CHAPTER 7
FINDINGS, SUGGESTIONS & CONCLUSION OF THE STUDY

Preliminary Observation:
The present study based on “Financial Performance Appraisal of Eastern Coalfields Limited during 2000-01 to 2009-10” has produced a number of valuable findings which are very ground-breaking in nature and pragmatic to the management for decision making. We believe that, if these findings are factored into the decision making process of the ECL, the company may be able to improve its financial performance in a short-term leading to a turnaround of its position in the long-term. It is pertinent to mention here that in the course of our detailed analysis of financial data spanning Six Sections in Chapter 6, we have already given a brief account of findings at the end of each sectional analysis. Here to have an overall view of the various findings relating to different aspects of financial analysis, we produce below a summary of all the findings.

7.1 Findings of the Study
The important findings of our study are presented in the following sub-sections:

7.1.1 Findings of Liquidity Analysis to ascertain Short-term Solvency of ECL
From the liquidity analysis it is clear that the overall liquidity position of the company is not at all satisfactory at the present level. On the whole, the liquidity analysis of ECL exposes the serious weakness of the company in managing its working capital. The three liquidity ratios i.e. Current ratio, Quick ratio, and Super Quick ratio which are considered to be the best available test of the company’s creditworthiness are far from satisfactory. They are all less than the standard norms i.e. less than 2:1, 1:1 and 0.5:1 respectively. We call them illiquidity ratios as they testify to illiquidity of the company. This further signifies that the short-term solvency of ECL is under serious strain as its liquidity position is highly vulnerable. The creditors stand at considerable risk as the company is not in a position to meet its current obligations without infusion of working capital from the government or some other external sources. Since ECL is a public sector company, low liquidity may not have a significant impact on its borrowing power, but this situation may not continue forever. With more measures of liberalization and reforms in the coming years, the govt. may ask the company to stand on its own feet and generate internal resources to take care of its short-term capital requirements.
We again find that ECL is in short of liquid funds and even is operating with negative working capital which has been hampering its activities and, hence, profitability. In our view, the lack of adequate liquidity and resultant working capital shortage are adversely telling on the earning capacity and financial health of ECL. As a result, we perceive an association between low liquidity and negative profitability in case of ECL at the present level. That means the company wide off the situation where it would have an optimum level of liquidity to assure an optimum level of profit. This can be corrected by either increasing the current assets or decreasing the current liabilities.

It may be noted in this connection that the years 2005-06, 2006-07 and 2009-10 have shown some improvements in the liquidity position of ECL. Current ratio and Superquick ratio were at their best in these years. This is because ECL earned profits during those years.

7.1.2 Findings of Capital Structure Analysis to Test Long-term Solvency of ECL

From capital structure analysis, we find that overall long-term solvency of the company is very unsatisfactory and not at all encouraging. The networth of the company has turned into negative due to losses incurred in earlier years and even in seven years out of the ten years of our study period. The capital employed in the company has become negative mainly due to negative working capital for excessive current liabilities. As a result, neither lenders are protected by assets nor fixed assets are supported by the owner’s fund. The company mainly depends on the outsiders’ funds and it is specially Coal India Limited. The company may go out of control any time if it is not supported and taken under consideration by its parent company, i.e. Coal India Limited as well by the Government of India. Capital structure analysis of ECL exposes the serious weaknesses of the company in managing its long-term solvency. The three capital structure ratios i.e., Net worth to Debt Ratio (NWDR), Net worth to Net Fixed Assets Ratio (NWFAR) and Long-term Debt to Total Debt Ratio (LDTDR) which are considered to be the best available test of the company’s long-term creditworthiness are far from satisfactory. Thus long-term solvency of the company is in danger and not at all satisfactory. In our view, the lack of equity and long-term fund are adversely telling on the earning capacity and financial health of company. The analysis of the capital structure ratios through graphs
reveals that all the ratios are having declining trends indicating deteriorating capital structure position and long-term solvency of the company. This situation demands immediate measures to rectify and rationalize capital structure.

However, the years 2005-06, 2006-07 and 2009-10 have some improvements in the solvency position of Eastern Coalfields Limited. This is because ECL has earned profits during those years. However, we have pleasure to state that ECL has been earning profits in a row last three years since 2009-10, which has helped in reducing negative net worth of the company. This gives a good signal to refurbish networth and to bounce back for its turnaround. But years after 2009-10 which is beyond our study period could not be included in our study for understandable reasons. However, the detailed findings have been presented in Section 6.1.2 in Chapter 6, page 138-139.

7.1.3 Findings of Efficiency Analysis to Evaluate Asset Utilization Efficiency of ECL

We observe from the study that the situation under which ECL is running, is a situation of ‘under capitalization’ and the case of ‘overtrading’ where a firm tries to perform incredibly to increase sales to meet emerging demand in the market but it lacks adequate capital. Due to shortage of sufficient funds the company cannot maintain adequate amount of inventories, and it delays payment for creditors, and other operating expenses. The situation results in a vicious circle compounded by low proprietary ratios due to insufficient proprietary fund, low liquidity ratios due to inadequate working capital and higher turnover ratios due to extreme pressure on utilization of assets and hence undoubtedly poor profitability ratios for all these reasons. This exactly is the case with ECL. The company has tried to outdo the performance with limited resources to meet emerging demand of coal in the market which is adversely affecting the profitability of the company.

It is evident from efficiency analysis that the overall efficiency with regard to assets management of the company in the recent years particularly after 2005-06 is highly satisfactory as compared to the beginning of our study period, i.e. during the year 2000-01 to 2004-05. This indicates efficiency of assets management of the company. We find that most of the efficiency ratios which are considered for measuring efficiency of assets management of ECL like stock turnover ratio, current assets turnover ratio and even fixed
assets turnover ratio in the last year of our study period are highly satisfactory. However, debtors’ turnover ratio and stores to consumption ratio though have improved satisfactorily as compared to the beginning of our study period, need further improvement.

Actually poor liquidity position of the company gives it limited borrowing power. This is seriously affecting the operating of the company which can not but borrow only from the parent company in case of urgency. This leaves the company with no option but efficient utilization of assets. This situation is an indication of ‘overtrading’ which we have already discussed in the first paragraph of this point. This situation is creating an extreme pressure on assets utilization and badly affecting profitability of the company at the present condition. It is also evident from the analysis that whenever the company has maintained stock turnover ratio within around 12 to 19.08 times as is seen in the years 2005-06, 2006-07 and 2009-10, it has earned profits whereas stock turnover ratio more than 19.08 times over a year has incurred losses for the company. Only exception is in the year 2007-08 where a stock turnover ratio of 16.86 times has incurred loss.

7.1.4 Findings of Profitability Analysis to Examine the Profitability Strength of ECL

It is observed from profitability analysis that in general all the profitability ratios except cash profit ratio have shown negative results except in the year 2005-06, 2006-07 and 2009-10 where the company has earned profits. Thus, profitability ratios are not satisfactory at all. However, from the year 2005-06 the company has started improving its profitability strength. The company has earned profits in three years out of the last five years during our study period and again it has made profit in the year 2010-11 and in 2011-12 as is evident from Annual Reports and Accounts of the company. Moreover, one interesting thing has been observed that net profit ratio of the years 2003-04 and from 2005-06 to 2009-10 has been better than gross profit ratio which is very unusual but happened due to waiver of interest and electricity charges as well as interest received from Term Deposit with bank. Unfortunately, during most of the financial years except 2005-06, 2006-07 and 2009-10, ECL has incurred losses due to either increase in provision for pay revision and actuarial gratuity or decrease in production and sales revenue and increase in depreciation. The year 2005-06 has crossed all the earlier barriers with the highest ever profit of Rs. 363.86 crores (PAT), whereas 2008-09 has shown the
highest ever loss of Rs. 2109.09 crores (PAT) due to heavy provisions for pay revision as per National Coal Wage Agreement (NCWA) -VIII, actuarial gratuity and leave encashment etc.

We also find from the Table 6.10, page 151, that in the year 2008-09 the cost of production was as high as 156 percent of the sale price of the coal per tonne whereas, the lowest cost of production was nearly 92 percent of the sales price of coal per tonne in the year 2005-06. The highest cost of production of the year 2008-09 is mainly because of heavy amount of operating costs and again we find that dominating factor is the remuneration of the employees which has been around 56 to 69 percent of the total operating expenses during our study period. Interestingly, though number of employees has reduced over the study period.

7.1.5 Findings of Trend Analysis of different Financial Ratios

a) Trend Analysis of Liquidity Ratios: We find from trend analysis of liquidity ratios that both current ratio and quick ratio have downward trends during our study period. This indicates that proportion of current assets and quick assets to current liabilities have been decreasing over the years. Thus, short-term solvency position of the company is not at all satisfactory which is deteriorating further. The only silver lining in the otherwise gloomy scenario of liquidity is that the SQR is showing an upward trend indicating some improvements in immediate liquidity position of the company. However, even if the trend of super quick ratio shows a high upward trend, it is also not satisfactory in individual term at the present level. On an average the company has around 16 paisa for every rupee of current liabilities over the study period which is very embarrassing for a concern like ECL. To improve the trend of current and quick ratio, adequate investment in current assets especially in the form of stock has to be made to meet the increasing demand for coal in the economy. At the same time efforts should be made to reduce the magnitude of current liabilities.

b) Trend Analysis of Capital Structure Ratios: From trend analysis of capital structure ratios it is revealed that all the ratios, i.e., Networth to Long-term Debt Ratio, Networth to Net Fixed Assets Ratio and Long-term Debt to Total Debt Ratio are having declining trends indicating deteriorating capital structure position and long-term solvency of the company due to losses incurred in seven years out of the ten years of our study period.
Thus, as far as the long-term solvency of the company is concerned, it gives a very depressing picture. The company is also loosing an opportunity of using long-term external fund in the capital structure to make gain from ‘Trading on Equity’. However, the years 2005-06, 2006-07 and 2009-10 have some improvements in the solvency position of Eastern Coalfields Limited. This is because ECL has earned profits during those years. Further, we have pleasure to state that ECL has been earning profits in a row last three years since 2009-10, which has helped in reducing negative net worth of the company. This gives a good signal to refurbish networth and to bounce back for its turnaround. But years after 2009-10 which is beyond our study period could not be included in our study for understandable reasons.

c) **Trend Analysis of Efficiency Ratios:** The trend analysis of efficiency ratios exhibits that Stock Turnover Ratio shows a downward trend, which indicates that the performance of this ratio are declining indicating accumulation of stock. Both too high and too low stock turnover is bad which indicate inadequate investment and excessive investment in stock respectively. However, in case of Stores to Consumptions Ratio, downward trend indicates improvement and reduction in consumption of spare parts and stores in the production. This would improve profitability of the concern. Further, Debtors Turnover Ratio exhibits a very high upward trend and Current Assets Turnover Ratio and Fixed Assets Turnover Ratio show high upward trends. Very high upward trend of Debtors Turnover Ratio indicates much improvement in collection policy of the company and high upward trends of Current Assets Turnover Ratio and Fixed Assets Turnover Ratio indicate improving efficiency of the company with regard to the utilization of current assets and fixed assets. Thus, it is evident from Trend analysis that the performance with regard to assets management of the company except stock turnover ratio is highly encouraging and satisfactory. However, a very high upward turnover ratio implies an inadequate investment in these assets that would affect profitability of the company as it would face problem in meeting customers’ demand because of low level of assets or inadequate investment in these assets.

d) **Trend Analysis of Profitability Ratios:** The Trend analysis of Profitability Ratios exhibits that Gross Profit Ratio of the company shows just downward trend which indicates that though the company is incurring losses, gross profit ratio can be rectified with little care. For net profit ratio we get an upward trend which indicates that the Net
Profit Ratio has been improving over the study period. However, this improvement is mainly because of interest from bank deposit and to some extent waiver of electricity charges by the state government in some years but not from operation which have been already discussed in Ratio Analysis Part Section 6.1.4. On the other hand, high downward trend of Cash Profit Ratio indicates a dismal position of cash profit and high downward trend of Return on Total Assets Ratio presents a very gloomy picture of overall profitability. On the whole, we can say that profitability trend of the company during the period under study is not at all satisfactory. Thus, this situation needs much improvement.

Further, Salary & Wages to Operating Expenses Ratio shows just downward trend which indicates that though number of employees has gone down over the study period, proportion of salary to operating expenses has not decreased to that extent because of enhancement and revision in pay structure as per different wage negotiations under various National Coal Wage Agreements. Thus, this situation calls for corrective measures to improve the overall profitability of the company. However, detailed findings are presented in Section 6.2 in Chapter 6, page 163-165.

7.1.6 Findings of Trend Ratios to verify Long Term Solvency Position of ECL
We observe from the analysis of Trend Ratios of selective capital structure components that long-term solvency position of ECL does not look good. When equity capital has remained constant, total debt has increased at a faster rate due to huge increase in short-term debt and further networth of the company has turned into negative and deteriorated further due to losses incurred in earlier years and even in seven years out of the ten years of our study period. Thus, there is no improvement in capital structure and even it has become worse over the years. Hence, long-term solvency of the company is in danger and not at all satisfactory. Thus the result supports our earlier findings in Ratio Analysis Section under 6.1.2. It is important to note that the detailed findings relating to this analysis have been presented in Section 6.3 in Chapter 6, page 170.

7.1.7 Findings of Correlation Analysis
As regards the correlation between the Liquidity and Profitability (ROTA), we find that there are significant positive relations between current ratio and return on total assets and between quick ratio and return on total assets at 5% level of significance with 8 degree of
freedom. This implies that improvement in current ratio and quick ratio at the present level will significantly improve return on total assets i.e. profitability.

As regards the correlation between the Capital Structure and Profitability, we find that though there is a positive relation, no such relation is significant at 5% level of significance with 8 degree of freedom. Hence, we can conclude that there is no relation between capital structure and profitability.

As regards the correlation between the Efficiency of Assets Management and Profitability, we find that there is no significant relation at 5% level of significance with 8 degree of freedom. This also implies that the efficiency of assets management has no direct bearing on the return on total assets (ROTA). Thus, we can conclude that though apparently efficiency ratios show much improvement in assets utilization or turnover of the assets of the ECL, it is, in the present situation, not helping to improve profitability. However, moderate degree of negative correlation between stock turnover ratio and return on total assets indicates that if stock turnover ratio increases profitability would suffer though not significantly.

Taking into consideration both significant positive correlation between current ratio and profitability and moderate degree of negative correlation between stock turnover ratio and profitability and between current assets turnover ratio and profitability, we can say that there is inadequate investment in current assets and specially it is in stock which is affecting profitability badly. Thus, the result supports our earlier findings in Efficiency Analysis Part of our ratio analysis under Section 6.1.3, page 143 where we have found high ratio of stock turnover has adversely affected profitability.

7.1.8 Findings of Cash Flow Analysis
It is observed from the cash flow analysis that the company is almost able to generate Cash Flow to maintain its operating activities without any support from external sources during our study period. This gives a clue for the survival of the company, as it is very important for a sick company like ECL. We also find from the analysis of financial ratios based on Cash Flow that the company has maintained positive cash flow in all most all the years except in the years 2006-07 and 2007-08. Further, there has been marked improvement in operating cash flow, especially from 2007-08 after a great fall in the year
Findings, Suggestions & Conclusions of the Study

2006-07 that gives a good signal to the company. Lowest performance in the year 2006-07 was mainly due to heavy cash outflow for the payment of current liabilities due to arrear remuneration arising out of the revised pay structure etc. However, problem is that whatever cash is generated from operating activities is mostly used for investing activities and financing activities which is not usual. These activities should have been financed from long-term sources at least at the present scenario. As a result, current liabilities have accumulated and hence liquidity position during our study period has not improved as expected. The main findings are stated below:

a) The study reveals that the main contributors to the cash flow from operations are the provision for depreciation, OBR adjustment, increase in current liabilities, decrease in sundry debtors and inventories. Further, depreciation as an internal source of fund has contributed sufficient funds for the purchase or replacement of the fixed assets at the present level.

b) It is also found from the analysis that for ECL the most influential factor of operating cash flow is change in creditors and then the second influential factor is the change in debtors followed by the third influential factor that is change in inventories. Increase in current liabilities though, technically generates positive operating cash flow to meet operating expenses as a short-term measure; it does not give a good signal for the company in the long-run. This trend needs to be checked for the betterment of the company as it may create an acute liquidity problem in the long-run. Accumulation of stock during the study period except 2007-08 and 2008-09 has affected cash inflow adversely. However, for ECL we have observed it is a sensitive issue as we find there is inadequate investment in stock. This needs to be managed very carefully for the survival and further growth of the company keeping in mind the emerging demand of coal prevailing in the energy based economy. Further, debtors balance has started increasing from the year 2007-08 though it was amazingly controlled up to 2006-07. This also needs improvement. Inefficient handling of these issues will further affect liquidity position of the company.

c) It is also revealed from the analysis of debt coverage ratio that the operating cash flow after interest is not sufficient to meet long-term debt of the company. Thus, it supports our earlier findings that the long-term solvency of the company is not
satisfactory. This has been discussed in detail in capital structure analysis in Section 6.1.2 under ratio analysis.

\[\text{d)} \quad \text{However, it is found that the company has started improving return of cash flow to total assets very sharply from the year 2007-08 onwards indicating its efficiency in utilization of assets in the recent years. It has also improved its cash flow per share indicating company’s ability to generate cash per share. These factors jointly indicate some improvement in liquidity position of the company in the recent years that would help in revival of the company.}\]

7.1.9 Findings of Comparative Study on the Financial Performances of ECL, CCL and CIL

The important findings emanating from Comparative Study are as follows:

a) Comparative Study of Liquidity position: From comparative study on liquidity analysis we have discovered that all the liquidity ratios of the ECL are poorer than those of the industry represented by Coal India Limited (CIL) and even that of Central Coalfields Limited (CCL) and hence are not satisfactory at all. When we observe a growth in liquidity position of the industry reflected by CIL, which has been improving significantly and has ensured that current assets exceed current liabilities, ECL has failed in this respect and has been behind the industry average. However, it is also found that ECL has tremendously reduced its stock holding period as compared to CIL and CCL, which may improve future liquidity position of ECL. But we have discussed earlier that management of stock for ECL needs special care to meet emerging demand of coal and to improve profitability.

b) Comparative Study of Capital Structure: It is revealed that all the capital structure ratios of ECL are either poorer than those of the industry and CCL or not according to the industry trend. The most danger is that ECL is running with negative net worth, the positive value of which usually gives strength to the company to fight in the long run. Thus, the long-term solvency of the company is in danger and we know that the company has been declared sick and still under BIFR (Board for Industrial and Financial Reconstruction). It is found that there has been significant reduction in the debt component under capital structure of the industry during the whole period. This has reduced financial risk largely for the industry. Conversely, for ECL it has been very...
difficult to manage its financial needs from its own funds because of its negative net worth due to losses in almost all the years except in the years 2005-06, 2006-07 and 2009-10. Thus, ECL has failed to give any coverage to the lenders of the long-term funds and hence its long-term solvency is not at all satisfactory. However, the position is getting improved in the recent years and particularly it is from the year 2009-10 onwards.

c) Comparative Study of Asset Management Efficiency: From comparative study on efficiency of asset management of ECL, CCL and CIL we find that most of the efficiency ratios of ECL that are considered for measuring efficiency of assets management of the company like stock turnover ratio, current assets turnover ratio and even fixed assets turnover ratio are highly satisfactory. However, stock turnover ratio and current assets turnover ratio of ECL are far better than the industry (CIL) as well as CCL and fixed assets turnover ratio after 2005-06 is far better than the CIL and CCL. But, debtors’ turnover ratio and spares to consumption ratio though have improved satisfactorily, are yet lagging behind the industry and thus need further improvement in future. However, the problem is that even if the company is utilizing its assets very efficiently especially in the recent years after 2005-06, it is incurring losses mainly due to high proportion of operating costs because of heavy manpower as compared to the industry.

Nonetheless, an extremely high stock turnover ratio and current assets turnover ratio of ECL as compared to the industry are, though, highly satisfactory from the liquidity point of view, is affecting profitability due to inadequate size of stock for shortage of working capital at the present level. Usual standard of stock turnover ratio is 5 to 6 times a year. However, CCL though has been following this standard to some extent in the recent years; it is not followed even in the industry. From comparative study it is also found that in case of CCL, the volume of stock in proportion to sales is always more than the ECL. Perhaps, ECL has failed to do that because of less investment in stock due to shortage of working capital. Further, this is due to less productivity of underground mines, comparatively less number of opencast mines and further less use of modern technology. It is also revealed from the study that when most of the coal companies, now days, are holding much amount of stock of coal to meet heavy demand of coal in the emerging energy based economy, ECL still fails to capitalize the opportunity due to shortage of capital and as a result profitability is being affected. Further, high stock turnover ratio of
ECL as compared to the industry may be an indication of the fact that there is high demand for ECL’s coal in the market. Thus, though, apparently high turnover ratios of ECL show much improvement in assets utilization, however, it is because of inadequate investment in assets which ultimately has been affecting profitability due to overtrading.

d) Comparative Study of Profitability: It is observed from comparative study on profitability that though ECL, after 2005-06, has shown some improvements in its profitability pattern, it is unsatisfactory and far behind the industry average (CIL) and that of the CCL. The main reason is the higher percentage of its operating cost as compared to industry and again it is due to higher salary and wages expenses for its larger size of work force. For instance, in the year 2009-10, this operating cost is around 92 percent of the sales price for ECL which is around 20 percent higher than that of CCL (72 percent) and around 23 percent higher than the industry average (69 percent) represented by CIL. Again, for the year 2008-09, this ratio is as high as around 156 percent for ECL whereas it is only around 85 percent for both CCL and CIL. Further, on an average, when ECL has spent around 62 percent of total operating expenses for salary and wages during the study period, CCL has spent only around 37 percent of operating expenses for remuneration, i.e. 25 percent less than the ECL and industry (CIL) has spent around 47 percent, i.e.15 percent less than the ECL.

Moreover, when profitability position of the industry is improving over the study period because of improved productivity, increased production and turnover and decrease in operating cost, it is not happening consistently for ECL mainly because of huge work force and lack of modern cost saving technology as are adopted in many countries.

At last, however, we would like to mention here that by nature, the position of ECL as compared to CCL is supposed to be poorer and we should not expect the same performance level of ECL as we expect from CCL, at least at the present condition, because of the following reasons:

Firstly, Manpower in ECL is more since from its inception as compared to CCL.

Secondly, ECL is having less number of opencast mines as compared to CCL. Usually cost of production of coal from underground mines is more than the cost of production of coal from the open cast mines because of less mechanization and less productivity of
underground mines. Thus, cost of production of ECL is naturally more and hence its profit from sale of coal per tonne is less. However, the quality of coal from the underground mines of ECL usually is superior to other mines and hence gets a better market price. Thus, to make more profits, the production of that coal has to be increased with the help of modern machines. However, it is a herculean job but is possible with proper investment and firm fortitude.

Thirdly, ECL still uses fewer technologies as compared to CCL because of its poor financial strength and further less number of opencast mines at the present level. As a result, the overall productivity of ECL is usually poorer than that of CCL. However, recently the company is performing far better than the earlier years and has started making profits consistently especially after 2009-10.

7.2 Suggestions for Improving the Financial Performance of Eastern Coalfields Limited

On the basis of analytical findings which are discussed earlier as well as information gathered from the company officials we are giving certain suggestions for the improvement of the financial performance of the company that would help it to turnaround and to survive with dignity. These suggestions are given in the following points:

A. Suggestions to improve Liquidity or Short-term solvency position of Eastern Coalfields Limited:

To improve liquidity position in the present situation the company may take following steps:

1) To speed up debtors’ collection. For that, selection and collection policy of debtors have to be improved further as the company is still lagging behind the industry.
2) To postpone some capital expenditures which are not urgent.
3) To sale obsolete assets, if any, which are not contributing to the return on investment.
4) To increase in sales revenue by adopting better methods of price negotiation.
5) To improve cash management with proper planning to know inflows and outflows with more certainty for better decision making.
6) To divest unprofitable segments and units, if any, which are not contributing.
Findings, Suggestions & Conclusions of the Study

7) To payoff current liabilities in time without its accumulation to improve working capital position.

8) To rationalize some items of current liabilities which are though shown as current liabilities, are not being paid by the company for a long period of time. One is Cess Equalization Account of Rs. 949.39 crores as on 31-03-2010, this is now shown under the head “Current Liabilities” in the Balance Sheet. Similarly, short term-loan of Rs.1532.00 crores out of the total loan of Rs.1942.48 crores as on 31-03-2010, which has been taken from CIL and shown as current liabilities under “Current Account with CIL & others” may be rationalized. Thus, if these are removed from current liabilities and credited back to Profit & Loss Account or used for writing off of the debit balance of Profit and Loss Account, it would improve both long-term as well as short-term solvency of the company.

B. Suggestions to improve Capital Structure and Long-term Solvency of Eastern Coalfields Limited:

1) Infusion of new equity funds is very much essential to minimize the use of more short term debts and its bad effects on long term solvency as well as to combat ‘Under-Capitalization’ and ‘Overtrading’ situation of the company. Further, deteriorating Net Worth has to be checked by this infusion of new funds in equity at the present situation besides making profit as well. In this regard CIL may help to a great extent. As CIL is now a listed company and has already offered IPO (Initial Public Offering) which was oversubscribed fifteen times in October, 2010 and now plays a dominant role in BSE on and from 17th, June 2011, in fixing Sensex, it can issue fresh shares into the capital market and then contribute that fund to ECL to rejuvenate the company. However, that fund has to be distributed and utilized very carefully between fixed assets and current assets.

2) Reorganization of financial structure and capital structure are essential to justify and improve the solvency of the company. These can be done by rationalizing provision for Over Burden Removal (OBR) account and provision for actuarial liability etc. The excess amount of that provision may be credited back to Profit Loss Account or may be used for reducing debit balance of Profit Loss Account. That would improve networth and the capital structure of the company and hence the financial position.
3) To overcome the state of ‘under capitalization’ the company may raise long term funds for investment in modern technologies through long term loans from bank, if possible. This would improve productivity and reduce manpower cost. ECL is still overburdened with outdated technologies. Thus to improve productivity the company must introduce cost cutting or cost saving technologies.

4) To try for the waiver of unsecured loan of Rs.518.97 crores as on 31-03-2010, a charge free loan given by CIL to the company to run its business smoothly, at the earliest. CIL has given a condition that it would waive this loan in the year in which the company makes negative net worth into Zero. This would improve net worth of the company and hence the solvency.

5) To make more profits from operation so that debit balance of profit & loss account can be written off to convert negative networth into positive one.

C. Suggestions for improving Efficiency of Assets management of the company:

1) It is already observed from the comparative analysis of financial performances of ECL, CCL and CIL that there is more pressure on utilization of assets of the company because of inadequate funds, which is affecting its profitability. Thus, further speeding up certain turnover ratios especially stock turnover ratio may be fatal for the company. This fact must be kept in mind before taking any decision to speed up the turnover ratios. We have observed that even fixed assets turnover ratio in the last year of our study period has been better than the industry and CCL. However, debtors’ turnover ratio and stores to consumption ratio though improved extremely, are yet lagging behind the industry and thus need further improvement.

2) Investment in current assets and particularly in stock of coal has to be increased to increase sales to meet emerging demand of coal which is growing at a faster rate with the energy demand of a fast growing economy. It is also observed that high stock turnover ratio of ECL as compared to the industry is an indication of inadequate investment in the stock of coal and further there is high demand of ECLs coal in the market because of its less ash content. Thus, this opportunity has to be tapped to improve profitability of the company for its turnaround and survival in the future.
We have observed in comparative analysis that so called poorer ratios of industry with regard to Stock Turnover and Current Assets Turnover are followed by profits. Thus, this apparent poor turnover ratio of industry is actually implies adequate investment in stock and current assets of the industry, the level which could not be maintained in ECL due to inadequate funds. Thus, investment in current assets and particularly in stock is much needed for enhancing profitability of the company.

3) To maintain the optimum level of investment in current assets to increase the return on total assets. Dependence on short term sources for financing permanent working capital causes lesser profitability and increases strain on the management in managing working capital. Again, to meet increasing demand of coal, production has to be increased which will concurrently increase the level of stock and credit sales. For that, working capital has to be increased. It is also revealed from correlation analysis that there is a positive relation between current ratio and profitability. This implies that if current ratio improves profit will improve. This may be done either by reducing current liabilities or increasing volume of current assets. As a part of current assets is represented by stock of coal, it may, therefore, be suggested to invest adequately on stock to meet increasing demand in the market. This need is also reflected in our ratio analysis part under Section 6.1.4, 6.4 and 6.6.

D. Suggestions for improving Profitability:
Profitability can be improved with the help of following procedures:

1) To control its cost of production which in time is as high as 156 percent. This is very essential for the company to make sufficient profits. We have observed that the dominating factor of total operating expenditure is the salary and wages which remains 56 to 69 percent of the total operating expenditure during the period under study. Thus, we understand that for the survival of ECL in the long run either salary and wages has to be controlled by taking different measures or volume of sales has to be increased by enhancing productivity and production through more mechanized processes with certain control over salary and wages.

2) To control overtime wages which can be done by utilizing excess manpower for that purpose with proper planning.
3) As cost of production of ECL is too high as compared to the industry, even cost transparency and proper classification of cost is very much essential for cost reduction if required.

4) Investment in fixed assets is essential and immediately required. We have observed though production from opencast mines has increased; production from underground mines has not improved. For that, further modern machines must be used to improve production, productivity and hence profitability which is already mentioned as there is no dearth of demand for coal in the market. It is also observed that the productivity of some subsidiaries of CIL and SCCL are better than the ECL which is discussed in section 4.6 in Chapter 4. Productivity is far better in countries like the USA, China etc. Thus, there is enough scope for improvement. However, in the absence of sufficient investment in fixed assets the productivity would hamper and hence the profitability.

However, care should be taken in taking decisions whether to purchase the modern machines from its own funds at the present situation or to take more machines on risk / gain sharing basis as is already started by the company. Moreover, the purchasing of fixed assets will increase the operating fixed costs in the form of depreciation, insurance, repairing and maintenance etc. which would certainly reduce the profit of the company. Thus, company management has to choose meticulously between self-sufficiency with maintenance costs of the machines or obligation without autonomy but with no maintenance costs before taking a decision in the present situation.

5) As quality of coal from the underground mines of ECL is superior to other mines and it gets a better market price, the production of that coal has to be increased with the help of modern machines to improve profitability. However, it is a herculean job but is possible with proper investment and firm fortitude.

6) Number of opencast mines in ECL has to be increased

7) In overall, it is suggested that the company has to improve its production and productivity by mechanizing more its production process and subsequently making profits consistently. For that, the company needs some fresh long term funds mainly in the form of equity capital for the investment in fixed assets, current assets and to keep sufficient cash balance to run the business systematically and smoothly. If these things improve and
further these are supported by flexible selling prices and even better prices for better quality of coal, like selling high premium grade coal of Raniganj underground coal mines to power sectors at a price nearer to the imported price or at cost plus reasonable margin, meeting NTPC’s huge requirement of coal, more viable contract with power houses, further improvement in marketing mechanism like; e-marketing & e-booking etc., control on stores expenses, savings of power cost through Energy Audit exercises, control on loading & unloading expenses and demurrage & undergrounding charges, opening of new open cast mines, more control on pilferage, giving more motivational training to the workers, improving maintenance services, checking on overtime wages, closing down of loss making mines and judicious use of surplus manpower, outsourcing of non viable mines or production from small isolated outsourced patches, adherence to production target and implementation of various projects with the support from the Government, exploration of coal bed methane (CBM), full co-operation from Govt. of West Bengal and Govt. of Jharkhand, various Trade Unions, employees and other stake holders for fulfilling this dream, the company certainly would make a turnaround and become a commendable subsidiary of Coal India Limited in near future.

8) Profitability may further be improved by rationalizing ‘Provision for actuarial liabilities’ and ‘Provision for overburden removal (OBR)’ account which are shown as ‘Provisions’ under “Current Liabilities and Provision” head in balance sheet. This is already discussed under ‘suggestions to improve capital structure’ of the company.

E. Suggestions to Improve Cash Management: in addition to the point Following steps may be taken for the improvement of cash management:

1) Using operating cash inflows for meeting financing needs and investing needs is not desirable at least at the present situation. Further, in the present era of change and competition where the company is required to invest a heavy amount in new technology and machine for the revolution in production, the internal source of funds created from operating activities may not be sufficient to cater this need. Thus, huge investing needs should be financed from long-term source at least at the present situation to increase production for improving profitability, as there is no dearth of demand for coal in the present market. Thus, this trend needs to be checked till the company becomes strong.

2) Accumulating stock and increase in debtors’ balance which affect operating cash flow very badly should be managed very carefully for the survival and growth of the company.
Findings, Suggestions & Conclusions of the Study

keeping in mind the emerging demand of coal prevailing in the energy based economy. We have observed that though stock accumulation for our study company puts more pressure on operating cash flow at the present situation of fund crisis, industry is asking for more investment in stock to match with the demand. Thus, it is a sensitive issue which needs to be handled meticulously.

3) Non-payment of current liabilities though generates positive operating cash flow for the time being, it is a matter of concern when they are accumulated. It does not give a good signal for the long-term survival and hence the trend needs to be checked in future.

4) The company should be more careful in dealing three most influential factors which are affecting its cash flow pattern. First, change in creditors, second change in debtors followed by change in inventories, the third influential factor.

5) Cash outflow for operating activities has to be controlled very carefully. One of the most important areas is remuneration and other compensation to the employees. This fact is already discussed under the head ‘suggestions to improve profitability’ of ECL.

7.3 Conclusion of the Study

Energy requirement in India is raising fast in tandem with its economic growth. As the country is deficient in petroleum oil, it has to depend on coal in a big way for meeting a large part of energy needs. Thus, there is a great need of this industry to meet the ever increasing demand of coal for its undaunted growth.

Fortunately, the country has abundant reserve of coal. Globally our country ranks fourth in terms of Coal Reserve. India has become one of the largest coal producers in the World. But, this has been possible because of Coal India Limited (CIL), a giant public sector holding company in India with Maharatna Coal Mining PSU status. At present it is the largest coal producing company in the World, based on its raw coal production of 431.32 million tonnes in the fiscal ended 2011. In fiscal 2009, coal produced by CIL accounted for 81.9 percent of coal production of India. It is also the largest coal reserve holder in the world. However, CIL is giving this service with the help of its seven Indian Subsidiary companies which we have already discussed in Chapter 3 under Section 3.2.

At this point, we would like to describe the importance of Eastern Coalfields Limited, our selected company for study. ECL is engaged in production of coal and its production lies in the huge reserve of premium grade coal under its control. At present, the company
produces on an average 30 million tonnes of coal and is catering mainly the needs of power sectors. Thus, ECL is playing an important role in the development of West Bengal in particular and the Nation in general. But unfortunately, it is in red and is declared sick and brought under the Board for Industrial and Financial Reconstruction (BIFR) due to continuing losses and erosion of net worth, which we have already discussed in Chapter 4 under 4.12.1. It is still under the ambit of the BIFR. Now in view of its critical importance to the development of India in general and particular in W.B. the present study titled, “Financial Performance Appraisal of Eastern Coalfields Limited during 2000-01 to 2009-10” has been undertaken to enquire into the various aspects of its financing parameters, such as Liquidity, Capital Structure, Efficiency and Profitability. We believe that with the help of proper financial performance appraisal, the management can know and find out the loopholes of a concern and if proper corrective actions are taken according to the requirements, we are sure, the company can recover and bounce back to the profitable position.

This study is basically empirical in nature. The main purpose of this study was to evaluate the financial performance of the Eastern Coalfields Limited during the period 2001-01 to 2009-10. Accordingly, the scope of the study had been kept limited to the period 2000-01 to 2009-10 i.e. a period of 10 years. During that period the company had mostly strived to make a turnaround to come out of the BIFR. Thus, keeping the above purpose in mind the objectives of the study have been carefully designed so as to reach the destination and thus to fulfil our purpose of measuring financial performance appraisal of the company.

Moreover, to reach the desired destination and to accomplish the objectives of the study a suitable research methodology has been designed. The research methodology is mostly based on secondary data. However, primary data in the form of clarifications from the respective officers are also collected to analyze the financial performance of the company fruitfully. A well-chosen combination of accounting tools and statistical tools has been developed for the data analysis and further a set of null hypothesis has been formulated to test the results.

The study has been lucidly organized in Seven Chapters highlighting the different aspects of financial performance appraisal of the company. The first Chapter deals with Introduction, Objectives and Methodology of the research study. Further, the rationality,
Findings, Suggestions & Conclusions of the Study

importance, nature, scope and limitations of the study with other relevant information have been lucidly explained in this chapter. Chapter 2 describes on reviewing different research works done in coal industries in India and abroad and in the area of finance. Future trend of the industry as implied in different articles are also presented in the chapter. Chapter 3 highlights a brief history of coal mining and coal deposits in India which provides information on historical background of coal industry in India in chronological order. Chapter 4 presents a detailed picture of the profile of Eastern Coalfields Limited focusing on the historical background of the Eastern Coalfields Limited along with its growth, present status and future prospects. Chapter 5 highlights and explains the various tools and techniques employed for analyzing data related to the financial performance appraisal of ECL. Chapter 6 deals with analysis and interpretation of data based on accounting and statistical tools and techniques and with the relevant inferences. The final Chapter presents the summary of findings, Suggestions and Conclusions of the study. This chapter also highlights new areas of further research work for the prospective research scholars.

The far-reaching analysis and interpretation has yielded a number of valuable findings which can be used by the management to take valuable decisions for the improvement of the financial position of the company so that it can come out of the sickness and from the ambit of the Board for Industrial and Financial Reconstruction. Moreover, these findings will be very useful to the coal companies for further consideration and investigation. From the analysis we find that the company is in the stage of undercapitalization and passing through the phase of overtrading. To fight that situation we have pointed out that there is a need of fresh investment in current assets (i.e., working capital), particularly in stock of coal and in fixed assets by the way of procuring and installing some advanced machines and technologies for improving production and productivity. It is noted that there is no dearth of demand for coal in the market. Thus, investment in current assets and particularly in stock of coal has to be increased to increase sales to meet emerging demand of coal which is growing at a faster rate with the energy demand of a fast growing economy. We have also discussed that for improving liquidity position in the present situation the company may take few steps besides trying for outside funds like to increase in sales revenue, to speed up debtors’ collection, to postpone some capital expenditures, if not urgent, to sale some assets, if any, which have become obsolete etc.
we have also suggested control on overtime wages by utilizing excess manpower for that purpose with proper planning, adopting exercise on cost transparency and proper classification of cost for cost reduction to improve profitability.

We have also highlighted that few components of balance sheet may be rationalized like Cess Equalization Account, loan taken from CIL on Current Account, provision for Overburden Removal Account, provision for Actuarial Liabilities for gratuity, pension etc. to improve short-term and long-term solvency. We have further discussed here the prospect of turnaround of the company in the near future. We have pointed out here the different factors which would help the company to make sufficient profits to make a turnaround in the near future.

The present study is concentrated only on financial performance of the company. However, there is immense scope in the following areas which will offer sufficient opportunities to the future researchers and policy makers for further research work in the area of financial performance analysis. These areas are:

1) An in-depth study of the cost structure of the company to improve profit margin.
2) An in-depth study to assess the impact of Working Capital on profitability.
3) An innovative Cash management in ECL towards the improvement of its profitability.
4) Risk Management and Management’s role in ECL.
5) “Challenge before the corporate world for presenting financial accounting following International Financial Reporting System (IFRS) to meet the need of global requirement : A case study in ECL”
6) A study to see the rationality of coal pricing in ECL comparing with other subsidiaries.
7) A comparative study of Financial Management of ECL and other Subsidiaries of CIL.
8) A comparative study of sick companies under the control of Coal India Limited.

We hope that the study will go a long way in helping the company to take remedial measures on the basis of our path breaking findings which are appropriate for the overall improvement of the company. Thus, if the suggestions made in this study are taken into consideration for developing an array of survival and growth strategies in the context of highly competitive domestic and international business environment, we hope the company will be able to improve its financial performance and achieve turnaround sooner than expected.