CHAPTER – V

CONCLUSIONS AND SUGGESTONS

RESUME

cotton Textile Industry is one of the oldest and the biggest industries which provides direct employment to more than 11 lakh people and indirect employment to millions of people in India. This industry consists of three different categories (a) Spinning Mills (b) Coarse and Medium Composite Mills and (c) Fine and Super Fine Composite Mills.

The present work is an earnest attempt to analyze the financial position of Super Spinning Group of Mills which is one of the largest Spinning Group of Mills in South India. It has a built in capacity to produce both synthetic and cotton yarn which are used as raw-material in textile mills. The present study, Super Spinning Group of Mills consists of :

- Super Spinning Mills, A -unit, Kirikera, Hindupur
- Super Spinning Mills, B -unit, Kotnur, Hindupur
- Super Spinning Mills, C -unit, D.Gudalur, Tamilanadu.

All the three units have the Quality Mark of ISO of 1007.

The corporate office of Super Spinning Group of Mills is located at Coimbatore, Tamilnadu. Despite considerable increase in the prices of raw and synthetic cotton, surge in power cuts and power tariffs, labour problems, hovering around demand for higher wages and other benefits on the one hand; and the political imbroglios, recessive domestic and export markets, and expansion and modernization programmes on the other.

Since its inception, the Super Spinning Group of Mills has grown both in terms of sales and profitability. The value of sales has increased from Rs. 11895.72 lakhs in 1994-95 to Rs. 33516.26 lakhs in 2003-04. The amount of net profit has increased form Rs. 687.12 lakhs in 1994-95 to Rs. 1042.71 lakhs in 2003-04. The percentage of growth in sales during the period is 181.75 and net profit is 51.75. Though the net profit showed an increasing trend, but the rate of increase is not constant.. The focus of this study covered working capital management, financial statement analysis and profitability, which inter alia.

- Comparative statement analysis
- Common – size statement analysis
- Trend analysis and
- Ratio analysis

CONCLUSIONS AND SUGGESTIONS

SHORT-TERM SOLVENCY

The working capital management is the most important area of financial management, the efficiency of which will contribute to both liquidity and profitability. Most of the financial managers' time and gain spend in the company on the management of different components of current assets with a view to analyse short-term financial strength and the efficiency in bringing about a trade-off between liquidity and profitability. The size, structure and liquidity efficiency aspects of working capital have been analysed.

The analysis of size and structure revealed that the current assets of Super Spinning Group of Mills constituted a large portion of total assets during the period of study. On an average, 52.30 per cent of total assets in the Super Spinning Group of Mills is constituted as current assets alone.

The analysis of structure of working capital in Super Spinning Group of Mills reveals that the inventory constituted at the highest share of current assets. In all the years, it is more than 50 per cent of gross working capital. On an average, it is constituted at 57.83 per cent. Loans and advances have occupied a second place and registered at an average of 31.66 per cent. The share of debtors to the total current assets has a third place; and on an average it is worked out at 6.75 per cent. Cash and other current assets formed the lowest share among the components of current assets. On an average, it is worked out at 2.11 per cent and 1.65 per cent respectively.

Analysis of liquidity has been done by using current ratio and quick ratio as they are two important tools to measure liquidity in business enterprise. The generally accepted norms for these ratios are 2:1 and 1:1 respectively. The current ratio in Super Spinning Group of Mills comparatively favourable as it is above the standard norm in the period of study. The average current ratio is stood at 3.47 times. The quick ratio has registered at 1.47 times, which is above the standard norm. Thus, liquidity position of the Super Spinning Group of Mills is considered sound.

The sundry debtors to current assets, sundry debtors to working capital and sundry debtors to sales show very low percentage. It is clear from this that the business is mostly transacted on cash basis and the credit policy of the Mills would ensure a sound cash flow base. As the Mills liquidity position is sound, there is no situation of any working capital deficit. Such a credit policy is not justified as rigid. Hence, it is important for the Mills to consider the competitive environment and liberalise its credit policy to achieve further growth.

During the period of study, the analysis of working capital and short-term financial strength of the Mills revealed that though the liquidity of it is sound, high amount of investments blocked up in various current assets as inventory position is high to that of current assets. Efforts should be made to reduce the operating cycle by reducing raw-material storage period, which is found high. This can be done by carefully planning the material requirements, developing new sources of supply and improving negotiations with the suppliers.

LONG-TERM FINANCIAL STRENGTH

The long-term financial solvency of Super Spinning Group of Mills has been analysed from the point of view of creditors, owners and internal company. Both debt-equity ratio and interest coverage ratio are intended to creditors. They indicate the margin of safety and debt servicing capacity. Both these ratios in the Super Spinning Group of Mills are not favorable to creditors as the average debt-equity ratio is 1.11 times, which is above the generally accepted norm 1:1. This high debt-equity ratio led to decrease in interest coverage ratio. The interest coverage ratio shows fluctuating trend; and on an average, it stood at 2.09 times during the period of study. It has not reached the standard norm of 6 to 7 times in any year of the study period. This indicates that the debt servicing capacity of the Mills is not healthy. Thus, the creditors interest is not well protected in the Super Spinning Group of Mills. From this, it is clear that the Mills has adopted aggressive approach of financing. This is not considering a desirable approach in view of fluctuating and low profitability from the creditors point of view.

The solvency ratio i.e., total long-term liabilities to total assets increased from 34 per cent (0.34) in 1994-95 to 53 per cent (0.53) in 2003-04; and on an average, it is 45 per cent (0.45). However, the ratio of fixed assets to net-worth ratio and fixed assets to long-term funds ratio indicate the adequacy of funds in the Super Spinning Group of Mills. This total long-term fund not only covers the investments in the fixed assets but also a portion of working capital. At the same time, the fixed assets to net-worth show the financial structure of the Mills is not sound as the investments of net worth in current assets is less than the borrowed funds. Hence, it is suggested that the Mills should increase equity capital to have a sound financial structure which would strengthen its long-term solvency position and provide sufficient cushion to creditors.

PROFITABILITY ANALYSIS

Profit is the ultimate test of operating efficiency of a business enterprise. Profitability of the Super Spinning Group of Mills is analysed in relation to sales. Gross profit ratio fluctuating between a minimum of 39.63 per cent to a maximum of 64.71 per cent. The ratio is above the average level in most of the years of study period. This shows an increasing trading efficiency of the Mills. The highest and the lowest net profit ratio recorded during the study period is 6.47 per cent and 1.92 per cent in 1996-97 and 1998-99 respectively. The average ratio is 4.15 per cent. The ratio is less than the average in five out of ten years of study period.

The comparison between gross profit margin and net profit margin of Super Spinning Group of Mills has a positive relationship. However, the rate of decrease in net profit margin in some years of the study period is more compared to the gross profit margin indicating the Mills inability in controlling the operating expenses debitable to profit and loss account.

The operating profit ratio of Super Spinning Group of Mills shows a fluctuating trend during the period of study. It is 6.97 per cent. It is indicated that the operating efficiency of Super Spinning Group of Mills on the basis of sales has been satisfactory. Contrary to this, the operating expenses of Super Spinning Group of Mills increased considerably. This is due to the surge in power cuts and escalation in power tariffs. The management should explore and take effective measurements to control the operating expenses.

Return on capital employed shows a fluctuating trend during the study period. The average ratio is 12 per cent. It is below the average in five years out of ten years of period of study. It is more than the above average in 2002-03 with 17 per cent. Return on equity shareholders of Super Spinning Group of Mills indicates a fantastic return with an average of 151.74 per cent during 1994-95 to 2003-03. It is 254.33 per cent in year 2002-03, which is more than the above average ratio. But in the years 1998-99 and 1999-00 the ratio is very less i.e., 57.50 per cent and 76.39 per cent respectively. It is mainly due to increase in operating expenses resulting in decrease of net profit.

This financial performance of Super Spinning Group of Mills on the basis of various parameters led to the conclusions that the Mills should adopt a strategic approach in debtors management rather that sticking to the present credit policy which is very rigid as debtors turnover ratio is very high. And at the same time, the percentage of debtors to sales and to current assets is very low. This is particularly important from the point of view of sales. Undoubtedly, an increase in sundry debtors' percentage leads to increase in sales and increase in profits of Super Spinning Group of Mills. This ultimately would enhance the return.

The Mills financial strength and long-term financial solvency would be improved by issuing equity shares rather than relying on debt capital heavily. Even, it is possible to trade on equity. There is great scope for improving the earning power of the Mills it focused more on the components of net profit margin rather than on the components of investment turnover.