Chapter - 6
6.1 Summary:
The Present Study addressed itself to the financial appraisal of commercial undertakings. Financial appraisal of commercial undertakings can be conducted on the basis of its efficiency in developing maximum production, turnover, achieving a satisfactory level of profits, achieving a target market share, maintaining liquidity, survival and managing its affairs effectively. These financial management objectives differ from one another because different objectives are interpreted in different manner. While interpreting these financial management objectives, sometimes rising trends of certain financial ratios like profitability ratios and turnover ratios depict favourable indications and falling trends of certain other financial ratios like debt equity ratio depicts favourable indications. Further, neither rising nor declining trends of certain other ratios like working capital turnover ratio is beneficial to the business. Therefore, these financial management indicators cannot be added to compute the overall financial performance of an enterprise and no conclusion can be drawn about the overall affairs of the company. Under these circumstances, it is not feasible to compare the overall financial performance of one concern with others or with its own performance over the past years or with industry's norms and standards. It is because of this, a weighted composite index model has been developed to compute the overall financial performance of selected industries and to compare the overall financial position of these industries with others in the same industrial sector or with its own financial performance over the past years or with normative standards.
The financial performance of 100 selected companies from four different industrial sectors has been analysed on the basis of its short-term and long-term solvency, profitability, efficiency and effectiveness with a view to calculate the overall financial affairs of these companies.

Liquidity strength is evaluated in the context of flow of funds in the business to keep the operating cycle moving at desired capacity level at the least possible cost. Profitability is measured as net effectiveness and soundness to judge the viability status of selected companies under study. Efficiency of the business is measured w.r.t. the speed at which the assets are converted into sales. Various capitalisation ratios viz. CFR, EPS and DPS etc. are evaluated to assess the future rate of return and dividend policy of the companies. Further, turnover ratios are explained w.r.t. the degree of efficiency in the utilisation of total assets and the use of funds entrusted in the business.

Financial appraisal of selected companies has been conducted with the help of ratio analysis because it enables the analyst to draw a quick and meaningful interpretation of financial statements which consequently results in a complete and in depth understanding of financial performance of corporate entity.

These financial ratios were measured in different units and these could not be added directly. Hence, financial performance of these companies has been summarised by using 'Z-sum' technique having mean value zero and standard deviation unity. The standardised score has an additive property. But the significance of different industries varies according to the nature of each industry. Hence,
industry-wise weights are assigned with the help of principal component analysis or factor analysis.

In order to identify different dimensions of financial performance of selected companies, rotated factor matrix is derived by using principal component analysis i.e. with unity along the diagonal of the correlation matrix.

Further, on the basis of rotated factor matrix, various aspects of the financial performance and association of selected financial variables have been identified.

Thereupon, a weighted composite index model is developed to evaluate the overall financial performance of selected companies.

Statistical technique of normal distribution has been applied to the weighted composite index to develop industry’s norms and standards.

In order to draw some conclusion about the overall financial performance of selected companies and to make suggestions for taking corrective action, the overall financial performance of these companies is compared with other concerns in each industrial sector or with its own performance over the past years or with industry’s norms and standards.

The composite financial performance of selected companies from 1991-92 to 1995-96 has been presented in Table 5.1-5.4. Further, for the sake of meaningful analysis of financial results, selected companies have been categorised into four equal quartiles viz. excellent, above average, below average and very poor.
Excellent or very highly developed companies are those which have the financial results more than the calculated value of industry’s norms, whereas financial performance of above average companies varies from 0 to the plus value of industry’s norms. Companies having working results from 0 to minus value of industry’s norms are grouped in below average category and those having financial results below the minus value of industry’s norms are termed as very poor companies.

The Industry’s norms of General Engineering and Electronics Industries were 2.10, 2.15, 2.15, 2.11 and 2.13 respectively during the period under study. Financial performance of this industrial sector reveals that during 1991-92 Hero Honda Motors Ltd. achieved the best results i.e. 11.62, followed by Bajaj Electricals Ltd., on the other hand Otis Elevator Ltd. was the least developed company with financial results of -14.06 immediately preceded by Atlas Copco Ltd. and Ashok Leyland Ltd. During 1992-93, Usha Beltron Ltd. comes to be the most developed company with financial results 20.29 while Otis Elevator Ltd. again reflected extremely poor performance i.e. -14.31 during the year. Bajaj Electrical Ltd. emerged the highly developed company during 1993-94 with working results of 16.13 followed by Usha Beltron Ltd. and Bajaj Auto Ltd. However, the ranking pattern of inverse performance has not shown any significant change. As evident from Table 5.1, Otis Elevator Ltd. once again revealed deteriorating performance i.e. -14.50 during this year.

Punjab Tractors Ltd. was at the top in 1994-95 with working results of 11.96 followed by Bajaj Auto Ltd. and Hero Honda Motors Ltd., but on the contrary Kirloskar Brothers Ltd. was the least developed company with financial results of -9.22.
During 1995-96, Punjab Tractors Ltd. again showed the best results i.e. 14.39. Apart from this, Bharat Bijlee Ltd., Hero Honda Motors Ltd. and Bajaj Auto Ltd. also displayed improved working results during this year. Among the least developed companies, Kirloskar Brothers Ltd. was at the top yielding financial results of -9.93 immediately preceded by Ashok Leyland Ltd. and Rico Auto Industries Ltd.

As is evident from Table 5.2, the industry's norms/standards of Chemical and Pharmaceuticals Industries were 2.08, 2.02, 2.09, 2.04 and 2.25 respectively during five years under study. During 1991-92, Finolex Industries Ltd. achieved satisfactory working results i.e. 12.54, followed by United Phosphorus Ltd. and Bayer India Ltd., on the other hand, E.I.D. Parry Ltd. reflected extremely poor performance i.e. -9.73 during this year. Hindustan Lever Ltd., Dr. Raddy's Laboratories and Parke-Devis Ltd. emerged highly developed companies in 1992-93, while Finolex Industries turned out to be least developed company indicating values of financial results -10.76. During 1993-94, financial performance has not shown any significant change from previous year as is evident from the working results of these companies.

Hindustan Lever Ltd. comes out to be the most developed one in 1994-95 with working results 13.55, while Rhone-Poulene Ltd. was least developed indicating values of financial results at -10.50. During 1995-96, Hindustan Lever Ltd. again revealed excellent performance i.e. 22.10, immediately preceded by Duphar-Interfran Ltd. Conversely, Ficom Organics Ltd. disclosed the most deteriorating financial performance i.e. -10.07 during this year.

Table 5.3 indicates that the values of industry's norms/standards were 1.90, 2.13, 2.11, 2.16 and 2.11 respectively
in respect of Textiles Industries during the period under study. It has been observed that out of 25 companies, Himatsingka Scide Ltd., emerged the highly developed company with financial results 21.40, 18.42, 17.45, 19.69 and 19.35 respectively during the five years under study. Apart from this, Century Textiles and Industry Ltd. also revealed satisfactory results during the entire period under study.

Among the least developed companies, JCT Ltd. was at the top for three years i.e. for 1991-92, 1992-93 and 1995-96 yielding financial results -8.66, -8.46 and -12.52 respectively, while Eurotex Industries Exports Ltd. disclosed extremely poor performance i.e. -9.87 and -8.15 in the remaining two years. In addition, Arvind Mills Ltd. also reflected extremely poor performance during the entire period under study.

The Industry's norms/standards of Mining, Metallurgical and Cement Industries worked out to be 2.04, 1.99, 2.11, 2.17 and 2.12 respectively during the five years under study as indicated by Table 5.4. During 1991-92, Saurashtra Cement Ltd. achieved the excellent results i.e. 19.67 and emerged as highly developed company, immediately followed by Madras Cement Ltd. In 1992-93, Sesa Goa Ltd. with financial results of 14.83 was at the top. Madras Cement Ltd. again got the second position. During 1993-94 to 1995-96, Madras Cement Ltd. turned out to be the most developed company yielding financial results 18.45, 22.73 and 18.72 respectively. Apart from this, Associated Cement Company Ltd. and Shree Cement Company Ltd. also achieved excellent results during the entire period under study.

Among the least developed companies, Bellary Steels and Alloys Ltd. was at the top in 1991-92 with financial results
-10.49, immediately preceded by Mysore Cement Company Ltd. During 1992-93 to 1995-96, Mysore Cement Company Ltd. displayed the inverse financial results i.e. -10.01, -9.46, -10.36 and -8.97 respectively. In addition, Bharat Forge Ltd., Goetze India Ltd. and Hindustan Sanitaryware Industry Ltd. also revealed extremely poor performance during the entire period under study.

6.2 Conclusion:

Financial performance evaluated in terms of profitability, liquidity, efficiency and effectiveness turned out to be an objective technique for predicting corporate health of an enterprise.

The financial performance determined through financial ratio analysis revealed the significant operating and financial characteristics of a firm.

The integrated approach of financial ratios used for planning the future of an organisation provided invaluable help to evaluate the competing proposals. The degree of efficiency or deficiency of an enterprise measured from the comparative study of operating ratio provided an opportunity for a timely action to control the situation and to take remedial steps for improving the operating results.

The efficiency of financial ratios was demonstrated by Beaver (1966). In fact, he found that cash flow over total debt was able to predict financial health and failure of firms five years in advance, since it showed the least percentage of error in predicting for sample firms.

Yadav (1986), confirmed that application of statistical technique such as factor analysis and development of a
multivariate model were useful in measuring and monitoring the financial performance of companies.

Several other studies and multivariate models are also available and presented by Altman (1968), Wilcox (1976), Banerjee (1979), Robertson (1983), Agrawal and Joshi (1992). However, there appears to be a tendency for some of these models to be sample specific, as such a note of caution needs to be injected while analysing these models.

A weighted composite index model developed through rotated factor matrix yielded the most reliable results about the overall financial performance of commercial undertakings.

A careful analysis of financial data brings out that the average gross profit ratio, return on capital employed, cash flow ratio, earning to equity, earning per share and price-earning ratio emerged significant in all the selected industries during the period 1991-92 to 1995-96. These ratios remained fairly stable and performed well than other ratios in terms of financial performance of selected industries.

These variables also disclosed significant standard deviation, which implies that these financial ratios revealed a good degree of variation during the period under study.

With a view to emphasising the relation among various financial variables, zero-order correlation matrix is developed and significant and positive correlation is found between current ratio and liquidity ratio with profitability ratios, which reveals that both short-term solvency and profitability of the selected companies varied similarly
during the entire period under study. The inverse or negative correlation between CR & ATR and WCTR showed that whereas the former ratios speak about the short-term solvency of companies, the same are invariably placed as demonstrator to turnover ratio while calculating working capital turnover to show inverse relationship.

The inverse or negative correlation between GPR & NPR with efficiency ratios reveals that both moved in opposite direction during the period under study.

The positive correlation between CFR, ETOE, DTOE and EPS with profitability ratios reveals that utilisation of capital and earning of profits by the selected companies fluctuated in the same direction.

Likewise, all the efficiency ratios were found positively correlated with capitalisation ratios and turnover ratios, which implies that these variables varied similarly in respect of all the selected industries during the period under study.

All the capitalisation ratios and turnover ratios are found significantly and positively related with each other during the majority of period under study. It implies that effectiveness in utilisation of capital and management of assets fluctuated in the same direction.

All the explanatory variables forming part of efficiency ratios are found significantly and positively related among themselves. Similar correlation was found in case of explanatory variables forming part of liquidity and turnover ratios.
Apart from establishing the relation among selected explanatory variables through correlation analysis, efforts have been made to identify some of the important dimensions of financial performance of selected companies with the help of varimax factor rotation. The extracted factors brought to the fore the dimensions of financial performance that indicated the significance of selected indicators of financial ratios.

It is evident from the values of factor loading that most of profitability ratios and efficiency ratios emerged significant variables in **General Engineering and Electronics Industries** because these are found to be significantly associated with more than one factor during the period under study. In addition to this, asset turnover ratio also formed association with two factors in 1993-94. The remaining variables formed association with at least one factor during the period under study.

Out of selected nineteen variables, GPR, NPR, ROCE, ETOE, DTOE and WCTR emerged significant in case of **Chemical and Pharmaceuticals Industries**, as they revealed significant association with more than one factor during the period.

ROCE, NS/TA, NS/ND, ETOE, PER, DYR, DTOE and WCTR turned out to be significant variables in case of **Textiles Industries**, because of their significant association with more than one factor during the period under study.

Among the selected financial variables of **Mining, Metallurgical and Cement Industries**, GPR, NPR, NS/ND, NS/P&M, EPS and WCTR emerged as the significant variables due to their association with more than one factor during the period under study. The remaining financial variables
are found to be associated significantly with at least one factor during the period under study. Based on the unit-wise financial analysis of weighted composite scores. It is found that, Hero Honda Motors Ltd. showed the best performance among the selected General Engineering and Electronics Industries on account of continuous growth in production, turnover and exports.

Bajaj Electricals Ltd. presented satisfactory results in the initial three years on account of increase in the turnover of lighting division and consumer durable division.

Usha Beltron Ltd. achieved improved performance during 1992-93 and 1993-94 mainly due to growth in production and sales. Sales in terms of volume in number of Tractors of Punjab Tractors Ltd. in 1994-95 and 1995-96 moved up immensely. Outturn of castings at the foundry increased and the overall turnover were substantially higher during this period.

Tata Unisys Ltd. recorded a good performance during the entire period under study due to continuous growth in turnover and exports. "SIGNBANK", a software developed by the company (for signature verification) was sold in more than 50 countries worldwide.

The financial record of Otis Elevator Ltd. can be regarded as the poorest in the group of General Engineering and Electronics Industries due to paucity of profits on account of all-round increase in the cost of inputs. At the same time, exports of the company also declined due to intense competition with Japan, Korea and China in the South East Asian Markets.
Profit margins of Ashok Leyland Ltd. remained under pressure due to steep rise in input costs. In addition, there was substantial rise in finance charges arising out of increase in borrowing rates and creation of assets during the period. The recessionary trends set in the early period of 1992 were further intensified. Commercial disturbances and other acts of terrorism in certain parts of the country resulted in steep decline in the overall performance of the company.

The other companies in the group revealed moderate performance during the period under study.

Among selected companies of Chemical and Pharmaceuticals Industries, Finolex Ltd. and United Phosphorus Ltd. attained the first and second position in the initial year under study due to improvement in sales turnover and profits.

The improved performance of Hindustan Lever Ltd. from 1992-93 to 1995-96 were attributed to introduction of new products, improvement in product-mix, improved technical process leading to reduced product cost and increase in productivity at all level.

Parke-Devis (India) Ltd. achieved growth in turnover and exports during the period under study.

Dr. Raddy's Laboratories Ltd. exported new formulations to Russia and China which resulted in increase of turnover. The company also started manufacturing a new bulk drug 'Ketorolac' which received satisfactory performance.

The operations of E.I.D. Parry (India) Ltd. were adversely affected during 1991-92 due to labour unrest at Sugar and
Fertiliser Industries. Profitability was lower due to higher interest costs during this period.

Rhone-Poulence (India) Ltd. showed extremely poor performance from 1992-93 to 1993-94. Sales turnover of the company was affected due to recessionary trends, prolonged transporters strike and due to power utilisation of production capacity. The company discontinued the production of sulphonamide and methylimidazol due to Government not granting price escalations to compensate the increase in cost of inputs. The company also discontinued the production of 'planofix', an agrochemical product, as its production was handed over to its subsidiary. Profitability was adversely affected by all-round increase in input costs which affected the overall results of the company.

The shut down of agrochemical plants of Ficom Organics Ltd. for upgrading the capacity expansion and modification coupled with unfavourable economic conditions resulted into deteriorating performance of the company in the concluding year under study.

The other companies in this industrial sector disclosed average financial performance during the period under study.

Himatsingka Seide Ltd. emerged as the best unit in the group of Textiles Industries with consistent high ranks of financial results on account of continuous growth in production and sales. The excellent results of the company were also attributed to higher value addition, because of improvement in product design and low cost of raw material.

The highly satisfactory financial performance achieved by Century Textiles and Industries Ltd. was due to improvement
made in product quality and due to introduction of new varieties from time to time. Exports reached a record level and the company was accorded the status of 'Star Trading House'.

Extremely poor performance of JCT Ltd. was due to steep increase in excise duty, poor off-take of textile material, increase in the cost of basic raw material, general recessions in textile market and unprecedented rise in cotton prices.

The performance of Arvind Mills Ltd. was adversely affected due to an unprecedented rise in cost of cotton.

The deteriorating performance of Eurotex Industries and Exports Ltd. during 1993-94 and 1994-95 were due to recessionary trends in global economy on account of strengthening of Indian rupees.

The financial performance of other selected companies in the group remained moderate during the period under study.

Madras Cement Ltd. achieved the best performance out of selected companies of Mining, Metallurgical and Cement Industries on account of continuous growth in sales turnover and export of cement to Bangladesh, Sri Lanka, Burma, Maldives and Indonesia.

Associated Cement Companies Ltd. achieved satisfactory financial performance due to improved operational efficiency. During 1991-92, capacity utilisation reached a record level of 102% despite infrastructural constraints of power cuts. The improvement in production continued in the ensuing years.
Improved financial performance achieved by Saurashtra Cement Ltd. and Sesa Goa Ltd. during 1991-92 and 1992-93 was due to increase in turnover and profits.

The satisfactory performance achieved by Shree Cement Ltd. was due to better capacity utilisation and effective plant operation with saving in power and fuel. Steps were taken by the management for increasing the efficiency and re-engineering the working system.

The main reasons for deteriorating performance of Mysore Cement Ltd. were short supply of coal, frequent stoppage of power from grid, non-availability of wagons and continued bottlenecks in some areas and increase in costs.

The extremely poor performance revealed by Goetze (India) Ltd. was due to substantial decline in profits on account of increase in cost of raw material and other manufacturing input.

Bharat Forge Ltd. displayed relatively poor performance mainly due to inadequate turnover on account of recessionary conditions in automotive sector and fall in exports due to letter of credit not being opened at Ukraine and recessionary conditions in thrust market of Japan and Western Europe.

Hindustan Sanitaryware & Industries Ltd. revealed unsatisfactory performance due to poor power supply, restricted movement of vehicles and go down tactics adopted by workers. Major breakdown in the mirrlees blackstone generating set proved detrimental which resulted in poor performance of the company.
The performance of other companies can be regarded as moderate in the group.

6.3 Suggestions:

 Significant suggestions can be made on the basis of financial analysis of selected companies, by way of measures to be taken by the management, to improve its performance, as well as, on the utility of the tools of financial appraisal of commercial undertakings.

 With a view to improve its profitability, efforts should be made by Otis Elevator Ltd. to enhance its gross profits through better margins and effective purchase policies. At the same time, steps should also taken to book domestic orders in order to enhance its sales volume.

 Production and sales needs to be improved by Ashok Leyland Ltd. with financial and technical assistance. The company must practice a policy of cautious optimism of fresh acquisition of assets. Further liberal and adequate additional financial assistance to the firm is necessary for enabling it to overcome the current financial crisis.

 The companies yielding moderate financial results should pay special attention to minimise expenses through various measures of cost control and improve its operations through efficiency and effective management.

 In pursuance to the objectives of making the company a human health company, EID Parry (India) Ltd. should rationalise its labour force and diversify its fleet to adopt result-oriented financial strategies.
Besides its captive consumption, efforts should be made by Rohnue Poulence (India) Ltd. to expedite the matter regarding setting up of new productive products and to dispose of unprofitable divisions.

It is suggested that Ficom Organics Ltd. should add on few more products to its existing range of product line through increased territories of operations. In addition, steps are required to be taken by average performance companies to improve its performance through better techniques and efficient management.

To overcome the unprecedented rise in cotton price and to maintain overall profitability, it is necessary that for JCT Ltd. to shift production towards polyester blended fabrics. The company proposed to set-up hi-tech continuous dyeing and bleaching plant at Phagwara. New varieties should be introduced for production of value added quality fabrics.

Arvind Mills Ltd. can perform its operations better by adding high value cotton shirtings and by expanding the production capacity of Newport Jeans to be sold both in domestic and international market.

To improve the quality of products Eurotex Industries and Exports Ltd. should commence production in its most modern and state of art spindles plant, so that its products can be well received in international market.

In addition, it is brought out that the corporate managers of moderate performance companies should concentrate on firm’s performance relating to the discriminant function variables in order to achieve the efficiency and effectiveness in the management.
Operational efficiency of Mysore Cement Ltd. can be improved through expansion, modernisation and completion of various schemes undertaken by the company earlier. Efforts are required to be made to develop high value oil-well cement in order to procure and execute the orders of big organisations like ONGC and to export the cement to neighbouring countries like Nepal and Bhutan.

The profitability of Goetze (India) Ltd. can be improved through better product-mix of high value piston rings and increase in sale of new products i.e., light metal cylinder blocks. Efforts should be made by the company to commence production in solvent extracted vegetable oil plant, leather garment factory and enhance production from expanded capacity of rings project.

It is recommended that Bharat Forge Ltd. should enhance its exports turnover by entering new markets viz., Germany, Mexico and South Korea.

For better price realisation and profits, it is suggested that Hindustan Sanitaryware & Industries Ltd. should change its product-mix and introduce a series of new products for luxury bathroom suites. Further, moderate performance companies should improve its working results through better techniques to come at par with healthy companies.

On the basis of conclusions drawn by analysing financial performance of selected companies, the following general suggestions can also be made to the concerns to improve its liquidity, profitability, efficiency and effectiveness, with a view to attain sound financial performance.
i) Liquidity is the most important criterion to enable a company to run its business. It is suggested that credit can be taken as a substitute of cash and thus form a part of liquidity.

ii) The short-term solvency of the company is measured with current assets and liquid assets. The significant difference between current ratio and acid-test ratio is an indication of inventory accumulation on a scale, which can be minimised through various techniques of inventory management.

iii) The adequate liquidity position is a necessary condition for continuation of business, which can be predicted by making appropriate provisions for future cash payments.

iv) In order to improve the overall profitability, the companies should adopt adequate purchasing and marketing policies to reduce its cost of good sold so that companies may face effectively the cut-throat competition in the market.

v) As power and fuel constitute major manufacturing expenses, which have increased in various selected companies over the period under study due to hike in power rates. Therefore, efforts should be made by these companies to build up their own power generation capacity which will help in the long-term.

vi) The companies should try to avoid excessive expenses on selling and distribution.

vii) The scope of controlling the total expenses is limited as the cost of borrowing in some of the companies is very high. The cost of borrowing can be reduced by finding alternate sources with comparatively lower rate of interest. The possibility of accepting fixed deposits from the general public can be explored in this context by these companies.
viii) There has been more emphasis on borrowing in few companies for mobilisation of additional resources, which may have adverse impact on its lending operations in the long run as the increased repayment of borrowing will bring down the availability of funds with the companies. Therefore, it is suggested that the companies should raise more funds from its own sources, such as, issue of equity capital in order to keep a balance between owners and outsiders resources in the industry.

ix) For better realisation of revenues, productivity and sales turnover should be improved through better techniques of product-mix, quality and marketing policies. Initiative for such work should emanate from the industries under study.

x) Better productivity and sale volume can also be achieved by the companies through its research and development activities, technical know-how and collaboration.

xi) The profits should be transferred to various reserves in such a way that shareholders are not denied of their share in the profits of the company.

xii) Bonus shares should also be issued to the shareholders out of retained earnings to award them periodically.

xiii) The companies should adopt sound dividend declaration policy to award the shareholders from time to time.

xiv) The corporate managers of selected companies under study should focus on cash flow information which would facilitate prediction of financial health of companies.

xv) The companies should adopt strict credit policy, which will help in reducing the average collection period.

xvi) Efforts should be made by the companies to improve its inventory management by properly adopting inventory control policy and fixing various level of stock.
The corporate managers should concentrate on firm's performance in order to achieve effectiveness in the management of working capital.

In conclusion, it may therefore, be recommended that management of the companies should pay adequate attention to minimise expenses through various measures of cost control. Efforts should also be made to generate adequate profits through better margins and effective purchase policies. In addition, latest technique of effective management should be adopted by the companies through latest technical know-how, computerisation and by way of improvement in its research and development activities.