CHAPTER VI
FINDINGS, SUGGESTIONS & CONCLUSIONS
CHAPTER –VI

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

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6.1. INTRODUCTION:

Every concern has to analyze their financial performance. The analyses of financial performances are different. Accordingly the result shown by them and their impact are also different. In this chapter let us see the findings arrived from the analyses as well as the suggestions that may be necessary to improve their capital structure, leverage and dividend polices.

6.2. BRIEF SUMMARY OF FINDINGS:

The following may be listed as the finding from the analysis.

1. Sambandam Spinning mill Ltd., has abundant retained earnings which is one of internal resources of finance. The DEBT-EQUITY ratio is almost doubled in the year 2003-2004 as compared with the year 1997-98.

2. It has been maintaining a stable dividend pay out for several years.

3. Operating leverage of the company has more ups and downs.

4. Financial leverage of the company has almost stable up to the year 2001-02 and afterwards it started declining.

5. The year 2003-04 has highest debt-equity ratio but lower degree of financial leverage. This is because they borrowed more funds for modernization which would generate more incomes in the years to come.

6. Both the DEBT-EQUITY and interest coverage ratios have not at all affected the market price of the company.

7. The company shall not have any problem in servicing its debt as the EPS of the company has been growing steadily.
8. The degree of combined leverage is highly depends on degree of operating leverage.

9. The DPS does not show a steady growth in relation to EPS. But there is no change in pay out ratio except for the year 2002-03 and 2003-04.

10. Though the company has been following a stable dividend policy, its effect on the market price of the share is not clearly seen. Because, it is very difficult to establish relationship between DPS and MPS, as MPS is influenced by so many factors.

11. The fluctuations in the market price of the share are related to the capital structure decisions and dividend decisions to some extent.

6.3. SUGGESTIONS:

1. In the capital structure of the company, we have greater portion of debt in the year 2003-04 [3.63: 1] when compared with debt-equity mix in the year 2000-01 [1.47: 1]. The operating profit has increased in the year 2003-04 even after meeting the heavy interest charges. It is evidenced by the interest-coverage ratio.

   However the interest-coverage ratio is lesser for the year 2003-2004 when compared with the year 2002-2003. Similarly, the interest as percentage on sales has also declined.

   In this situation it is advisable to increase operating profit by increasing the marketing the products.

2. High operating leverage at appropriate times of fulfilling the customers demand shall magnify the operating profits of the company. The study shows that the operating leverage has more fluctuations. Therefore the company should
forecast its demand and use the tool of operating leverage to enhance its operating profit.

The company has got the benefit of operating leverage for the two years 2001-2002 and 2002–2003. However it showed a declining trend for the year 2003-2004.

It reveals that the company should take the advantage of operating leverage properly.

3. The financial leverage of the company is almost stable. It is advisable to use the debt funds properly to take the advantage of high financial leverage at appropriate time.

4. The combined effect of operating and financial leverage is shown by combined leverage. High degree of combined leverage was arrived in the year 2001-2002. Afterwards it shows declining trend. The company should operate in such a way to have increase in combined leverage to enhance its profitability.

5. The company has been maintaining stable dividend policy. Its impact on market price can be arrived from the dividend yield ratio. It shows that dividend yield has declined by nearly 50% in the year 2003-2004, when compared with the year 2002-2003.

However the market price of the company may get affected by so many factors. This policy gives the advantage of using the retained earnings to get reduction in interest cost. This would increase the earnings of the company.
6.4. CONCLUSIONS

From this study, it has been observed that the company has to use the tool of leverages to enhance its operating profit. The injection of the debt capital is justifiable, if they are properly utilised.

Every company aims at increasing the wealth of the shareholders. This company has been increasing the wealth of the share holders for a long time. It is evidenced by the Networth of the company.

The company has abundant retained earnings. The price earnings ratio is also greater in the year 2003 – 2004, when compared with previous year 2002-2003.

The share holders are getting handsome dividend and also capital appreciation. It is reflected in the market price of the share.

In the forthcoming years, the company shall get more savings in electricity cost by the use of windmill converters. Hence, the company can able to meet the interest cost very easily by getting the major savings in electricity cost. The future prospects of the company will be mainly contributed by the savings in cost.