Chapter - 6
Findings, Conclusion and
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The previous chapter covers the detailed analysis and interpretation of financial performance of MMTC Ltd. for the period of 1991-92 to 2012-13. The present chapter deals with the findings, conclusion and suggestions based on the analysis and interpretation of available data of MMTC Ltd and also provide the guidelines for future research work. The efforts have been made to summarize and conclude the whole study and to give meaningful suggestions in order to achieve the objectives of the study. Thus, in the light of the findings, the present study give suggestions for improving the efficiency, effectiveness and profitability of MMTC Ltd. Different financial aspects have been analyzed and tested by applying a number of accounting, financial and statistical tools in order to see whether the MMTC Ltd. has achieved the targeted objectives or not. So, the Researcher's efforts have yielded the resulting performance that can form a platform for various future aspects for the analysis of the financial performance in public sector enterprises.

The present research covers the period of twenty two years from liberalization i.e. 1991-92. The main objective of the study is to evaluate financial performance of MMTC Ltd and to find out various factors which affect the liquidity, solvency, profitability and market performance of the company.

6.1. Findings of the Research

The findings are based on in-depth investigation of the research problem and the analysis of the data of MMTC Ltd. The findings are as under:

From the common size balance sheet it has been found that current assets constitute a huge part of total assets. It consists of approximately 93 per cent while the fixed assets constitute only 7 per cent of total assets during the study period. It is observed that the company has invested a big amount in inventories. The position of current assets was similar throughout the study period while fixed assets of the company have declined. Outside liabilities constitute approximately 77 per cent of total liabilities while shareholder’s funds were 23 per cent which also declined over the years.

Comparative Income Statement analysis elaborates that total sales of MMTC Ltd. has increased on a continuous basis in later decade of the study as it was Rs. 8132 crore in 1991-92 which stood at its highest level of Rs. 67052 crore in 2011-12. Profit before tax of MMTC Ltd. shows mixed trend of growth over the study period. It was declined in first decade of the study. Further, it increased in first part of second
decade while it became weaker from 2007-08 to 2011-12 due to global recession, high price of commodities that increased labour and transport costs. The same case happens to be with the profit after tax. Cost of sales of the company has increased over the years on a continuous basis similar to total sales of the company. From the comparative balance sheet it has been observed that MMTC Ltd. registered positive growth in current assets during the study period. It jumped from Rs. 4055 crore in 2003-04 to Rs. 11995 crore in 2011-12, shows that the performance of the company is quite satisfactory. The fixed assets are lacking behind the growth of current assets. The value of fixed assets was Rs. 249 crore in 1991-92 which became Rs. 748 crore in 2011-12. The current liabilities of the company have shown a mixed trend of growth over the study period.

MMTC experienced a robust growth in sales in second decade of the study, the sales figures raised by leaps and bounds and the growth in sales was as high as 150 per cent. However, weak gross profit margin, despite of high growth in revenue indicates that the cost of sales for the company is an area of concern which remains marginally lower than the sales figure, thereby weakening the company’s gross profitability. MMTC is a company, which is involved in trading, therefore, though it is successful in maintaining high sales volume in absolute terms, its profit after tax was very low during the study period. From the testing of hypothesis, it has been found that there was a significant relationship between sales and profit after tax of MMTC Ltd during the period under study. From the analysis, it is also cleared that sales had a significant impact on shareholder’s fund of the company.

The cost of sales of MMTC Ltd. is very high during the study period as it constitutes approximately 98 per cent of sales during the study period which is very high and remaining 2 per cent is the profit which is quite low. It has been found that the company earned very low profit which followed a declining trend over the years. The gross profit of the company was 2.12 per cent in 1999-2000 which diminished to 0.41 per cent in 2011-12. It has been observed that the cost of sales has increased over the years having its direct impact on the profit earning. The reason behind this could be the increasing direct expenses and the purchase of materials on high rate from international markets.

Economic Value Added (EVA) elaborates whether the company has added any value to its shareholders’ wealth in a specific period of time. MMTC Ltd. registered a significant growth in terms of value addition to its shareholders’ wealth from 2002-03
to 2012-13. The company showed a low addition in economic value of Rs. 36 crore in 2002-03 causing its board approved a reduction of capital which affects the performance. In 2003, MMTC acquired Rs. 800 deal from Japanese and South Korean companies for the supply of iron ore which ultimately enhance the profitability of the company and it is helpful in registered a significant growth in EVA over the study period. In the same year, the company initiative of joint venture with Odisha Government to start Neelanchal Ispat Nigam Limited has emerged as the second largest exporter of pig iron from the country. The company has added value to shareholders' wealth during the later period of the study i.e. Rs. 156 crore in 2004-05 to 193 crore in 2009-10. Despite the weak profit margins, company managed to keep its absolute economic value added positive. The reason for this can be traced from the lower weightage average cost of capital and high volume of sales.

The company did not add any value in market price of shares in 2002-03 as it indicated a negative MVA of Rs. 392 crore, but it registered a tremendous growth in value addition of its shares value during the later period of the study viz it was Rs. 65920 crore in 2012-13. It has been judged that the company generated value to the shareholders’ investment through the enhancement of stock performance in share market. On the basis of MVA analysis it can be concluded that share prices enjoyed high price earnings and the share was fairly overvalued for most of the period resulting in high market value addition which was not properly based on the fundamental factors of the company.

Event study highlights the impact of an event on share value of the company. It shows the performance of a company’s share in market before and after the announcement of an event by the company. MMTC Ltd. made an announcement of stock split in July, 2010 and decided to split its share from face value of Rs. 10 to face value of Re. 1 (Swap 10:1) giving an additional bonus share to its shareholders. This event has no significant impact of share performance in market and the shareholder’s of MMTC Ltd. did not earned abnormal profit before and after the announcement.

Short term liquidity position is found satisfactory with an average current ratio of 1.91 and liquid ratio 1.59 respectively. The cash position has a high fluctuation but mean value of 0.55 indicates a satisfactory cash level. Moreover, the excess cash was blocked from 2006 to 2010 when average ratio remained higher than one. Considering the overall liquidity position, it has been found that the company remained in a comfortable position for most of the time during the study period. The result of
hypothesis, it has been found that current and cash position ratios have no significant impact on return on capital employed during the study period while a significant impact of liquid ratio found on return on capital employed.

The profitability position has been measured in terms of sales and investment. The profitability position of MMTC Ltd. in terms of sales was not good as its gross profit and net profit avails of a mean value of 1.72 and 0.62 per cent respectively over the study period, while in terms of investment it was comparatively better to sales as return on capital employed and return on net worth were around 4.85 and 9.10 per cent. The results show that the company has a high operating ratio throughout the study period as it avails mean value of 99.00 per cent. It reveals the company is more concerned to its operations rather than profit margins. From the analysis, it is found that there is a significant impact of profitability ratios on return on capital employed.

The result of DuPont analysis reveals that the company managed to offer satisfactory return on equity due to high asset turnover and equity multiplier despite of low profit margin. The performance of the company is quite satisfactory in the context to generate value for shareholder’s wealth.

After analyzing the data, it has been found that the interest coverage and proprietary ratio has a significant impact on return on capital employed of MMTC Ltd during the study period. Proprietary Ratio highlights the proportion of shareholder’s fund and total assets. From the analysis, it has been found that the proprietary ratio is indicating mixed performance trend during the study period. Interest coverage ratio reveals ability of the company to pay interest expenses from earnings. Interest coverage ratio reveals that profits were not comfortably adequate to bear the interest expenses every year and its mean value remained just marginally higher than one. The interest coverage ratio of MMTC Ltd. shows the fluctuating trend over the study period.

The main activities of the company are export of metals and import of minerals and fertilizers as well as domestic trade of gold, silver and precious stone etc. The main findings of trade practices are as follows:

The export performance of MMTC Ltd was not so good as compared to its import. The company did not focus on export during the study period. It constituted 22 per cent of total turnover in 1991-92 which increased over the years and constitute 37.52 per cent of total trade in 2002-03. Further, it declined and reached to only 10.49 per cent of total turnover in 2012-13. The result of the hypothesis point towards that there is an impact of export on total turnover of the company during the period under study.
The main reason behind the low export activity is decreasing demand of Minerals and Metals at international markets. The acceleration in import activities of MMTC Ltd. is to fulfill the domestic needs and export to the third countries. In 2002-03, the export was at its highest level at 37.52 per cent of total turnover. The highest growth in export i.e. 60.29 per cent was registered in 2004-05, while the highest decline was observed in 2011-12 which was 44.63 per cent. The export activity registered a fluctuating cum declining trend during the study period. On the basis of the analysis, it has been found that the MMTC Ltd. paying attention on import during the study period as it shows a large contribution in total turnover. It constitutes 76.90 per cent in 1991-92 which maintained throughout the study period and contributed 92.59 per cent of total turnover in 2011-12. However, from the analyses, it has been found that the import activity of this company played a vital role in the total turnover and company focused on import as compared to other trade practices. The result of the study reveals that there was a significant relationship between import and total turnover of MMTC Ltd during the period under study.

The domestic trade of the company was very low as it constituted only 1.08 per cent in 1991-92. The company opened its outlets, jewellery shops namely Sanchi Silverware and invested heavily on advertisement in local markets and exhibitions. It borne positive results and increased domestic trade activities helpful the company constitutes 15.77 per cent of total turnover in 2012-13. Domestic trade constitutes very low contribution in total turnover during the study period. The company has not focused much on domestic trade as compared to other activities. MMTC Ltd has focused on domestic trade from last few years. From the analysis, it has been found that there was a relationship between domestic trade and total turnover of the company. The company has opened jewellery shops at metro cities and targeted the local customers through Sanchi Silverware.
Table - 6.1 Summary of Hypotheses

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Null Hypotheses</th>
<th>Research Instrument</th>
<th>p value</th>
<th>Results</th>
<th>Inference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>There is no significant correlation between Sales and Profit after Tax (PAT).</td>
<td>Correlation</td>
<td>0.04</td>
<td>Reject</td>
<td>Significant Correlation</td>
</tr>
<tr>
<td>2.</td>
<td>There is no significant impact of Sales on Shareholder’s Fund.</td>
<td>Regression Analysis</td>
<td>0.00</td>
<td>Reject</td>
<td>Significant Impact</td>
</tr>
<tr>
<td>3.(i)</td>
<td>There is no significant correlation between import and total turnover.</td>
<td>Correlation</td>
<td>0.000</td>
<td>Reject</td>
<td>Significant Correlation</td>
</tr>
<tr>
<td>3.(ii)</td>
<td>There is no significant correlation between domestic trade and total turnover.</td>
<td>Correlation</td>
<td>0.000</td>
<td>Reject</td>
<td>Significant Correlation</td>
</tr>
<tr>
<td>4.</td>
<td>There is no significant impact of export on total turnover.</td>
<td>Regression Analysis</td>
<td>0.001</td>
<td>Reject</td>
<td>Significant Impact</td>
</tr>
<tr>
<td>5.</td>
<td>The event of announcement of stock split has no significant impact on stock prices of MMTC.</td>
<td>Event Study</td>
<td>t-value</td>
<td>Accept</td>
<td>No significant impact of announcement</td>
</tr>
<tr>
<td>6.(i)</td>
<td>There is no significant impact of Current Ratio on Return on Capital Employed (ROCE).</td>
<td>Regression Analysis</td>
<td>0.100</td>
<td>Accept</td>
<td>No Significant Impact</td>
</tr>
<tr>
<td>6.(ii)</td>
<td>There is no significant impact of Liquid Ratio on ROCE</td>
<td>Regression Analysis</td>
<td>0.044</td>
<td>Reject</td>
<td>Significant impact</td>
</tr>
<tr>
<td>6.(iii)</td>
<td>There is no significant impact of Cash Position Ratio on ROCE</td>
<td>Regression Analysis</td>
<td>0.443</td>
<td>Accept</td>
<td>No Significant impact</td>
</tr>
<tr>
<td>7.(i)</td>
<td>There is no significant impact of Gross Profit Ratio on ROCE</td>
<td>Regression Analysis</td>
<td>0.045</td>
<td>Reject</td>
<td>Significant impact</td>
</tr>
<tr>
<td>7.(ii)</td>
<td>There is no significant impact of Net Profit Ratio on ROCE</td>
<td>Regression Analysis</td>
<td>0.000</td>
<td>Reject</td>
<td>Significant impact</td>
</tr>
<tr>
<td>7.(iii)</td>
<td>There is no significant impact of Operating Ratio on ROCE</td>
<td>Regression Analysis</td>
<td>0.012</td>
<td>Reject</td>
<td>Significant impact</td>
</tr>
<tr>
<td>7.(iv)</td>
<td>There is no significant impact of Return on Net Worth on ROCE</td>
<td>Regression Analysis</td>
<td>0.000</td>
<td>Reject</td>
<td>Significant impact</td>
</tr>
<tr>
<td>8.(i)</td>
<td>There is no significant impact of Interest Coverage Ratio on ROCE</td>
<td>Regression Analysis</td>
<td>0.009</td>
<td>Reject</td>
<td>Significant impact</td>
</tr>
<tr>
<td>8.(ii)</td>
<td>There is no significant impact of Proprietary Ratio on ROCE</td>
<td>Regression Analysis</td>
<td>0.006</td>
<td>Reject</td>
<td>Significant impact</td>
</tr>
</tbody>
</table>

6.2. Conclusion

The Indian mineral sector contributes a large share in the Gross Domestic Product (GDP) of the country. The future of the Indian Mineral Industry is promising and its growth potential is high as there is sufficient domestic demand and good scope for export of Minerals and Metals products. Meeting domestic consumption growth and export demand to some extent, therefore, impose a tough challenge for the Indian Mineral Sector. In the early 1990s the Government of India initiated major trade policy reforms, which favored increasing privatization and liberalization of all sectors of the economy and Mineral Sector was no exception to this. Minerals and Metals sector particularly, the handling, processing and marketing of different Minerals, Metals, Fertilizers, Coal and Hydrocarbon which were reserved mainly for the public sector. It will be right to study and analyze the financial performance of MMTC Ltd and to suggest measures to boost up trade and improve its profitability.
India is a leading consumer of Gold and Precious Stones and it also constitutes an important percentage of its export and MMTC is the most significant player in this area. Therefore, proper policies for its financial restructuring are required. Besides, India is among fastest growing economy which required foreign exchange earnings. MMTC Ltd. being an important player in cross border and canalized trade can be managed favorably for specific Gold in particular and national policy goals in general. MMTC Ltd has undergoing the toughest face of its life during the last two decades and therefore there is an urgent need of a revival plan for a company to avoid creeping management and efficiency turning the company towards the negative quadrants.

MMTC also needs to rejuvenate its domestic operations and look for profitable expansion both horizontally and vertically in its domestic operations. The company can assist the Indian economy by controlling its import and promoting export in its trade thereby checking the alarming trade deficit of the country.

Mineral sector is one of the key sectors in Indian economy. There are a number of Indian companies which are involved in the business of minerals and metals at international as well as national level. Adani Enterprises, Singer India Ltd., State Trading Corporation, National Minerals Development Corporation, UB Holdings and Sunrise Asian Ltd. etc. are the main competitors of MMTC Ltd. The Researcher has evaluated the financial performance of MMTC Ltd. by taking the financial statements of the company into consideration. From the analysis and interpretation of data it has been concluded that the financial position of the company is quite satisfactory in terms of liquidity and solvency position. Profitability of MMTC Ltd. was evaluated in two terms i.e. in terms of sales and in terms of investment. The profitability position of the company is not good in terms of sales as it shows that the gross profit and net profit has very low contribution in total sales while the profitability position of MMTC Ltd. in terms of investment is satisfactory.

The Researcher concluded that the company has added a significant value in shareholder’s wealth. It has also been observed that NOPAT of the company increased on a continuous basis. The study elaborates that market performance of the share of MMTC Ltd. is quite satisfactory as it shows rapid growth in Market Value Addition. Market price of MMTC’s share registered rapid growth till 2009-10. In July 2010, the company split its shares from Rs. 10 to Re. 1. The impact of this announcement has been tested by event study which concluded that stock split decision had no significant impact on share price of the company. It has been judged
that the cost of sales constitutes a large contribution in total sales. The analysis reveals that the company has focused to increase its trade volume rather than profit. The reason behind low profitability is that the company is focusing to capture the global market rather than increasing the profit. Current assets cover a major part of total assets which shows that the company has a big stock of material while fixed assets are having very low percentage. Cash covers the half of the assets of MMTC over the study period.

6.3. Suggestions

Liberalization and globalization helps in upgrading the mineral sector of India. This sector has proved its hallmark at the global market. MMTC Ltd. has become the world supplier of minerals, metals, fertilizers, coal and hydrocarbon at a competitive cost. Although MMTC Ltd. is performing well in all spheres of its operations, still there is a wide scope for improvement in trade and financial performance of this company. Further improvement can be achieved with the help of successful implementation of following suggestions:

- The company should design its strategies to reduce the cost which will enhance the EVA in substantial manner either through cost cutting or through revenue enhancement.
- MMTC Ltd. should trade a large proportion of its equity base in market to increase its market capitalization and reduce its cost of capital so as to increase shareholder’s wealth.
- The company should follow the policy of disinvestment to increase the stake of private players so as to enhance its managerial potential efficiency and consequently its area of operation may widen.
- The company should acquire the capital at low cost that will yield more positive impact on the book value of shareholder’s fund.
- It has been judged that the liquidity position of MMTC Ltd. is satisfactory, it should be kept up by the company.
- On an average, company is maintaining high cash reserves that can be invested for some alternate avenues so that company can fetch additional return on the idle cash.
• The company should maintain its current liabilities as of now because the proportion of current liabilities to current assets, quick assets and cash is to be favorable for the company's short term solvency position.

• Profitability of the company is very low. It may be because of higher cost of purchase. Hence, the company should purchase goods on low price or low cost and try to reduce the selling and distribution charges and the company should increase its profit margin by controlling cost of sales, selling, distribution and transportation expenses as well as effective inventory management.

• The company should reduce its loan practices and focus on acquiring equity capital to reduce its interest expenses because of low profit margin.

• The trends of Interest Coverage Ratio (ICR) shows alarming figures which need to be addressed instantly because high interest payments with low profit wipe away the equity base of the company.

• For checking the ICR, company should restructure its capital and pay-off interest bearing debt as soon as possible and work upon improving its profitability so that solvency problem can be avoided in future.

• Proprietary ratio of MMTC declined sharply in last decade, however company tried to replenish its equity base by issuing additional equity in 2010 but it needs further improvements of its equity base by enhancing reserves and fresh equity infusion.

• The company should use less debt as compared to equity in order to improve its solvency position.

• MMTC Ltd. should minimize its direct expenses so as to improve profitability in terms of sales and accelerate trade activities to boost up profitability in order to restore the financial health.

• MMTC Ltd. should focus on international markets in order to improve its business.

• Financial expenses of MMTC Ltd. are higher. In order to overcome this company should reduce loans and create capital from equity.

• The company should increase the trade volume by identifying and exploring new markets of its products at international as well as national level.

• For the fulfillment of domestic needs company should accelerate the import activities.

• Company should search new markets for purchasing economical and best raw material.
• It has been revealed by the analysis that import is main activity of MMTC Ltd. So, it needs to remember that the policies made by the Government should be favorable to import.

• As MMTC Ltd. is the largest non-oil importing company of India, it should enter in oil import for price stability in oil prices and also enhance its trade activities at domestic level.

• The company should open its outlets, shops, showrooms in urban as well as rural areas of the country and also trade activities related to fertilizers and jewellery and other general trade items in rural areas.

• The company should step up to other areas for exports in its current business and to compete globally.

6.4. Limitations of the Research

Limitations are always there in any study. This research also has some limitations which have been mentioned as follows:

• The study is purely based on secondary data obtained from the annual financial reports of the company, websites and various published sources. Therefore, findings of the study are subject to accuracy of such data collected from these sources.

• Financial statements are normally prepared on the concept of historical cost. They do not reflect values in terms of current cost. Thus, financial analysis on such financial statements or accounting figures would not portray the effects of price level changes over the period.

• Financial analysis does not depict those facts which cannot be expressed in terms of money, for example, efficiency of workers, reputation and prestige of the management.

• The data taken for analysis covers only a period of 22 years i.e., from 1991-92 to 2012-13. Hence, findings are limited to this period only.

• The researcher is an external evaluator of MMTC Ltd, hence the inside view of MMTC is beyond the purview of researcher.

6.5. Directions for Future Research

The present study was devoted to evaluation of financial performance of MMTC Ltd. since liberalization. The Researcher feels that there is always a scope for further
researches. For the purpose of study, the largest international trading company of India was selected as a sample. This study is limited only for one Government Trading Company of India but there is still scope for further research in the evaluation of the performance of MMTC Ltd. in comparison to public and private players of the same industry and a comparative analysis would be of great value for academicians and policy makers. It is felt that a research programme can be undertaken by adding some other trading companies of same business to deliver deeper into the problem faced by this particular sector. The study may also be undertaken for productivity performance evaluation in the area of marketing, human resource, managerial efficiency etc. A full fledged research programme may also be ventured in different aspects of MMTC Ltd. which are currently supposed backbone of Indian Mineral Trading Sector. The researcher has covered key financial aspects of this corporation. However, there is a wide scope for further studies as well:

- There are a number of State owned corporations engaged in trade of Minerals and Metals. The researcher has taken up only one corporation for the study. So, the future researchers may evaluate the financial performance of similar corporations i.e. STC, NMDC, GMDC etc.
- Since only financial aspect of this corporation has been analyzed, many other aspects such as human resource management, marketing strategies, costing method, managerial decision, inventory management etc can also be studied in future.
- This study is of a limited period of twenty two years i.e. from 1991-92 to 2012-13. Still, financial performance can be evaluated in further periods of time. Thus, this field is always open for further researches.
- The study analyzed financial statements of MMTC through different accounting and financial techniques, which will contribute further to management of the company as well as other concerned parties.
- The study will help to other interested parties and stock holders as better management of financial statements and its analysis will lead to improvement in performance and profitability of the company.
- The study can also be helpful to other similar organizations and enterprises as a whole as well as for analyzing their financial statements and its interpretation through accounting and financial techniques.