CHAPTER – VIII

PERFORMANCE EVALUATION
BASED ON RATIO ANALYSIS

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CHAPTER - VIII

PERFORMANCE EVALUATION BASED ON
RATIO ANALYSIS

8.1 Introduction:

In present research work all the 69 sample oil mills analysed and evaluated their financial systems through different ratios. In Solapur city there are total 98 big and small oil mills out of which 60 big oil mills and 9 small oil mills are taken for the study as sample oil mills. The total production, cost of production, gross profit, net profit, total assets, total liabilities, debts, total sales, current assets, current liabilities, fixed assets etc. are analysed in this chapter through ratios. The performance of sample oil mills is evaluated and presented through the different ratios from 2000-01 to 2007-08.

This chapter includes the different types of the graphs related to the results of concerned ratios. The elaborated graphs show the performance of sample oil mills during the years 2000-01 to 2007-08 in Solapur city. These graphs also help to know the ups and downs of the financial and the economic positions of sample oil mills in the Solapur edible oil market. The ratios also show the working of financial position, economic situation and other operations of oil mill business in Solapur city.

8.2 Ratio Analysis:

Ratio analysis is the one of the powerful tools of the financial analysis. A ratio can be defined as the indicated quotient of 2 mathematical expressions”, and as “the relationship between 2 or more things”. Ratio is, thus, the numerical or an arithmetical relationship between 2 figures. It is expressed where 1 figure is divided by another. If 4,000 are divided by 10,000, the ratio can be expressed as 4 or 2:5 or 40%. A ratio can be used as a yardstick for evaluating the financial petition and performance of a concern,
because the absolute accounting data cannot provide meaningful understanding and interpretation. A ratio is the relationship between 2 accounting items expressed mathematically. Ratio analysis helps the analyst to make quantitative judgment with regard to concern's financial position and performance.

Absolute figures are valuable but they standing alone convey no meaning unless compared with another. Accounting ratios show inter-relationships which exist among various accounting data, when relationships among various accounting data supplied by financial statements are worked out, they are known as accounting ratios.

Accounting ratios can be expressed in various ways such as:

i) a pure ratio say ratio of current assets to current liabilities is 2:1 or

ii) a rate say current assets are two times of current liabilities or

iii) a percentage say current assets are 200% of current liabilities.

Each method of expression has distinct advantages over the other. The analyst will select that data made which will best suit his convenience and purpose.

8.3 Importance of Ratio Analysis:

Ratio analysis stands for the process of determining and presenting the relationship of items and gravity of items in the financial statements. It is an important technique of financial analysis. It is a way by which financial stability and health of a concern can be judged. The following are the main points of importance of ratio analysis.

(i) Useful in Financial Position Analysis:

Accounting ratios reveal the financial position of the concern.
This helps the banks, insurance companies and other financial institutions in lending and making investment decisions.

(ii) **Useful in Simplifying Accounting Figures:**
Accounting ratios simplify, summarise and systematise the accounting figures in order to make them more understandable and in lucid form. They highlight the inter-relationship which exists between various segments of the business as expressed by accounting statements. Often the figures standing alone cannot help them convey any meaning and ratios help them to relate with other figures.

(iii) **Useful in Asserting the Operational Efficiency:**
Accounting ratios help to have an idea of the working of a concern. The efficiency of the firm becomes evident when analysis is based on accounting ratios. They diagnose the financial health by evaluating liquidity, solvency, profitability etc. This helps the management to assess financial requirements and the capabilities of various business units.

(iv) **Useful in Forecasting Purposes:**
If accounting ratios are calculated for a number of years, then a trend is established. This trend helps in setting up future plans and forecasting. For example, expenses as a percentage of sales can be easily forecasted on the basis of sales and expenses of the past years.

(v) **Useful in Locating the Weak Spots of the Business:**
Accounting ratios are of great assistance in locating the weak spots in the business even though the overall performance may be efficient. Weakness in financial structure due to incorrect policies in the past or present are revealed through accounting ratios. For example, if a firm finds that increase in
distribution expenses is more than proportionate to the results expected or achieved, it can take remedial steps to overcome this adverse situation.

(vi) **Useful in comparison of performance:**

Through accounting ratios comparison can be made between 1 departments of a firm with another of the same firm in order to evaluate the performance of various departments in the firm. Manager is naturally interest in such comparison in order to know the proper and smooth functioning of such departments. Ratios also help him to make any change in the organisation strucutre.¹⁰

Through accounting ratios comparison can be made between 1 departments of a firm with another of the same

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8.4 **Limitations of Accounting Ratios:**

Ratio analysis is very important in revealing the financial position and soundness of the business. But, in spite of its advantages, it has some limitations which restrict its use. These limitations should be kept in mind while making use of ratio analysis for interpreting the financial statements. The following are the main limitations of accounting ratios:

1) **False results if based on incorrect accounting data:**

Accounting ratios can be correct only if the data (on which they are based) are correct. Sometimes, the information given in the financial statements is affected by window dressing, i.e., showing position better than what assets is. For example, if inventory values are inflated or depreciation is not charged in fixed assets, not only will 1 have an optimistic view of profitability of the concern but also of its financial position. So
the analyst must always be on the look-out for signs of window dressing, if any.

2) **No Idea of Probable Happenings in Future:**

Ratios are an attempt to make analysis of the past financial statements; so they are historical documents. Now-a-days keeping in view of complexities of the business, it is important having an idea of the probable happenings in future.

3) **Variation in Accounting Methods:**

The 2 firms’ results are comparable with the help of accounting ratios only if they follow the same accounting methods or bases. Comparison will become difficult if the 2 concerns follow the different methods of providing depreciation or valuing stock. Similarly, if the 2 firms are following 2 different standards and methods analysis by reference to the ratios would be misleading. Moreover, utilisation of inbuilt facilities, availability of facilities and scale of operation would affect financial statements of different firms. Comparison of financial statements of such firms by means of ratios is bound to be misleading.

4) **Price Level Changes:**

Changes in price levels make comparison for various years different. For example, the ratio of sales to total assets in 2002 would be much higher than in 1982 due to rising prices, fixed assets being shown at cost and not at market price.

5) **Only 1 Method of Analysis:**

Ratio analysis is only a beginning and gives just a fraction of information needed for decision-making. Therefore, to have a
comprehensive analysis of financial statements, ratios should be used along with other methods of analysis.

6) **No Common Standards:**

   It is very difficult to lay down a common standard for comparison because circumstances differ from concern to concern and the nature of each industry is different. For example, a business with a current ratio of more than 2:1 might not be in a position to pay current liabilities in time because of an unfavorable distribution of current assets in relation to liquidity. On the other hand, another business with a current ratio of even less than 2:1 might not be experiencing any difficulty in making the payment of current liabilities in time because of its favourable distribution of current assets in relation to liquidity.

7) **Different Meanings Assigned to the Same Term:**

   Different firms in order to calculate ratio may assign different meanings. For example, profit for the purpose of calculating a ratio may be taken as profit before charging interest and tax or profit before tax but after interest or profit after tax and interest. This may affect the calculation of ratio in different firms and such ratio when used for comparison may lead to wrong conclusions.

8) **Ignores Qualitative Factors:**

   Accounting ratios are tools of qualitative analysis only. But sometimes qualitative factors may surmount the quantitative aspects. The calculations derived from the ratio analysis under such circumstances may get distorted. For example, though credit may be granted to a customer on the basis of information regarding his financial position, yet the grant of
credit ultimately depends on debtor’s character, honesty, past record and his managerial ability.

9) **No Use if Ratios are Worked Out for Insignificant and Unrelated Figures:**

Accounting ratios may be worked for any 2 insignificant and unrelated figures as ratio of sales and investment in government and unrelated figures as ratio of sales and investment in government securities. Such ratios may be misleading. Ratios should be calculated on the basis of cause and effect relationship. One should be clear as to what cause and what effect before calculating a ratio between 2 figures.

8.5 **Current Ratio:**

This ratio is a test of the ability of the firm to meet its short term commitments in time. It is the ratio obtained by selling the current assets against the current liabilities. Current liability means those repayable in a year’s time. Current Asset means assets convertible and meant to be converted into cash within a year time.

Current ratio may be defined as the ratio of current assets to current liabilities. It is also known as working capital ratio, or 2:1 ratio. Current ratio shows the relationship between total current assets and total current liabilities, expressed as formula the current ratio is as follows:

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

**Significance:**

Current ratio is an index of the firm’s financial stability i.e. an index of technical solvency and an index of the strength of working
capital, which means excess of current assets over current liabilities. The logic behind current ratio is that cash need not be immediately available to meet all current liabilities on a particular date but there should be good prospects for an adequate in flow of cash indicated by the amounts of individual components of current assets. A high current ratio is an assurance that the firm will have adequate funds to pay current liabilities and the current payments. The main limitation of current ratio is that it fails to indicate the liquidity of individual components of current assets. For example, a high current ratio due to large inventories may not be regarded as an index of current ratio due to large inventories may not be regarded as an index of liquidity as 1 which is due to huge cash and bank balances.

Even if the ratio is favourable, the firm may be a financially favourable because of more stock and work in progress which are not easily convertible into cash and therefore may have less cash to pay off current liabilities. Hence, it is suggested that the current ratio should not be used as the sole index of short term solvency.\(^6\)

In present research work for the study of performance of all sample oil mills, the current assets, and the current liabilities are calculated for to get the current ratio of all 69 sample oil mills.

The following table 8.1 shows the total current assets and total current liabilities of all 69 sample oil mills during the period 2000-01 to 2007-08. The current ratio is calculated by the above equation.
Table 8.1

Current Ratio of 69 Sample Oil Mills in Solapur City
During the years 2000-01 to 2007-08

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Current Assets Rs. in Crores</th>
<th>Current Liabilities Rs. in Crores</th>
<th>Current Ratio in Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2000-01</td>
<td>17.73</td>
<td>10.73</td>
<td>1.65:1</td>
</tr>
<tr>
<td>2.</td>
<td>2001-02</td>
<td>18.98</td>
<td>11.27</td>
<td>1.68:1</td>
</tr>
<tr>
<td>3.</td>
<td>2002-03</td>
<td>20.23</td>
<td>12.68</td>
<td>1.59:1</td>
</tr>
<tr>
<td>5.</td>
<td>2004-05</td>
<td>22.85</td>
<td>12.40</td>
<td>1.84:1</td>
</tr>
<tr>
<td>6.</td>
<td>2005-06</td>
<td>22.74</td>
<td>11.57</td>
<td>2.01:1</td>
</tr>
<tr>
<td>7.</td>
<td>2006-07</td>
<td>24.33</td>
<td>11.70</td>
<td>2.08:1</td>
</tr>
<tr>
<td>8.</td>
<td>2007-08</td>
<td>25.13</td>
<td>11.34</td>
<td>2.21:1</td>
</tr>
</tbody>
</table>

**SOURCE:** Calculated from Field Survey Primary Data.

In the year 2000-01 the amount of current assets of sample oil mills is Rs. 17.73 crores. It increased upto Rs. 25.13 crores in the year 2007-08. The amount of current liabilities also increased from Rs. 10.73 crores to Rs. 11.34 during the year 2000-01 to 2007-08.

The current ratio in the year 2000-01 was 1.65:1 in the year 2001-02. It decreased to 1.59:1 and 1.56:1 in the year 2002-03 and 2003-04 respectively. From the year 2004-05 to 2007-08 the current ratio increased from 1.84:1 to 2.21:1.

The above table shows the performance of current ratio of total 69 sample oil mills is increasing. Only in the year 2002-03 and 2003-04 this current ratio decreased. The overall position of current ratio is satisfactory in all years under study.
The following graph 8.1 shows current assets and current liabilities of 69 sample oil mills in Solapur city during 2000-01 to 2007-08.

**GRAPH 8.1**

**SHOWING CURRENT ASSETS AND CURRENT LIABILITIES**
8.6 Gross Profit Ratio:

Gross profit ratio is the ratio of gross profit to net sales expressed as a percentage. It expresses the relationship between gross profit margin and sales. The basic components for the computation of this ratio are gross profit and net sales. Gross profit would be the difference between net sales on cost of goods sold. Generally the expenses charged to profit and loss account or operating expenses are excluded from the calculation of cost of goods sold.\(^{11}\)

\[
\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100
\]

For e.g. If gross profit is Rs. 42,000 and net sales are Rs.3,00,000 the gross profit ratio will be 14% (i.e. Rs. 42,000 / Rs.3,00,000 x 100).

Significance:

Gross profit ratio may indicate to what extent the selling prices of goods per unit may be reduced without incurring losses on operations. It is useful to ascertain whether the average of the norms on the goods sold is maintained. There is no standard gross profit ratio for evaluation. Trend observed may be used for the analysis. However, the gross profits earned should be sufficient to recover all operating expenses, and to build up reserves after all fixed interest charges and dividends.

The most of the writers expressed their views about the standard gross profit ratio. According to them it should be 20%. If a particular firm or company or the industry is having gross profit ratio less than 20%, it indicates weak performance of the industry and vice versa.
The following table 8.2 shows the gross profit ratio of all the 69 sample oil mills during the years 2000-01 to 2007-08

**Table 8.2**

Gross Profit Ratio of all 69 Sample Oil Mills in Solapur City

*During the years 2000-01 to 2007-08*

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Net Sales Rs. in Crores</th>
<th>Gross Profit Rs. in Crores</th>
<th>Gross Profit Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2000-01</td>
<td>29.52</td>
<td>2.58</td>
<td>8.73%</td>
</tr>
<tr>
<td>2.</td>
<td>2001-02</td>
<td>34.58</td>
<td>3.25</td>
<td>9.40%</td>
</tr>
<tr>
<td>3.</td>
<td>2002-03</td>
<td>30.74</td>
<td>2.72</td>
<td>8.85%</td>
</tr>
<tr>
<td>4.</td>
<td>2003-04</td>
<td>32.45</td>
<td>3.25</td>
<td>9.43%</td>
</tr>
<tr>
<td>5.</td>
<td>2004-05</td>
<td>49.44</td>
<td>3.96</td>
<td>8.01%</td>
</tr>
<tr>
<td>6.</td>
<td>2005-06</td>
<td>57.34</td>
<td>4.19</td>
<td>7.30%</td>
</tr>
<tr>
<td>7.</td>
<td>2006-07</td>
<td>59.59</td>
<td>4.94</td>
<td>8.29%</td>
</tr>
<tr>
<td>8.</td>
<td>2007-08</td>
<td>64.00</td>
<td>5.75</td>
<td>8.98%</td>
</tr>
</tbody>
</table>

**SOURCE:** Calculated from Field Survey Primary Data.

We get the following conclusions from the above table.

1) The column no. 3 from the above table shows increasing net sales of 69 sample oil mills. In the year 2000-01 the net sales were Rs.29.52 crores it increased upto Rs.64.00 crores in the year 2007-08.

2) The table also shows an increasing gross profit of 69 sample oil mills. In the year 2000-01 it was Rs.2.58 crores increased upto Rs.5.75 crores in the year 2007-08.

3) In the further period upto 2007-08 more or less the gross profit ratio remained constant. The gross profit of sample oil mills increased every year along with increasing sales. By the column no. 3 and 4 we get the gross profit ratio of 69 sample oil mills.
The standard gross profit ratio is 20%. Under the study it is found the gross profit ratio of 69 sample oil mills is ranging from 7.30% to 9.43% within the years 2000-01 to 2007-08. It shows low gross profit ratio of oil mills. It also shows weak performance of sample oil mills concerned to the gross profit ratio.

**Reasons:**

The gross profit ratio of oil mills in Solapur city is low as compared to the standard gross profit ratio due to the following reasons.

1) It is observed that the supply of oilseeds which is raw material of oil mills is low as compared to the demand. The oil mill owners purchase oilseeds in the APMC market of Solapur by high prices because of large no. of purchasers and low supply of oilseeds in the market. Therefore the gross profit of oil mill owners always remain low, so the gross profit ratio remained low as compared to the standard gross profit ratio.

2) The gross profit ratio of oil mill owners is low also due to an increase in cost of production. Oil mill owners are using old machineries and old techniques as compared to the big oil extraction companies. Therefore, the gross profit of oil mill owners is remained low. This is also one of the reasons of low gross profit ratio.

3) It is also observed there is competition among the oil mill owners to sale the produced edible oil and oil cake in Solapur edible oil market. Therefore they cannot achieve good prices for their products. This leads to decrease in the gross profit of Solapur oil mill owners. This also tends to remain low gross profit ratio.
Measures:

To remove out the low gross profit ratio or to increase gross profit ratio, the following measures are useful which are also suitable to adopt oil mill owners of Solapur city.

1) Oil mill owners of Solapur city should adopt the modern techniques for crushing oilseeds. It leads to decrease the cost of production and further it helps to increase the gross profit, using modern technology and modern machinery leads to increase the gross profit ratio.

2) The oil mill owners of Solapur city should purchase the oilseeds not only in Solapur market but also in other state markets where the prices of oilseeds are always low. They are also expected to purchase directly rather than through the commission agents. Due to this they will have the raw material at lower prices which leads to increase the gross profit ratio.

3) To get the better gross profit ratio and to get higher gross profit the oil mill owners of Solapur city should sale their final product such as oil and oil cake to the better prices by using modern techniques of market such as advertisement, use of brand, use of market plans to find out new market etc. This leads to increase the gross profit ratio.
The following graph 8.2 shows net sales and gross profit of 69 sample oil mills in Solapur city during 2000-01 to 2007-08.
8.7 Net Profit Ratio:

This is the ratio of net income or profit after taxes to net sales. Net profit, as used here, is the balance of profit & loss account which is arrived at after considering all non-operating income such as interest on investments, dividend received etc. and non-operating expenses like loss on sale of investment, provision for contingent liabilities etc.

\[
\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100
\]

This is used as measure of overall profitability and it is useful to the owners. It is both an index of efficiency as well as profitability when used along with gross profit and operating ratio.

This ratio differs from the operating profit ratio in as much as it is calculated after deducting non-operating expenses, such as loss on sale of fixed assets etc. from operating profit and adding non-operating income like interest on dividends on investment, profit on sale of investments or fixed assets etc. to such profit. Higher the ratio, the better it is because it gives idea of improved efficiency of the concern.\(^5\)

The following table 8.3 shows the net profit ratio of 69 sample oil mills during the years 2000-01 to 2007-08.
Table 8.3

Net Profit Ratio of all 69 Sample Oil Mills in Solapur City
During the years 2000-01 to 2007-08

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Net Profit Rs. in Crores</th>
<th>Net Sales Rs. in Crores</th>
<th>Net Profit Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000-01</td>
<td>1.60</td>
<td>29.52</td>
<td>5.41%</td>
</tr>
<tr>
<td>2</td>
<td>2001-02</td>
<td>2.03</td>
<td>34.58</td>
<td>5.87%</td>
</tr>
<tr>
<td>3</td>
<td>2002-03</td>
<td>1.60</td>
<td>30.74</td>
<td>5.21%</td>
</tr>
<tr>
<td>4</td>
<td>2003-04</td>
<td>2.01</td>
<td>32.45</td>
<td>6.19%</td>
</tr>
<tr>
<td>5</td>
<td>2004-05</td>
<td>2.71</td>
<td>49.44</td>
<td>5.48%</td>
</tr>
<tr>
<td>6</td>
<td>2005-06</td>
<td>3.02</td>
<td>57.34</td>
<td>5.27%</td>
</tr>
<tr>
<td>7</td>
<td>2006-07</td>
<td>3.72</td>
<td>59.59</td>
<td>6.23%</td>
</tr>
<tr>
<td>8</td>
<td>2007-08</td>
<td>3.92</td>
<td>64.00</td>
<td>6.13%</td>
</tr>
</tbody>
</table>

**SOURCE:** Calculated from Field Survey Primary Data.

We get the following conclusions from the above table.

1) The column no. 3 shows the net profit of sample oil mills. It was Rs. 1.60 crores in the year 2000-01 and increased to Rs. 3.92 crores in the year 2007-08. Column no. 4 shows increasing sales of all 69 sample oil mills during the years 2000-01 to 2007-08.

2) The net profit ratio of all 69 sample oil mills was 5.41% in the year 2000-01. It increased to 5.87% in 2001-02. In the year 2003-04 the net profit ratio was 6.19% and in the year 2007-08 it was 6.13%. The net profit ratios of all sample mills were more or less ranging from 5% to 6%. It is due to fluctuating prices of oil and oil cake.

This ratio is moderate in all 8 years under study.
According to the most of the writers of Account, Management Books the net profit ratio should be progressive, only it shows the better performance of firm or industry.

It is observed that the net profit ratio of all sample oil mills is not increasing so fast and it remains from 5.21% to 6.23% within 8 years from 2000-01 to 2007-08.

**Reasons:**

The following are the reasons of low net profit ratio and slow growth of net profit ratio.

1) The gross profit and net profit are the 2 sides of the same coin. The net profit is calculated from the gross profit by deducting the administration expenses from the gross profit, the net profit arise. If the gross profit is low automatically the net profit will also low. In this study it is found that the gross profit of 69 sample oil mills is low as compared to the standard gross profit ratio. Therefore the net profit ratio is also low within 8 years i.e. from 2000-01 to 2007-08.

2) The administration expenses of oil mills in Solapur city is high and increasing, therefore the net profit remain low and increasing slowly. This is also one of the reasons of low net profit ratio.

3) For the better net profit ratio better prices of final products are required. The oil mill owners in Solapur city sell their maximum products in local market. Therefore they cannot get higher prices for their product, due to this the net profit ratio remain low.

4) An increasing cost of production is one of the reasons to remain low net profit ratio of all 69 sample oil mills in Solapur city.

5) The oil mill owners are not in modern competitive market where different edible oil companies are selling their products
by using the modern market technology. Therefore oil mill owners in Solapur city are not getting higher prices for their products. This also leads to decrease the net profit to the oil mill owners. This also leads to remain low net profit ratio within 8 years i.e. from 2000-01 to 2007-08.

**Measures:**

To get the better net profit ratio the oil mill owners in Solapur city should adopt the following measures.

1) The oil mill owners in Solapur city should purchase the higher quality oilseeds in those markets where it is made available rather than only in Solapur market. It leads to increase the total gross profit and net profit, further it leads to increase the net profit ratio which shows the better performance of oil mills.

2) The oil mills in Solapur city are employing unskilled labours and technicians for processing of oilseeds and extraction of oilseeds this also leads to decrease the final product. Therefore, the gross profit and net profit remained low. The oil mill owners in Solapur city should employ educated technicians and skilled labours which lead to create better performance of final product.

3) The administration expenses determine the net profit. The administration cost of Solapur oil mills is high and increasing, therefore the net profit remains low. The oil mill owners should adopt the modern techniques in administration, which leads to increase the net profit and net profit ratio.

4) The oil mill owners in Solapur city should also adopt the modern techniques of promotion and modern machineries which leads to decrease the cost of production. Further they should adopt modern techniques of transportation and modern techniques of market plan this also leads to expand the net profit.
The following graph 8.3 shows net profit and net sales of 69 sample oil mills in Solapur city during 2000-01 to 2007-08.
8.8 Operating Ratio – (OR):

This is the ratio of cost of goods sold plus operating expenses to net sales. This is closely related to the ratio of operating profit to net sales. For example, if the operating ratio is 80% then the operating profit ratio would be 20%.

This ratio indicates the proportion that the cost of sales bears to sales. Cost of sales includes direct cost of goods sold as well as other operating expenses, administration expenses, selling and distribution expenses which have matching relationship with sales. It excludes income and expenses which have to bearing on production and sales, i.e. non-operating incomes and expenses as interest and dividend received on investment, interest paid on long-term loans and debentures, profit or loss on sale of fixed assets or long term investments. It is calculated as follows:

\[
\text{Operating Ratio} = \frac{\text{Cost of goods sold} + \text{Operating exps.}}{\text{Net Sales}} \times 100
\]

\[
\text{OR}
\]

\[
\text{Operating Ratio} = \frac{\text{Operating Cost}}{\text{Net Sales}} \times 100
\]

Cost of goods sold = Opening stock + Purchases + Direct exps.
+ Manufacturing exps. – Closing stock or 
Sales – Gross profit

Operating expenses = Administrative exps.
+ Selling and distribution expenses

For example, if cost of goods sold Rs. 3,10,000, operating expenses Rs. 2,00,000 and net sales Rs. 6,80,000 are given, then operating ratio will be 75%. (i.e. Rs.3,10,000 + Rs.2,00,000 ÷ Rs.6,80,000 x 100).
Lower the ratio, the better it is. Higher the ratio, the less favourable it is because it would have smaller margin of operating profit for the payment of dividends and the location of reserves. This ratio should be analysed further to throw light on the levels of efficiency prevailing in different elements of total cost.\textsuperscript{12}

**Table 8.4**

Operating Ratio (OR) of all 69 Sample Oil Mills in Solapur City

During the years 2000-01 to 2007-08

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Cost of Goods Sold + Operating Expenses Rs. in Crores</th>
<th>Net Sales Rs. in Crores</th>
<th>Operating Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000-01</td>
<td>22.03</td>
<td>29.52</td>
<td>74.63%</td>
</tr>
<tr>
<td>2</td>
<td>2001-02</td>
<td>25.59</td>
<td>34.58</td>
<td>73.99%</td>
</tr>
<tr>
<td>3</td>
<td>2002-03</td>
<td>23.02</td>
<td>30.74</td>
<td>74.88%</td>
</tr>
<tr>
<td>4</td>
<td>2003-04</td>
<td>23.78</td>
<td>32.45</td>
<td>73.29%</td>
</tr>
<tr>
<td>5</td>
<td>2004-05</td>
<td>37.04</td>
<td>49.44</td>
<td>74.47%</td>
</tr>
<tr>
<td>6</td>
<td>2005-06</td>
<td>42.72</td>
<td>57.34</td>
<td>74.51%</td>
</tr>
<tr>
<td>7</td>
<td>2006-07</td>
<td>43.51</td>
<td>59.59</td>
<td>73.020%</td>
</tr>
<tr>
<td>8</td>
<td>2007-08</td>
<td>46.61</td>
<td>64.00</td>
<td>72.83%</td>
</tr>
</tbody>
</table>

**SOURCE:** Calculated from Field Survey Primary Data.

We get the following conclusions from the above table.
1) The column no. 3 shows operating cost which increased from Rs. 22.03 crores in the year 2000-01 to Rs.46.61 crores in the year 2007-08.

Column no. 4 shows an increase in Net Sales from Rs.29.52 crores in the year 2000-01 to Rs.64.00 crores in the year 2007-08. The ratio between these 2 is calculated which is the operating ratio.

2) Column no. 5 shows the ratio between operating cost and net sales which is called operating ratio. In the year 2000-01 operating ratio was 74.63%, it decreased to 73.99% in the year 2001-02. It decreased to 72.83% in the year 2007-08, it means the performance of all sample oil mills is better. There is no drastic change in the operating ratio during the years 2000-01 to 2007-08. This shows the stability of oil mill business in Solapur city.

According to the experts decreasing and low operating ratio shows the better performance of the firms. In this study it is observed that the operating ratio of 69 sample oil mills is more or less remained constant within 8 years i.e. from 2000-01 to 2007-08. The reasons of this are as follows:

**Reasons:**

1) The high cost of production and low prices of the product are the major reasons of high operating ratio. The oil mills in Solapur city are not getting better prices for their products. Their products are sold in local market rather than in state and national market. Therefore the operating ratio generally remained constant within 8 years i.e. from 2000-01 to 2007-08.

2) In this study it is observed that the net sales of the oil mills increasing in the same proportion. Therefore there is no
drastic change in the net sales. Oil mill owners are not adopting any modern techniques to expand the sales of their products therefore the operating ratio remained constant.

3) The oil mill owners in Solapur city are not using modern heavy machineries, therefore the average cost of production always remains high which leads to high operating ratio.

Measures:

The following are the measures to overcome the difficulties of stagnant operating ratio of oil mills in Solapur city within 8 years i.e. from 2000-01 to 2007-08.

1) The oil mill owners in Solapur city should adopt modern technique and technology for the extraction of oilseeds which leads to decrease the cost of production further helps to increase the operating ratio.

2) For to get lower operating ratio the expansion of sales is also necessary. The oil mills in Solapur city should adopt some new marketing technology for the expansion of sales of their products such as market plan, use of brand name, attractive packing, maintenance of quality of products, to find out new market etc. This leads to decrease the operating ratio.

3) The edible oil and oil cake products of Solapur city are sold at higher prices as compared to the company's edible oil. Therefore, the sale of these oil mills remained low but due to high cost of production and high sold prices the operating ratio is high. Therefore the oil mill owners should try to decrease the prices of their products to expand the sales which lead to decrease of operating ratio.
The following graph 8.4 shows operating cost and net sales of 69 sample oil mills in Solapur city during 2000-01 to 2007-08.

**GRAPH 8.4**
SHOWING OPERATING COST AND NET SALES

**YEARS**
- 2000-01
- 2001-02
- 2002-03
- 2003-04
- 2004-05
- 2005-06
- 2006-07
- 2007-08

**RS. IN CRORES**

- Operating Cost Rs.
- Net Sales Rs.
8.9 Operating Profit Ratio:

This ratio establishes the relationship between the operating profit and sales and is calculated as follows:

\[
\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100
\]

Where Operating Profit = Net profit + Non-operating exps.

- Non-Operating Income

OR

= Gross profit – Operating exps.

Operating profit ratio can also be calculated with the help of operating ratio as follows:

\[
\text{Operating profit ratio} = 100 - \text{Operating ratio}
\]

This ratio indicates the portion remaining out of every rupee worth of sales after all operating costs and expenses have been met. Higher the ratio, the better it is.  

The following table 8.5 shows the operating profit and net sales of all 69 sample oil mills. It also shows the operating profit ratio during 2000-01 to 2007-08.
### Table 8.5
Operating Profit Ratio of all 69 Sample Oil Mills in Solapur City
During the years 2000-01 to 2007-08

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Operating Profit Rs. in Crores</th>
<th>Net Sales Rs. in Crores</th>
<th>Operating Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000-01</td>
<td>7.49</td>
<td>29.52</td>
<td>25.37%</td>
</tr>
<tr>
<td>2</td>
<td>2001-02</td>
<td>8.99</td>
<td>34.58</td>
<td>26.01%</td>
</tr>
<tr>
<td>3</td>
<td>2002-03</td>
<td>7.72</td>
<td>30.74</td>
<td>25.12%</td>
</tr>
<tr>
<td>4</td>
<td>2003-04</td>
<td>8.67</td>
<td>32.45</td>
<td>26.71%</td>
</tr>
<tr>
<td>5</td>
<td>2004-05</td>
<td>12.62</td>
<td>49.44</td>
<td>25.53%</td>
</tr>
<tr>
<td>6</td>
<td>2005-06</td>
<td>14.62</td>
<td>57.34</td>
<td>25.49%</td>
</tr>
<tr>
<td>7</td>
<td>2006-07</td>
<td>16.08</td>
<td>59.59</td>
<td>26.98%</td>
</tr>
<tr>
<td>8</td>
<td>2007-08</td>
<td>17.39</td>
<td>64.00</td>
<td>27.17%</td>
</tr>
</tbody>
</table>

**SOURCE:** Calculated from Field Survey Primary Data.

We get the following conclusions from the above table.

1) The above table shows operating profit and net sales of all 69 sample oil mills. In the year 2000-01 the operating profit was Rs.7.49 crores increased to Rs.17.39 crores in the year 2007-08. This shows an increasing trend of operating profit of all 69 sample oil mills during 2000-01 to 2007-08.

2) Column no. 4 shows an increasing trend of net sales during the years 2000-01 to 2007-08. It was Rs.29.52 crores in the year 2000-01 increased to Rs.64.00 crores in the year 2007-08.

3) The ratio between operating profit and net sales gives us operating profit ratio. In the year 2000-01 the operating profit ratio was 25.37% it increased to 27.17% in the year 2007-08. Column no. 5 shows an increasing trend of operating profit ratio. Operating profit ratio increased during the year 2000-2001 to 2007-08. Therefore we can say the performance of sample oil mills is better.
The operating profit ratio of 69 sample oil mills increased slowly during the period 2000-01 to 2007-08. The growth rate of operating profit ratio is slow because of the following reasons.

**Reasons:**

1) Purchase of oilseeds by the oil mill owners in Solapur city is one of the important reasons. In the period of 2000-01 to 2007-08 the gross profit is increased slowly and operating expenses increased more so the operating profit is less. The operating profit ratio increased from 25.37% in 2000-01 to 27.17% in 2007-08.

2) The cost of goods sold and operating expenses decreasing slowly therefore it affects on slow increasing of operating profit ratio.

3) The sale of the final product of oil mills in Solapur city increasing but slowly compared to the other edible oil products produced by the different companies entered during 2000-01 in Solapur city. This affects on the slow growth of sales of the product of the oil mills. Therefore the operating profit ratio also increased slowly during the period 2000-01 to 2007-08.

**Measures:**

Increasing operating ratio shows the good performance of any firm. Therefore, the following measures are to be adopted by the oil mill owners of Solapur city.

1) For to achieve good and an increasing operating profit ratio yearly, oil mill owners should try to expand the sale of their product at higher prices by using modern market technology. This function leads to increase the gross profit, further it leads to increase the operating profit ratio.
2) The purchase of oilseeds is a key feature of the oil mills to achieve higher and higher profit. By crushing quality oilseeds, oil mill owners can achieve a good average production further it leads to increase the total surplus. This automatically helps to increase the operating profit ratio. Therefore, the oil mill owners should purchase quality oilseeds for better performance.

3) The administration expenses – operating expenses should be minimised by the producers to achieve higher surplus. The operating expenses in all the processing fields of oil production such as drying, scrutiny, crushing, packing, advertisement, display, use of market plans, etc. If the expenses on all these are minimised and operated worthily the oil mill owners can get the good surplus which further leads to increase operating profit ratio.
The following graph 8.5 shows operating profit and net sales of 69 sample oil mills in Solapur city during 2000-01 to 2007-08.
8.10 Working Capital Turnover Ratio:

This ratio indicates whether or not working capital (which relates to current assets and current liabilities) has been effectively used in making sales. It is calculated as follows:

\[
\text{Working Capital Turnover Ratio} = \frac{\text{Net Sales}}{\text{Net Working Capital}}
\]

For the sake of convenience the figure of net working capital (current assets – current liabilities) at the end of the year should be considered. This ratio makes it clear whether the business is being carried on with small or large amount of working capital in relation to sales. A low working capital turnover ratio may reflect an adequacy of net working capital as a result of low turnover of inventory or receivables. In other words, a high ratio may be due to high turnovers of inventory or receivables. Considerable caution should be exercised while interpreting this ratio.\(^7\)

The following table 8.6 shows the working capital ratio of all 69 sample oil mills during the year 2000-01 to 2007-08.
Table 8.6
Working Capital Turnover Ratio of all 69 Sample Oil Mills in Solapur City During the years 2000-01 to 2007-08

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Net Sale Rs. in Crores</th>
<th>Net Working Capital Rs. in Crores</th>
<th>Working Capital Ratio in Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000-01</td>
<td>29.52</td>
<td>7.00</td>
<td>4.22:1</td>
</tr>
<tr>
<td>2</td>
<td>2001-02</td>
<td>34.58</td>
<td>7.71</td>
<td>4.48:1</td>
</tr>
<tr>
<td>3</td>
<td>2002-03</td>
<td>30.74</td>
<td>7.55</td>
<td>4.07:1</td>
</tr>
<tr>
<td>4</td>
<td>2003-04</td>
<td>32.45</td>
<td>7.84</td>
<td>4.14:1</td>
</tr>
<tr>
<td>5</td>
<td>2004-05</td>
<td>49.44</td>
<td>10.45</td>
<td>4.73:1</td>
</tr>
<tr>
<td>6</td>
<td>2005-06</td>
<td>57.34</td>
<td>11.16</td>
<td>5.14:1</td>
</tr>
<tr>
<td>7</td>
<td>2006-07</td>
<td>59.59</td>
<td>12.63</td>
<td>4.72:1</td>
</tr>
<tr>
<td>8</td>
<td>2007-08</td>
<td>64.00</td>
<td>13.78</td>
<td>4.65:1</td>
</tr>
</tbody>
</table>

**SOURCE:** Calculated from Field Survey Primary Data.

**Interpretation:**

From the above table it can be seen that working capital turnover ratio is changing significantly over various years. This ratio was 4.22:1 in the year 2000-01, it increased to 4.48:1 in the year 2001-02. It was due to increase in net sales and net working capital. Similarly, this ratio was increased to 5.14:1 in the year 2005-06. It is also due to increase in sales.

In the year 2007-08 the working capital ratio was 4.65:1. It shows an increasing trend of working capital ratio upto 2005-06. More or less working capital ratio increases slowly due to an increase in net sales.
By the experts and the authors of different types of books of Business Management and Managing Accounting the standard working capital turnover ratio is 5:1.

The above table shows slow increasing trend of working capital turnover ratio of sample oil mills in Solapur city. But this ratio is less than the standard ratio of 5:1. It is also observed that the research work the working capital turnover ratio though is not satisfactory but then also it is not bad because it ranges from 4.07:1 to 5.14:1 during 2000-01 to 2007-08.

**Reasons:**

The following are the different reasons of low working capital turnover ratio.

1) The lack of continuous supply of electric power.
2) The deficiency of the skilled labours and technicians.
3) An increase in rate of interest.
4) Competition in purchase and sale in the market.
5) The oil mills depend upon the agricultural output of oilseeds and the agricultural yield depends upon the monsoon.
6) Lack of infrastructure facilities.
7) The traditional and backward tendency of oil mill owners in the business.

All these reasons work as an obstacle in the expansion of the sale of the products of edible oil mills in Solapur city. Therefore working capital turnover ratio remains low during the period 2000-01 to 2007-08.

**Measures:**

To overcome the above difficulties oil mill owners should adopt modern processing method, employment of skilled workers, use of substitute power for continuous production etc. This leads to increase the sale of the product and further it leads to increase the working capital turnover ratio.
The following graph 8.6 shows net sale and net working capital of 69 sample oil mills in Solapur city during 2000-01 to 2007-08.
8.11 Fixed Assets Turnover Ratio:

This ratio indicates the extent to which the investments in fixed assets contributed towards sales. If it is compared with a previous period it indicates whether the investment in fixed assets has been judicious or not. The ratio is calculated as follows:

\[
\text{Fixed Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Fixed Assets (Net)}}
\]

for e.g.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>1997</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets at written down value</td>
<td>1,50,000</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Sales Less Returns</td>
<td>6,00,000</td>
<td>8,00,000</td>
</tr>
</tbody>
</table>

\[
\Rightarrow \text{Fixed Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Fixed Assets (Net)}}
\]

\[
1997 = \frac{6,00,000}{150000} = \text{four times}
\]

\[
1998 = \frac{8,00,000}{350000} = 2.6 \text{ seven times}
\]

There has been a decline in the fixed assets turnover ratio though absolute figures of sales have gone up. It means, increase in the investment in fixed assets has not brought about commensurate gain. However, the results for next 2 or 3 years must also be seen before commencing on judiciousness or otherwise of increase in investments in the fixed assets.
The fixed assets turnover ratio can further be divided into turnover of each item of fixed assets to find out to the extent each fixed assets has been properly used. For example,

\[
\text{Plant and Machinery to Turnover} = \frac{\text{Net Sales}}{\text{Plant and Machinery (Net)}}
\]

\[
\text{Land and Buildings to Turnover} = \frac{\text{Net Sales}}{\text{Land and Buildings (Net)}}
\]

**Significance:**

The ratio measures the efficiency in the utilisation of fixed assets. This ratio indicates whether the fixed assets are being totally utilised.

It is an important measure of the efficient and profit earning capacity of the business. A high ratio is an index of the overtrading while a low ratio suggests idle capacity and exercise investment in fixed assets. Normally a standard ratio is taken as five times.\(^8\)

The following table 8.7 shows fixed assets turnover ratio of all selected 69 sample oil mills.
### Table 8.7

**Fixed Assets Turnover Ratio of all 69 Sample Oil Mills in Solapur City During the years 2000-01 to 2007-08**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Net Sales Rs.</th>
<th>Fixed Assets (Net)</th>
<th>Fixed Assets Turnover Ratio in Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000-01</td>
<td>29.52</td>
<td>14.54</td>
<td>2.03:1</td>
</tr>
<tr>
<td>2</td>
<td>2001-02</td>
<td>34.58</td>
<td>13.72</td>
<td>2.52:1</td>
</tr>
<tr>
<td>3</td>
<td>2002-03</td>
<td>30.74</td>
<td>14.48</td>
<td>3.07:1</td>
</tr>
<tr>
<td>4</td>
<td>2003-04</td>
<td>32.45</td>
<td>15.12</td>
<td>2.15:1</td>
</tr>
<tr>
<td>5</td>
<td>2004-05</td>
<td>49.44</td>
<td>15.98</td>
<td>3.09:1</td>
</tr>
<tr>
<td>6</td>
<td>2005-06</td>
<td>57.34</td>
<td>16.43</td>
<td>3.49:1</td>
</tr>
<tr>
<td>7</td>
<td>2006-07</td>
<td>59.59</td>
<td>16.66</td>
<td>3.58:1</td>
</tr>
<tr>
<td>8</td>
<td>2007-08</td>
<td>64.00</td>
<td>17.05</td>
<td>3.75:1</td>
</tr>
</tbody>
</table>

**SOURCE:** Calculated from Field Survey Primary Data.

We get the following conclusions from the above table.

1) The above table shows that the sales of the sample oil mills increased from Rs. 29.52 crores in the year 2000-01 to Rs.64.00 crores in the year 2007-08. The sales of the sample oil mills increased due to increase in production and changing prices.

2) The fixed assets of sample oil mills shown in the column no. 4. There is a slight change in the fixed assets of the oil mills in every year as compared to the sales the change in fixed asset is less.

3) Column no. 5 shows the fixed assets turnover ratio in times. From the years 2000-01 to 2003-04 the fixed assets turnover ratio is varying, from the years 2004-05 to 2007-08 the fixed assets turnover ratio is ranging from 3.09:1 to 3.75:1. It means from the year 2004-05 the oil mill owners utilising the fixed assets efficiently but not satisfactory as compared to the standard fixed assets turnover ratio i.e. 5:1.
The fixed assets turnover ratio of all sample oil mills are less than the standard ratio 5:1. This ratio is increasing slowly but not satisfactorily due to the following reasons.

**Reasons:**

The major reason is this industry is the agro based industry. The production of oilseeds is uncertain. So, therefore there is fluctuating supply of oilseeds in the market. Further the prices are also fluctuating. Due to this it is not possible to run the oil mills continuously throughout the year by the oil mill owners, therefore the fixed assets turnover ratio is low as compared to the standard ratio i.e. 5:1.

**Measures:**

To overcome the above major difficulty and to achieve satisfactory fixed assets turnover ratio it is necessary to expand the agricultural area under the oilseeds crops. It is also important to make the provision of storage facility of oilseeds. By expanding the agricultural land under irrigation it is possible to continuous supply of oilseeds for the oil mill owners. These measures are not in the hands of oil mill owners but it is a policy matter of the government.
The following graph 8.7 shows net sales and fixed assets of 69 sample oil mills in Solapur city during 2000-01 to 2007-08.
8.12 Total Assets Turnover Ratio:

This ratio is arrived at by dividing sales by the total assets i.e.

\[
\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}} \times \text{Number of times}
\]

The ratio indicates the sales generated per rupee of investment in total assets. Thus, it aims to point out the efficiency or inefficiency in the use of total assets or capital employed. Increase in ratio indicates that more revenue is generated per rupee of total investment in assets. Some analysis takes only tangible assets and in that case the ratio will be arrived at by dividing sales by tangible assets only i.e. Goodwill, Patents, Trade Marks, etc. are not taken into account. Normally a standard ratio is taken two times.

The following table 8.8 shows the total assets turnover ratio.

Table 8.8

Total Assets Turnover Ratio of all 69 Sample Oil Mills in Solapur City during the years 2000-01 to 2007-08

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Net Sales Rs.</th>
<th>Total Assets (Net)</th>
<th>Total Assets Turnover Ratio in Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000-01</td>
<td>29.52</td>
<td>32.28</td>
<td>0.91:1</td>
</tr>
<tr>
<td>2</td>
<td>2001-02</td>
<td>34.58</td>
<td>32.71</td>
<td>1.06:1</td>
</tr>
<tr>
<td>3</td>
<td>2002-03</td>
<td>30.74</td>
<td>34.72</td>
<td>0.85:1</td>
</tr>
<tr>
<td>4</td>
<td>2003-04</td>
<td>32.45</td>
<td>36.95</td>
<td>0.88:1</td>
</tr>
<tr>
<td>5</td>
<td>2004-05</td>
<td>49.44</td>
<td>38.83</td>
<td>1.27:1</td>
</tr>
<tr>
<td>6</td>
<td>2005-06</td>
<td>57.34</td>
<td>39.16</td>
<td>1.46:1</td>
</tr>
<tr>
<td>7</td>
<td>2006-07</td>
<td>59.59</td>
<td>40.99</td>
<td>1.45:1</td>
</tr>
<tr>
<td>8</td>
<td>2007-08</td>
<td>64.00</td>
<td>42.17</td>
<td>1.52:1</td>
</tr>
</tbody>
</table>

SOURCE: Calculated from Field Survey Primary Data.
Interpretation:

The above table shows the ratio between sales and total assets of the 69 sample oil mills during the years 2000-01 to 2007-08. The total assets turnover ratio is varying. It is ranging from 0.91:1 to 1.5:1 two times within 8 years i.e. from 2000-01 to 2007-08. From 2004-05 to 2007-08 fixed assets are utilised more as compared to the previous years. It is due to favourable agricultural conditions for agro-based industries. Total assets turnover ratio is not attained upto the norms throughout the 8 years i.e. 2000-01 to 2007-08.

The following are the reasons for low total assets turnover ratio.

Reasons:

The oil mill owners in Solapur city are using only traditional machineries and equipments. And due to competition by big oil mill industries they cannot make up their minds to generate their rupee in new modern technology and machineries. The oil industry is based on agriculture and it is seasonable. As the turnover of these oil mills stagnant, the oil mill owners are not investing in the assets of their mills which leading to lower total assets turnover ratio.

Measures:

The only measure is to generate the oil mill owners rupees in latest modern technique and technologies, which lead to maximise the turnover by increasing their production simultaneously leading to increase in total assets turnover ratio.
The following graph 8.8 shows net sales and total assets (net) of 69 sample oil mills in Solapur city during 2000-01 to 2007-08.
8.13 Current Assets Turnover Ratio:

This is calculated through the sales and current assets of production units. If the ratio of these 2 increase it is better for the production unit and vice versa. The current asset is the part of the total assets. It may increase or decrease because it depends upon the size of production or sales of output. It is calculated as follows.

\[
\text{Current Assets Turnover Ratio} = \frac{\text{Total Sales}}{\text{Current Assets}}
\]

The following table 8.9 shows the current assets turnover ratio of all 69 sample oil mills in Solapur city during 2000-01 to 2007-08.

**Table 8.9**

Current Assets Turnover Ratio of all 69 Sample Oil Mills in Solapur City During the years 2000-01 to 2007-08

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Total Sales Rs.</th>
<th>Current Assets Rs.</th>
<th>Current Assets Turnover Ratio in Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>29.52</td>
<td>17.73</td>
<td>1.66:1</td>
</tr>
<tr>
<td>1.</td>
<td>2000-01</td>
<td>34.58</td>
<td>18.98</td>
<td>1.86:1</td>
</tr>
<tr>
<td>3.</td>
<td>2002-03</td>
<td>30.74</td>
<td>20.23</td>
<td>1.52:1</td>
</tr>
<tr>
<td>4.</td>
<td>2003-04</td>
<td>32.45</td>
<td>21.83</td>
<td>1.49:1</td>
</tr>
<tr>
<td>5.</td>
<td>2004-05</td>
<td>49.44</td>
<td>22.85</td>
<td>2.16:1</td>
</tr>
<tr>
<td>6.</td>
<td>2005-06</td>
<td>57.34</td>
<td>22.74</td>
<td>2.52:1</td>
</tr>
<tr>
<td>7.</td>
<td>2006-07</td>
<td>59.59</td>
<td>24.33</td>
<td>2.45:1</td>
</tr>
<tr>
<td>8.</td>
<td>2007-08</td>
<td>64.00</td>
<td>25.13</td>
<td>2.55:1</td>
</tr>
</tbody>
</table>

**SOURCE:** Calculated from Field Survey Primary Data.
**Interpretation:**

The above table shows the ratio between total sales and current assets of all 69 sample oil mills during the years 2000-01 to 2007-08. The current assets turnover ratio is ranging from 1.66:1 times to 2.55:1 times from the years 2000-01 to 2007-08, along with the increasing current assets the sales are also increasing. The ratio between these 2 increased from 2.16:1 to 2.55:1 times from 2004-05 to 2007-08.

But it is not upto the standard norm i.e. 3:1. Therefore, the performance of sample oil mills is not satisfactory.

The current assets turnover ratio of all sample oil mills is low during the period compared with the standard current assets turnover ratio i.e. 3:1 due to the reasons as follow:

**Reasons:**

1) The purchase of oilseeds is made by the maximum utilisation of current assets by all the oil mills in Solapur city is low due to seasonable supply of oilseeds.

2) The sale of products of oil mills is low during the period 2000-01 to 2007-08. Therefore the current assets turnover ratio is low.

3) The sale of products is made more on credit to sundry debtors as compared to turnover and hence the current assets turnover ratio is low.

**Measures:**

1) The sale of products of oil mill should be increased by supplying the products in local markets and state markets by utilising modern technology with increased production which may lead to result in better current assets turnover ratio.
2) The sale of oilseeds should be made by proper utilisation of full available resources and new modern market techniques more on cash basis which leads to minimise sundry debtors simultaneously leading to better current assets turnover ratio.

3) It is observed that the current assets turnover ratio is increasing slowly in the period 2000-01 to 2007-08, but it is not upto the standard norm. For this purpose the oil mill owners should adopt number of facilities for processing and crushing oilseeds by the state govt. and WMDC. In the other words they are expected to achieve tax facilities, storage facilities transportation facilities, market facilities, supply of capital at low rate of interest. All this leads to expand the sale of the product in the market further it leads to increase the current assets turnover ratio.
The following graph 8.9 shows total sales and current assets of 69 sample oil mills in Solapur city during 2000-01 to 2007-08.
8.14 Conclusion:

All the selected 69 sample oil mills are analysed by the different ratios such as current ratio, gross profit ratio, net profit ratio, working capital turnover ratio, fixed assets turnover ratio, operating ratio, operating profit ratio, current assets turnover ratio, total assets turnover ratio etc.

The performance of edible oil industry depends upon the no. of the factors such as the agricultural situation, the consumption of edible oil, process of production, modernization in production system, transportation facility, financial assistance, sources of finance, govt. policies etc. Therefore the edible oil industry runs on the basis of fluctuations of all these factors. So the results of performances of sample oil mills are varying during 2000-01 to 2007-08.

The relation between current assets with current liabilities is analysed through the current ratio. The current ratio of sample oil mills slowly increasing from 2000-01 to 2007-08. It was 1.65:1 in the year 2000-01, increased to 2.21:1 in the year 2007-08. It shows an increasing trend of current ratio of sample oil mills, because of an increasing sales from Rs. 17.73 crores in the year 2000-01 to Rs.25.13 crores in the year 2007-08.

The gross profit ratio of sample oil mills is analysed by the net sales and gross profit. Gross profit ratio of sample oil mills slowly increased and in some period it decreased. It generally remained constant from 8.73% to 8.98% from 2000-01 to 2007-08.

The net profit of sample oil mills shows slow increasing trend from 2000-01 to 2007-08. It is ranging from 5.41% to 6.13%. It shows the slow growth of working of sample oil mills from the year 2000-01 to 2007-08, it is due to fluctuating prices and low supply of edible oilseeds and changing cropping pattern.

The operating ratio, operating profit ratio, working capital ratio, fixed assets turnover ratio, total assets turnover ratio, current assets
turnover ratio are undertaken for analyzing the performance of sample oil mills. The results of all these ratios show a slow growth of sample oil mills in Solapur city during the year 2000-01 to 2007-08.

By the above conclusions we indicate the performance of sample oil mills in Solapur city during the period 2000-01 to 2007-08 in brief as follows:

1) The overall position of current ratio is satisfactory during the period 2000-01 to 2007-08.

2) The gross profit ratio is not satisfactory as compared to standard gross profit ratio.

3) The net profit ratio is moderate in the years under study.

4) The operating ratio is more or less remained constant within 8 years of the study.

5) The growth rate of operating profit ratio is slow during the period of the study.

6) The working capital turnover ratio of sample oil mills during the study period increased slowly but not satisfactory because it is not upto the standard norm.

7) The fixed assets turnover ratio is low due to idle capacity of fixed assets, so it is not satisfactory.

8) The total assets turnover ratio is not upto the norms throughout the period under study.

9) The current assets turnover ratio is not upto the standard norm so it is unsatisfactory.

By the above evaluation of working of sample oil mills through the above ratios we can say the overall performance of oil mills in Solapur city is not satisfactory. The oil mills are developing but not upto the standard norm. Under the study it shows almost all the oil mills are weak in the sense of purchase, sales, finance, processing, modernising etc.
REFERENCES:


