problems through arranging loans from state govt. and increasing cash credit level.
In the course of capital structure analysis, it has been observed that the total funds have been raised through owned capital up to the year 1986. From 1986 onwards some funds were raised through secured loans. The net worth ratio revealed that the corporation has relatively better position on the net worth front. Interest coverage ratio revealed that the corporation has unutilised debt capacity from profits angle. On the whole, the capital structure of the corporation has been highly unlevered one.

The analysis of fixed assets highlighted that the corporation has sufficient fixed assets to carry on its activities. The assets turnover has improved over the time and depreciation proportion to sales has declined. It is an indication of the improved use of fixed assets. From financing point of view also the corporation has satisfactory net worth position.

The working capital analysis has brought to light that about three fourth of the total assets has been found in the form of current assets. The size of current assets in absolute terms has registered regular increase throughout the period. The utilisation of current assets, as reflected by the ratio of current assets in terms of number of days of sales, is relatively poor. The analysis of composition revealed that each component constituted almost equal proportion of current assets. For financing the working capital the use of long term sources, creditors plus provisions and the other current liabilities have been made almost in equal proportion. This corporation has larger investment in current assets but liquidity position seems to be relatively weak.
From profitability analysis, it has been emerged that gross profit ratio has been highest in this corporation i.e. 46.73 percent on an average. The operating cost has been increased over the time. From profitability in relation to sales analysis it has been observed that the existing sales volume has not relatively better for these assets. From capital employed point of view, the corporation has highest return over the time. But in case of net worth the ratio is negative. Profitability has been far from satisfactory although it always earned profit except heavy losses in first year.

The above discussion throws light on the facts that the corporation has relatively high unlevered capital structure. It raised funds only in last some years. So, the corporation has unutilised that capacity. The fixed assets have been efficiently utilised throughout the period. The investment in working capital has larger proportion but still liquidity position seems to be relatively weak. The performance on profitability front has been far from satisfactory even after continue profits. Actually, the corporation is a subsidiary company of HSIDC, therefore, it should take the help of its holding company to improve its performance.

HSEDC: -

The capital structure analysis of HSEDC revealed that the corporation, which started its functioning from 1983 onwards, raised unsecured loans for the first time in 1985. The corporation's poor profitability indicated that existing capital structures is appropriate for the corporation. The use of further debt may aggravate the financial position of the corporation. Overall, the capital structure of the corporation is highly unlevered.
The fixed assets analysis highlighted that the corporation has a low fixed assets base. The turnover ratio revealed that due to lower sales volume, the corporation's assets have not been efficiently utilised. From financing point of view, the corporation has been able to provide adequate owned funds. Depreciation to gross block ratio indicated that about 40 percent of assets has been written off as depreciation.

In course of working capital analysis, it has been found that current assets constituted a major portion of total assets and its size in absolute term has been increasing throughout the period. The utilisation of current assets as reflected by the ratio of current assets in terms of number of days of sales, has been very poor. As far as the composition is concerned, the major portion of working capital has been blockade in receivables. The similar view is supported by low receivable turnover ratio. From financing pattern of working capital, the major sources of financing are long term sources and other current liabilities.

The operating position of the corporation has been far from satisfactory during the period. The gross profit has been very low over the time. Profitability in relation to sales reflected poor utilisation of current assets. The return on gross capital employed has positive values but for net capital employed and net worth the profit was negative. Overall the performance of the corporation has improved over the time.

From the above discussion, it has been emerged that the corporation has a highly unlevered capital structure. The investment in fixed assets has been very low. The major portion of working capital investment has been blockade in the form of receivables. The overall performance during the period of study
has improved. The corporation is facing the problem regarding funds. It should use its debt capacity to improve the financial health.

To conclude the study, it may be said that all the corporations selected for the study are different from each other, because of their nature of business. No standard can be fixed as regards their capital structures, fixed assets, current assets etc. Only measure to test the financial position of these corporation is to analyse their financial health. All other measures are adjusted according to their profitability. As regards profitability, it has been observed that three corporations namely HSMITC, HAIC and HSUC have been suffering heavy losses throughout the period. The profitability of other corporations has always been far from satisfactory. Therefore, the corporations need to be strengthened their financial performance to justify their growing investments with increased returns. The return can be increased through treating all the corporations as commercial institutions and seeking the help of financial experts. If these suggestions will be used, these corporations can improve their financial health.