CHAPTER VII

CASE STUDIES

In order to study, analyse and to tackle the problem of industrial sickenss it is thought that a diagnostic study of the units at the micro level is feasable. This micro study will help in identifying the specific causes of sickness in the indstrial units which could inturn be used as a preventive measure against creeping sickness.

Objective :

To identify specific reasons for the sickness in terms of managerial, technical, marketing and financial aspects of the unit and to know the strength and weaknesses of the unit and to suggest any rehabilitation programme.

For this purpose a sick industrial unit and a healthy unit in the slate industry of Markapur, in Prakasam district have been selected and both the units are compared and analysed extensively by using appropriate ratios.

UNIT - A

The firm is a Private Limited Company which is a Slate manufacturing unit producing slates. This unit is located in Markapur in Prakasam district which is famous for slate mines and slate manufacturing units. This unit is considered sick as it has continuously been incurring losses for the past three years. So this unit is selected for drawing a comparison with a healthy unit which is generating continuous profits.

This unit started commercial production in 1983. This unit was established to manufacture 10.00 lakh pieces of slates per year. The promoter is an experienced person. All the machines installed are indigeneous. The raw material is readily available in the location of the plant itself. The unit itself has owned some slate mines. Nearly 50 workers are being engaged in the process of manufacturing. Labour is easily available, in and around the location of the unit.

The working results and the financial position during the years ended 31st March, 1988, 1989 and 1990 are given below:

TABLE 7.1

UNIT - A

PROFIT AND LOSS A/C FOR THE YEAR ENDED 31ST MARCH

(Rs.in Lakhs)

PARTICULARS	1988 Rs.	1989 Rs.	1990 Rs.
INCOME:			
Sales	3.06	4.28	7.29
Brokerage	--	--	0.27
Miscellaneous income	--	--	0.02
Closing stock of Finished good	0.14	0.03	0.32
Total:	3.20	4.31	7.90
Expenditure:			
Opening stock of Finished goods	0.05	0.14	0.03
Rawmaterials consumed	1.09	1.65	3.71
Freight	0.12	0.08	0.36
Salaries and Wages	0.21	0.35	0.59
Power and Fuel	0.08	0.08	0.36
Consumables	0.02	0.02	0.03
Central excise	0.03	0.09	0.02
Water charges	0.01	0.01	0.00
Packing Material	0.75	0.80	1.25
Administrative expenses	0.24	0.26	0.55
Interest charges	0.69	1.03	1.66
Selling expenses	0.36	0.50	0.52
Depreciation	0.08	--	0.83
Sales Tax	0.19	0.29	0.28
Total	3.92	5.30	10.19
Loss for the years	-0.72	-0.99	-2.29
Total :	3.20	4.31	7.90

TABLE 7.2

UNIT - A

BALANCE SHEET AS ON 31ST MARCH

(IN LAKHS)

PARTICULARS	1988 Rs.	1989 Rs.	1990 Rs.
OWNERS CAPITAL:			
Share Capital	1.51	2.71	2.67
Investment allowance	0.02	0.02	0.02
Central Subsidy	0.16	0.16	0.16
Secured loans:			
Term loans	3.67	4.54	5.54
Working Capital loan	2.99	3.99	5.05
Current liabilities:			
Sundry Creditors	1.10	0.47	1.34
Trade discounts	0.45	0.55	0.59
Depot Balance	0.13	--	--
Total liabilities	10.03	12.44	15.37
Assets:			
Fixed assets	2.15	4.16	3.86
Other assets	1.79	--	--
Current Assets:			
Stock	1.56	2.76	3.75
Debtors	0.93	1.05	1.10
Advance:	0.41	0.30	0.27
Cash & Bank balance	0.07	0.01	0.01
Advertisement	0.18	0.21	0.21
Preliminary expenses	0.20	0.20	0.20
Profit and loss a/c	2.74	3.75	5.97
Total Assets:	10.03	12.44	15.37

UNIT - B

This is also a Private Limited Company which manufacture both earthern and tinned slates. This unit is also located in Markapur Mandal of Prakasam district. This unit though has suffered losses previously has now turned around and generating profits for three consecutive years. So this unit is selected for a comparative study.

This unit has started commercial production in 1982. This promoter is well educated and an experienced person. All the machines installed are indegeneous. The raw material is readily available at the plants location and the tinned sheets for manufacture of tinned slates are being received from different areas. The process of manufacture involves both manual and mechanical work. Nearly 100 workers are engaged in the process of manufacture. Labour can easily be available in and around the location.

The working results and the financial position during the years ended 31st March 1988, 1989 and 1990 are presented in the following tables.

TABLE 7.3

UNIT - B

PROFIT AND LOSS A/C FOR THE YEAR ENDED 31ST MARCH

(In lakhs)

PARTICULARS	1988 Rs.	1989 Rs.	1990 Rs.
Sales	19.21	32.63	40.54
Miscellaneous receipts	1.65	0.82	1.66
	20.86	33.45	42.20
Raw materials consumed:	13.47	20.66	23.97
Add: Opening Stock	1.55	4.40	10.43
	15.02	25.06	34.40
Less: Closing Stock	4.39	8.52	11.63
	10.63	16.54	22.77
Manufacturing expenses	3.70	5.78	7.38
Cost of goods sold:	14.33	22.32	30.15
Administrtative expenses	1.75	2.86	3.56
Sales expenses	0.91	1.82	2.19
Interest	2.37	3.58	4.47
	19.37	30.59	40.37
Profit and loss before depreciation:	1.49	2.86	1.82
Depreciation:	0.61	0.51	0.46
P & L after depreciation (Profit)	0.88	2.35	1.36

TABLE 7.4

UNIT - B

BALANCE SHEET AS ON 31ST MARCH

(In lakhs)

PARTICULARS	1988 Rs.	1989 Rs.	1990 Rs.
Sources of Funds:			
Owners funds	2.60	2.95	2.98
Longterm loans from financial institutions	1.57	1.49	0.95
Current liabilities	19.27	25.57	34.54
	23.44	30.01	38.47
Application of Funds:			
Fixed assets	4.42	4.39	4.42
Current assets	15.68	24.63	33.87
Miscellaneous expenses	--	--	--
Profit and Loss a/c (loss)	3.34	0.99	0.18
	23.44	30.01	38.47

TABLE 7.5

UNIT - A

COMPARATIVE STUDY OF BALANCE SHEET AS ON 31ST MARCH, 1990

PARTICULARS	1989		1990		CHANGE
	Rs.	%	Rs.	%	Rs.
ASSETS:					
Fixed assets	4.16	(33)	3.86	(25)	- 0.30
Current assets	4.53	(37)	5.54	(35)	+ 1.01
Profit and loss a/c	3.75	(30)	5.97	(40)	+ 2.22
Total:	12.44	100	15.37	100	+ 2.93
LIABILITIES:					
Owners funds	2.71	(22)	2.67	(18)	- 0.04
Investment allowance & Central subsidy	0.18	(1)	0.18	(1)	--
Long term loan	4.54	(36)	5.54	(36)	1.00
Current liabilities	5.01	(41)	6.98	(45)	1.97
	12.44	100	15.37	100	+ 2.93
Sales	4.28		7.29		
Profit and loss A/c (loss)	-0.99		-2.29		

An attempt is made here to explore some interesting features by an extensive and indepth analyses of balance sheet and profit and loss account of these two units.

Firstly, we have compared the balance sheet of Unit-A for the two consecutive years 1989 and 1990 to know the change in the assets and liabilities positions of the unit. And then we proceeded to compare the balance sheet of Unit-B for the year 1989 and 1990.

Then a comparative study of the balance sheets of both Unit-A and Unit-B is made to know the financial position and strength and weaknesses of each firm.

Observations UNIT - A :

a) Though there is an abnormal improvement in the sales position the operational performance of the firm is very bad. The firm has incurred a loss of Rs.0.99 lakhs in 1989 and this loss has enormously been increased to Rs.2.29 lakhs in 1990.

b) As a result of operational loss, equity of the firm has declined from Rs.2.71 lakhs to 2.67 lakhs during 1989 and 1990. Equity as the percentage of total liabilities has declined from 22.0 per cent in 1989 to only 18.0 per cent in 1990.

TABLE 7.6

UNIT - B

COMPARATIVE STUDY OF BALANCE SHEET AS ON 31ST MARCH, 1990

(in lakhs)

PARTICULARS	1989 Rs.	1989 %	1990 Rs.	1990 %	CHANGE Rs.
ASSETS					
Fixed assets	4.39	(15)	4.42	(11)	+ 0.03
Current assets	24.63	(82)	33.87	(88)	+ 9.24
Profit and loss A/c	0.99	(3)	0.18	(1)	- 0.81
Total	30.01	(100)	38.47	(100)	8.46
LIABILITIES:					
Owners funds	2.95	(10)	2.98	(8)	+ 0.03
Longterm loan	1.49	(5)	0.95	(2)	- 0.54
Current liabilities	25.57	(85)	34.54	(89)	8.97
Total	30.01	(100)	38.47	(100)	8.46
Sales	32.63		40.54		
Profit and loss A/c (Profit)	2.35		1.36		

c) Fixed assets have declined from 4.16 lakhs to 3.86 lakhs. Fixed assets as the percentage of total assets have declined from 33.0 per cent in 1989 to 25.0 per cent in 1990.

d) The percentage of current assets to total assets has also declined from 37.0 per cent in 1989 to 35.0 per cent in 1990. But there is an over all increase of current assets by 1.01 lakhs.

e) Profit and loss account (loss) has been increased from 30.0 per cent (Rs.3.75 lakhs) to 40.0 per cent (Rs.5.97 lakhs) during 1989 to 1990 which occupies a higher amount than the fixed assets and current assets individually.

From the above observations it is understood that the unit is deeply involved in sickness, incurring losses continuously, equity has declined, fixed assets have declined, short-term solvency position is worsened.

Observations UNIT - B :

a) There is an improvement in the sales position from Rs.32.63 lakhs in 1989 to Rs.40.54 lakhs in 1990.

b) The operational performance of the unit is also satisfactory, though there is a decrease in profit from Rs.2.35 lakhs to 1.36 lakhs. This decrease in loss may be attributed to excessive interest burden.

c) The owners' funds have slightly increased from 2.95 lakhs in 1989 to 2.98 lakhs in 1990 but in percentage of total liabilities this has decreased from 10.0 per cent to 8.0 per cent.

d) The percentage of current assets to total assets has also increased from 82.0 per cent in 1989 to 88.0 per cent in 1990. Which shows that current assets have increased by 6.0 per cent.

e) Profit and loss account loss has considerably been reduced during 1989 and 1990. The loss has been reduced from Rs.0.99 lakhs to Rs.0.18 lakhs.

f) The percentage of current liabilities to total liabilities has also gone up from 85.0 per cent in 1989 to 89 per cent in 1990.

Inspite of the above the firm could generate sizable sales and there by profits and the units is steadily progressing.

Comparative Study of Balance Sheets of the Firms over the Years :

TABLE 7.7

BALANCE SHEET OF UNIT-A AND UNIT-B FOR THE YEARS ENDED MARCH, 1989 AND 1990

Particulars	Liabilities								Assets								
	Unit-A				Unit - B					Unit - A				Unit - B			
	1989 Rs.	%	1990 Rs.	%	1989 Rs.	%	1990 Rs.	%		1989 Rs.	%	1990 Rs.	%	1989 Rs.	%	1990 Rs.	%
Owners Funds	2.89	(23)	2.85	(18)	2.95	(10)	2.98	(8)	Fixed Assets	4.16	(33)	3.86	(25)	4.39	(15)	4.42	(11)
Long term loans	4.54	(37)	5.54	(36)	1.49	(5)	0.95	(3)	Current Assets	4.53	(36)	5.54	(36)	24.63	(82)	33.87	(88)
Current liabilities	5.01	(40)	6.98	(46)	25.57	(85)	34.54	(89)	Profit and Loss A/c	3.75	(31)	5.97	(39)	0.99	(3)	0.18	(1)
Total	12.44	(100)	15.37	(100)	30.01	(100)	38.47	(100)	Total	12.44	(100)	15.37	(100)	30.01	(100)	38.47	(100)
Other information:																	
Sales	4.28		7.29		32.63		40.54										
Net Profit/loss	-0.99		-2.29		2.35		1.36										

Observations : UNIT - A and UNIT - B :

a) Equity as percentage of total working funds or total liabilities is higher in Unit-A than in Unit-B both 1989 and 1990, which shows that owner stake is more in Unit-A than in Unit-B.

b) Unit-A has generated a cash loss of Rs.-0.95 lakhs in 1989 and a loss of Rs.2.29 lakhs in 1990. But Unit-B has generated a Profit of Rs.2.35 lakhs in 1989 and Rs.1.36 lakhs in 1990. The decrese in profit of Unit-B may be due to proportionate decrease in sales or due to increase in interest burden.

c) Unit-A has less liquid assets in relation to current liabilities while Unit-B has higher liquid assets which shows that Unit-B is in a better off position to meet its current obligations.

d) Unit-A has more fixed assets in relation to total assets while Unit-B has lesser fixed assets.

e) While the loss of Unit-A has increased from Rs.3.75 lakhs in 1989 to Rs.5.97 lakhs in 1990, the loss of Unit-B has declined from Rs.0.99 lakhs to Rs.0.18 lakhs. Which shows that Unit-B is steadily progressing by over coming previous difficulties.

On the whole the comparative analysis reveals that though sales have increased by 41.0 per cent in Unit-A the net loss has increased abnormally by Rs.1.3 lakhs which may be due to scarcity of working capital and firms inability to meet current obligations. While Unit-B is progressively better in terms of liquidity, profitability and also financial stability. Unit-B has to increase its owners stake and they have to improve their fixed assets stake. The interest charges of Unit-B as compared to total output are very high.

Ratio Analysis :

Financial ratios are essential tools for financial analysis. In order to know the trend analysis the ratios are computed from a series of balance sheets of Unit-A and Unit-B. There are so many ratios to indicate firms worthiness. Here we are more interested in those ratios which can indicate the financial stability, liquidity, profitability and quality of management. Here ratios are extensively analysed. But emphasis is made on those ratios which are very much useful or which are usually adopted by a banker in order to know the viability of the Unit. The following ratios are generally used by a banker.

TABLE 7.8
FINANCIAL RATIOS OF UNIT-A AND UNIT-B

RATIO PARTICULARS	UNIT-A Sick Unit			UNIT-B Healthy Units		
	1988	1989	1990	1988	1989	1990
1. SHORT TERM SOLVENCY RATIOS						
1. Current Assets/ Current Liabilities	0.64	0.82	0.73	0.81	0.96	0.98
2. Current Liabilities/ Total Assets	0.67	0.60	0.77	0.96	0.88	0.90
3. Current Assets/ Total Assets	0.43	0.50	0.57	0.78	0.85	0.88
4. Working Capital/ Total Assets	0.25	0.11	-0.21	-0.18	0.04	-0.02
5. Working Capital / Bank Credit	0.57	0.22	-0.36	-0.52	0.12	-0.02
II. TURNOVER RATIOS						
1. Stock/ Net Sales	0.51	0.64	0.51	0.23	0.26	0.28
2. Debtors/ Net Sales	0.12	0.15	0.13	0.30	0.24	0.15
III. ASSETS USAGE RATIO						
1. Net Sales/ Total Capital employed	0.44	0.52	0.81	0.96	1.12	1.06
2. Fixed Assets/ Net Sales	0.70	0.97	0.52	0.23	0.13	0.11
3. Current Assets/ Net Sales	0.97	0.96	0.70	0.81	0.75	0.84
IV. OPERATING EXPENSES						
1. Total expenses/ Net Sales	1.15	1.16	1.20	1.01	0.94	1.00
2. Cost of good sold/ Net Sales	0.40	0.46	0.57	0.75	0.68	0.74
3. Manufacturing expenses/ Net Sales	0.39	0.31	0.35	0.19	0.18	0.18
4. Administrative expenses/ Net Sales	0.08	0.06	0.07	0.09	0.09	0.09
5. Sales expenses/ Net Sales	0.12	0.12	0.07	0.05	0.06	0.05
6. Interest/ Net Sales	0.22	0.24	0.23	0.12	0.11	0.11
PROFITABILITY RATIO Profit/ Net Sales						
1. Earnings before interest and Depreciation/ Net Sales	0.02	0.01	0.00	0.20	0.20	0.15
2. Earnings after interest but before Depreciation/ Net Sales	-0.21	0.23	-0.20	0.08	0.09	0.04
3. Earnings before interest and Depreciation/ Total Capital employed	0.007	0.048	0.02	0.19	0.22	0.16
4. Earnings after interest and before depreciation/ Total Capital employed	0.09	0.12	-0.16	0.08	0.09	0.04

B. Profit/Net worth

1. Earnings before interest and depreciation/ Net worth (owners funds)	0.029	0.014	0.07	1.48	2.19	2.11
2. Earnings after interest but before deprecition/ Net worth	0.38	0.34	-0.51	0.57	0.97	0.61
FINANCIAL STABILITY RATIO						
A. Debt/Equity	4.93	3.30	4.39	8.02	9.17	11.91
B. Net worth/long term liabilities	0.46	0.69	0.51	1.65	1.98	3.19
C. Net worth/ Bank Credit	0.56	0.72	0.56	0.44	0.37	0.26
D. Net worth/ Fixed assets	0.79	0.69	0.73	0.59	0.67	0.67
E. Net worth/ Net Sales	0.55	0.67	0.36	0.14	0.09	0.07
F. Long term liabilites/ Total assets	0.96	1.03	1.18	0.08	0.05	0.02
G. Total outside liabilities/ Total assets	1.21	1.15	1.39	1.04	0.93	0.93

a) Cost of Production/Sales

b) Gross Profit/Sales

c) Net Profit/Sales

d) Net Profit/Net worth

e) Net Profit/Total Assets

f) Current ratio

g) Total Inventory/Sales

Significance of the Ratios :

1. Cost of Production/Sales :

It is a ratio which is most commonly used in operational analysis. This ratio indicates howmuch could be the margin left over after meeting expenses and making provisions. Lower the percentage of cost of production to sales, the higher would be the gross profit. This ratio measures the operational efficiency of the firm in keeping the cost of production at the lowest level.

This is clear from Table 7.9 that the cost of production to sales in Unit-A is higher than the cost of Production to Sales in Unit-B. In the year 1990 this ratio in Unit-A is 82%. While it is only 74% in Unit-B. An abnormal increase in this ratio indicates a signal of sickness and this calls for further investigation.

TABLE 7.9

RATIO OF COST OF PRODUCTION TO SALES

PARTICULARS	UNIT - A			UNIT - B		
	1988 Rs.	1989 Rs.	1990 Rs.	1988 Rs.	1989 Rs.	1990 Rs.
Opening stock	0.05	0.14	0.03	1.55	4.40	10.43
Add:Purchases	1.09	1.65	3.71	13.47	20.66	23.97
	1.41	1.79	3.74	15.02	25.06	34.40
Less:Closing Stock	0.14	0.03	0.32	4.39	8.52	11.63
	1.00	1.76	3.42	10.63	16.54	22.77
Manufacturing expences.	1.22	1.52	2.61	3.70	5.78	7.38
Cost of sales	2.22	3.28	6.03	14.33	22.32	30.15
$\frac{\text{Cost of sales}}{\text{sales}} \times 100$	72%	77%	82%	74%	68%	74%

2. Gross Profit/Sales :

This ratio indicates the gross earning capacity of the firm. This can be calculated as under.

It is observed from Table 7.10 that Unit-A has a gross profit to sales ratio of 37.0 per cent in 1988 and it has declined to 13% in 1990. While the gross profit of Unit-B has increased from 11% per cent in 1988 to 32.0 per cent in 1989 but declined to 22.0 per cent in 1990.

3. Net Profit/Sales :

This ratio is a very useful tool to measure the operational efficiency of the firm and inturn its success in achieving the objectives. Firm which shows on an average a high percentage of profit for a fairly long time is in a sound position.

Table 7.11 shows that Unit-A has continuously been incurring losses. It has generated a loss of -0.23 per cent in 1988 and the same percentage of loss in 1989 but the loss has been increased to 0.31 per cent in 1990. Unit-B has generated a profit of 5.0 per cent to sales in 1988 and 7.0 per cent in 1989 but the profit has declined to 4.0 per cent in 1990. Yet Unit-B is steadily progressing by generating reasonable amount of profits while Unit-A has continuously incurring losses over the period.

TABLE 7.10

RATIO OF GROSS PROFIT TO SALES

PARTICULARS	UNIT - A 1988 Rs.	1989 Rs.	Rs. 1990 Rs.	UNIT - B 1988 Rs.	1989 Rs.	Rs. 1990 Rs.
Sales	3.06	4.28	7.29	19.21	32.63	40.54
Less:Cost of Production	2.22	3.28	6.03	14.33	22.32	30.15
	1.24	1.00	1.26	4.88	10.31	10.39
Add:Opening Balance	0.05	0.14	0.03	1.55	4.40	10.43
	1.29	1.14	1.29	6.43	14.71	20.82
Less:Closing Stock	0.14	0.03	0.32	4.39	8.52	11.63
Gross Profit	1.15	1.11	0.97	2.04	6.19	9.19
Gross Profit / Sales x 100	37%	26%	13%	11%	32%	22%

TABLE 7.11

RATIO OF NET PROFIT TO SALES

PARTICULARS	UNIT - A			UNIT - B		
	1988 Rs.	1989 Rs.	1990 Rs.	1988 Rs.	1989 Rs.	1990 Rs.
Net Profit/loss	-0.72	-0.99	-2.29	0.88	2.35	1.36
	-0.72	-0.99	-2.29	0.88	2.35	1.36
Sales:	3.06	4.28	7.29	19.21	32.63	40.54
Ratio: Net Profit / Sales	-0.23	-0.23	-0.31	0.05	0.07	0.04

4. Net Profit/Net worth :

The success of the firm may be measured by comparing the net profit with its net worth. This ratio identifies the earning power of the owner's investment. This ratio helps us to indicate whether the firm has been able to maintain increased rate of earnings on the owners' funds. When the return on the owned funds is relatively low we get the signal of sickness. If this ratio is negative we can easily evolve a decision that the unit is sick.

Table 7.12 shows that the net worth of Unit-A is completely eroded by the loss of previous years. Unit-A has shown an increasing negative net worth over the years. While the net worth of Unit-B has increased over the years.

The net profit to net worth ratio in Unit-A for 1988 is -0.37, -0.49 for 1989 and -0.41 for the year 1990. While this ratio in Unit - B is surprisingly 6.28 in 1988 and 0.54 in 1989 and 0.33 in 1990. Unit-B has secured a net profit of 0.88 lakhs in 1988 with a meagre net worth (Owners funds) of Rs.0.14 lakhs. Thus we can say that Unit - B is in a better off position.

5. Net Profit/Total Assets :

This ratio indicates how efficiently the operating assets are being employed in generating profits. This is the real test of the economic success or failure of the firm.

Table 7.13 clearly indicates that in Unit - A the total assets have failed to generate any profit. The net profit to total assets ratio in Unit - A is steadily increasing (negative) from -0.10 to -0.11 and to -0.24 during 1988, 1989 and 1990 while in Unit - B this ratio has increased from 0.04 to 0.08 during 1988 and 1989 but declined to 0.04 in 1990. This clearly shows that the ratio in Unit - A is very unsatisfactory while it is satisfactory in Unit - B.

6. Current Ratio :

Generally a banker is very much concerned with the current ratio because it is one of the most important ratios to test the solvency of the firm. This ratio is very much useful for comparing the performance of the firm with the other firms. This throws a signal of sickness if the current ratio falls below 1.

It is observed from Table 7.14 though Unit - A and Unit - B are not in a satisfactory position regarding

TABLE 7.12

RATIO OF NET PROFIT TO NETWORTH

PARTICULARS	UNIT - A			UNIT - B		
	1988 Rs.	1989 Rs.	1990 Rs.	1988 Rs.	1989 Rs.	1990 Rs.
Owners funds	1.51	2.71	2.67	2.60	2.95	2.98
Add:Net Profit/ loss	-0.72	-0.99	-2.29	0.88	2.35	1.36
	0.79	1.72	0.38	3.48	5.30	4.34
Less:Loss of previous years	-2.74	-3.75	-5.97	-3.34	-0.99	-0.18
Net worth :	-1.95	-2.03	-5.59	0.14	4.31	4.16
Ratio: Net profit / Net worth =	-0.37	-0.49	-0.41	6.28	0.54	0.33

TABLE 7.13

RATIO OF NET PROFIT TO TOTAL ASSETS

PARTICULARS	UNIT - A			UNIT - B		
	1988 Rs.	1989 Rs.	1990 Rs.	1988 Rs.	1989 Rs.	1990 Rs.
Net Profit/loss	-0.72	-0.99	-2.29	0.88	2.35	1.36
Total assets:	6.91	8.69	9.40	20.10	29.02	38.29
Ratio: Net profit/loss ---------- Total assets =	-0.10	-0.11	-0.24	0.04	0.08	0.04

TABLE 7.14

RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES

PARTICULARS	UNIT - A			UNIT - B		
	1988 Rs.	1989 Rs.	1990 Rs.	1988 Rs.	1989 Rs.	1990 Rs.
Current assets	3.35	4.53	5.54	15.68	24.63	33.87
Current liabilities	4.67	5.01	6.98	19.27	25.57	34.54
Ratio: Current assets / Current liabilities =	0.72	0.97	0.79	0.81	0.96	0.98

this ratio, yet Unit - B is steadily progressing with raising current ratio with 0.81, 0.96, 0.98 during 1988, 1989 and 1990. But Unit - A has a lower current ratio than Unit - B which shows that Unit - A has failed to meet its current obligations successfully.

7. Total Debt/Net worth :

An increasing trend of this ratio indicates a rising tempo of indebtedness which should put lending institutions on guard. This ratio is calculated by dividing total liabilities by net worth. The ratio of 1:1 is considered good in normal circumstances.

It is clear from Table 7.15 that this ratio indicates that total debt is more than 4 times (in 1990) in Unit - A and it is more than 11 times in Unit - B. This ratio in both Unit - A and Unit - B is not advisable. Yet the ratio of Total debt to net worth is in a satisfactory level in Unit - A while it is very disheartning in Unit - B.

8. Inventory/Sales :

This ratio indicates the rate at which the inventory is being converted in to cash. Inventory become unproductive investment if not sold for a long time. This ratio indicates the level of stock

TABLE 7.15

RATIO OF TOTAL DEBT TO NETWORTH

PARTICULARS	UNIT - A			UNIT - B		
	1988 Rs.	1989 Rs.	1990 Rs	1988 Rs.	1989 Rs.	1990 Rs
Total Debt : (C.L + Term Liabilities)	8.34	9.55	12.52	20.84	27.06	35.49
Owners Capital or Net worth :	1.54	2.71	2.67	2.60	2.95	2.98
Ratio: Total Debt / Owners equity =	5.41	3.52	4.69	8.01	9.17	11.91

TABLE 7.16

RATIO OF INVENTORY TO NET SALES

PARTICULARS	UNIT - A			UNIT - B		
	1988 Rs.	1989 Rs.	1990 Rs.	1988 Rs.	1989 Rs.	1990 Rs.
Inventory (stock)	1.56	2.76	3.75	4.39	8.52	11.63
Sales :	3.06	4.28	7.29	19.21	32.63	40.54
Ratio: Inventory (stock) / Sales =	0.51	0.64	0.51	0.23	0.26	0.29
Average Inventory in months	6 1/3	7 1/2	6 1/3	3 1/4	3 1/3	3 1/2

maintained as on a given date and also discloses over stocking position if it exists.

It is clear from the Table 7.16 that in Unit - A there is over stocking position while in Unit - B the inventory to sales position is satisfactory. This shows that Unit-A carried excess inventory than required which means locking of working capital for a long time.

Conclusions :

1) The cost of production to sales which determines the profit margin in growing in Unit - A which is an indication of operational inefficiency. In Unit - B also this ratio is very high yet it has been maintaining it. It is necessary to check unnecessary expenditure relating to cost of production and avoid wastage to the possible extent.

2) The gross profit margin in Unit - A though high in the previous years it has continuously been reducing while the gross profit margin in Unit - B is increasing which shows that the Unit - A has failed in improving its gross profit to sales which may be due to excessive cost of production.

3) Though Unit - A has maintained positive gross profit margin, the net profit to sales ratio has become negative which clearly shows that the interest

charges, Administrative, selling and other expenses are very high in Unit - A. While in Unit - B the net profit to sales has increased during two consecutive years and declined in third year.

4) The net worth of Unit - A has completely been eroded by the loss of previous years. While in Unit - B the net profit to net worth ~~the~~ ratio has increased over the years.

5) Unit - A has even failed to utilise the operating assets efficiently because of its continuous losses. The net profit to total assets ratio has also shown a negative trend in Unit - A, while in Unit - B it has progressed from 4.0 per cent to 8.0 per cent during 1988 and 1990 but declined to 4.0 per cent.

6) The current ratio in both Unit - A and Unit - B is not satisfactory. Yet in Unit - B this ratio is steadily reaching to a satisfactory level over the years.

7) Unit - A is unnecessarily maintaining excessive inventory which means locking of working funds while Unit - B's inveontroy position is satisfactory.

To sum up, Unit - A has to correct its irregularities in cash credit position, have a fresh feasibility report, improve its sales level, implement suitable cost reduction techniques, improve its working capital position and there by its operational efficiency.