

CHAPTER – 1

# ***INTRODUCTION***

The effective use of finance of any business concern is always depend upon the effectiveness as well as efficiency of the managerial activity. In other words, efficient managerial activity with planning and controlling of finance are sources of the business concern on which depends the effective service of it; for which it came into being. A prudent management of any business concern needs to adopt and adapt if necessary, the measures governing the economies of finance.

### **THRUST OF FINANCIAL MANAGEMENT**

The financial management is concerned with the managerial decisions which dealt with acquisition and financing of both long-term and short-term assets of a firm. It means, this calls for selection of (specific) assets and (specific) liabilities. Further, there is need to focus on the problems of size and growth of business enterprise. An analytical decision is based on the expected inflows and outflows of funds; and their effects on the defined objectives of a business enterprise.

The business enterprise creates manufacturing capacities for production of outputs and earn profit by supply them to the concerned customers. In this process, a business enterprise raises funds to acquire inputs including organizational structure and intra and supra facilities. The important activities that will undertake by a business enterprise, thus, are broadly grouped into three ways. They are;

- Production
- Marketing
- Financing

Conceptually, the most crucial decisions of a business enterprise are revolved around finance. Hence, an understanding of the theory of financial management with an analytical insight to make sound and healthy decisions is immense in today's business world.

### **APPROACH OF FINANCIAL MANAGEMENT**

The act of providing the means of resources with cycling for effective allocation/reallocation in business transactions in tune with objectives of the business concern is termed as financial management. Financial Management is of immense interest to the practicing managers. The more effective means of cash, the more the means to carry out the objectives as satisfactory as possible. This also meets the obligations of a business enterprise as and when they become due. In brief, planning and controlling of finance is termed as financial management.

Though, the financial management was a branch of Economics till eighteen nineties, but, of late, is a separate discipline. However, it depends upon economics for its theoretical framework.

A business enterprise secures whatever capital it needs and employs finance in business transactions, which generates 'return' on investments in areas of production and marketing. A business enterprise inevitably needs finance to acquire real assets to carry its business. These assets are grouped into tangible assets and intangible assets. The former covers plant and machinery, furniture and fixtures and buildings while the latter covers patents and copyrights.

### **FINANCIAL ASSETS AND INVESTMENTS**

A business enterprise sells financial assets i.e., securities like shares, bonds, debentures to investors of capital markets to raise required funds. Funds applied to assets by the business enterprise are called investments (or expenditure). A business enterprise can raise two types of funds namely equity funds and borrowed funds. A business enterprise has to sell shares to acquire equity funds; the ownership rights of which are owned by shareholders. There is another area through which capital can be raised from that of creditors (individuals, banks, financial institutions) by issue of debentures or bonds.

Every business enterprise directly or indirectly carries all kinds of business activities involving acquisition and use of money. The relationship exists between the financial functions on the one hand;

and productions, marketing and other functions on the other which are inseparable.

## **FINANCIAL INFORMATION**

Financial planning, analysis and decision making entirely depends upon the financial information; which in turn becomes basis to predict; compose and evaluate the business enterprise's ability in terms of finance and managerial. Further, it needs to make an economic investment decision and financing decision. The financial information of a business enterprise contains the financial statements or accounting reports.

## **OBJECTIVES OF FINANCEIAL MANAGEMENT**

Investment decision and financing decision are unavoidable; and continue to business enterprise. They must be objective to the business enterprise. Generally, it is agreed that financial objective of a business enterprise should be maximisation of the owner's economic welfare. This owner's economic welfare could be maximized by maximizing the wealth of shareholders as reflected in the market value of shares. A business enterprise, thus, have a dual objective which are as follows:

**Profit Maximisation:** Profit maximisation means maximising the rupee income of the business enterprise. This is the result of production of goods and services in the market economy wherein the price system is an important organ. Hence, the price system which depends on demand fulcrum and efforts towards income accordingly. Therefore for maximising profits, a business enterprise either produces maximum output for a given amount of input or uses minimum input for a production of a given output. The profit maximisation, thus, measures business concerns efficiency in profits only.

**Wealth Maximisation:** Maximising the wealth of a course of action of business is referred to wealth maximisation. The net present value of a course of action is the difference between the present value of its benefits and the present value of its costs. Financial action facing its positive or negative net present value is desirable or undesirable respectively.

## **THE STUDY**

Financial Management is the process of identifying the financial strengths and weaknesses of a business enterprise by carefully establishing relationship between the items of income statement and balance sheet. Primarily, financial statements are prepared for decision-making. They will play a predominant part in setting the framework of managerial decisions. Thus, the financial position and the

results of operations as well can be known upon the analysis and interpretations of financial statements. How far and what extent the business enterprise have financial soundness are examined in the present study.

## **REVIEW OF LITERATURE**

The related literature provided on the subject of financial structure and on spinning units summarizing the status of work and research. A few individual and institution works on the subject are reviewed hereunder.

"The availability of sufficient finance permits the entrepreneurs to gain control over the real resources. And no business enterprise can reach its full potential of growth and success without adequate finance." <sup>1</sup>

"It is obvious that finance is a powerful development tool, which greases the productive channels of an industry and stimulates their expansion. Also it is regarded as a universal lubricant, which keeps the enterprise dynamic, develops products, keeps men and machine at work, encourages management to make progress and create values." <sup>2</sup>

"The shortage of finance affects the ability to buy and store good quality raw materials, to stock their finished products, to pack their

goods under attractive covers and to have a good sales organisation of their own. In brief, every kind of problem whether of raw materials, power, transport or marketing faced by an entrepreneur in its ultimate analysis turns out to be a problem of finance."<sup>3</sup>

The Royal Commission on Agriculture for the first time recommended to the British India Government that the organisation of co-operative societies for weavers.<sup>4</sup>

The Report of the Fact Finding Committee is considered the earliest attempt on the problem of yarn supply. The Committee observed, "the large and growing imports of mill spun yarn aggravated the trouble."<sup>5</sup>

The Industrial Policy Resolution reiterated the role of industrial co-operatives in the process of industrialization in India. The policy divided industries into four categories and is open to the co-operatives, individuals and private parties. The resolution has given a very important role to the co-operative enterprises for decentralizing the industries.<sup>6</sup>

Rayudu, C.S., in his study traced the evaluation of handloom and spinning co-operatives in the State of Andhra Pradesh. The study covered economies of their working.<sup>7</sup>

Kakade, R.G. emphasized in his study the historical background of various weaving communities and concluded that for most of them the social life was limited to a small universe, whose physical boundaries were set by a tenement.<sup>8</sup>

The Power-loom Enquiry Committee remarked that an increasing emphasis was laid on the setting up of spinning mills in the co-operative field in order to have adequate supply of yarn to the handlooms.<sup>9</sup>

The Report of Handloom Committee enquired into the need of spinning mills to be organised in co-operative sector. It recommended that the mills in this sector should produce standard quality of yarn of such counts required by the handloom.<sup>10</sup>

The Textile Enquiry Committee made a detailed study on the composition and structure of textile industry.<sup>11</sup>

Kamat G.S. in his book on New Dimensions of Co-operative Management examined the aspects of yarn requirements of handloom and the role of co-operative spinning mills. He further, analysed the depressed nature of this sector, the extent of demand for yarn and supply, the need for expansion of the installed capacities in the existing mills and side-by-side the number of co-operative spinning mills to be established to meet the yarn requirement of the handlooms.<sup>12</sup>

Anthony W.S., in their two years study at the Mississippi Delta stated that the effects of weather, varieties harvesting and ginning on seed coat, fragment count in ginned lint have been evaluated, using five varieties of cotton.<sup>13</sup>

Anap G.R. studied in detail and presented the detail design of a modern and mechanized ginning and pressing factory. They also discussed plant layout of seed cotton pre-cleaner, pneumatic feeding unit etc. The study offered suitable suggestions to modify the existing ginning units in India.<sup>14</sup>

Satyanarayana in his study of industrial development in backward region concluded that the growth of textile units in the cottage industry sector is mainly due to the growing demand for the cotton and silk fabrics of superior variety.<sup>15</sup>

The Cotton Technological Research Laboratory (CTRL), Mumbai carried out a detailed survey on conditions of cotton ginning and pressing factories in Madhya Pradesh as part of programme of survey about the conditions of ginning factories on all India basis with the active co-operation of East India Cotton Association during the first quarter of 1988. The survey indicated the actual conditions of the machinery being used and modifications; and the renovations adopted by the ginning and pressing factors as also the difficulties faced by the factory owners in producing quality lint.<sup>16</sup>

The N.C.A.E.R. in its survey of backward districts of Andhra Pradesh laid emphasis on the development activities rather than the targets in order to remove the difficulties in economic growth.<sup>17</sup>

Das N.C. studied in detailed the historical background to trace out the origin and development of handloom industry, and the organisation of marketing, finance, processing activities and the need for comprehensive perspective planning of the co-operative sector.<sup>18</sup>

In the above studies, though found a good number of recommendations for well-being of the handloom industry but not focused on the aspect of financial performance of Super Spinning Group of Mills. Hence, the present study.

## **STATEMENT OF THE PROBLEM**

Like food and housing, cloth is a basic need of human beings. In olden days, yarn required for handlooms to produce cloth was hand-spun by the artisans. In modern days, yarn is the primary input to the handloom industry. The mill yarn in this stage is critical. The individual weavers and even handloom co-operative societies have been facing the problem in obtaining good quality yarn at reasonable price in right time.

A rapid increase of middlemen like brokers, yarn dealers and sub-agents captured the supply and distribution markets. This created a serious problem for both to the weavers and the co-operative handloom societies. To tackle this problem, steps have been taken from time to time to bring the weavers and cotton growers into voluntary association.

The spinning of cotton in the private sector has been started with the encouragement of given in various industrial policies, with the principal object of making supply of yarn to the users. To run effectively, any business concern needs a sound financial system. In view of this, the present study is focused on the financial aspects of the Super Spinning Group of Mills. The problem investigated covers the financial performance including share capital, borrowed funds; and sources of funds, capital structure and working capital. It also emphasises the efficiency of Super Spinning Group of Mills with reference to working results.

#### **OBJECTIVES OF STUDY**

The main objectives of the study are:

- (i) To analyse the efficiency of working capital management and liquidity position in Super Spinning Group of Mills.
- (ii) To study the long-term financial position of Super Spinning Group of Mills.

- (iii) To analyse the profitability position of Super Spinning Group of Mills.
- (iv) To suggest measures for improving the financial position.

## **METHODOLOGY**

To fulfill the above objectives the study is confined to the working of Super Spinning Group of Mills in Anantapur district, which is a combination of three units, Viz., Super-A, Kirikera, Super-B, Kotnur and Super-C, Gudalur. These units constitute the effective universe of the study. It is designed to analyse the financial performance to understand and critically examine the efficiency of the mills in terms of financial operations.

## **DATA SOURCE AND COLLECTION**

The present study is based on the secondary source. The required secondary data was compiled from the Records, Annual Reports and Directors Reports of the Super Spinning Group of Mills, Anantapur for ten years from 1994-95 to 2003-04. The bulk of data used for analysis was compiled from the published sources.

To understand the working performance, the financial statements of Super Spinning Group of Mills were studied. The relevant information were also collected from various sources in and

out side the mills. In addition to the data collected, personal discussions were also held with the officers of the mills concerned.

## **DATA ANALYSIS**

Trend analysis is the process of examining in depth the financial information while the comparative statements provide comparison. The relationship between income at two points of time, which enables study of financial position and operation results.

## **PLAN OF THE REPORT**

The plan of the report is presented in five chapters. In the first chapter, introduction of all the methodological issues is discussed. The profile of the Super Spinning Group of Mills is presented in the second chapter. In the third chapter, focus is made on the working capital of the Super Spinning Group of Mills. The financial statement analyses are highlighted in the fourth chapter. Suggestions are dealt in last chapter.

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