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Editorial Board

Title

"FINANCIAL PERFORMANCE ANALYSIS OF CO-OPERATIVE SUGAR FACTORY"

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Abstract:

The finance is life blood of business. The finance is most important function of the organization. We cannot imagine a business without finance because it is central point of all business achieves. Its effective management can do much more to the success of the business while its ineffective management will undoubtedly lead to ensure failure of the business.

In the past few years the sugar industry has been facing several problems like mounting stocks, controls by the Government and underutilization of capacity. The financial Analysis of Sugar unit was done by using Ratio Analysis technique and analyzed previous five years financial statements from 2004-05 to 2008-09

It was observed that the particular unit needs to improve its liquidity position and should utilize its financial resources which is helpful for increasing the profitability of the sugar unit.

RATIONALE OF THE STUDY:

The operation and performance of a business depend on many individual or collective decisions that are continually made by its management team. Every one of these decisions ultimately causes a financial impact for better or worse on the condition and the periodic results of the business. In essence, the process of managing involves a series of economic choices that activates movements of financial resources connected with the business

Some of the decisions management makes are major, such as investment in a new facility, raising large amounts of debt or adding a new line of products or services. Most other decisions are part of the day-to-day process in which every functional area of a business is managed. The combined effect of all decisions can be observed periodically when the performance of the business is judged through various financial statements and special analyses

Objectives of the study :

To analyse the investment pattern and utilization of fixed asset for the selected financial period.

1) To analyse the factors determining the liquidity and profitability of co-operative sugar factory with special reference to their financial performance and operational efficiency

with the help of ratios and identify the strength and weakness of the organization in the management of working capital.

2) To suggest the measures to improve profitability of co-operative sugar factory

Sources of data collection:

The data required for the study was collected from Annual report of the organization , financial statements of the respective sugar factory for the period of 5 years. I.e. from 2004-05 to 2008-09. Text book of the respected subject under study , and Published magazines and bulletins relating to the respected industry.

LIMITATION OF THE STUDY:

1. The study is limited to “Niphad Sahakari Sakhar Karkhana Ltd.Pimplas, Niphad and only five years financial statements are considered

2.Ratio Analysis Technique is used for financial statement analysis

Literature Review:

Sugar Industry is the second largest agro based Industry in India. The trends in this industry that has helped in formation of polices at states as well as national level.

G.S.Kamat has studied four major aspects of co-operative factories namely production, financial structure, management and labour. He argued, if co-operative sugar factories are to become successful they must begin from managing cultivation of sugarcane by farmers.

S.L.Shirodkar has studied the problems of sugar industry in respect of availability of raw materials, Finance and organization of the factory.

R.B.Anekar discussed the co-operative sugar factories capital structure, cost structure, marketing methods and labour practice.

S.D.Tupe conducted a case study on sugar factory and has discussed the effect of the sugar factory on various aspects of rural life.

R.M.Kharche studied the problems related to sugar factories like low recovery of sugar, excess expenditure on staff and under utilization of capacity.

Interpretation & analysis:

Ratio analysis is the process of determining & interpreting numerical relationship based on financial statement. Ratio analysis given as insight into the operational & financial aspects of the firm for one year is compared with those of another.

The Selected Ratios are considered for Financial Performance Analysis -

1. Working capital turnover ratio
2. Current ratio
3. Quick or Acid test ratio
4. Inventory turnover ratio
5. Debtor turnover ratio
6. Average debt collection period
7. Debt equity ratio
8. Fixed asset turnover ratio
9. Current asset turnover ratio

WORKING CAPITAL TURNOVER RATIO:

TABLE NO. 7.1

Working capital turnover ratio			
Year	**Net Annual Sales**(in ₹)	**Net Working Capital**(in ₹)	**Ratio (in times)**
2004-2005	1012202624	336804869	3.01
2005-2006	530366440	252674188	2.10
2006-2007	1362641001	441404830	3.09
2007-2008	847793398	411549245	2.06
2008-2009	1040834574	325144069	3.20

INTERPRITATION:

The Table No. 7.1 shows working capital turnover ratio of last 5 years. The ratio increased in 2006-07 & little it increased in 2008-09. However ratio decreased in 2005-06 & 2007-08 because of decrease in sales.

CURRENT RATIO:

TABLE NO 7.2:

Year	Current Assets **(in ₹)**	Current Lia. **(in ₹)**	Ratio **(in times)**
2004-2005	617337664	280532795	2.20
2005-2006	648609687	395935499	1.64
2006-2007	1023419738	582014908	1.76
2007-2008	657354442	768903687	0.85
2008-2009	448212811	463356880	0.97

INTERPRITATION:

The Table No.7.2 shows the current ratio of last 5 years. As we know the ideal current ratio is 2:1. But actually industry having less current ratio as compare with ideal one. In year 2006-07 Industry having good liquidity but in the year 2008-09 liquidity position also decreased. That's why Current Ratio of the Industry is always fluctuating.

QUICK OR ACID TEST RATIO:

TABLE NO 7.3

QUICK OR ACID TEST RATIO					
year	quick asset in ₹		quick liabilities(in ₹)	ratio	
2004-2005	172538227		260976597	0.66	
2005-2006	79429463		356171083	0.22	
2006-2007	89841753		535425832	0.16	
2007-2008	90827190		723443710	0.12	
20008-2009	83010169		405151996	0.20	

INTERPRITATION:

The Table No. 7.3 shows Quick or Acid Test Ratio for the last 5 years. The ideal Quick or Acid Test Ratio is 1:1 but we found that Industry having less Acid ratio than ideal one. It means Industry doesn't have greater solvency & liquidity position.

INVENTORY TURNOVER RATIO:

TABLE NO 7.4

Inventory Turnover Ratio			
Year	**Net Annual Sales**(in ₹)	**Inventories** (in ₹)	**Ratio (in times)**
2004-2005	1012202624	768813311	1.31
2005-2006	530366440	484234072.5	1.09
2006-2007	1362641001	709201328.5	1.92
2007-2008	847793398	704262827	1.20
2008-09	1040834574	440158091.5	2.36

INTERPRITATION:

The Table No. 7.4 shows Inventory Turnover Ratio of last 5 years. The ratio indicates how fast the inventory is moving. But the ratio is fluctuating all the time. This reveals that the inventory is being not moving fast & not helping the Industry to get quick sales.

DEBTOR TURNOVER RATIO:

TABLE NO 7.5

Debtor Turnover Ratio			
Year	**Net Annual Sales** in ₹	**Debtor** (in ₹)	**Ratio (in times)**
2004-2005	1012202624	154632163	6.54
2005-2006	530366440	240897702	2.20
2006-2007	1362641001	228906525	5.95

2007-2008	847793398	440154541	1.92
2008-2009	1040834574	405549676	2.56

INTERPRITATION:

The Table No.7.5 shows Debtor Turnover Ratio of last 5 years. In year 2004-05 & 2006-07 ratio can be increased it means the Industry had managed in Debtors policy well, but in other period ratio has been decreased. It indicates these years the Industry failed to manage the debtor's policy.

AVERAGE DEBT COLLECTION PERIOD:

TABLE NO 7.6

Average Debt Collection Period			
Year	**Debtor** (in ₹)	**Net Annual Sales**(in ₹)	**Period in Days**
2004-2005	154632163	1012202624	55.76
2005-2006	240897702	530366440	165.78
2006-2007	228906525	1362641001	61.31
2007-2008	440154541	847793398	189.49
2008-2009	405549676	1040834574	142.21

INTERPRITATION:

The Table No. 7.6 shows the Average Debt Collection Period for last 5 years.

DEBT EQUITY RATIO:

TABLE NO :7.7

Debt Equity Ratio			
Year	**Debtor** (in ₹)	**Equity** (in ₹)	**Ratio** **(in times)**
2004-2005	154632163	194282524	0.79
2005-2006	240897702	195326450	1.23
2006-2007	228906525	198250752	1.15
2007-2008	440154541	199893495	2.20
2008-2009	405549676	200527657	2.02

INTERPRITATION:

Table No. 7.7 shows the Debt equity Ratio of last 5 years. The ratio has been fluctuating all the times. The high ratio shows that the claim of creditors are greater than those of owners & low ratio indicates that a greater claim of owners than creditors.

FIXED ASSETS TURNOVER RATIO:

TABLE NO 7.8

Fixed Assets Turnover Ratio			
Year	**Net Annual** **Sales** in ₹	**Fixed Assets** (in ₹)	**Ratio** **(in times)**
2004-2005	1012202624	628302082	1.61
2005-2006	530366440	625111125	0.84

2006-2007	1362641001	624695052	2.18
2007-2008	847793398	634053615	1.33
2008-2009	1040834574	647292387	1.60

INTERPRITATION:

The Table No. 7.8 shows Fixed Assets Turnover Ratio of last 5 years. The ratio indicates the efficiencies with which the firm is utilizing its fixed assets. The ratio is always fluctuating. In year 2005-06 & 2007-08 ratio is decreased which indicates failed to utilize its fixed assets. While in year 2004-05, 2006-07 & 2008-09 the ratio is increased which shows the best utilization of its fixed assets.

CURRENT ASSETS TURNOVER RATIO:

TABLE NO 7.9

Current Assets Turnover Ratio			
Year	**Net Annual Sales in ₹**	**Current assets** (in ₹)	**Ratio (in times)**
2004-2005	1012202624	617337664	1.63
2005-2006	530366440	648609687	0.81
2006-2007	1362641001	1023419738	1.33
2007-2008	847793398	657354442	1.28
2008-2009	1040834574	448212811	2.32

INTERPRITATION:

The Table No.7.9 shows Current Assets Turnover Ratio of last 5 years. A firm ability to produce large volume of sales for a given amount of current assets is the most important aspect of operating performance. The ratio is fluctuating always. In year 2004-05, 2006-07 & 2008-09 ratio is increased which is good for Industry. While in the year 2005-06 & 2007-08 ratio is decreased which is not so good from the industry's point of view

FINDINGS & OBSERVATIONS:

1. From the point of view conventional standard of working capital turnover ratio, Industry's ratio is not up to the mark i.e. Industry short term liquidity is inadequate than what is required .
2. The Industry' current ratio is fluctuating all the times. As ideal current ratio is 2:1 but at time of actual analysis shows that ratio is always less than the ideal one. This ratio moving around 2.20 to 0.8. Which indicate that the Industry has to improve its current ratio?
3. In case of quick or acid test ratio the ideal ratio is 1:1 .But actual analysis shows that the quick ratio is always less than its ideal ratio. It means the quick ratio is not up to the mark. Hence Industry has to do tough job for getting its liquidity position.
4. The inventory turnover ratio is also fluctuating all the time and it is not up to the mark i.e. inventory is not moving fast & not helping the Industry to get quick sales .
5. While in case of debtor's turnover ratio in year 2004-05 & 2006-07 Industry has managed in good debtor's policy because in that period ratio is increased.
6. In case of average debt collection period, it is found that Industry is not able to collect its debt within the period which is not good sign for the Industry's development.
7. The debt equity ratio of the Industry shows debt is greater than equity which means greater claim of creditors than owners.
8. A firm's ability to produce large volume of sales for a given amount of current assets is the most important aspect of operating performance. In the year 2004-05, 2007-08 & 2008-09 the current assets turnover ratio is good from the Industrial point of view.

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SUGGESTIONS:

1. The Industry should use the technique of efficient utilization of working capital i.e. cash management , management of receivables & inventory management to improve the working capital ratio .
2. The Industry has to do some serious efforts to reduce the current liabilities. By doing this Industry can improve their current ratio & they get healthy financial position.
3. In case of quick or acid test ratio the ideal ratio is 1:1 while actually it is found less than its ideal ratio. i.e. 0.5 parts is in the form of inventory. The Industry has to move their inventories very fast and improve the quick ratio. They should give more & more Tender Notice in the newspaper.
4. To reduce the debt the Industry should take 20-30% cash in advance and remaining after the debt period get over. For that purpose firstly Industry has to maintain its average debt period properly. In that sense Industry is in position to increase their current assets.
5. The Industry has to maintain its current ratio as up to the mark i.e. 2:1. This is necessary for industry.

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