Chapter – 5

FINANCIAL PERFORMANCE OF MMTC
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Chapter 5

FINANCIAL PERFORMANCE OF MMTC
(199798 to 20012002)

5.1 Introduction

In our country some of the public sector enterprises are not performing properly in terms of efficiency and their financial resources are not utilized in the desired manner. In a developing country where the resources are scarce, they need to be utilized with utmost caution and care. Efficiency of the public sector undertakings is judged on the basis of how effectively and economically it can utilize its resources. The various committees set up so far to review the working of these enterprises have revealed that:

1) They have huge accumulated losses.

2) They are overcapitalized.

3) Many of them have not paid dividends for many years.

4) They have failed to generate internal resources.

5) External resources have been dominant in the supply of funds.

6) Even for their working capital requirements they depend on government or government guarantee, even after many years of their establishment.

7) Profitability performance has been low.

8) They have failed to yield the anticipated rate of return investment (between 10 per cent to 12 per cent).
9) They have failed to contribute to the public exchequer.
10) There is no proper and adequate delegation of authority in the organizations.
11) Most of them are over staffed.

Most of these points of criticism suggest that the financial health of these undertakings is far from being sound and that simply, nationalization is not enough whereas rationalization of the nationalized units is necessary. An attempt has been made to study the working of MMTC against this background for the period 1997-98 to 2001-02. This period has been chosen to get an insight of the financial status of the company during the EXIM policy period of 1997-98 to 2001-02.

Any organization is started with intentions to achieve certain goals or objectives. To know whether the objectives are being fulfilled or not certain measures have to be followed. Performance evaluation is one such measure, which helps an organization to evaluate whether the firm’s performance is up to the mark, or not. It is a tool which not only measures the efficiency of an organization but also helps to find out the reasons that led to the inefficiency and also suggest measures to be followed to increase efficiency.

Why performance evaluation is done?

Performance evaluation allows the organization to:

- identify the successful and less successful aspects of the organization in relation to customer's needs and organizational goals,
- provide trend data to assist changes,
assist decision makers in allocating resources and planning for future organizational developments,

monitor organization’s activities and services to detect any changes in activities or the quality of services,

determine the degree to which customers are satisfied with the organizational services, and

serve as a first step in bench marking i.e., identifying best practice performance and using that performance as a goal, investigating the factors that led to that performance and then trying to replicate that level of performance.

There is no simple, ready and standardised yardstick to measure the performance of the public sector undertakings, and as such, evaluating the performance of the corporation is difficult. Bearing in mind the information revealed in the annual report of MMTC, the financial statements and its limitations have been analysed and interpreted to draw some conclusions.

MMTC has been functioning for more than forty years as a government agency for trading activity. The objectives of the corporation are broad, leaving ample scope for the company to undertake various activities. The performance appraisal is done with the objective of finding out the achievements/shortcomings of MMTC from the year 1997-98 to 2001-02. This analysis covers the following:

1. Financial results
2. Growth analysis
3. Ratio analysis
4. Foreign exchange earnings

5. Employee productivity

Trends in the ratios which determine stability, liquidity, operating efficiency, profitability and leverage will throw light on the overall financial health of the corporation. The overall financial health of any company has to be assessed by taking into account all the aspects, as revealed by the various ratios and the growth in sales. The parameters determined above are absolute financial indicators.¹

5.2 Financial Results

Every corporate body has few financial results indicating the success or failure of its functioning. It includes several financial indicators like sales, trading profit, net profit etc. An attempt has been made to evaluate the financial performance of MMTC as per these financial parameters. With a view to assess this performance of the corporation the financial results as per the Annual Reports for the study period of five years i.e., 1997-98 to 2001-02 are given in the Table 5.1.

TABLE 5.1

Financial results of MMTC
(1997-98 to 2001-02)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Rs. in million)</th>
<th>Trading profit (Rs. in million)</th>
<th>Profit before tax (Rs. in million)</th>
<th>Profit after tax (Rs. in million)</th>
<th>Percentage of trading profit to sales (Per cent)</th>
<th>Percentage of profit before taxes to sales (Per cent)</th>
<th>Percentage of profit after tax to sales (Per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>44734</td>
<td>1148</td>
<td>189</td>
<td>189</td>
<td>2.6</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>1998-99</td>
<td>42527</td>
<td>1030</td>
<td>238</td>
<td>227</td>
<td>2.4</td>
<td>0.6</td>
<td>0.4</td>
</tr>
<tr>
<td>1999-00</td>
<td>46971</td>
<td>1022</td>
<td>103</td>
<td>88</td>
<td>2.2</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>2000-01</td>
<td>53017</td>
<td>1390</td>
<td>206</td>
<td>184</td>
<td>2.6</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>2001-02</td>
<td>72436</td>
<td>1262</td>
<td>248</td>
<td>185</td>
<td>1.74</td>
<td>0.3</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02

Column A in the Table 5.1 shows the sales of the company for the period under consideration i.e., from 1997-98 to 2001-02, which shows an increasing trend except for the year 1998-99.

During the year 1998-99, the company achieved the sales (turnover) of Rs. 42527 million as compared to the turnover of Rs. 44734 million achieved during
the year 1997-98. The total turnover during 1998-99 had been lower by 5 per cent against previous year primarily on account of lower domestic sales and exports.

During the year 1999-00, the company registered a growth of 10.45 per cent over 1998-99 by achieving a turnover of Rs. 46971 million as compared to the turnover of Rs. 42527 million achieved during the year 1998-99.

The company’s total trade turnover in the year 2000-01 increased by 13 per cent to Rs. 53017 million due to increase in export, import and domestic trade. The increase is mainly contributed by export of wheat, sugar and mineral items. On the import front during the year there was an increase in import of coal, hydrocarbons and precious metals. In the domestic market the improvement was contributed primarily by disposal of fertilizer stocks and sale of branded silverware.

During the year 2001-02, the company recorded a turnover of Rs. 72436 million witnessing a growth of about 37 per cent over the preceding year. This was the highest turnover recorded by the company since the commencement of reforms and liberalization of Indian economy starting in 1992. This growth was in the areas of core competency, tapping of remunerative products and markets, innovative value additions, aggressive marketing efforts and optimum utilization of resources.

Column B in the Table 5.1 shows the trading profit earned by the company for the period under consideration (1997-98 to 2001-02). The overall activities during the
year 1997-98 resulted in a trading profit of Rs. 1148 million as against Rs. 864 million during 1996-97, which is remarkably good.

The trading profit from the operations during the year 1998-99 reduced to Rs.1030 million as against Rs. 1148 million during the year 1997-98 showing a decline by 10 per cent. The low profit margin was due to stiff competition especially in bullion trade where the service margins had to be substantially reduced consequently upon reduction in service margins by the banks and other public service undertakings who have also been designated as government nominated agencies for import of gold and silver.

The trading profit from the operations during the year 1999-00 marginally declined to Rs. 1022 million as against Rs. 1030 million during the year 1998-99. This marginal decline in trading profit despite 10.45 per cent increase in trading turnover was due to stiff competition.

During the year 2000-01 the company tried to strengthen the core businesses and nurture new ones that exhibit the potential to become future sources of income, and tried to prioritise and reallocate the resources, the results of which was evident in 36 per cent growth in the trading profit. It increased from Rs. 1022 million in 1999-00 to Rs. 1390 million in 2000-01.

Despite an impressive growth in turnover, intense competition in all trade activities had put significant pressures on margins resulting in decline of trading profit
by nearly 9 per cent, it reduced from Rs. 1390 million in 2000-01 to Rs. 1262 million in 2001-02.

Column C in the Table 5.1 shows the profit before tax for the years 1997-98 to 2001-02. The profit before tax rose from Rs. 189 million in 1997-98 to Rs. 248 million in 2001-02 which is remarkably good.

Column D in the Table 5.1 shows the profit after tax for the period under consideration. It amounted to Rs. 189 million in 1997-98 as against Rs. 296 million in the previous year, which shows a downfall along with the turnover of the company.

For the year 1998-99 the profit after tax amounted to Rs. 227 million against Rs. 189 million in 1997-98. The profit could be achieved on account of increase in interest earnings and income from other activities though the establishment expenditure had increased due to wage revision, leave encashment and higher gratuity contribution.

The profit after tax for the year 1999-00 was Rs. 88 million, which is much lower than the previous year, though the sales were showing an upward trend. Soon in 2000-01 the company showed a robust growth in the profit, which amounted to Rs. 184 million and remained consistent for the following year 2001-02, at Rs. 185 million.

However, the profitability of an organization needs to be judged on the basis of percentage of the trading profit to turnover.
Column E in the Table 5.1 shows the percentage of trading profit to sales. This is known as trading profit ratio, calculated by applying the following formula:

\[
\text{Trading Profit Ratio} = \frac{\text{Trading Profit}}{\text{Direct Trade}} \times 100
\]

Trading profit represents the profit on turnover. It is defined as “excess of net sales over cost of goods sold”.

This ratio is used to indicate the profitability of the organization. It is not possible to lay down a standard trading profit ratio but a steady improvement in this ratio over the years, or at least the maintenance of it at a certain level is desirable. The efficiency of the organisation is reflected in a high trading profit ratio, whereas a low trading profit ratio indicates excessive competition in the market.

The year 2001-02 indicates tough competition with the lowest percentage of 1.74. The preceding years showed consistency indicating that the efficiency and competition was maintained. The fall in percentage of trading profit to sales was from 2.6 per cent in 1997-98 to 1.74 per cent in 2001-02.

Column F in the Table 5.1 reflects the percentage of profit before tax to sales. The lowest was in the year 1999-00 at 0.2 per cent and the highest was in the year 1998-99 at 0.6 per cent. The consistency was maintained throughout the period under study.
Column G in the Table 5.1 shows the percentage of profit after tax to sales. The lowest was in the year 1999-00 at 0.2 per cent and the highest was 0.4 per cent in the years 1997-98 and 1999-00. The company maintained the consistency reasonably well.

5.3 Growth analysis

For evaluating the overall financial performance of MMTC, ‘Growth Analysis’ is used as a basic tool, which includes the following:

1) Growth in the total capital employed.
2) Growth in sales.
3) Growth in the fixed assets.
4) Growth in profits before taxes.
5) Growth in the dividends declared by the corporation.
6) Growth in the retained profits.
7) Growth in the contribution to public exchequer.

5.3.1 Growth in the capital employed

There is no unanimity about the definition of ‘capital employed’ among the accountants. However, in management accounting ‘Resource approach’ is adopted, accordingly, the term ‘Capital employed’ is interpreted as ‘Funds employed’ in the long run. Total capital employed during a particular year is represented by the sum total of paid up share capital, reserves and surpluses and loan funds.
Thus, capital employed = share capital + reserves and surpluses + long term borrowings.

The growth in the capital employed during 1997-1998 to 2001-2002 is shown in Table 5.2 and Graph 5.1. It has to be noted that MMTC does not have any long-term borrowings.

**TABLE 5.2**

*Growth in capital employed (1997-98 to 2001-2002)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Share capital</th>
<th>Reserves &amp; surplus</th>
<th>Total capital employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>500</td>
<td>5958</td>
<td>6458</td>
</tr>
<tr>
<td>1998-99</td>
<td>500</td>
<td>6029</td>
<td>6529</td>
</tr>
<tr>
<td>1999-00</td>
<td>500</td>
<td>6067</td>
<td>6567</td>
</tr>
<tr>
<td>2000-01</td>
<td>500</td>
<td>5362</td>
<td>5862</td>
</tr>
<tr>
<td>2001-02</td>
<td>500</td>
<td>5703</td>
<td>6203</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02
Column A in the Table 5.2 shows the share capital employed for the year 1997-98 to 2001-02. The share capital employed remains constant over the years at Rs. 500 million.

Column B in the Table 5.2 represents reserves and surplus of the company. Reserves represent the amount of profits kept aside. They denote accumulated profits. This is an indicator of the financial improvement of the enterprises. Whereas ‘surplus’ refers to the balance in profit and loss account after providing for all allocation. It represents the retained profits.

Every year the company has been able to keep aside a reasonably increasing amount, except for the year 2000-01, where the reserves and surplus has shown a downward trend which lowered from Rs. 5958 million in 1997-98 to Rs. 5362 million. Overall it indicates financial improvement.
Column C in Table 5.2 indicates the total capital employed by the company over the period from 1997-98 to 2001-02. There has been a nominal change in the capital employed from the 1997-98 to 1999-2000. Later on, in the year 2000-01 there was a downfall at Rs. 5862 million from Rs. 6458 in 1997-98, which further increased to Rs. 6203 million in the year 2001-02. To conclude, the overall growth in the capital employed was moderate over the years.

5.3.2 Growth in the fixed assets

Fixed assets are a major source of earnings for a business enterprise. Table 5.3 and Graph 5.2 shows the fixed assets of MMTC for the study period under consideration.

<table>
<thead>
<tr>
<th>Year</th>
<th>Fixed assets</th>
<th>Increase in the fixed assets over the previous years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>569</td>
<td>44</td>
</tr>
<tr>
<td>1998-99</td>
<td>587</td>
<td>18</td>
</tr>
<tr>
<td>1999-00</td>
<td>619</td>
<td>32</td>
</tr>
<tr>
<td>2000-01</td>
<td>653</td>
<td>34</td>
</tr>
<tr>
<td>2001-02</td>
<td>723</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02
It may be noted from Table 5.3 that the fixed assets have been continuously increasing. It has increased from Rs. 569 million in 1997-1998 to Rs. 723 million in 2001-2002. The fixed assets over the years are showing an upward trend except for the year 1999-2000.

In the year 1998-1999 the fixed assets increased by 3.16 per cent that is, by Rs. 18 million. In 1999-2000 it further increased by 5.45 per cent that is, by Rs. 32 million. The same trend followed in 2000-2001 whereby the increase was by 5.49 per cent that is, by Rs. 34 million. There was an increase by 10.71 per cent in the year 2001-02 that is, by Rs. 70 million. It can be concluded, that the fixed assets owned by the company showed a healthy trend.
5.3.3 Growth in sales

MMTC enables sales for small manufacturers in the international market. These sales bring profit to the corporation. Table 5.4 and Graph 5.3 shows the growth in sales for the period under consideration.

**TABLE 5.4**
*Growth in sales (1997-98 to 2001-02)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Percentage increase/decrease in sales over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>44734</td>
<td>-5.59</td>
</tr>
<tr>
<td>1998-99</td>
<td>42527</td>
<td>-4.93</td>
</tr>
<tr>
<td>1999-00</td>
<td>46971</td>
<td>10.45</td>
</tr>
<tr>
<td>2000-01</td>
<td>53107</td>
<td>13</td>
</tr>
<tr>
<td>2001-02</td>
<td>72436</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02
As seen in Table 5.4 the sales (turnover) for the year 1997-98 reduced by 5.59 per cent as compared to the previous year. During the year 1998-99, the company achieved the sales (turnover) of Rs. 42527 million as compared to Rs. 44734 million achieved during 1997-98. It lowered by 4.93 per cent as against the previous year primarily on account of lower domestic sales and exports.

During the year 1999-00, the company registered a growth of 10.45 per cent over 1998-99 by achieving a turnover of Rs. 46971 million as compared to the turnover of Rs. 42527 million achieved during the year 1998-99.

The company’s total trade turnover in the year 2000-01 increased to Rs.53,017 million i.e., by 13 per cent due to increase in export, import and domestic trade. The increase was mainly contributed by export of wheat, sugar and mineral items and import of coal, hydrocarbons and precious metals. In the domestic market the
improvement was contributed primarily by disposal of fertilizer stocks and sale of branded silverware.

During the year 2001-02, the company recorded a turnover of Rs.72,436 million witnessing a growth of about 36 per cent over the preceding year. The turnover of Rs.72,436 million during 2001-02 was the highest turnover recorded by the company since the commencement of reforms and liberalization of Indian economy in 1992. This growth was in areas of core competency, tapping of remunerative products and markets, innovative value additions, aggressive marketing efforts and optimum utilization of resources.

It is clear from the above data that there has been a continuous increase in the sales percentage since 1999-00 to 2001-02, which made good for the earlier fall in the sales.

The total sales turnover of MMTC consists of export, import and domestic sales. The export sales consist of selling the goods to the parties outside the country, import sales consist of buying the goods from traders outside India and selling them to the traders inside the country. The domestic sales denote sale of goods within the country. Table 5.5 and Graph 5.4 shows the break-up of MMTC’s sales turnover as, export, import and domestic sales.
**TABLE 5.5**
Breakup of MMTC’s turnover into export, import and domestic trade (1997-98 to 2001-02)

(Rs. in million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Import</th>
<th>Domestic</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>11869</td>
<td>31318</td>
<td>1547</td>
<td>44734</td>
</tr>
<tr>
<td>1998-99</td>
<td>10401</td>
<td>31455</td>
<td>671</td>
<td>42527</td>
</tr>
<tr>
<td>1999-00</td>
<td>11538</td>
<td>35268</td>
<td>165</td>
<td>46971</td>
</tr>
<tr>
<td>2000-01</td>
<td>16036</td>
<td>36411</td>
<td>570</td>
<td>53017</td>
</tr>
<tr>
<td>2001-02</td>
<td>17287</td>
<td>54805</td>
<td>344</td>
<td>72436</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02

**GRAPH 5.4**
Breakup of MMTC’s turnover into export, import, domestic trade (1997-98 to 2001-02)
In the above Table 5.5 and Graph 5.4, the major sales turnover of MMTC is by way of exports giving a boost to the export earnings of the country. The domestic sales show negligible figures as compared to import and export.

MMTC’s total import and export sales include two categories such as canalized and non-canalised. The term canalized refers to the sales routed through MMTC and there are some sales, which are not routed through MMTC however the sales are affected under the banner of MMTC. This break-up of export and import sales are shown below in Table 5.6.

**TABLE 5.6**

Further breakup of import, export and domestic trade of MMTC (1997-98 to 2001-02)  
(Rs. in crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Exports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canalised</td>
<td>1187</td>
<td>1042</td>
<td>1153.84</td>
<td>1603.56</td>
<td>1728.7</td>
</tr>
<tr>
<td>Non-Canalised</td>
<td>240</td>
<td>156</td>
<td>200</td>
<td>328.1</td>
<td>455.66</td>
</tr>
<tr>
<td><strong>Total Imports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canalised</td>
<td>562</td>
<td>130</td>
<td>85.4</td>
<td>-</td>
<td>41.5</td>
</tr>
<tr>
<td>Non-Canalised</td>
<td>2570</td>
<td>3015</td>
<td>3441.37</td>
<td>3641.14</td>
<td>5439.05</td>
</tr>
<tr>
<td>Domestic Trade</td>
<td>154</td>
<td>66</td>
<td>16.53</td>
<td>56.96</td>
<td>34.4</td>
</tr>
<tr>
<td><strong>Total Turnover</strong></td>
<td>4473</td>
<td>4253</td>
<td>4697.14</td>
<td>5301.66</td>
<td>7243.65</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02

It may be noted that in the year 1997-1998 exports constituted 27 per cent of the total sales turnover and the import and domestic sale during the year reduced
compared to the previous year primarily on account of reduced allocation for import of Urea made by department of fertilizers in favour of MMTC, substantial decline in the international price of fertilizers and metals and depressed industrial activity in the country.

Although MMTC achieved the import turnover of Rs. 3145 crores during the year 1998-1999, marginally higher than the previous year, the domestic turnover of Rs. 66 crores declined considerably over the last level of Rs. 154 crores. The shortfall in domestic turnover had been primarily in respect of soya oil, gems and jewellery precious metals group and the fertilizer and mica group. The export turnover was 25 per cent of the total sales turnover.

In 1999-2000 the export turnover increased to Rs. 1153.84 crores, which is higher than the previous year's export of Rs. 1042 crores. The import turnover increased to Rs. 3526.77 crores, which is again higher than the previous year, and the domestic turnover showed a very poor scenario of downfall to Rs. 16.53 crores compared to the previous year of Rs. 66 crores. The exports however maintained a consistency of being 25 per cent of the total sales turnover.

Export was progressive for the year 2000-2001 since it constituted 30 per cent of the total sales turnover and increased to Rs. 1603.56 crores over the previous year of Rs. 1153.84 crores. Import turnover showed a marginal increase to Rs.3641.14 crores over the previous year of Rs. 3526.77 crores and domestic turnover increased tremendously to Rs. 56.96 crores as compared to Rs. 16.53 crores of the previous year.
For the year 2001-2002 exports increased to Rs. 1728.7 crores, which was 24 per cent of the total sales turnover. Import turnover was Rs. 5480.55 million an increase over the previous year of Rs. 3641.14 crores and the domestic turnover showed a downfall again at Rs. 34.4 crores as compared to Rs. 56.96 crores of the previous year.

It can be concluded that the corporation has not been dealing much in the domestic trade; its major trade concern has been in the field of export and import. It is the export-import trade that is really significant as the corporation is looked upon as an agency, primarily concerned with promoting foreign trade of the country.

Thus, it proves the hypotheses that there are many export marketing organizations providing institutional support for promoting foreign trade, which will help the economic development of the country, among these organizations, MMTC has a significant contribution in the foreign trade of the country.

5.3.4 Growth in profit before tax

MMTC is a profit making public sector undertaking. It has purchases as well as sales indicating the income as well as expenditure therefore growth in profit before tax is considered as one parameter for evaluating the financial performance. The profit before tax is given in the Table 5.7 and the resultant ups and downs in profit before tax are shown in Graph 5.5.
TABLE 5.7
Growth in profit before tax
(1997-98 to 2001-02)

(Rs. in million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit before tax</th>
<th>Increase/Decrease over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>189</td>
<td>-107</td>
</tr>
<tr>
<td>1998-99</td>
<td>238</td>
<td>49</td>
</tr>
<tr>
<td>1999-00</td>
<td>103</td>
<td>-135</td>
</tr>
<tr>
<td>2000-01</td>
<td>206</td>
<td>103</td>
</tr>
<tr>
<td>2001-02</td>
<td>248</td>
<td>42</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02

GRAPH 5.5
Increase/decrease in profit before tax
(1997-98 to 2001-02)
Table 5.7 and Graph 5.5 showing the trend in the profit before tax gives a mixed picture, although it has been rising in absolute terms. The trend in the profit before tax is studied in relation to ‘turnover’ of the enterprise. Sales of the corporation have been increasing, except for the year 1998-99, whereas profit has been showing a mixed trend. In fact, the corporation has earned a profit of Rs. 238 million in the year 1998-99 when the turnover of the corporation had fallen. As seen in Table 5.7 the profit in this year increased by Rs. 49 million over the previous year, which was at Rs. 189 million.

In 1999-00 the sales increased but profit fell down by Rs. 135 million. Profit however increased by Rs. 103 million in 2000-01 along with the increase in sales. Similarly, there was a further growth in profit by Rs. 42 million in the year 2001-02 along with the increase in sales.

It can be concluded that where sales has been showing an increasing trend profit has been showing a mixed response. Since MMTC is a trading concern it should be capable of running its business on commercial lines. The efficiency of this type of concern will largely, if not entirely, be judged on the basis of its capacity to earn profit.

5.3.5 Growth in the dividends

MMTC is a profit making public sector undertaking fully owned by the Government of India. Since government is the single largest shareholder of the corporation dividend is paid out of the profits to the government. This dividend
payment for the period under study i.e., 1997-98 to 2001-02 is shown in Table 5.8 and Graph 5.6.

**TABLE 5.8**  
Growth in dividend paid by the corporation  
(1997-98 to 2001-02)  
(Rs. in million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>100</td>
</tr>
<tr>
<td>1998-99</td>
<td>100</td>
</tr>
<tr>
<td>1999-00</td>
<td>100</td>
</tr>
<tr>
<td>2000-01</td>
<td>100</td>
</tr>
<tr>
<td>2001-02</td>
<td>605</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02

**GRAPH 5.6**  
Trend in dividends declared  
(1997-98 to 2001-02)
Table 5.8 and Graph 5.6 shows that the company has been paying a consistent dividend at the rate of 20 per cent to its shareholders (government) throughout the period under study except for the year 2002. The maximum dividend paid by the corporation to the government has been at the rate of 121 per cent in the year 2002 as interim dividend. The share capital has been the same, that is, Rs.500 million throughout the period under study.

### 5.3.6 Growth in the retained profits

MMTC, a profit making corporate entity paying dividend to the government of India, retains the surplus profit every year for its financial growth. The retained profit for the period under study is shown in Table 5.9 and Graph 5.7.

**TABLE 5.9**

Trend in retained profits

(1997-98 to 2001-02)

(Rs. in million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Retained profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>64</td>
</tr>
<tr>
<td>1998-99</td>
<td>71</td>
</tr>
<tr>
<td>1999-00</td>
<td>38</td>
</tr>
<tr>
<td>2000-01</td>
<td>13</td>
</tr>
<tr>
<td>2001-02</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02
The figures in the Table 5.8 indicate the profits retained by the corporation every year. It is to be noted that the corporation has paid dividends at a fair rate throughout the period under consideration, and it has been retaining profit all through, although the amount of profits retained has been varying every year. This reflects a fairly good financial planning by the corporation.

The retained profit was maximum in the year 1998-99 at Rs. 71 million and minimum in the year 2000-01 at Rs. 13 million. The trend in the retained profit over the period under study as shown in Graph 5.7 is a declining trend.

5.3.7 Growth in the contribution to exchequer

MMTC, though a public sector undertaking contributes to the government different forms of revenue such as export duty, import duty, central sales tax, income
tax, dividend etc. It has contributed a remarkable amount every year in different forms. The following Table 5.10 and Graph 5.8 show yearly contribution of funds to the exchequer.

**TABLE 5.10**  
Contribution of MMTC to the exchequer  
(1997-98 to 2001-02)  
(Rs. in million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution to exchequer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>3312</td>
</tr>
<tr>
<td>1998-99</td>
<td>3318</td>
</tr>
<tr>
<td>1999-00</td>
<td>4730</td>
</tr>
<tr>
<td>2000-01</td>
<td>5687</td>
</tr>
<tr>
<td>2001-02</td>
<td>6905</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02

**GRAPH 5.8**  
Contribution of MMTC to the exchequer  
(1997-98 to 2001-02)
The Table 5.10 shows an impressive contribution by the corporation to the exchequer. It has shown an increasing trend year after year. It increased from Rs.3312 million in 1997-98 to Rs.6905 million in 2001-02 showing a growth of 108%. This indicates a growth of more than double within a span of five years i.e.1997-98 to 2001-02.

The payment towards exchequer is by way of different items of expenditure incurred by the corporation. The year-wise break-up of various items under which payment is made to the exchequer are shown in Table 5.11.
TABLE 5.11
Breakup of contribution by MMTC to the exchequer
(1997-98 to 2001-02)
(Rs. in million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>To Central Government</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export Duty</td>
<td>6</td>
<td>5</td>
<td>9</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Import Duty (CD)</td>
<td>966</td>
<td>1105</td>
<td>2117</td>
<td>2841</td>
<td>2809</td>
</tr>
<tr>
<td>Central Sales Tax</td>
<td>23</td>
<td>14</td>
<td>23</td>
<td>25</td>
<td>17</td>
</tr>
<tr>
<td>Income Tax</td>
<td>35</td>
<td>54</td>
<td>71</td>
<td>126</td>
<td>237</td>
</tr>
<tr>
<td>Dividend</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>*605</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1130</td>
<td>1278</td>
<td>2320</td>
<td>3094</td>
<td>3670</td>
</tr>
<tr>
<td><strong>To Railways and Ports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Railway Freight</td>
<td>1362</td>
<td>1331</td>
<td>1727</td>
<td>1560</td>
<td>2341</td>
</tr>
<tr>
<td>Plot Rent to Railways/Ports</td>
<td>9</td>
<td>15</td>
<td>34</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>Port Charges</td>
<td>569</td>
<td>516</td>
<td>366</td>
<td>664</td>
<td>479</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1940</td>
<td>1862</td>
<td>2127</td>
<td>2241</td>
<td>2841</td>
</tr>
<tr>
<td><strong>To State Government</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Sales Tax</td>
<td>168</td>
<td>109</td>
<td>173</td>
<td>202</td>
<td>239</td>
</tr>
<tr>
<td>Labour Welfare Cess</td>
<td>11</td>
<td>14</td>
<td>11</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Other Taxes/Cess</td>
<td>63</td>
<td>55</td>
<td>99</td>
<td>130</td>
<td>140</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>242</td>
<td>178</td>
<td>283</td>
<td>352</td>
<td>394</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>3312</td>
<td>3318</td>
<td>4730</td>
<td>5687</td>
<td>6905</td>
</tr>
</tbody>
</table>

*Indicates interim dividend

Source: Annual Report of MMTC from 1997-98 to 2001-02
Table 5.11 shows the yearly break-up of payment by MMTC to the exchequer, which includes the central government, railways and ports, as well as the state government. Out of the period under study, MMTC made the maximum contribution of Rs. 3670 million to the central government as compared to the railways and ports and state government in the year 2001-02. MMTC, as a whole gave a substantial contribution in financial terms to the government authorities, which is a remarkable contribution to the building of the nation.

5.3.8 Conclusions from growth analysis

The capital employed by the corporation showed an attractive trend over the years. It remained consistent throughout the period under study except for the year 2000-01. The corporation does not have any long-term borrowings. Its borrowings are all short term. Fixed assets owned by the corporation showed an increasing trend except for the year 1998-99.

The Corporation’s sales turnover has been quite impressive. The percentage of export trade in the total sales remained between 24 per cent and 30 per cent over the years which may be considered satisfactory, especially when one observes that the corporation is entrusted with multiple responsibilities and has to look after almost everything concerning the foreign trade of the country. It has not been dealing much in the domestic trade, its major trade concern have been in the field of export and import.
Overall profits of the corporation in absolute terms though showed a mixed picture, are quite satisfactory. The retained profits of the company also showed a mixed picture along with the profits. The corporation has been paying a consistent rate of dividend much to the satisfaction of the shareholders. Its contribution to the exchequer has been very impressive and has proved to be a very good source of revenue to the government for nation building. However, the profitability of the corporation and its overall performance needs to be studied on the basis of ratio analysis.

5.4 Ratio analysis

Financial statements of the firm will show the financial performance of the firm. The analysis of these statements will provide the decision-maker an understanding of the strengths and weaknesses of the firm. Ratio analysis is one of the important techniques of the financial statement analysis. It is the process of establishing and interpreting various ratios and helping to make certain decisions. Ratio analysis is a means for better understanding of the strengths and weaknesses of any corporation. It is a powerful tool of financial analysis. Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account.² Financial analysis helps to seek answers to the following questions:

1) Is the firm in a position to meet its current obligations?

2) What sources of long-term finance are employed by the firm and what is the relationship between them? Is there any danger to the solvency of the firm due to the employment of excessive debt?

3) How efficiently does the firm use its assets?

4) Are the earnings of the firm adequate?

5) What is the overall efficiency and performance of the firm?

Financial analysis may not provide exact answers to these questions, but it does indicate what can be expected in the future.\(^3\)

A ratio is a statistical yardstick that provides a measurement of relationship between two accounting figures. Ratio analysis of financial statements stands for the process of determining and presenting the relationship of items and group of items in the statements.\(^4\)

A ratio is defined as "the indicated quotient of two mathematical expressions" and as "the relationship between two or more things."

In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is

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related to some other relevant information. Ratios help to summarise large quantities of financial data and to make qualitative judgement about the firm's financial performance.

Ratio analysis involves comparison for a useful interpretation of the financial statements. A single ratio in itself does not indicate favourable or unfavourable condition. It should be compared with some standard. One of the ways to evaluate the performance of a firm is to compare its present ratios with the past ratios. When financial ratios over a period of time are compared, it is known as the time series or trend analysis. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remained constant over the period of time.\(^5\)

An attempt is made through time series analysis to find out how well the corporation has been managing its financial resources. The tool selected for assessing the financial health of the organization is the various financial ratios, as they indicate the basic factors, which have been responsible for the state of affairs, and they are also pointers towards the future policy.

The objectives of the financial management in an enterprise of this nature should be:

1) To maintain and arrange its finance in such a way that it should be possible for the organization to exploit any of the opportunities that may come in its way.

2) It should be capable of discharging its short-term liabilities in due time.

3) It should make enough profits to discharge its liabilities, in the long run. If a company is able to discharge its short term liabilities without earning sufficient profits, it will be succeeding only in postponing the 'Evil's Day' but a 'Doom's Day' is bound to arrive.

4) It should employ the minimum possible funds and use them most profitably.6

It is proposed to study the broad aspects of financial management on the basis of the following ratios:

➢ Liquidity or Solvency
➢ Activity or operational efficiency
➢ Profitability
➢ Leverage

Trends in the ratios, which determine liquidity, operating efficiency, profitability and leverage, will throw light on the overall financial health of the corporation. Liquidity ratios measure the firm's ability to meet current obligations; activity ratios reflect the firm's efficiency in utilizing its assets; profitability ratios measure the overall performance and effectiveness of the firm, and leverage ratios show the proportions of debt and equity in financing the firm's assets.7

The overall financial health of any company has to be assessed by taking into account all the aspects, as revealed by the various ratios and the growth in sales. Above are the absolute financial indicators. Each of these ratios is considered below.

7Ibid., p. 111.
Given below in Chart no. 5.1 are the various ratios selected for evaluating the performance of the corporation.

Chart No. 5.1

Performance Ratios

Measurement of Liquidity
- Current Ratio
- Quick Ratio
- Cash Holding Ratio
- Cash Flow Statement

Measurement of Activity
- Assets Turnover Ratio
- Operating Profit Ratio
- Inventory Turnover Ratio

Measurement of Profitability
- Trading Profit Margin
- Net Profit Margin
- Net worth Ratio
- Overall Profitability Ratio
- Return on investment Ratio

Measurement of Leverage
- Proprietary Ratio
- Capital Gearing Ratio
5.4.1 Measurement of liquidity ratios

Liquidity ratios measure the ability of the firm to meet its current obligations. It provides a quick measure of liquidity by establishing a relationship between cash and other current assets to current obligations. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. The failure of a company to meet its obligations due to lack of sufficient liquidity, will result in a poor creditworthiness, loss of creditors’ confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets earn nothing. The firm’s funds will be unnecessarily tied up in current assets; therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

The most common ratios, which indicate the extent of liquidity or lack of it, are:

- Current ratio
- Quick ratio
- Cash holding ratio

To evaluate the liquidity position of MMTC the liquidity ratios are calculated for the period under consideration. These ratios are seen in Table 5.12.


TABLE 5.12
MMTC's liquidity ratios
(199798 to 200102)

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>199798</th>
<th>199899</th>
<th>199900</th>
<th>200001</th>
<th>200102</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>Current Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Current Liabilities (Times)</td>
<td>2.27</td>
<td>2.66</td>
<td>2.49</td>
<td>2.30</td>
<td>2.02</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>Current Assets-Inventory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Current Liabilities (Times)</td>
<td>1.74</td>
<td>2.24</td>
<td>2.11</td>
<td>1.92</td>
<td>1.85</td>
</tr>
<tr>
<td>Cash Holding Ratio</td>
<td>Cash &amp; Bank Balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Current Liabilities (Times)</td>
<td>0.26</td>
<td>0.69</td>
<td>0.61</td>
<td>0.50</td>
<td>0.49</td>
</tr>
</tbody>
</table>

**Note:**

1) Current assets include cash and those assets, which can be converted into cash within a year, such as marketable securities, debtors and inventories. Prepaid expenses are also included in current assets as they represent the payments that will not be made by the firm in the future.

2) Current liabilities include creditors, bank overdraft, unclaimed dividends, advance received, provisions, bills payable, accrued expenses, short-term bank loan, income-tax liability and long-term debt maturing in the current year.

3) Inventory represents the closing stock.

4) Cash and bank balance is the balance shown on the final day of the accounting year of the corporation.

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Current ratio

The current ratio is an index of short-term financial strength of the company. It attempts to measure the ability of the firm to meet its current obligations or, in other words, the liquidity of the business. It is a test of liquidity in quantitative terms. It indicates the availability of current assets in rupees of every one rupee of current liability. A ratio of greater than one means that the firm has more current assets than current claims against them.

As a conventional rule, a current ratio of 2 to 1 or more is considered satisfactory. This rule is based on the logic that in a worse situation, even if the value of current assets becomes half, the firm will be able to meet its obligation. The current ratio represents a margin of safety for creditors. The higher the current ratio, the greater the margin of safety; the larger the amount of current assets in relation to current liabilities, the more the firm’s ability to meet its current obligations.\(^*\)

The current ratio is calculated by dividing current assets by current liabilities:

\[
\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}
\]

Considering the standard ratio (2:1), MMTC shows a positive sign. As seen in the Table 5.12 the current ratio of MMTC has been more than 2:1 in all the years under study (1997-98 to 2001-02) ranging between 2.02 and 2.66. It was the lowest in the year 2001-02 at 2.02 and the highest in the year 1998-99 at 2.66.

\(^*\) Ibid., p. 114.
A high current ratio implies that:

1. There is no shortage of working capital and the company has the ability to pay its bills.
2. The company is not subject to undercapitalisation.
3. The corporation is trading with adequate funds and financial backing.
4. There is no over-investment in inventories.

The current ratio is a crude and quick measure of the firm's liquidity. The financial management judged by the trends of MMTC in this ratio is quite satisfactory.

Quick ratio

Another ratio in this group is 'Quick Ratio'. It supplements the current ratio and it is a qualitative test of solvency. Quick ratio establishes a relationship between quick, or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset, other assets that are considered to be relatively liquid and included in quick assets, are debtors and bills receivables and marketable securities (temporary quoted investments). Inventories are considered to be less liquid and normally require some time for realizing into cash; their value also has a tendency to fluctuate.\(^9\)

The quick ratio is found out by dividing quick assets by current liabilities:

\[
\text{Quick ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}
\]

\(^9\) *Ibid.* p. 115
Generally, a quick ratio of 1:1 is considered to represent a satisfactory current financial condition. As per the standards of quick ratio (1:1), MMTC’s quick ratio shows a satisfactory financial condition. Table 5.12 indicates the trend in quick ratio, which ranges between 1.74 and 2.24 during the period under study. It increased from 1.74 to 2.24 during 1997-98 and 1998-99. It declined from 2.11 to 1.85 during 1999-00 to 2001-02. A fair balance in trading has been maintained over the years from 1997-98 to 2001-02. This indicates that the company has a sound financial position, can comfortably meet its immediate obligations, and is appropriately using its resources.

Cash holding ratio

Cash is the most liquid asset, so it is treated equivalent to current liabilities. Trade investment or marketable securities are equivalent to cash; hence it is included in the computation of cash ratio.

To calculate cash holding ratio, cash and bank balance is divided by current liabilities:

\[
\text{Cash holding ratio} = \frac{\text{Cash + Bank balance}}{\text{Current liabilities}}
\]

The trend in the quick ratio indicates the availability of liquid cash to meet its immediate commitments. But ‘Cash holding ratio’ is the real test of company’s ability
to meet its instant commitments. This ratio indicates the instant debt paying capacity of the company.\textsuperscript{10}

Table 5.12 indicates variation in the cash holding ratio from year to year under study. It ranges between 0.26 and 0.69. The highest was in the year 1998-99 at 0.69 and the lowest was in the year 1997-98 at 0.26. This indicates that the day-to-day management of cash is not satisfactory. The management may have to liquidate some unnecessary investments or hasten the collection process to increase cash resources whenever required.

Cash flow statement

Cash flow statement is additional information to user of financial statement. This statement exhibits the flow of incoming and outgoing cash. It assesses the ability of the enterprise to generate cash and to utilize the cash. It is one of the tools for assessing the liquidity and solvency of the enterprise.

Cash flow statement explains cash movement under the following three different heads namely:

- Cash flow from operating activities.
- Cash flow from investing activities.
- Cash flow from financing activities.

Sum of these three types of cash flow reflects net increase or decrease of cash and cash equivalents

❖ **Cash**: It consists of cash in hand and demand deposits.

❖ **Cash equivalent**: It consists of short-term highly liquid investment having maturity of less than three months, which can be readily converted into cash without decline of its value. In other words, these investments can be converted into cash without any risk.\(^{11}\)

**Operating activities**

The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flow to maintain the operating capability of the enterprise, pay dividends, repay loans, and make new investments without recourse to external sources of financing.\(^{12}\) They are principal revenue producing activities of the enterprises other than investing and financing activities. Cash flows from operating activities are as follows:

❖ Cash receipts from the sale of goods and the rendering of services;

❖ Cash receipts from royalties, fees, commissions and other revenue;

❖ Cash payments to suppliers for goods and services;

❖ Cash payments to and on behalf of employees.

\(^{11}\) R.S. Rawat, Student's guide to Accounting standards, Taxman, p. 26.

Investing activities

The activities of acquisition and disposal of long term assets and other investments not included in cash equivalents are investing activities. It includes making and collecting loans, acquiring and disposal of debt and equity instruments, property and fixed assets. Cash flows arising from investing activities are as below:

❖ Cash payments to acquire fixed assets (including intangibles). These payments include those relating to capitalization, research and development costs and self-constructed fixed assets;

❖ Cash receipts from disposal of fixed assets (including intangibles);

❖ Cash payments to acquire shares, warrants or debt instruments of other enterprises and interests in joint ventures (other than payments for those instruments considered to be cash equivalents and those held for dealing or trading purpose);

❖ Cash receipts from disposal of shares, warrants or debt instruments of other enterprises and interests in joint ventures (other than receipts from those instruments considered to be cash equivalents and those held for dealing or trading purposes).¹³

❖ Cash advances and loans made to third parties (other than advances and loans made by a financial enterprise);

❖ Cash receipts from the repayment of advances and loans made to third parties (other than advances and loans of a financial enterprise); ¹⁴

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¹³ R.S.Rawat, *op. cit.*, p. 27

Financing activities

Those activities that result in change in size and composition of owner’s capital and borrowing of the organization. It includes receipts from issuing shares, debentures, bonds, borrowing and payment of borrowed amount, loan etc.

It also includes the following:

❖ Sale of share
❖ Buy back of shares
❖ Redemption of preference shares
❖ Issue/redemption of debentures
❖ Long term loan/payment thereof
❖ Dividend/interest paid

An attempt has been made to analyse the comparative cash flow of MMTC for the period under consideration. This comparison can be seen in Table 5.13.

Table 5.13
Comparative Cash Flow Statement
(199798 to 200102)
(Rs. in million)

<table>
<thead>
<tr>
<th>Net cash inflow from various sources</th>
<th>1997-98</th>
<th>1998-99</th>
<th>1999-00</th>
<th>2000-01</th>
<th>2001-02</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Net cash inflow from operating activities</td>
<td>801</td>
<td>174</td>
<td>270</td>
<td>-1224</td>
<td>1000</td>
</tr>
<tr>
<td>B) Net cash inflow from investing activities</td>
<td>396</td>
<td>481</td>
<td>577</td>
<td>254</td>
<td>-10.9</td>
</tr>
<tr>
<td>C) Net cash inflow from financing activities</td>
<td>-886</td>
<td>1269</td>
<td>-837</td>
<td>963</td>
<td>-628</td>
</tr>
<tr>
<td>Net increase/decrease (A,B,C) in Cash and Cash equivalent</td>
<td>311</td>
<td>1924</td>
<td>10</td>
<td>-6.81</td>
<td>361</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports of MMTC.

\[ R.S.\text{Rawat, loc. cit.} \]
In the Table 5.13 the cash flow position of MMTC is analyzed by considering three parameters as under:

Operating activities

The cash flow from operating activities has shown drastic variation that is, from Rs. 801 million to a negative fall of Rs. 1224 million. Operational cost is the highest in 2000-2001, which has affected the short-term cash position of MMTC negatively.

Investing activities

There is an increasing trend in cash inflows from investing activities, that is, it has increased from Rs. 396 million in 1997-98 to Rs. 577 million in 1999-00. Then there is a fall to Rs. 254 in 2000-01 and further a negative fall to Rs. 10.9 in 2001-02.

Financing activities

There is a mixed trend in the cash inflow from financing activities. The negative flow of Rs. 886 million in 1997-98 became positive at Rs. 1269 in 1998-99, further the flow became negative at Rs. 837 in 1999-00 and positive at Rs. 963 million in 2000-01. Finally in 2001-02 the flow is negative at Rs. 628 million.

To conclude, the overall net cash inflow position indicates a mixed trend through out the period under study. The company can improve its immediate liquidity by concentrating on its cash holdings position. It has increased to Rs. 1924 million in 1998-99 from Rs. 311 million in 1997-98. Then there is a drastic fall to Rs. 10 million
in 1999-00 and further a negative fall to Rs. 6.81 million and then a sudden increase to Rs. 361 million in 2001-02.

5.4.2 Measurement of activity ratios

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also called as turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. Activity ratios, thus, involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well. Activity ratios calculated to judge the effectiveness of asset utilization are shown in Table 5.14.

---

16 I.M. Pandey, op. cit., p. 123.
### TABLE 5.14
**MMTC’s activity ratios**
(199798 to 200102)

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>199798</th>
<th>199899</th>
<th>199900</th>
<th>200001</th>
<th>200102</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets turnover ratio</td>
<td>Sales / Total assets (Times)</td>
<td>3.83</td>
<td>3.20</td>
<td>3.45</td>
<td>3.48</td>
<td>4.69</td>
</tr>
<tr>
<td>Inventory turnover ratio</td>
<td>Cost of sales / Inventory (Times)</td>
<td>19.76</td>
<td>22.42</td>
<td>25.06</td>
<td>22.79</td>
<td>61.04</td>
</tr>
</tbody>
</table>

**Note:**

1) Total assets include fixed assets plus investments and current assets.

2) Figures for sales and cost of sales are drawn from the ‘Trading Account’ of the corporation from the annual report of MMTC.

3) Inventory represents closing stock.

**Assets turnover ratio**

Assets are used to generate sales; therefore, a firm should manage its assets efficiently to maximize sales. The relationship between sales and assets is called assets turnover. The asset turnover ratio shows the firm’s ability in generating sales from all financial resources committed to total assets.\(^\text{17}\)

The assets turnover ratio can be calculated by dividing sales by net assets:

\[
\text{Assets turnover ratio} = \frac{\text{Sales}}{\text{Total assets}}
\]

As this ratio increases there is more revenue generated per rupee of total investment in assets. The higher the assets turnover ratio, the more efficient is the use of its assets. Judged by these criteria it can be said that MMTC’s assets turnover ratio has been high. As seen in the Table 5.14 the asset turnover ratio varies between 3.20 and 4.69. The highest was in the year 2001-02 at 4.69 and the lowest was in the year 1998-99 at 3.20. This indicates that the fixed assets of the company have been managed very well.

Inventory turnover ratio

The inventory turnover shows how rapidly the inventory is turning into receivables through sales. Generally, a high inventory turnover is indicative of good inventory management. A low inventory turnover implies excessive inventory levels than warranted by production and sales activities, or a slow-moving or obsolete inventory.

Inventory turnover ratio indicates the efficiency of the firm in producing and selling its product. It is calculated by dividing the cost of goods sold by the average inventory:

\[
\text{Inventory turnover ratio} = \frac{\text{Cost of sales}}{\text{Inventory}}
\]
It indicates the stock position of the organization. For a concern engaged in foreign trade which calls for a high degree of sophistication it is necessary to keep adequate stock so that no opportunities to sell in the international market are lost.\textsuperscript{18}

The trend in this ratio as seen in Table 5.14 is very much satisfactory. It ranges between 19.76 and 61.04. The highest was in the year 2001-02, at 61.04 and the lowest was in the year 1997-98, at 19.76. The inventory turnover ratio of MMTC indicates a favourable trading situation, there is no excessive blocking of funds in inventory, there may be over-trading, effective sales policy has been followed and the interest blocked in funds are minimum.

5.4.3 Measurement of profitability ratios

Profit is the difference between revenues and expenses over a period of time (usually one year). Profit is the ultimate ‘output’ of a company, and it will have no future if it fails to make sufficient profits. The efficiency of the company needs to be evaluated in terms of profits. The profitability ratios are calculated to measure the operating efficiency of the company.

Generally, two major types of profitability ratios are calculated:

- Profitability in relation to sales
- Profitability in relation to investment\textsuperscript{19}

\textsuperscript{18} Ibid., pg. 125.
\textsuperscript{19} Ibid., pp. 130 & 131.
While analyzing the profitability of MMTC an attempt is made to use several parameters such as trading profit margin, operating profit ratio, net profit margin, net worth ratio, overall profitability ratio and return on investment ratio. These parameters help to evaluate the financial performance in terms of profitability of the corporation for the period under consideration as seen in Table 5.15.

### TABLE 5.15
**MMTC's profitability ratios**
*(199798 to 200102)*

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>199798</th>
<th>199899</th>
<th>199900</th>
<th>200001</th>
<th>200102</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading profit margin</td>
<td>Trading profit x 100 Sales (per cent)</td>
<td>2.6</td>
<td>2.4</td>
<td>2.2</td>
<td>2.6</td>
<td>1.74</td>
</tr>
<tr>
<td>Operating profit ratio</td>
<td>Operating profit x 100 Sales (per cent)</td>
<td>-0.32</td>
<td>-1.07</td>
<td>-1.27</td>
<td>-0.68</td>
<td>-0.26</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>Net profit x 100 Sales (per cent)</td>
<td>0.4</td>
<td>0.4</td>
<td>0.3</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Net worth ratio</td>
<td>Net profit x 100 Net Worth (per cent)</td>
<td>2.93</td>
<td>3.48</td>
<td>1.34</td>
<td>3.14</td>
<td>2.98</td>
</tr>
<tr>
<td>Overall profitability ratio</td>
<td>Net profit x 100 Capital employed (per cent)</td>
<td>3.1</td>
<td>2.4</td>
<td>1.9</td>
<td>1.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Return on investment ratio</td>
<td>Net profit x 100 Total assets (per cent)</td>
<td>1.62</td>
<td>1.71</td>
<td>0.65</td>
<td>1.21</td>
<td>1.20</td>
</tr>
</tbody>
</table>

**Note:**

1) Operating profit represents gross profit minus expenditure.

2) Net profit is profit after tax.

3) Capital employed is represented by equity, reserves and surplus and loan funds.

4) Figures for sales, trading profit are drawn from the trading account of the corporation from the annual report.

5) Total assets include fixed assets, investment and current assets.
The parameters mentioned in the table are described as under:

Trading profit margin

Trading profit margin is mainly concerned with profit obtained from the main line of activity. Non-business income is also included in the profit and when a ratio has to be obtained from business profit, this ratio has to be computed. It is a tool in the hands of management to control the cost of production and other expenses like administrative and selling expenses. It shows the amount of profit earned for each rupee of sales. Trading profit margin is calculated by dividing trading profit by sales:

\[
\text{Trading profit margin} = \frac{\text{Trading Profit}}{\text{Sales}} \times 100
\]

Trading profit represents the profit on turnover. It is defined as "excess of net sales over cost of goods sold".

This ratio is used to indicate the profitability of the organization. It is not possible to lay down a standard trading profit ratio but a steady improvement in this ratio over the years, or at least the maintenance of it at a certain level is desirable. The efficiency of the organisation is reflected in a high trading profit ratio, whereas a low trading profit ratio indicates excessive competition in the market.

Table 5.15 indicates that there was a tough competition in the year 2001-02, with the lowest percentage of trading profit at 1.74. The previous years showed a consistent trading profit ranging between 2.2 per cent and 2.6 per cent. This shows
that the efficiency was maintained throughout the period between 1997-98 and 2000-01. The fall was from 2.6 per cent in 1997-98 to 1.74 per cent in 2001-02.

Operating profit ratio

The operating profit ratio is mainly concerned with operating profit or profit obtained from the main line activity. It is a measure of operational efficiency of business. Non-business income is also included in the profit and when a ratio has to be obtained from business profit, this ratio has to be computed. This ratio is a tool in the hands of management to control the cost of production and other expenses like administrative and selling expenses. It shows the amount of profit earned for each rupee of sales.\textsuperscript{20} The operating profit ratio can be calculated by dividing operating profit by sales:

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

Table 5.15 shows that the operating profit ratio has a negative trend in all the years from 1997-98 to 2001-02. It ranges between $-0.26$ per cent and $-1.27$ per cent. This poor trend indicates that MMTC's operating cost is higher than its sales, leading to negative profitability.

Net profit margin

Net profit margin ratio establishes a relationship between net profit and sales and indicates management’s efficiency in manufacturing, administering and selling

the products. This ratio is the overall measure of the firm’s ability to turn each rupee sales into net profit. If the net profit margin is not adequate, the firm will fail to achieve satisfactory return on shareholder’s funds. This ratio also indicates the firm’s capacity to withstand adverse economic conditions.

Net profit is obtained when operating expenses; interest and taxes are subtracted from the gross profit. The net profit margin ratio is measured by dividing net profit by sales:

\[
\text{Net profit margin} = \frac{\text{Net Profit}}{\text{Sales}}
\]

Table 5.15 indicates that the net profit margin ratio was almost constant over the years under study (1997-98 to 2001-02). The marginal fall in the net profit margin ratio was due to increase in the cost of sales during that particular year as compared to the previous year. The net profit margin was ranging between 0.2 per cent and 0.4 per cent over the years. However, it can be concluded that though it remained constant the profitability is not that satisfactory. The company needs to take up cost control plans to improve its profitability.

Net worth ratio

Net worth ratio measures the returns on investment. It is a reward for the assumption of ownership risk. It determines the incentive to owners. It points out the importance of measuring profit. It tests net worth as well as profit.

\[21\text{ I.M. Pandey, op. cit., p. 132.}\]
Net worth ratio is computed by dividing net profit by net worth of the company:

\[
\text{Net Worth Ratio} = \frac{\text{Net Profit}}{\text{Net worth}}
\]

The net worth ratio in the Table 5.15 indicates that it was lowest in the year 1999-00 at 1.34 per cent, since the net profit was the lowest. Similarly, the net worth ratio was the highest at 3.48 per cent in the year 1998-99 since the net profit was the highest in that year. Thus, the net worth ratio for each year has shown variation in its percentage along with the variation in the net profit for each year. The return on net worth is quite satisfactory.

Overall profitability ratio

Overall profitability ratio is a measure, which can show satisfactorily the overall performance of an undertaking from the standpoint of profitability. It enables the management to show whether the funds entrusted to it have been properly used or not. Thus, it can become an integral part of the budgetary control system, the management may be able to follow the progress being made and take corrective action, if necessary.\(^{23}\) The overall profitability ratio is calculated by dividing net profit by capital employed:

\[
\text{Overall profitability ratio} = \frac{\text{Net Profit}}{\text{Capital employed}}
\]

The overall profitability ratio in Table 5.15 shows a fall from 3.1 per cent in 1997-98 to 2.4 per cent in 1998-99 due to fall in sales. In 1999-00, though there was an increase in sales the overall profitability ratio further reduced to 1.9 per cent from

\(^{23}\) Reddy, Appannaiah, Narayanan, op. cit., p. 133.
2.4 per cent in 1998-99, due to increase in cost of sales. In 2000-01, there was a further fall to 1.5 per cent from 1.9 per cent in 1999-00, again due to increase in the cost of sales inspite of the increase in sales. There was a positive change in 2001-02 where overall profitability ratio increased to 2.5 per cent from 1.5 per cent in 2000-01. This was due to the remarkable increase in sales and fall in the cost of sales.

Return on investment ratio

This is one of the key profitability ratios. It helps to measure efficiency and provide a starting point to analyse the influences and trends in the company’s performance. It is employed as a basis for various managerial decisions. This ratio tells whether the sales are adequate or whether they are otherwise generated for the volume of assets.\(^{24}\) Return on investment is calculated by dividing net profit by total assets:

\[
\text{Return on Investment ratio} = \frac{\text{Net profit}}{\text{Total assets}}
\]

Table 5.15 indicates that the return on investment has increased from 1.62 per cent in 1997-98 to 1.71 per cent in 1998-99 due to increase in the net profit. There was a drastic fall in the net profit and increase in the fixed assets in 1999-00, which shows in the fall at 0.65 per cent in 1999-00 as compared to 1.71 per cent in 1998-99. In 2000-01, the net profit increased along with increase in fixed assets, which lead to an increase in the return on investment at 1.21 per cent. There was an increase in the fixed assets in 2001-02, with a marginal fall in the return on investment at 1.20 per cent. The overall return on investment was quite satisfactory over the years.

5.4.4 Measurement of leverage ratios

Leverage ratios are calculated to judge the financial position of the firm. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. Leverage ratios are calculated to measure the financial risk and the firm's ability of using debt to shareholder's advantage.25

While studying the leverage of MMTC, the parameters used were proprietary ratio and capital gearing ratio. An analysis of these two parameters for the period under consideration is shown in Table 5.16.

### TABLE 5.16
MMTC's leverage ratios
(199798 to 200102)

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>199798</th>
<th>199899</th>
<th>199900</th>
<th>200001</th>
<th>200102</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietary ratio</td>
<td>Proprietor's funds x 100 / Total assets</td>
<td>55.35</td>
<td>49.18</td>
<td>48.22</td>
<td>38.45</td>
<td>40.18</td>
</tr>
<tr>
<td>Capital gearing</td>
<td>Loan funds / Equity</td>
<td>0.17</td>
<td>0.38</td>
<td>0.33</td>
<td>0.60</td>
<td>0.52</td>
</tr>
</tbody>
</table>

**Note:**

1) Proprietor's funds are equity plus reserves and surplus.

2) Loan funds indicate loan taken from the various institutions.

3) Equity represents equity share capital of the corporation.

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25 I.M. Pandey, *op. cit.*, p. 117.
Proprietory ratio

Proprietory ratio measures the long-term solvency of the company. It is an important indicator of the company's success. It focuses the attention on the general financial strength of the business enterprise. This ratio is of particular importance to the creditors who can find out the proportion of shareholders' funds in the total assets employed in the business. This ratio measures the extent of proprietor's investment in total assets of the business.

This ratio is also called 'Equity Ratio' or 'Net worth to total assets ratio'. This ratio is computed by dividing proprietor's fund by total assets:26

Proprietory ratio = Proprietor's fund
                 Total assets

The proprietory ratio seen in Table 5.16 indicates a downward trend year after year. It has fallen from 55.35 per cent to 49.18 per cent in 1998-99, from 49.18 per cent to 48.22 per cent in 1999-00, from 48.22 per cent to 38.45 per cent in 2000-01. There has been an increase from 38.45 per cent to 40.18 per cent in 2001-02, though not a good sign since ideally it should be roughly in the range of 65 per cent to 75 per cent. The ratios have not shown improvement and are much lower than the required percentage. The falling trend indicates that MMTC is not financially sound; its long-term solvency position is not good which is supposed to be a dangerous sign.

Capital Gearing Ratio

Capital gearing ratio is used to express the relationship between the equity share capital and fixed interest bearing securities of a company. The long-term solvency of the firm can be assessed from this ratio. This reveals the claims of shareholders and creditors against the assets of the firm. A company is considered to be high geared where fluctuations in profits of a company are followed by a disproportionately large increase or decrease in return to equity shareholders.\(^{27}\)

Capital gearing ratio is calculated by dividing loan funds by equity:

\[
\text{Capital gearing ratio} = \frac{\text{Loan funds}}{\text{Equity}}
\]

The capital-gearing ratio ranges between 0.17 and 0.60 as seen in Table 5.16. MMTC's capital gearing ratio is nowhere close to the ideal ratio, 1:1. This indicates that the corporation's capital is lowly geared. Majority interest lies with equity shareholders and trading on equity is not possible.

5.5 Limitations of ratio analysis

Ratio analysis is a widely used technique to evaluate the financial position and performance of a firm, but there are certain problems in using ratios. The performance evaluation of MMTC has been done considering the following limitations of ratio analysis:

1) Ratio analysis makes it difficult to decide on the proper basis of comparison.

\(^{27}\) *Ibid.*, pg. 124
2) The comparison is rendered difficult because of differences in situation of two companies or of one company over the years.

3) Both the inter-period and inter-firm comparisons are affected by the price level changes. A change in price-level can affect the validity of ratios calculated for different time periods. In such a case, the ratio analysis may not clearly indicate the trends in solvency and profitability of the company.

4) The differences in the definitions of items in the balance sheet and the profit and loss statement make the interpretation of ratios difficult.

5) The ratios calculated at a point of time are less informative and defective as they suffer from short-term changes.

6) The ratios are generally calculated from past financial statements and thus, are no indicators of future.\(^{28}\)

7) Conclusions from analysis of statements are not sure indicators of bad or good management. They merely convey certain observations pointing to the profitability of matters needing investigation.\(^{29}\)

### 5.6 Foreign exchange earnings

The Indian economy has always felt the pressure of ‘foreign exchange’, mainly because she has always exported traditional items and at the same time imported capital goods. This has resulted in a balance of payment crisis. The economy has always tried to make attempts to come out of the red and has always been on a look out for alternative sources of earning foreign exchange reserves. MMTC has

\(^{28}\) I.M.Pandey, *op. cit.*, pg. 153.

\(^{29}\) R.L.Gupta and M. Radhaswamy, *op. cit.*, p. 32.
been a major foreign exchange earner for the economy. The analysis that follows gives a brief account of the foreign exchange earnings of MMTC.

**TABLE 5.17
Foreign Exchange Earnings of MMTC**
**(1997-98 to 2001-02)**

(Rs. in million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign Exchange Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>11121.37</td>
</tr>
<tr>
<td>1998-99</td>
<td>10026.81</td>
</tr>
<tr>
<td>1999-00</td>
<td>10227.83</td>
</tr>
<tr>
<td>2000-01</td>
<td>15966.8</td>
</tr>
<tr>
<td>2001-02</td>
<td>16776.65</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02

Table 5.17 shows the foreign exchange earnings of MMTC during 1997-98 to 2001-02. The upward trend of foreign exchange earnings during this period is shown in Graph 5.9.

**GRAPH 5.9
Foreign exchange earnings of MMTC**
**(1997-98 to 2001-02)**
In 1998-99 the foreign exchange earnings reduced to Rs. 10226.81 million from Rs. 11121.37 million in 1997-98 since exports fell down from Rs. 11870 million in 1997-98 to Rs. 10401 million in 1998-99. There was a marginal increase in the foreign exchange earnings in 1999-00 to Rs. 10227.83 million since the exports also increased from Rs. 10401 million in 1998-99 to Rs. 11538 million in 1999-00. Further, the company also witnessed a robust growth in the exports from Rs. 11538 million in 1999-00 to Rs. 16036 million in 2000-01 due to reallocation of the available resources. This reflected positively in the foreign exchange earnings of 2000-01, which increased to Rs. 15966.80 million from Rs. 10227.83 million in 1999-00. Innovative value addition, aggressive marketing efforts and optimum utilization of resources in 2001-02 resulted in further growth of exports from Rs. 16036 million in 2000-01 to Rs. 17287 million in 2001-02. This was reflected in the foreign exchange earnings in 2001-02, which increased to Rs. 16776.65 million from Rs. 15966.80 million in 2000-01.

5.7 Employee productivity

The real asset of any trading company is its human resource. The performance of a company to a great extent depends on its human resource. An attempt has been made to analyse and find out whether MMTC uses the available manpower effectively or not. Table 5.18 shows the number of employees and the sales performance per employee for the period under study, whereas Graph 5.10 shows the trend in number of employees employed by MMTC and Graph 5.11 shows the trend of sales per employee for the same period. It is worthwhile to study the financial performance by calculating the sales per employee since MMTC is a trading corporation.
TABLE 5.18
Employee productivity
(1997-98 to 2001-02)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of employees</th>
<th>Sales per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>3144</td>
<td>14.2</td>
</tr>
<tr>
<td>1998-99</td>
<td>2986</td>
<td>14.2</td>
</tr>
<tr>
<td>1999-00</td>
<td>2865</td>
<td>16.4</td>
</tr>
<tr>
<td>2000-01</td>
<td>2456</td>
<td>21.6</td>
</tr>
<tr>
<td>2001-02</td>
<td>2399</td>
<td>30.2</td>
</tr>
</tbody>
</table>

Source: Annual Report of MMTC from 1997-98 to 2001-02

GRAPH 5.10
Number of employees employed by MMTC
(1997-98 to 2001-02)
The figures show a downward trend in the number of employees employed every year as seen in Table 5.18 and Graph 5.10, due to implementation of the voluntary retirement scheme, which is been practiced by the company since 1989. The number of employees reduced from 3144 in 1997-98 to 2399 in 2001-02. At the same time Table 5.18 and Graph 5.11 also shows the sales per employee during 1997-98 to 2001-02. It shows an upward trend, which has risen from 14.2 in 1997-98 to 30.2 in 2001-02.

Thus, it can be concluded that the company has been making optimum utilization of the available human resources. Though the number of employees reduced year after year due to voluntary retirement their productivity showed an upward trend, which is a positive indicator.