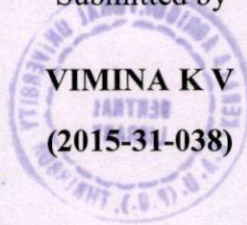


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**A STUDY ON THE FINANCIAL PERFORMANCE OF
KERALA LAKSHMI MILLS, THRISSUR**

Submitted by

**VIMINA K V
(2015-31-038)**



MAJOR PROJECT REPORT

*Submitted in partial fulfilment of the requirement of the
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**Faculty of Agriculture
Kerala Agricultural University**



COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT

VELLANIKKARA, THRISSUR-680656

KERALA, INDIA

2017

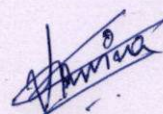
DECLARATION

DECLARATION

I hereby declare that this project report entitled “A STUDY ON THE FINANCIAL PERFORMANCE OF KERALA LAKSHMI MILLS, THRISSUR” is a bonafide record of research work done by me during the course of major project work and that it has not previously formed the basis for the award to me of any degree/diploma/associateship/fellowship or other similar titles of any other University or Society.

Place: Vellanikkara

Date : 30-10-2017



VIMINA K.V

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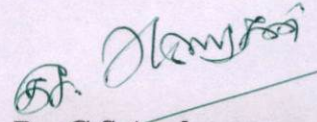
CERTIFICATE

CERTIFICATE

Certified that this project report entitled “A STUDY ON THE FINANCIAL PERFORMANCE OF KERALA LAKSHMI MILLS, THRISSUR” is a record of project work done independently by Ms. VIMINA K V under my guidance and supervision and that it has not previously formed the basis for the award of any degree/diploma, fellowship or associateship or other similar title to her.

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I. DESIGN OF THE STUDY

Chapter 1

Design of the Study

1.1 Introduction

The ultimate aim of any business enterprise is to earn maximum profit and wealth maximization by adopting the business ethics and values. A firm should earn profits to survive and grow over a long-term period of time. To the management, profit is the measure of efficiency and control. To the owners, it is measure of worth of their investment. To creditors, it is the margin of safety. In other words, the management of the company is very much interested in the profitability of the company. Besides management, creditors and owners are also interested in the profitability of the company. So, it is very important to analyse the profitability of every organization.

The ability of a firm to earn maximum profits from the utilization of its resources. So, profitability analysis helps an organization to find out the areas where the company should improve and to find out the factors which affect the profitability of the organization. It is also useful in comparing the performance of the company for over a period of time.

Financial analysis is the process of determining the significant operating and financial characteristics of a firm from the accounting data. The profits and loss account and balance sheet are indicators of two significant factors-profitability and financial soundness. Analysis of financial statements means such a treatment of the information contained in the two statements as to afford a full diagnosis of the profitability and financial position of the firm concerned.

1.2 Statement of the Problem

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis.

This study was conducted to know whether the financial performance of the Lakshmi Cotton Mill, Pullazhy, Thrissur is satisfactory or not with the help of balance sheet, and profit and loss account from 2011-16 by using ratio analysis and comparative income statements. The study highlights on various aspects such as the firm's efficiency in mobilization of funds, and operational efficiency.

1.3 Objectives of the Study

1. To analyse the financial statements of the company by using financial tools
2. To analyse the financial trend over a period of 5 years from 2011 to 2016
3. To evaluate the financial position of the company in terms of solvency, profitability, activity and earnings ratios.
4. To suggest measures in the existing system of the company for improving the financial performance

1.4 Methodology

1.4.1 Location of the Study:

This project was carried out in "Kerala Lakshmi Mills", Thrissur, Kerala.

1.4.2 Data collection

Primary data were obtained through personal discussions with managers and senior officials of the organization.

Secondary data were obtained from published reports like the annual reports of the company, balance sheet, and profit and loss account, booklets, records maintained by the company.

1.4.3 Tools used for analysis of data

1. Ratio analysis
2. Trend analysis
3. Comparative statement analysis

1.4.4 Time duration

The study has been conducted from 21st July 2017 to 3rd October 2017.

1.5 Scope of the Study

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis.

The present study examines the financial statement and analyses the overall performance of the firm by understanding the solvency and liquidity position, which will give a vivid picture about the financial status of the company taken for the study. The findings of the study would help the company to improve its financial position by plugging the loopholes that lead to financial losses.

1.6 Limitations of the Study

To make the valid assessment of the trend of business; longer period is to be analysed, but considering the nature and type of work, only a period of five years commencing from 2011-12 to 2015-16 was considered for the purpose of the study. The accuracy and correctness of the data might have variations since they have been taken from published sources.

1.7 Organisation of the project

The entire study has been organised and divided into six chapters as follows:

Chapter 1: This chapter gives a brief introduction such as basic idea about the topic of the study, statement of problem, objectives of the study, methodology, scope of the study, limitations and chapterisation of the project.

Chapter 2: In this chapter, the researcher has included reviews from previous studies of similar nature which supported in the fulfilment of this study.

Chapter 3: This chapter deals with theoretical framework.

Chapter 4: This chapter deals about the organizational profile of the company.

Chapter 5: This chapter provides a glimpse of data analysis and interpretation of the data collected.

Chapter 6: This chapter contains findings, suggestions and conclusion of the study.

II. REVIEW OF LITERATURE

Chapter 2

Review of Literature

Elena (2009) pointed out that the review of the ethical fund literature showed a significant growth of the Socially Responsible Investments (SRI) in the last few decades. The increase of the interest towards SRI indicates that ethical issues have become more essential for the investors. However, financial performance remains of an important concern for the socially responsible investors.

Amar (2008) opined that despite a surge of global investor interest in the 1980s and 1990s, Africa has been by the massive international capital flowing to developing economies. Most of the economies in the region did not efficiently mobilize their domestic financial resources either.

Neha (2010) concluded that the main variables determining capital structure of industries in India were agency cost, assets structure, non-debt tax shield and size. The coefficients of these variables were significant at one percent and five percent levels.

Sunitha (2010) analysed the leverage positions of various textile industries in India and revealed that the overall leverage of Lakshmi Mills Co. Ltd. was maximum indicating higher profits and also ensured that small change would lead to more reflection. The mean value of EPS for Raymond Ltd. was high as compared to other five companies. Visaka Industries Ltd. showed an average performance during the study period. She concluded that the companies could reframe their capital structure and capacity utilization for further profitability in future.

Marimuthu (2011) pointed out that decision making, additional investment, liquidity position changes in working capital depend upon the performance & return of company reports.

Vimal (2012) found that the company undertaken for the study did not have any accumulated losses during the study period. So the financial position of the firm was satisfactory and the performance of the firm was good in order to improve its trading activity by generating more sales and also need to have a control over the expenses.

Khatik and Varghese (2013) stated that financial analysis is used to analyse whether an entry is stable, solvent, liquid or profitable enough to be invested in financial analysis is just like doctor who examine the fitness of the human body. For analysis of the financial position of the SAIL, gross profit ratio, net profit ratio and operating ratio, productivity investment and solvency ratios are calculated.

Agoca (2013) concluded that the existence in practice of theoretically important aspects are different, also that the most correct way of lending the aspects are through the creation of PM process.

Alice (2014) stated that the concern among investors for social responsibility in relation to the business world and its effect on the environment, society, and government has increased and therefore different types of stock indices and funds that incorporate socially responsible ideals have been developed. However, there does not seem to be much information about the volatility of Green Funds or socially Responsible Investments (SRI).

Indhumathi (2014) found that the overall financial performance of selected textile companies was not stable. To strengthen the financial position; long term funds have to be used. The companies should try to use their operating assets and minimize their non-operating expenses properly.

Mahmoudi (2014) focussed on empirical vision into the relationship between leverage and firm profitability of 28 cement firms selected from the Tehran Stock Exchange. Leverage was measured by Short Term Debt to Equity (STD/E) and Long Term Debt to Equity (LTD/E) and Firm profitability was measured by calculating the Return On Equity (ROE) and Return On Assets (ROA). It was concluded that there existed a significant and negative relationship between leverage and firm profitability; the cement companies were highly levered and the performance of listed cement companies measured

by Returns On Equity (ROE) and Return On Assets (ROA) were 39 % and 19 % respectively. The performance of the listed cement companies in Tehran throughout the study period was found to be average.

Vaijayanthimala and Vijayakumar (2014) analysed liquidity management and trade-off between risk and profitability in Indian cement industry. The analysis of correlation between liquidity and profitability showed positive correlation in Associated Cement Companies Limited, Chettinad Cement Corporation Limited, Dalmia Cement Limited, Madras Cements Limited and Shree Cement Limited. However, there was negative correlation between liquidity and profitability in the case of Birla Corporation Limited, Grasim Industries Limited and India Cements Limited. Further, the analysis of correlation between risk and profitability depicted a positive correlation in all the selected companies. However, there was a negative correlation in the case of Associated Cement Companies Limited, Chettinad Cement Corporation Limited and Dalmia Cement Limited. The result of the study showed mixed trend with respect to liquidity, risk and profitability.

Subha and Ramu (2015) concluded that the financial performance of Ambika cotton mills Ltd, Bannari Amman spinning mills Ltd and KG Denim Ltd was good; whereas, it was not satisfactory for Gangotri textile Ltd and Lakshmi mills Ltd due to negative profitability.

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III. THEORETICAL FRAMEWORK

Chapter 3

Theoretical Framework

3.1 Introduction

Finance is defined as the provision of money when it is required. Every enterprise needs finance to start and carry out its operation. Financial statements are prepared primarily for decision making. Financial statement analysis refers to the process of determining financial strength and weakness of the firm by properly establishing strategic relationship between the items of the balance sheet and profit and loss account. There are various methods and techniques used in analysis like trend analysis, common size statement, schedule of changes in working capital, fund flow and cash flow analysis, cost volume profit analysis and ratio analysis used for decision making by various parties.

3.2 Definition

According to Metcalf and Titard (2006), "Analysis of financial statement is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of firm's position and performance"

3.3 Financial statement analysis

The analysis of financial statements provides valuable information for managerial decision. It is the use of financial statements to analyse a company's financial performance. Financial statements contain actual facts and figures. These figures are absolute in nature and may not reveal important aspects regarding the financial health of the business. But when these figures are compared with some related figures, it will be easier to understand their significance.

A number of techniques or devices are used to undertake financial analysis. The fundamental objective of any analytical method is to simplify the data or more understandable terms.

The following are the tools used for analysing the financial position of the company:

- 1 Ratio Analysis
- 2 Comparative balance sheet
- 3 Trend analysis

3.4 Ratio analysis

Ratio analysis is a widely used tool of financial analysis. The term ratio is referring to the relationship expressed in mathematical terms between two individual figures or group of figures connected with each other in some logical manner and are selected from financial statements of the concern. It helps to express the relationship between two accounting figures in such a way that users can draw conclusions about the performance, strengths and weakness of a firm.

Ratio analysis is an important and age-old technique. It is a powerful tool of financial analysis. It is defined as “the indicated quotient of two mathematical expressions” and as “the relationship between two or more things”. Systematic use of ratio is to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.

A ratio is only comparison of the numerator with the denominator. The term ratio refers to the numerical or quantitative relationship between two figures. Thus, ratio is the relationship between two figures and obtained by dividing a former by the latter. Ratios are designed show how one number is related to another. The data given in the financial statements are in absolute form and are dumb and are unable to communicate anything. Some ratios indicate the trend or progress or downfall of the firm. In view of the requirements of the various users of ratio, it is divided into the following important categories.

- 1 Liquidity ratios
- 2 Solvency ratios
- 3 Profitability ratios
- 4 Activity ratios

3.4.1 Liquidity ratios

Liquidity ratios measure the ability of the firm to meet its current obligation. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements; but liquidity ratios, by establishing a relationship between cash and other current asset to current obligations provide a quick measure of liquidity.

A firm should ensure that it does not suffer from lack of liquidity, and it does not have excess liquidity. the failure of the company to meet its obligations due to its lack of liquidity, will result in a poor creditworthiness, loss of creditor’s 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 firms fund will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

These ratios portray the capacity of the business unit to meet its short term obligation from its short-term resources (e.g.) current ratio, quick ratio.

1. Current Ratio: Current ratio may be defined as the relationship between current assets and current liabilities. It is the most common ratio for measuring liquidity. It is calculated by dividing current assets with current liabilities. Current assets are those, which can be realized within a period of one year. Current liabilities are those amounts, which are payable within a period of one year.

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

2. Liquid Ratio: The term liquid refers to the ability of a firm to pay its short-term obligation and when they become due. The term quick assets or liquid assets refers to current assets which can be converted into cash immediately and it comprises all current assets except stock and prepaid expenses. It is determined by dividing quick assets by quick liabilities.

$$\text{Liquid Ratio} = \text{Liquid Assets} / \text{Liquid Liabilities}$$

- 3. **Absolute Liquidity Ratio:** Absolute liquidity ratio includes cash, bank, and marketable securities. This ratio is obtained by dividing cash, bank and marketable securities by current liabilities.

$$\text{Absolute Liquidity Ratio} = \frac{\text{Cash} + \text{bank} + \text{marketable securities}}{\text{Current liabilities}}$$

3.4.2 Solvency ratios

Solvency ratios, also called leverage ratios, measure a company's ability to sustain operations indefinitely by comparing debt levels with equity, assets, and earnings. In other words, solvency ratios identify going concern issues and a firm's ability to pay its bills in the long term. Many people confuse solvency ratios with liquidity ratios. Although both the ratios measure the ability of a company to pay off its obligations, solvency ratios focus more on the long-term sustainability of a company instead of the current liability payments.

Solvency ratios show a company's ability to make payments and pay off its long-term obligations to creditors, bondholders, and banks. Better solvency ratios indicate a more creditworthy and financially sound company in the long-term.

The most common solvency ratios include:

- 1. **Debt - Equity Ratio:** The debt to equity ratio is a financial, liquidity ratio that compares a company's total debt to total equity. The debt to equity ratio shows the percentage of company financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditor financing (bank loans) is used than investor financing (shareholders).

$$\text{Debt - Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

- 2. **Equity Ratio:** The equity ratio is an investment leverage or solvency ratio that measures the amount of assets that are financed by owners' investments by comparing the total equity in the company to the total assets. The equity ratio highlights two important financial concepts of a solvent and sustainable business. The first component shows how much of the total company assets are owned

outright by the investors. In other words, after all of the liabilities are paid off, the investors will end up with the remaining assets.

$$\text{Equity Ratio} = \text{Total Equity} / \text{Total Assets}$$

- 3. Debt Ratio: Debt ratio is a solvency ratio that measures a firm's total liabilities as a percentage of its total assets. In a sense, the debt ratio shows a company's ability to pay off its liabilities with its assets. In other words, this shows how many assets the company must sell in order to pay off all of its liabilities. This ratio measures the financial leverage of a company. Companies with higher levels of liabilities compared with assets are considered highly leveraged and riskier for lenders.

$$\text{Debt Ratio} = \text{Total Liabilities} / \text{Total Assets}$$

3.4.3 Profitability Ratios

Profitability ratios compare income statement accounts and categories to show a company's ability to generate profits from its operations. Profitability ratios focus on a company's return on investment in inventory and other assets. These ratios basically show how well companies can achieve profits from their operations.

Investors and creditors can use profitability ratios to judge a company's return on investment based on its relative level of resources and assets. In other words, profitability ratios can be used to judge whether companies are making enough operational profit from their assets. In this sense, profitability ratios relate to efficiency ratios because they show how well companies are using their assets to generate profits. Profitability is also important to the concept of solvency and going concern.

- 1. *Gross Margin Ratio* is a profitability ratio that compares the gross margin of a business to the net sales. This ratio measures how profitable a company sells its inventory or merchandise. In other words, the gross profit ratio is essentially the percentage mark-up on merchandise from its cost. This is the pure profit from the sale of inventory that can go to paying operating expenses.

$$\text{Gross Margin Ratio} = \text{Gross Margin} / \text{Net Sales.}$$

- 2. *Profit Margin Ratio*, also called the return on sales ratio or gross profit ratio, is a profitability ratio that measures the amount of net income earned with each dollar of sales generated by comparing the net income and net sales of a company.

$$\text{Profit Margin Ratio} = \text{Net Income} / \text{Net Sales}.$$

- 3. *Net Profit Ratio* is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized. As such, it is one of the best measures of the overall results of a firm, especially when combined with an evaluation of how well it is using its working capital. The measure is commonly reported on a trend line, to judge performance over time. It is also used to compare the results of a business with its competitors.

$$\text{Net Profit Ratio} = (\text{Net Profit} \div \text{Net Sales}) * 100$$

- 4. *Operating Profit Ratio* is calculated by dividing the operating net profit by sales. This ratio helps in determining the ability of the management in running the business.

$$\text{Operating profit ratio} = (\text{Operating profit} / \text{Net sales}) \times 100$$

Where,

$$\text{Operating profit} = \text{Gross profit} - \text{Operating Expenses}$$

OR

$$\text{Operating profit} = \text{Net sales} - \text{Operating cost}$$

OR

$$\text{Operating profit} = \text{Net sales} - (\text{Cost of goods sold} + \text{Administrative and office expenses} + \text{Selling and distribution expenses})$$

- 5. *Return on Investment (ROI)* is a profitability ratio that calculates the profits of an investment as a percentage of the original cost. In other words, it measures how much money was made on the investment as a percentage of the purchase price. It

shows investors how efficiently each dollar invested in a project is at producing a profit. Investors not only use this ratio to measure how well an investment has performed, they also use it to compare the performance of different investments of all types and sizes.

$$\text{Return on Investment Cost} = (\text{Total Income} - \text{Total Cost}) / \text{Total Cost}.$$

3.4.4 Activity Ratios

Activity ratios are financial analysis tools used to measure a business' ability to convert its assets into cash.

1. Working Capital Turnover Ratio: The working capital turnover ratio measures how well a company is utilizing its working capital to support a given level of sales. Working capital is current assets minus current liabilities. A high turnover ratio indicates that management is being extremely efficient in using a firm's short-term assets and liabilities to support sales. Conversely, a low ratio indicates that a business is investing in too many accounts receivable and inventory assets to support its sales, which could eventually lead to an excessive amount of bad debts and obsolete inventory.

$$\text{Working Capital Turnover Ratio} = \text{Net Sales} / \text{Working Capital}$$

Where,

$$\text{Net Sales} = \text{Gross Sales} - \text{Sales Returns}$$

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

2. Inventory Turnover Ratio: The inventory turnover ratio is an efficiency ratio that shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period. This measures how many times average inventory is "turned" or sold during a period. In other words, it measures how many times a company sold its total average inventory dollar amount during the year. A company with US \$ 1,000 of average inventory and sales of \$10,000 effectively sold its 10 times over.

This ratio is important because total turnover depends on two main components of performance. The first component is stock purchasing. If larger amounts of inventory are purchased during the year, the company will have to sell greater amounts of inventory to improve its turnover. The second component is sales. Sales have to match inventory purchases otherwise the inventory will not turn effectively. That's why the purchasing and sales departments must be in tune with each other.

$$\text{Inventory Turnover Ratio} = \text{Cost of Goods Sold} / \text{Average Inventory}$$

- 3. Fixed Asset Turnover Ratio: The fixed asset turnover ratio is an efficiency ratio that measures a company's return on their investment in property, plant, and equipment by comparing net sales with fixed assets. In other words, it calculates how efficiently a company is producing sales with its machines and equipment.

Investors and creditors use this formula to understand how well the company is utilizing their equipment to generate sales. This concept is important to investors because they want to be able to measure an approximate return on their investment. This is particularly true in the manufacturing industry where companies have large and expensive equipment purchases.

Creditors, on the other hand, want to make sure that the company can produce enough revenues from a new piece of equipment to pay back the loan they used to purchase it.

$$\text{Fixed Asset Turnover Ratio} = \text{Net Sales} / \text{Net Fixed Assets}$$

3.5 Common Size Balance Sheet

Financial statements when read in absolute figure are not easily understandable. They are even misleading. Each item of asset is converted into percentage to total asset and each item of capital and liabilities is expressed to total liability and capital fund. Thus the whole balance sheet is converted into percentage form i.e., every individual item stated as a percentage of total 100. This converted balance sheet is known as common size balance

sheet. The percentage so calculated can be easily compared with the corresponding percentages in some other period.

Common-size financial statements present the financial statement amounts as a percentage of a base number. For example, the common-size income statement will report the revenue and expense amounts as percentages of net sales. The common-size balance sheet will report each asset, liability, and owner equity amount as a percentage of total assets. Common-size financial statements allow to compare the financial statements of large companies with the financial statements of smaller companies, because comparing *percentages* instead of dollars. For example, a small retailer can compare the cost of goods sold (perhaps 78%) to a much larger retailer's cost of goods sold (perhaps 80%). Common-size financial statements are related to a technique known as vertical analysis.

3.6 Comparative Balance Sheet

The comparative balance sheet is helpful in analysing and evaluating the financial position of the firm over a period of years. The comparative balance sheet analyses the study of the trend of the same items, group of items, and computed items in two or more balance sheets of the same business enterprise on different dates.

The changes in periodic balance sheet items reflect the conduct of a business. The changes can be observed by comparison of the balance sheet at the beginning and at the end of the period and these changes can help in forming an opinion about the progress of an enterprise

3.7 Trend analysis

The 'trend' signifies a tendency and as such the review and appraisal of tendency in accounting variables are nothing but the trend analysis. Trend analysis is carried out by calculating trend ratio. Trend analysis is significant for forecasting and budgeting. Trend analysis discloses the change in financial and the operating data between specific periods.

Trend analysis is one of the tools for the analysis of the company's monetary statements for the investment purposes. Investors use this analysis tool a lot in order to determine the financial position of the business. In a trend analysis, the financial statements of the company are compared with each other for several years after converting them in the percentage. In the trend analysis, the sales of each year from 2011 to 2016 were converted into percentage form in order to compare them with each other.

3.8 Interpretation of the ratios

The interpretation of ratios is an important factor. Though calculation of ratio is also important but it is only a clerical task; whereas, interpretation needs skill, intelligence and foresightedness. The inherent limitations of ratio analysis should be kept in mind while interpreting them. The impact of factors such as price level changes, changes in accounting policies, window dressing, etc., should also be kept in mind when attempting to interpret ratios.

A single ratio itself does not convey any sense. To make ratios useful, they have to be further interpreted. For example, say, current ratio is 3:1 does not convey any sense unless it is interpreted and conclusion drawn from it regarding the financial condition of the firm as to whether it is very strong, good, questionable or poor. The interpretation of the ratio can be made in the following way:

1. Single Absolute Ratio: Generally speaking, one cannot draw any meaningful conclusion when a single ratio is considered in isolation. But single ratio may be studied in relation to certain rules of thumb which are based upon well proven conventions as for example, 2:1 considered being a good ratio for current assets to current liabilities.
2. Group of Ratios: Ratios may be interpreted by calculating a group of related ratios. A single ratio supported by other related additional ratio becomes more understandable and meaningful. For example, the ratio of current assets to current liabilities may be supported by the ratio of liquid assets to liquid liabilities to draw more dependable conclusions.

3. Historical Comparison: One of the easiest and most popular ways of evaluating the performance of the firm is to compare its present ratio with the past ratio called comparison overtime. When financial ratio is compared over a period of time, it gives an indication of the direction of change and reflects whether the firm's performance and financial position has improved, deteriorated or remained constant over a period of time. But while interpreting ratios from comparison over time, one has to be careful about the changes, if any, in the firm's policies and accounting procedures.
4. Projected Ratios: Ratios can also be calculated for future standards based upon the projected or proforma of financial statements. These future ratios may be taken as standard for comparison and the ratios calculated on actual financial statements can be compared with the standard ratios to find out variances, if any. Such variances help in interpreting and taking corrective action for improvement in future.
5. Inter-Firm Comparison: Ratios of one firm can also be compared with the ratio of some other selected firms in the same industry at the same point of firm. This kind of comparison helps in evaluating relative financial position and performance of the firm. But while making comparison should consider the different accounting methods, policies adopted by different firms.

IV. INDUSTRY PROFILE

Chapter 4

Industry Profile

4.1 Industry Profile

The cotton textile industry has a pre-eminent position in the industrial structure of every country, as it caters to one of the basic necessities of human life namely, clothing. Textile industry all over the world is now spending money on the way to change and predict the change in moods with textile purchase.

The textile industry is one of the oldest industries which saw the initial peaks between the 10th and 17th centuries. Cotton is one of the principal crops of India and is the major raw material for domestic textile industry. The Indian cotton industry provides sustenance to millions of farmers as also the workers involved right from processing to trading of cotton. The Indian textile industry consumes a diverse range of fibres and yarn, but is predominantly cotton based. The ratio of cotton to manmade fibres and filament yarns by the domestic industry is about 56:46.

Indian Cotton Industry has an overwhelming presence in the economic life of the country. Apart from providing one of the basic necessities of life, the cotton industry also plays a pivotal role through its contribution to industrial output, employment generation and the export earnings of the country. It contributes about 14 % to the industrial production, 4 % to the GDP and 14.42 % to the country's export earnings. India is the only country which grows all four species of cultivated cotton: *Gossypium arboreum* and *G. herbaceum* (Asian cotton), *G. barbadense* (Egyptian cotton) and *G. hirsutum* (American Uplandcotton). *Gossypium hirsutum* represents 90% of the hybrid Indian cotton production and all the current BT cotton hybrids are *G. hirsutum*. India produces large number of cotton varieties and hybrids. Though the number of varieties in cultivation exceeds 75, 98 per cent of the production is contributed by about 25 varieties only.

Indian cotton is produced in three zones viz., Northern zone comprising the States of Punjab, Haryana and Rajasthan & Central zone comprising the States of Maharashtra,

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Madhya Pradesh and Gujarat and Southern zone comprising the States of Andhra Pradesh, Karnataka and Tamil Nadu. Cotton cultivation has gained momentum in the eastern State of Odisha, besides these nine States. In 2008-09, during cotton season the country once again harvested higher cotton production for the fifth consecutive year at 4.9 Million Metric Tonnes. In the last two decades, the production of the cotton has gone up from 7.5 million bales in 1984-1985 to 16.2 million bales with a productivity of 170 kg/bale during 1998-99.

4.1.1 Origin of Modern Cotton Textile Industry in India

The origin of modern textile industry dates back to 1818, when the first cotton mill was established near Calcutta with English capital. But it was establishment of a cotton mill in Bombay in 1854 under Paris Management, that the industry made a real beginning. When India became independent in 1947, there were more than one million spindle and nearly two lakhs loom in the organized textile sector. Most of the machines were old and outdated. The partition of the country was a serious blow to the industry. India retained most of the factories whereas, 30 % of area under cotton cultivation went to Pakistan. This adversely affected the supply of raw cotton leading to a high price.

India is the third largest producer of cotton after the US and China. India's cotton sector is important, because more than 60 million people are engaged in cultivation, marketing, processing and trading of cotton. Cotton is growth in Punjab, Haryana, Rajasthan, Gujarat, Andhra Pradesh, Karnataka and Tamil Nadu.

4.1.2 New Textile Policy

The Government of India declared its New Textile Policy in 6th June 1985. This new policy aims at increasing production of cloth of acceptable quality policy aims at increasing production of cloth of acceptable prices in order to meet the demand for cloth of increasing population in the country. While aiming at this objectives, employment potential as also that of potential of the industry are to be kept in view.

The New Textile Policy frame work has the following dimensions:

1. Textile industry will be viewed in terms of its different stage, namely, spinning, weaving and processing.
2. The textile industry is to be provided with more flexibility in the use of different types of fibres and
3. There would be pay notice policy in regard to capacities of units, all with a few to increase competitiveness and health of the textile industry.

The new textile policy has proposed more flexibility to units in using different types of fibres, making available increasing quantities of man-made fibres at reasonable prices, taking step to increase their domestic production, lowering of taxation on man-made fibres of yarn both with the hope that the benefits of lower taxation will be passed on to consumers in the form of lower prices; and taking step, to promote the export of man-made fibres and yarn. If absolutely necessary, closure of textile mills should be allowed, if justifiable; and provided the interests of workers of closed mills are fully protected.

With a view to ensure higher earnings for the power loom sector, there is to be greater emphasis on modernization of power loom sector by introducing new technology, all with a view to improve productivity of the handloom sector both in regard to quantity as also quality of products. Also in the handloom sector, use of mixed or blended fabrics will be encouraged. A Contributory Tariff Fund Scheme is to be established with a view to provide assistance to handloom workers who are in needy position. And lastly, by the end of the Seventh Five-Year Plan, the entire production of controlled cloth is to be transferred to the handloom sector.

4.1.3 National Textiles Corporation (NTC)

NTC refers to National Textiles Corporation which was formed and registered under the companies Act 1956. Textile includes yarn on fabrics made either wholly or partially of cotton, wool jute, synthetic and artificial fibres. It was set up in 1968 with the objective of managing the affairs of the sick textile undertaking taken over by the Government. It was expected to rehabilitate and modernize these mills and expand them

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whenever necessary in order to make them economically viable to over by the government kept increasing. Sick textiles undertaking means textile undertaking, specified in the first schedule; the management of which has, before the appointed day, been taken over by the Central Government under the Industries Act 1951 or as the case may be vested in the Central Government under the sick textile undertaking Act 1972.

4.1.4 Market Capitalization

Government decision to permit the export of 85 lakh bales as against the earmarked quantity of 55 lakh bales by Cotton Advisory Board at the beginning of cotton season (Sep.-Oct.) has brought down the closing stock to around 38.5 lakh bales, making to stock to use ratio at 15 %. Whenever the stock to use ratio was dipped below 20 %, the cotton prices have increased abnormally. The recent notification had resulted in jacking up the prices of cotton to almost Rs.4000 per candy of 355 kg within a month.

4.1.5 Contribution of Cotton to the Indian Economy

As the largest private enterprise in India is having more than 100 million farm holdings, agriculture supports more than 60 % of the population, contributes nearly 19 % to India's Gross Domestic Product (GDP) and 11 % to the total exports. Around 51 % of the geographical area in India is already under cultivation as compared to 11% of the world average.

4.1.6 Future scope of Cotton Industry

The textile industry in India is one of the flourishing sectors of Indian economy. It contributes more than 13 % to industrial output, 16.36 % to export revenue and 4 % to the nations GDP. Union Ministry of Textiles certified Apparel Export Promotion Council (AEPC) has taken responsibility to motivate the foreign investors to invest in Indian textile industry by exhibiting its massive unexplored domestic market. It has also formulated and endorsed the motto of "come, invest, produce and sell in India". The objective is to trigger the foreign investment towards instituting textile units in India by offering numerous allowances to global investors like low priced workforce and intellectual right fortification.

4.1.7 Size of the Global Textile Industry

The global textile market processes a worth of more than Rs. 4005 billion presently. In a more globalized environment, the industry has faced high competition as well as opportunities. Asia largely contributes for textile production. Japan, India, Hong Kong and China are the leading producers due to their cheap labour supply, which is an important factor for the industry.

The World Trade Organization (WTO) has taken so many steps for uplifting this sector. In the year 1995 WTO had renewed its MFA and adopted Agreement on Textiles and Clothing (ATC), which states that all quotas on textiles and clothing will be removed among WTO member countries.

However, the level of export in textiles from developing countries is increasing even in the presence of high tariff and quantitative restrictions by economically developed countries. More over the role of multifunctional textiles, eco-textiles and customized textiles are considered as the future of the textile industry.

4.2 Company Profile

4.2.1 Introduction

Kerala Lakshmi Mills is situated at Pullazhi, Thrissur district Kerala. It is a government company under public sector. The mill was started during 1962-63 by late Karumuthu Thyagarajan Chettiyar in collaboration with OMC company of Japan. The production commenced in 1969 with an installed capacity of 24000 spindles. The capacity was raised to 30960 spindles subsequently. The mill was in financial trouble for quite some time and this led to the takeover of the mill by the Government of India through the National Textiles Corporation. The mill was taken over in November 1972 along with other three units of Meenakshi Group in Kerala. The unit was nationalized on 01-04-1974. The spindles were increased from 30960 to 41328. The mill is now equipped with 42994 spindles (licensed of 42994 spindles) to manufacture cotton/blend yarn. The mill is manufacturing cotton yarn and polyester cotton blend of 60 counts.

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The products are sold at Mumbai and Ahmedabad market. The mill is working at 24 hours a day and 7 days working in a week. The mill shares of Rs. 114.46 lakh is contributed by Subsidiary Corporation to NTC by way of equity share capital. The chief executive of the mill is the general manager, who with his team officers looks after the management of the mill working under the guidelines and supervision of the head officers of respective departments.

4.2.2 Present Status of the Organisation

At present, the mill is having an installed capacity of 42944 spindles. Presently the mill is manufacturing blended yarn in the following counts such as 45 pc, 45 pv, 60 pc and 50 pc. The main raw material polyester fibre is supplied by M/S. Indorama Synthetics Ltd. and viscose staple fibre for 45 pv is supplied by M/S. Grasim industries Ltd., Coimbatore. The raw cotton is mainly purchased from Cotton Corporation of India Ltd., since the mill is one of the units of NTC New Delhi.

The management of Kerala Lakshmi Mills is vested with NTC Ltd., Coimbatore which is the regional office of the central government owned mills located in South India. The holding company of the mill and its head office is NTC Ltd., New Delhi. The modernization of the mill has been completed recently. After the modernization, the cost of production may escalate around 20 to 25 %, because of the installation of modern machinery.

4.2.3 Objectives of the Company

1. To produce and market the product economically in an environmental friendly manner.
2. To ensure customer satisfaction.
3. To maintain optimum level of efficiency and productivity in all activities.
4. To continuously upgrade the quality of the human resources of the company and promote organizational development.
5. To ensure corporate growth by expansion and diversification.

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6. To continuously improve the plant operations safely as an initiative activity for achieving total quality management.
 7. The main objective of the mill is to produce yarn at lower cost and make it available to the people at cheaper rate at good quality.
 8. To implement training and development programmes to the weavers to maintain the quality of products.
 9. To increase promotional activities.
 10. To increase production and supply according to the demand.
 11. To start new factory to increase production.
 12. To enhance productivity.
 13. To achieve a minimum compounded growth rate on sales turnover.

4.2.4 Mission

Every firm has its own mission. The company's mission is to provide employment opportunities to the people and thus to reduce unemployment problem which is crucial in our country.

4.2.5 Vision

The company's vision or aim is to provide yarn at lower cost of production and to make available to the people at a lower cost ensuring good quality.

4.2.6 Goals

1. To achieve a minimum growth rate on sale turnover.
2. To promote research and development.
3. To provide facilities necessary to meet the training need of managerial staff of mill.
4. To promote for optimum use of technological innovation.
5. To ensure optimum use of human resources.

4.2.7 Location

Kerala Lakshmi Mill, a unit of National Textile Corporation Ltd. is situated in Pullazhy, 5 km from Thrissur town. The licenced capacity is 42944 spindles. The installed capacity and commissioned capacity of the mill is 42944 spindles.

4.2.8 Registered Office

National Textile Corporation Ltd.

Scope complex

Core- IV, 7

Lodhi Road

New Delhi – 641009

4.2.9 Production Range

1. The Kerala Lakshmi Mill at present produces yarns in the counts: 60 pc, 50 pc, and 50 pc deluxe.
2. 60pc implies that 60% polyester and 40% cotton.
3. 50pc implies that 50% polyester and 50% cotton.
4. 50pc deluxe implies that 50% polyester 50% cotton.

4.2.10 Board of Directors

Shri. P.C Vaish – Chairman and MD

Shri.J.K Dadoo – Additional Secretary and Finance Adviosr

Smt. Anu Garg – Joint Secretary

Shri. R.K sinah – Director HR

Shri.Alokendra Banerjee – Director Marketing

Dr.Anil Gupta – Director Finance.

4.2.11 Company Managers

General Manager – T.V Sujith

Senior Manager – A. Gnanaguruswamy

Personnel Manager – Sreejesh K.B

Joint Manager – A. Anilkumar

4.2.12 Departments in the Organization

4.2.12.1 Production Department

Production Manager is the head of this department. He is assisted by deputy spinning manager and other technical staff. The workers of this department are experienced hands. The management provides training for increasing their skill and efficiency. Now modernization has been carried out. This helps to increase the production capacity of the plant.

The raw materials used are cotton and synthetic polyester.

1. **Cotton:** Raw material is purchased by the head office at Bangalore. The head office will arrange the purchase of cotton from the cotton corporation India. The mill is mainly depending upon the cotton supply from Tamil Nadu, Andhra Pradesh and Punjab.
2. **Polyester:** Polyester is a synthetic product manufactured out of petroleum as one of its by-products. There are various manufactures in India for supplying polyester fibre. The requirement of fibre will be informed to the head office every month and purchase will be arranged by the head office. Now the mill purchases from M/S. Indorama Synthetics Ltd., Nagpur. The textile mill is mixing cotton with polyester at different ratios such as 67:33, 70:30 for making the yarn.

4.2.12.2 Present production capacity of spindles in the company

Table 4.2.1 Spindle production capacity

Licensed (no.)	42944
Installed (no.)	42944
Utilization percentage (%)	88
Men employed days (days)	482
Number of working days per annum (no.)	351

4.2.12.3 Employee benefits

The mill has on rolls a total of 357 workers and 38 officers and other staffs.

1. Employee State Insurance: 1.75 % of contribution of salary is paid by employee and 4.75 % is paid by employer.
2. Provident Fund: 12 % contribution by employer and 12 % by employee.
3. Kerala Labour Welfare Fund Board: The scholarship for the children of employees is taken care of by this Board.

4.2.12.4 Working of the units

The company works on all days in a week. The company works 24 hours with 3 shifts and 1 general shift. The time of 3 shifts and general shifts is as follows.

Table 4.2.2 Working Time of the mill

General shift	6.30 AM 3.00 PM
1 st shift	6.30 AM to 2.30 PM
2 nd shift	2.30 PM to 10.00 PM
3 rd shift	10 PM to 6.30 AM

The total production is calculated based on three shifts. The total utilization is computed by multiplying total capacity, the number of working days and the shifts

$$\begin{aligned} \text{Utilization} &= 42944 * 3 \text{ shifts} * \text{no of working days} \\ &= 128832 * \text{no of working days in month.} \end{aligned}$$

V. DATA ANALYSIS & INTERPRETATION

Chapter 5

Data Analysis & Interpretation

5.1 Ratio Analysis

5.1.1 Liquidity Ratios:

The short term financial position of a firm is measured by analysing the liquidity position. The term liquidity means the ability to produce cash. A firm is said to be liquid when it is capable of meeting its short-term obligations in time. It depends on its ability to convert current assets into cash and maintain regular cash flows. The important liquidity ratios are as follows

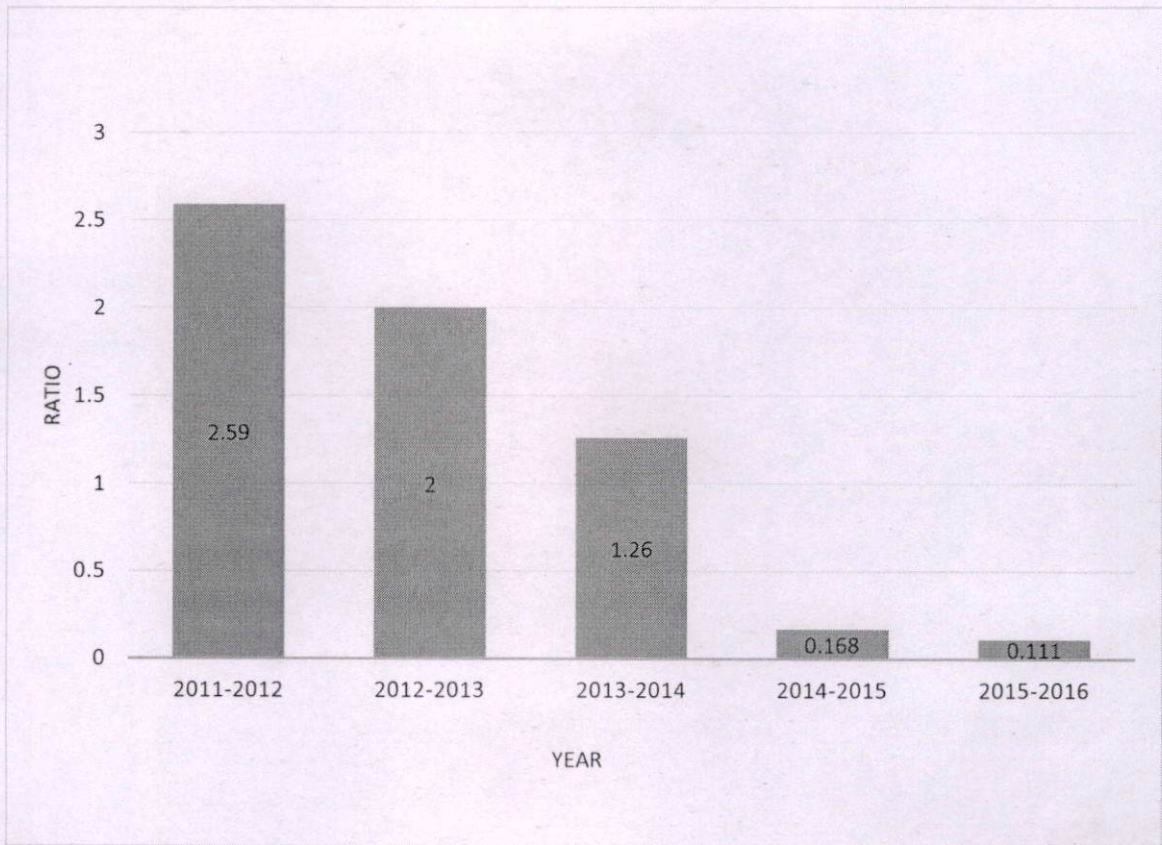
5.1.1.1 Current Ratio

Current ratio establishes the relationship between current assets and current liabilities. It attempts to measure the ability of a firm to meet its obligations. The ideal current ratio is 2:1.

Current ratio = current assets / current liabilities
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Table 5.1.1.1 Current Ratio

Year	Current Assets	Current Liabilities	Current Ratio
2011-2012	135,604,279.06	52,326,091.99	2.59
2012-2013	108,061,565.80	54,254,414.23	2
2013-2014	193,595,443.98	152,999,270.78	1.26
2014-2015	15,01,98,243.38	88,97,99,605.18	0.168
2015-2016	11,74,29,888.57	1,05,12,78,562.4	0.111

Graph 5.1.1.1 Current Ratio**Interpretation**

The standard of current ratio is 2:1. The current ratio of the company during the first year was above the standard ratio. This indicated that the company was in a good position to meet its short term debts; but from the year 2013-14 onwards, it showed a decreasing trend due to the increase in the current liability. This infers that the company's financial performance is in a very poor situation.

5.1.1.2 Liquid Ratio

It is the ratio of liquid assets to current liabilities. All items of current assets are not equally liquid. It establishes the relationship between quick assets and current liabilities. It measures the instant debt paying ability of the business enterprise. It is also called as acid test ratio or quick ratio.

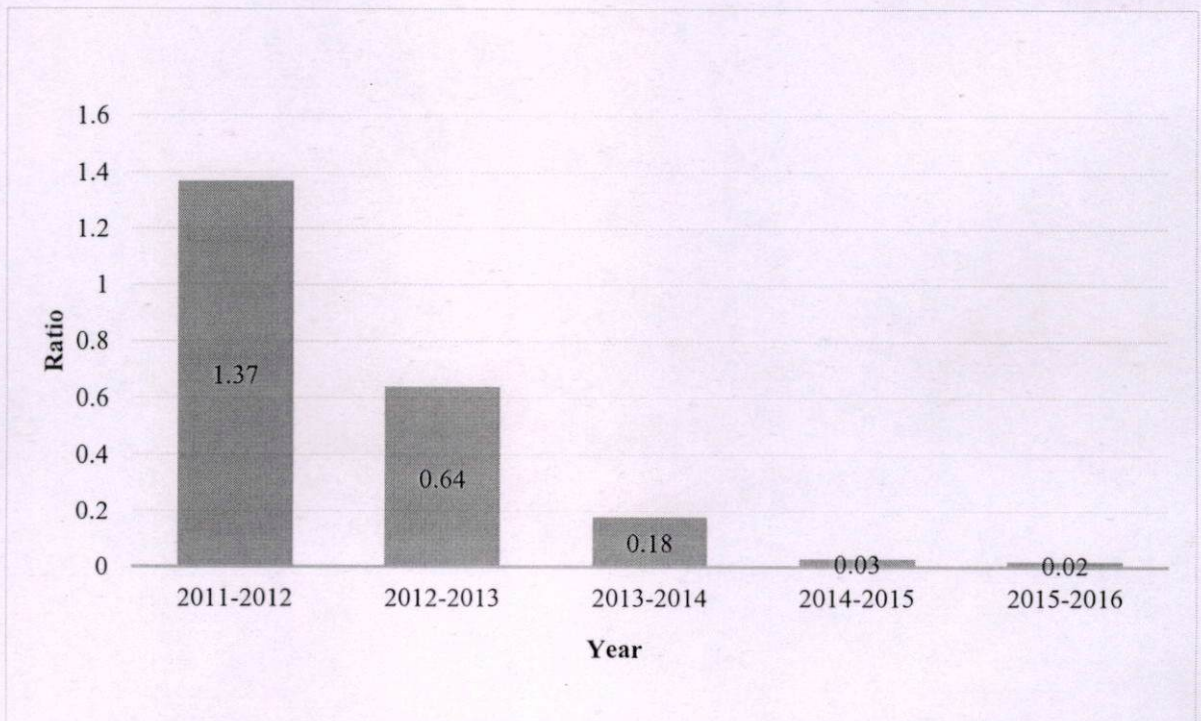
Liquid Ratio = Liquid Assets/ Current Liabilities

Liquid Assets = Current Assets - (Inventories + Prepaid Expenses)

Table 5.1.1.2 Liquid Ratio

Year	Liquid Assets	Current Liabilities	Liquid Ratio
2011-2012	72,112,733.2	52,326,091.99	1.37
2012-2013	34,993,925.57	54,254,414.23	0.64
2013-2014	26,842,874.2	152,999,270.78	0.18
2014-2015	30,382,363.6	88,97,99,605.18	0.03
2015-2016	30,884,580.15	1,05,12,78,562.43	0.02

Graph 5.1.1.2 Liquid Ratio



Interpretation:

A standard liquid ratio is 1:1. This ratio measures the debt paying ability of the business enterprise. If the ratio is more than 1:1 the financial position is said to be good. If the ratio is less than the standard form, then the financial position is unsound. From the above graph, it could be observed that the quick ratio was less than 1:1 for the last five years, i.e. the liquidity position of the company was in decline stage. This means that the firm will not be able to pay off its current liabilities within due date.

5.1.1.3 Absolute Liquid Ratio

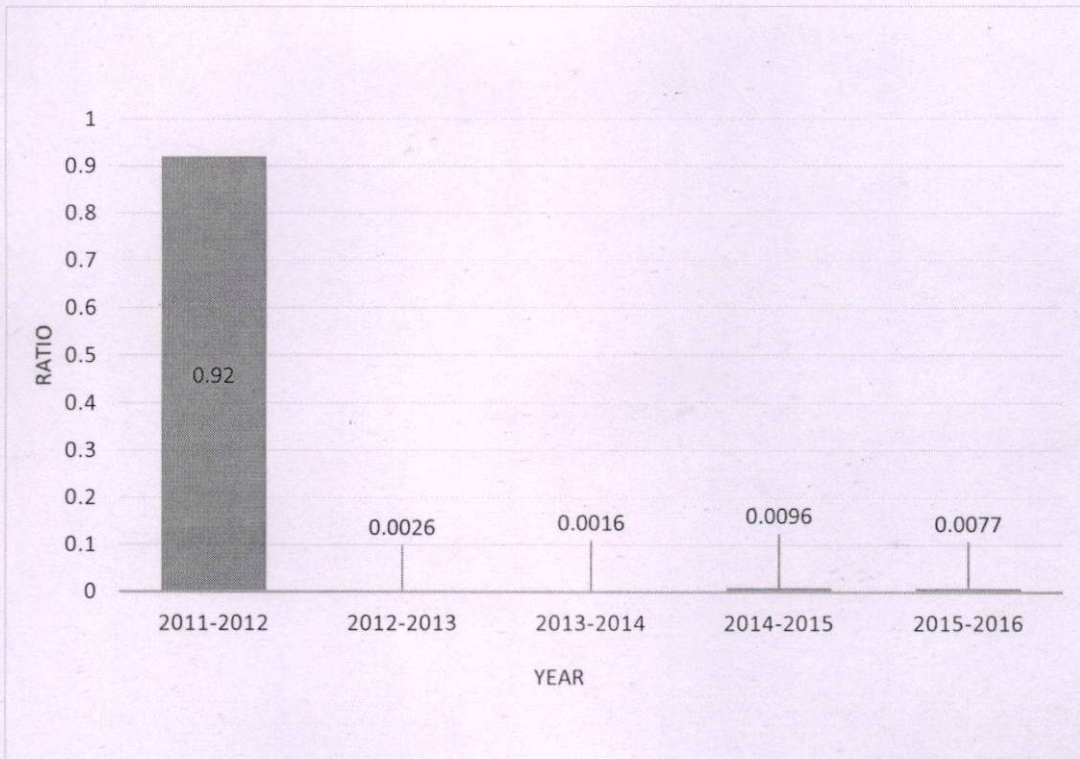
It is a further rigorous test of liquidity. Debtors and bills receivable (account receivable) are also excluded from liquid assets in the numerator. Bank overdraft is definitely excluded from current liabilities or liquid liability is taken as the denominator. The most favourable and optimum value of the ratio should be 1:2.

$\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Asset}}{\text{Current Liabilities}}$
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Table 5.1.1.3 Absolute Liquid Ratio

Year	Absolute Liquid Assets	Current Liabilities	Absolute Liquid Ratio
2011-2012	4,856,140.63	52,326,091.99	0.92
2012-2013	141,791.01	54,254,414.23	0.0026
2013-2014	245,397.01	152,999,270.78	0.0016
2014-2015	86,27,312.06	88,97,99,605.18	0.0096
2015-2016	81,88,880.01	1,05,12,78,562.43	0.0077

Graph 5.1.1.3 Absolute Liquid Ratio



Interpretation:

The standard norm of the absolute liquid ratio is 1:2. The ratio was less than the standard norm in the last four years due to the effect of current liability. This indicates that the company's liquidity position was not good. However, in 2012 absolute liquid ratio was good.

5.1.2 Solvency Ratios

5.1.2.1 Debt Equity Ratio

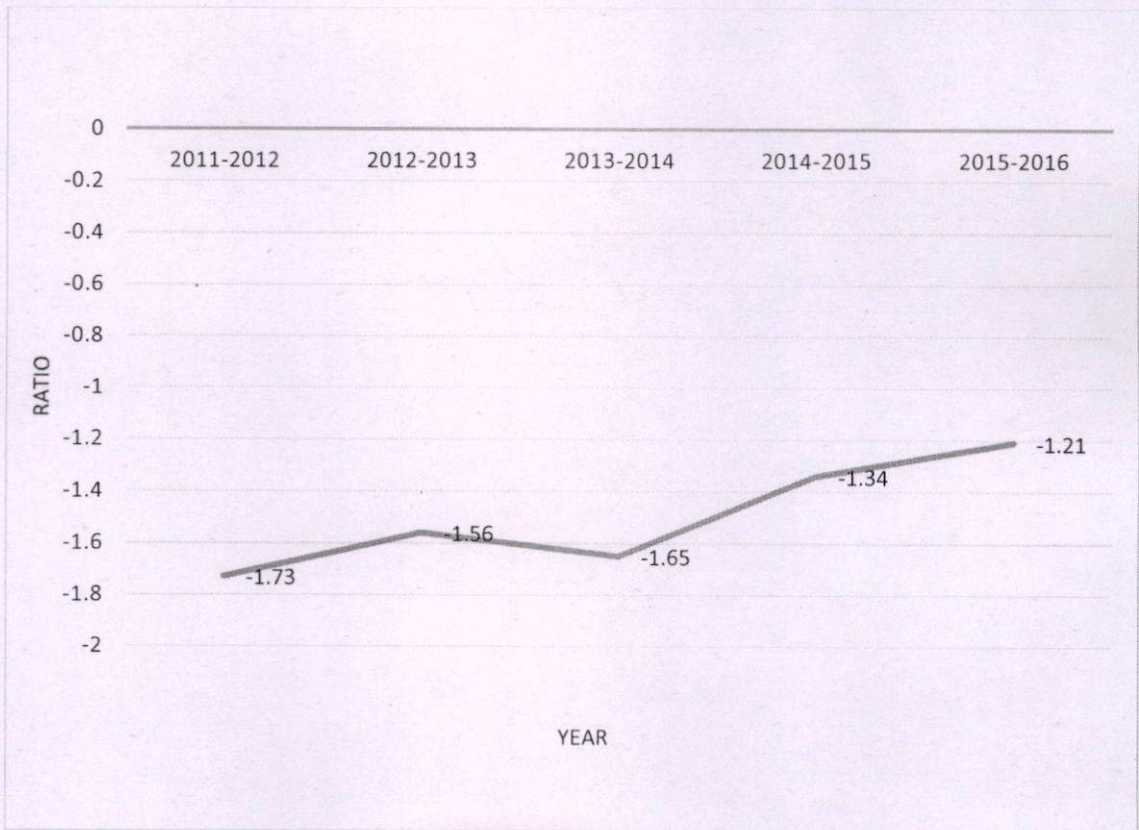
Debt equity ratio is calculated to ascertain the firm's obligations to creditors in relation to funds invested by the owners. This ratio indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholder's equity.

$$\text{Debt Equity Ratio} = \frac{\text{Total Long Term Debt}}{\text{Shareholders Fund}}$$

Table 5.1.2.1 Debt Equity Ratio

Year	Total LongTerm Debt	Shareholders Fund	Debt Equity Ratio
2011-2012	732,462,950.00	(424,261,366.02)	(1.73)
2012-2013	755,507,576.1	(482,967,561.30)	(1.56)
2013-2014	939,680,644.3	(568,434,096.59)	(1.65)
2014-2015	920,160,089.1	(68,41,88,095.31)	(1.34)
2015-2016	1,089,963,323.00	(90,24,08,161.25)	(1.21)

Graph 5.1.2.1 Debt Equity Ratio



Interpretation:

The standard debt equity ratio is 2:1. The company's debt equity indicates that the proportion of borrowed fund was high and the shareholders' fund was very low which means that it is a very risky situation and will adversely affect the firm.

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5.1.2.2 Proprietary Ratio

Proprietary Ratio indicates the share of owners to the total asset of the company. It serves as an indicator to the creditor who can find out the proportion of shareholder's funds to the total assets employed in the business.

$$\text{Proprietary Ratio} = \text{Shareholders Funds} / \text{Total Assets}$$

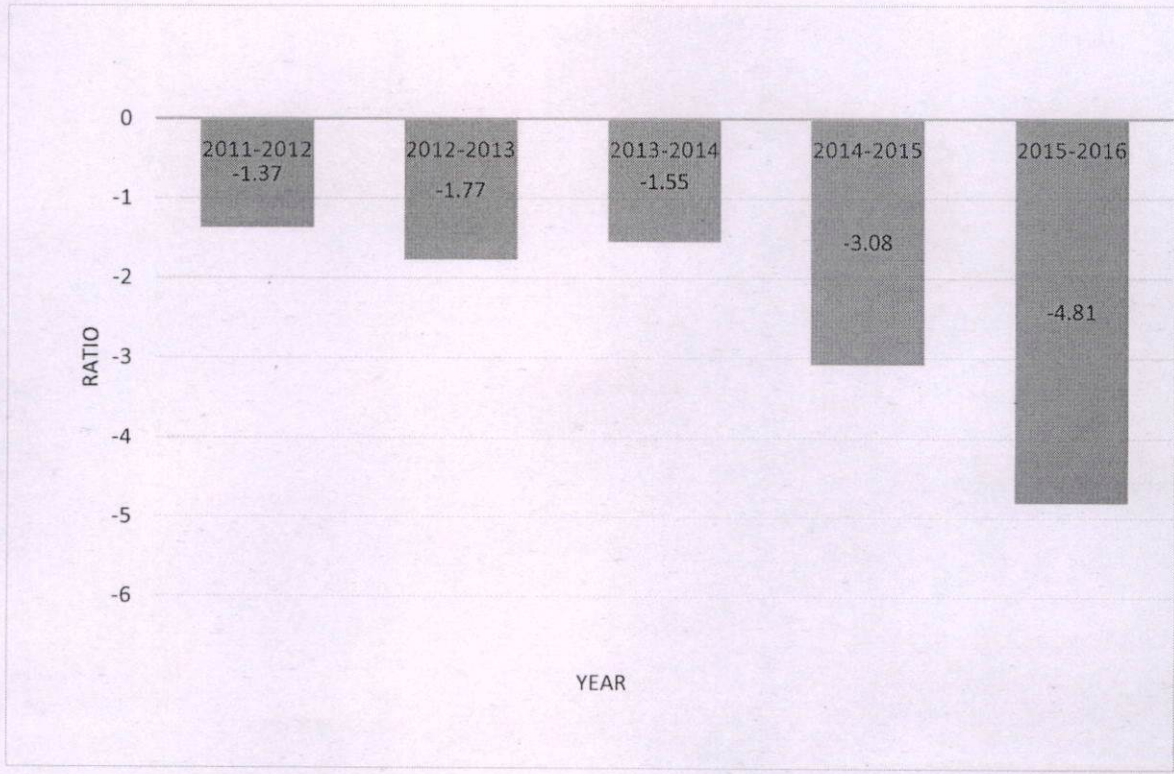
Table 5.1.2.2 Proprietary Ratio

Year	Shareholders Fund	Total Assets	Proprietary Ratio
2011-2012	(424,261,366.02)	30,82,02,583.97	(1.37)
2012-2013	(482,967,561.30)	27,25,40,014.87	(1.77)
2013-2014	(568,434,096.59)	37,12,46,547.82	(1.55)
2014-2015	(68,41,88,095.1)	23,59,71,993.87	(3.08)
2015-2016	(90,24,08,161.25)	18,75,55,162.18	(4.81)

Interpretation:

The standard proprietary ratio is generally 1:2. Above this is considered as an ideal one. A high ratio indicates better safety to creditors since the firm is largely depending on shareholders' funds for financing total assets. Here the proprietary ratio was less than standard norm. A low proprietary ratio means more dependence on borrowed funds and greater risk for creditors. Here the shareholder's funds was negative in all the five years.

Graph 5.1.2.2 Proprietary Ratio



5.1.3 Profitability Ratio

5.1.3.1 Gross Profit Ratio

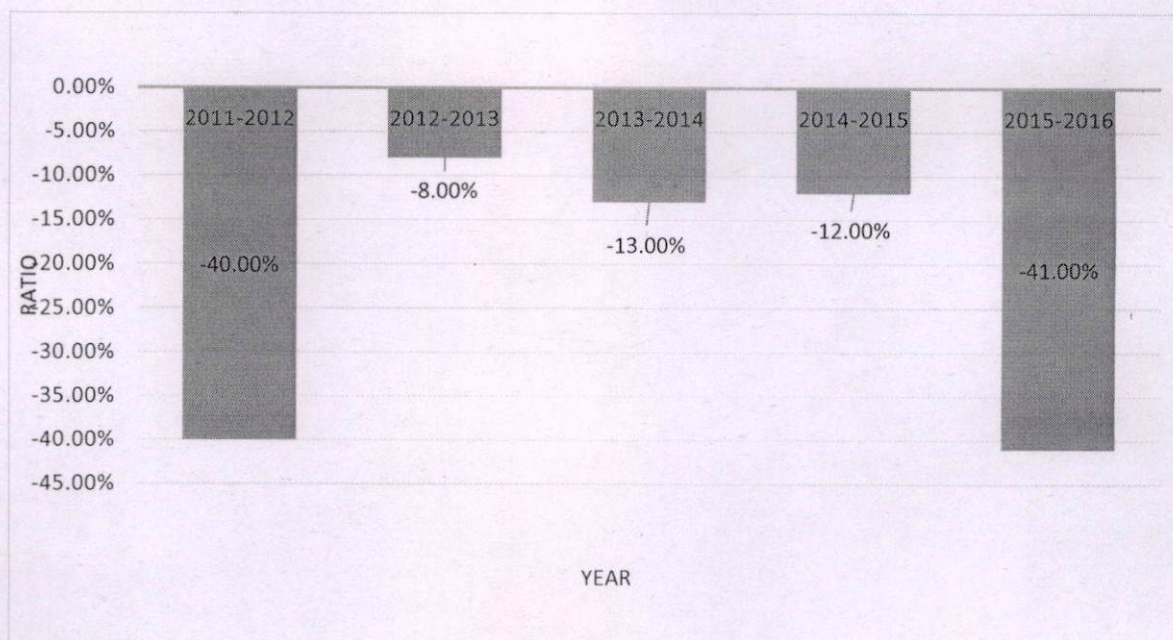
Gross Profit Ratio is a profitability ratio that shows the relationship between gross profit and net sales revenue. It is a popular tool to evaluate the operational performance of the business.

<p>Gross Profit Ratio= $\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$</p> <p>Gross Profit = Sales – Cost of Goods Sold</p> <p>Net Sales = Gross Sales- Sales Returns</p>
--

Table 5.1.3.1 Gross Profit Ratio

Year	Gross profit	Net sales	Gross profit ratio
2011-2012	(114,896,009)	287,567,326	-0.40
2012-2013	(37,337,875.34)	466,951,888.88	-0.08
2013-2014	(62,861,697.94)	494,094,227	-0.13
2014-2015	(69,722,134.56)	57,93,28,233	-0.12
2015-2016	(196,953,052.1)	47,85,25,116	-0.41

Graph 5.1.3.1 Gross Profit Ratio

**Interpretation:**

The figure shows negative trend in gross profit ratio. So, the company's overall financial performance was poor during the past five years. And it was difficult to cover all operating expenses due to the negative trend in gross profit.

5.1.3.2 Net Profit Ratio

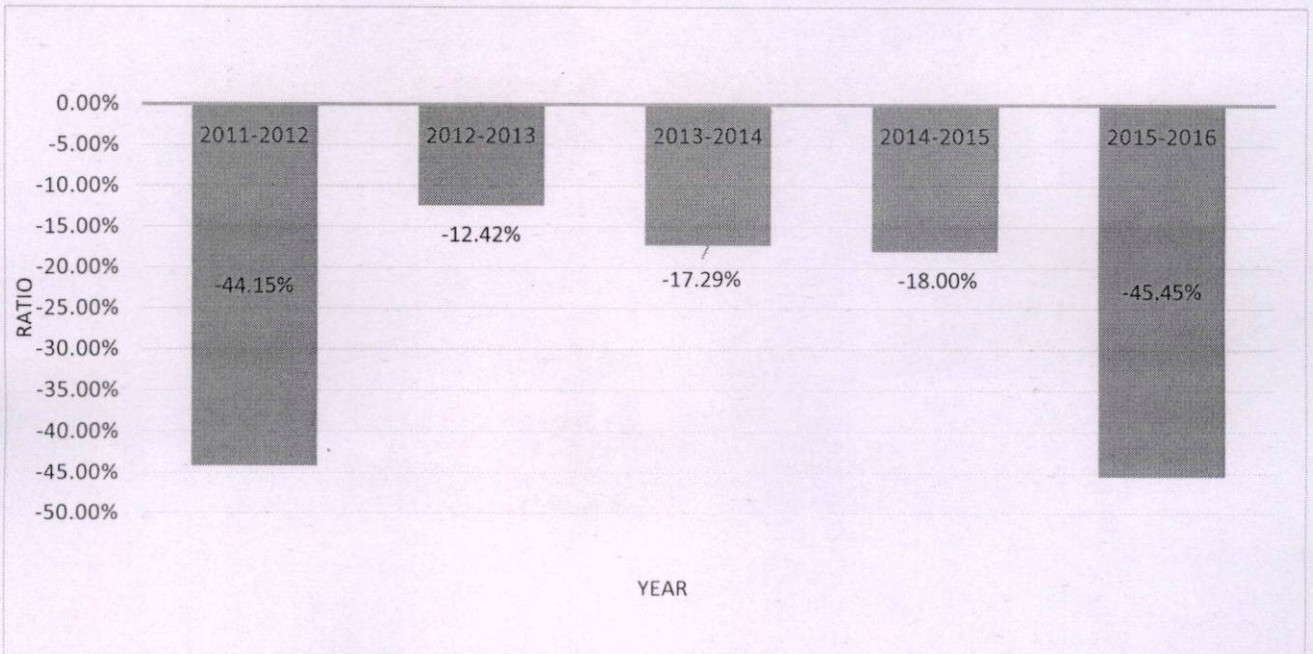
Net Profit Ratio reveals the firm's overall efficiency in operating the business. This is the best measure of profitability and liquidity. It facilitates to take managerial decision.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit After Tax}}{\text{Net Sales}} * 100$$

Table 5.1.3.2 Net Profit Ratio

Year	Net Profit	Net Sales	Net Profit Ratio
2011-2012	(126,950,184.91)	287,567,326	-44.15
2012-2013	(57,999,598.44)	466,951,888.88	-12.42
2013-2014	(85,466,535.29)	494,094,227	-17.29
2014-2015	(10,35,67,244.15)	57,93,28,233	-18
2015-2016	(21,74,90,243.39)	47,85,25,116	-45.45

Graph 5.1.3.2 Net Profit Ratio



Interpretation:

The net profit ratio shows very poor result. According to the study, the company was suffering huge loss since the last five years.

5.1.3.3 Operating Profit Ratio

Operating Profit Ratio indicates the operational efficiency of the firm and also measures the firm's ability to cover the total operating expenses.

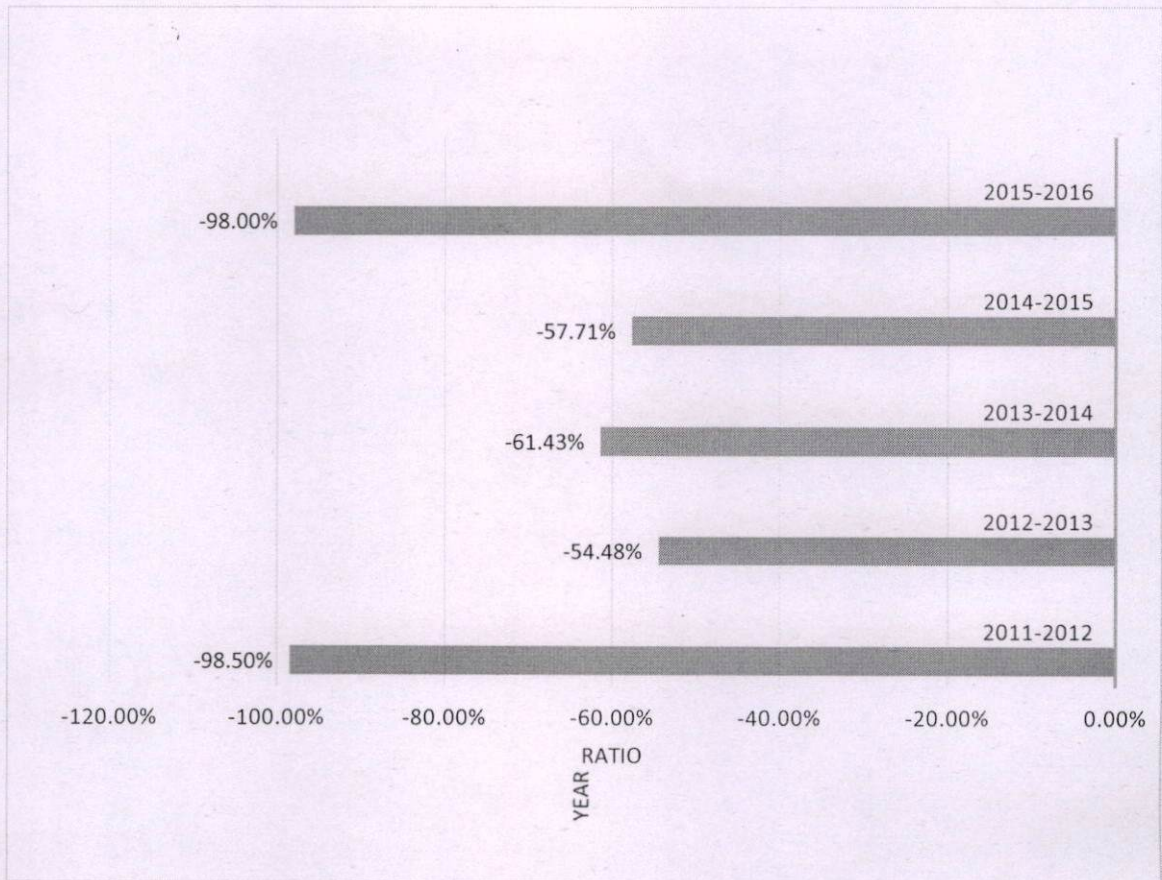
$$\text{Operating Profit Ratio} = (\text{Operating Profit} / \text{Net Sales}) \times 100$$

$$\text{Operating Profit} = \text{Net Sales} - \text{Operating Expenses}$$

Table 5.1.3.3 Operating Profit Ratio

Year	Operating profit	Net Sales	Operating profit Ratio
2011-2012	(282,820,626.2)	287,567,326	(98.35)
2012-2013	(254,407,501)	466,951,888.88	(54.48)
2013-2014	(303,542,581)	494,094,227	(61.43)
2014-2015	(334,329,291.7)	57,93,28,233	(57.71)
2015-2016	(468,824,720.9)	47,85,25,116	(98)

Graph 5.1.3.3 Operating Profit Ratio



Interpretation:

It is a measure of operating efficiency of a business. The above graph indicates that the operating profit ratio was showing a decreasing trend. The gross profit ratio and net profit ratio are also showing negative trend. So, it was a risky situation for the firm.

5.1.3.4 Return on Investment Ratio

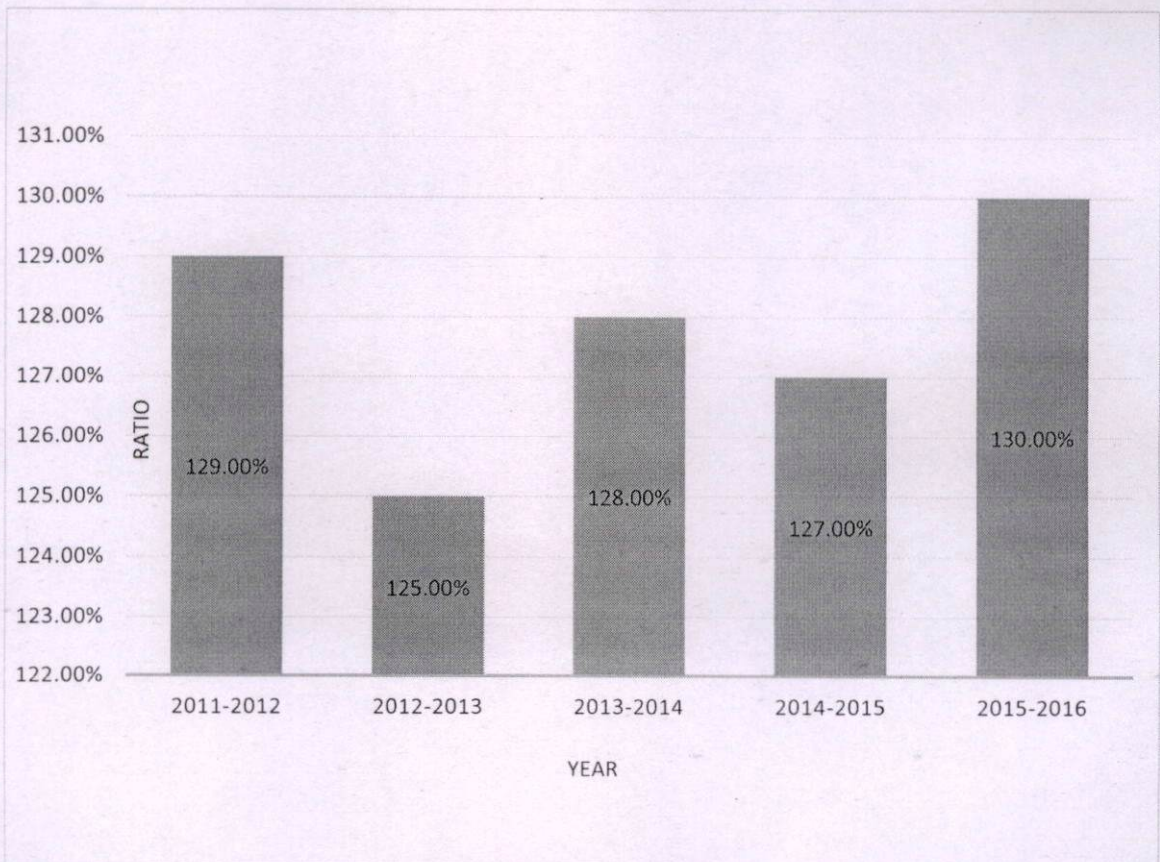
Return On Investment measures a return on the owners or shareholders' investment. This ratio establishes the relationship between net profit after interest and taxes and the owner's investment. The ratio highlights the business from the owner's point of view.

$$\text{Return On Investment Ratio} = \text{Net Profit (After Interest \& Tax)} / \text{Shareholders' Fund} \times 100$$

Table 5.1.3.4 Return on Investment Ratio

Year	Net Profit	Shareholders Fund	Ratio (%)
2011-2012	371,625,269.9	287,567,326	129
2012-2013	584,892,654.1	466,951,888.88	125
2013-2014	632,545,378.8	494,094,227	128
2014-2015	735,456,490.2	57,93,28,233	127
2015-2016	624,622,693	47,85,25,116	130

Graph 5.1.3.4 Return On Investment Ratio



Interpretation:

In all the five years, the percentage value of return on investment ratio was greater than 100. This shows that company's operating expenses were very high compared to the total revenue of the company. This had affected the returns of the shareholder's fund.

5.1.4 Activity Ratio

Activity or turnover ratios indicate the efficiency of management in the use of resources, both short-term and long term. The overall performance of a company is evaluated on the basis of its ability to make sales using minimum resources. Turnover ratios reflect the speed at which assets are utilised with respect to sales. A higher turnover ratio means efficient use of funds by the management in generating more sales.

5.1.4.1 Working Capital Turnover Ratio

Working capital turnover ratio indicates the number of times working capital is turned over during a year. It also shows the efficiency of the management in the use of current or short-term resources of a firm. It is calculated by the formula given below:

Working Capital Turnover Ratio = Net Sales / Working Capital

Where,

Net Sales = Gross Sales – Sales Returns

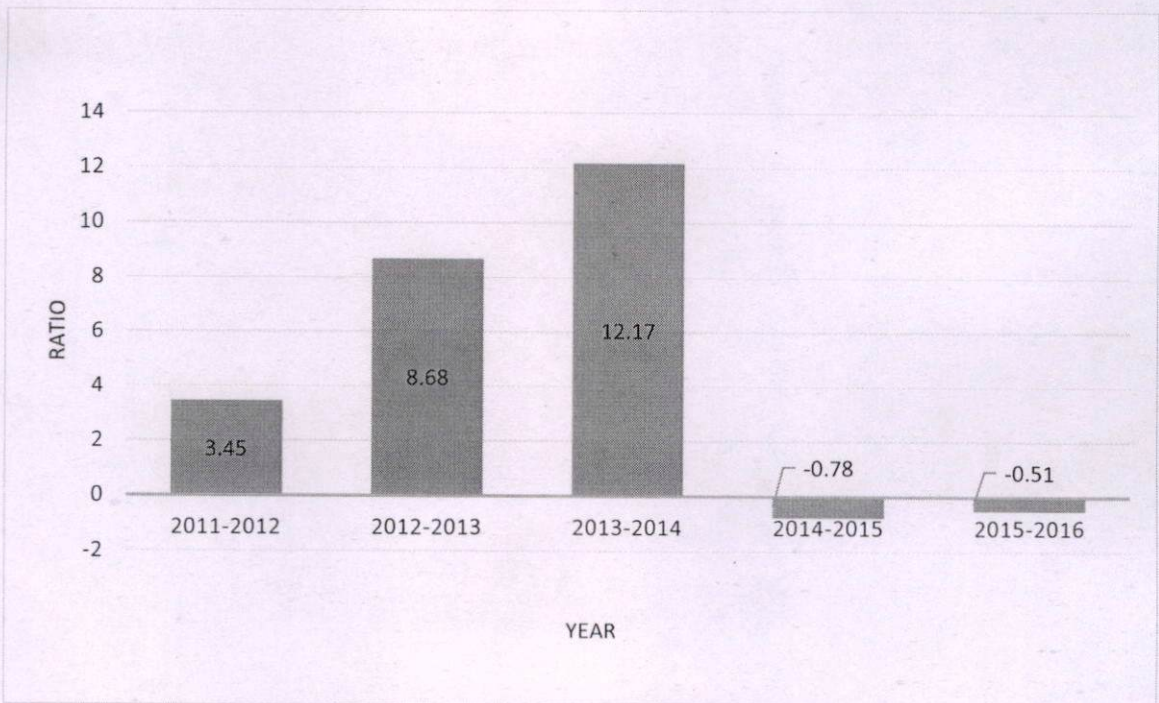
Working Capital = Current Assets – Current Liabilities

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Table 5.1.4.1 Working Capital Turnover Ratio

Year	Net Sales	Working Capital	Working Capital Turnover Ratio
2011-2012	287,567,326	83,278,187.51	3.45
2012-2013	466,951,888.88	53,807,151.57	8.68
2013-2014	494,094,227	40,596,173.2	12.17
2014-2015	57,93,28,233	(739,601,361.8)	-0.78
2015-2016	47,85,25,116	(933,848,673.5)	-0.51

Graph 5.1.4.1 Working Capital Turnover Ratio



Interpretation:

A high ratio indicates faster turnover or greater efficiency in the use of working capital. The ratio showed an increasing trend from the year 2012 to 2014. But in the last two years, the ratio showed a decreasing trend. It infers that there was a greater efficiency in respect to the financial performance of the company during 2012 to 2014. In the last two years, it showed a redundancy in working capital or a position of 'under trading'.

5.1.4.2 Inventory Turnover Ratio

Inventory Turnover Ratio indicates the number of times the stock has been turned over in business during a particular period.

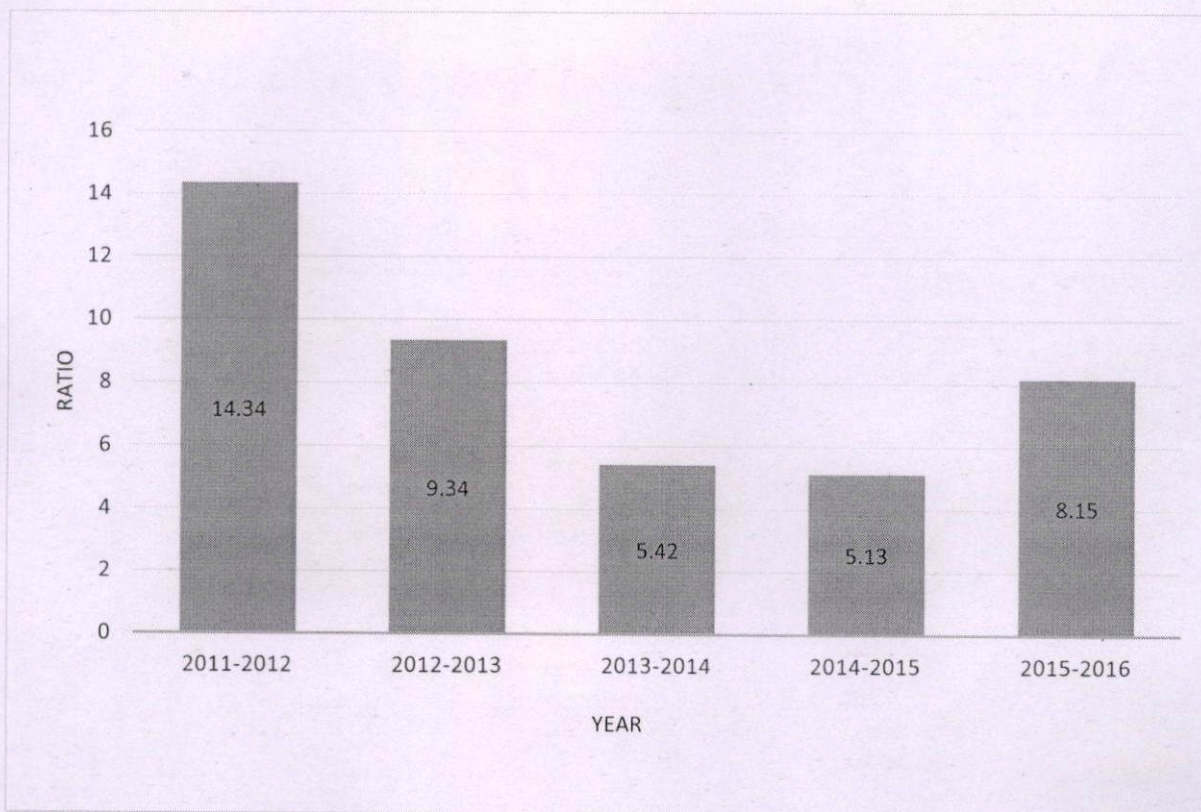
$$\text{Inventory Turnover Ratio} = \text{Cost of Goods Sold} / \text{Average Inventory}$$

$$\text{Cost Of Goods Sold} = (\text{Opening Stock} + \text{Purchases}) - \text{Closing Stock}$$

Table 5.1.4.2 Inventory Turnover Ratio

Year	COGS	Average stock	Inventory Turnover Ratio
2011-2012	402,463,335	28,064,649.63	14.34
2012-2013	504,289,764.1	53,975,063	9.34
2013-2014	556,955,924.9	102,791,853	5.42
2014-2015	649,050,367.6	126,612,906.5	5.13
2015-2016	675,478,168.1	82,898,598	8.15

Graph 5.1.4.2 Inventory Turnover Ratio



Interpretation:

The inventory turnover ratio was fluctuating since last five years. A high turnover ratio, say, 6 to 8 times indicates better efficiency in sales. The company had better efficiency in sales in the years 2011 and 2012. But in the years 2013 and 2014, the ratio value showed below 6 which means the company had inefficiency in sales during these years. But in the year 2015, the value came above 8 which indicates that the company was back in the efficient track.

5.1.4.3 Total assets Turnover Ratio

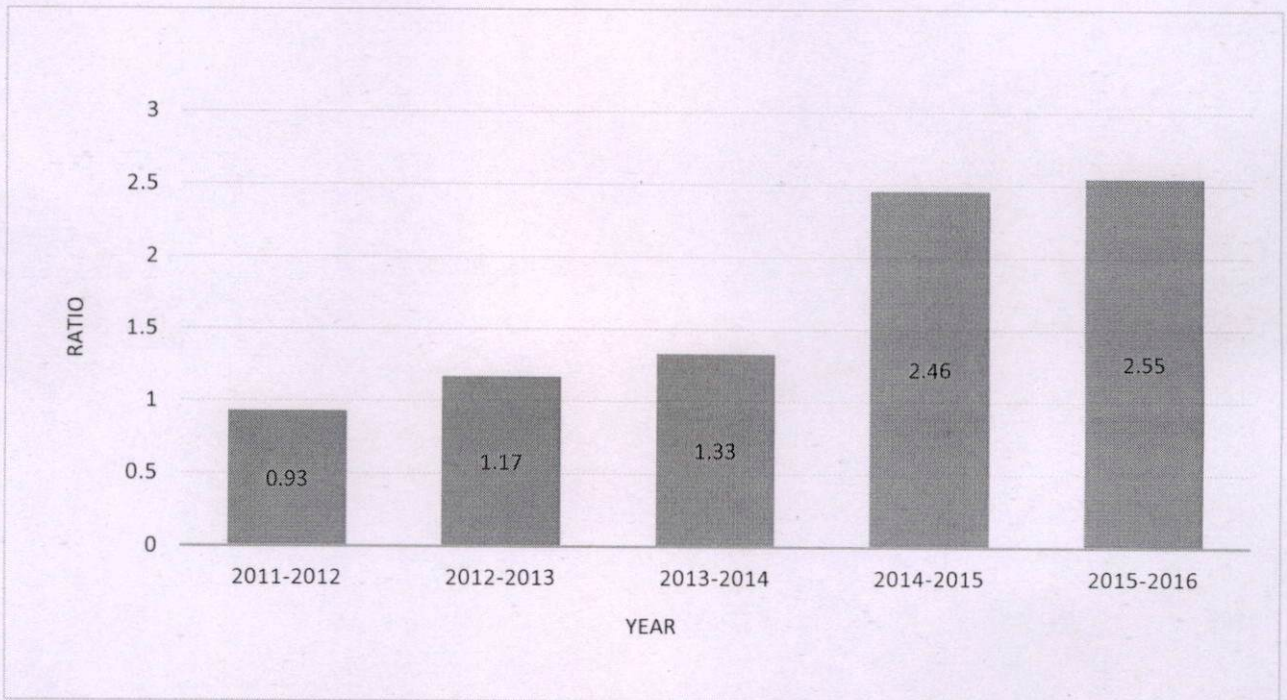
Total Asset Turnover Ratio is a metric that measures sales to the value of fixed assets. It measures how well a company uses its fixed assets to generate sales.

$$\text{Total assets Turnover Ratio} = \text{Net Sales} / \text{Total Assets}$$

Table 5.1.4.3 Total Asset Turnover Ratio

Year	Net Sales	Net Fixed Assets	Fixed Asset Turnover Ratio
2011-2012	287,567,326	308,202,583	0.93
2012-2013	466,951,888.88	272,540,014.87	1.71
2013-2014	494,094,227	371,246,547.82	1.33
2014-2015	57,93,28,233	23,59,71,993.87	2.46
2015-2016	47,85,25,116	18,75,55,162.18	2.55

Graph 5.1.4.3 Total Asset Turnover Ratio



Interpretation:

The value of the ratio was showing an increasing trend in every year. In 2012, the ratio was too low and the ratio from the year 2013 to 2016 was satisfactory to the company. It means that the total assets turnover ratio showed better efficiency in managing and utilizing the assets by the company management.

5.2 Comparative Balance Sheet Analysis



Table 5.2.1 Comparative Balance Sheet as on 2011-2012

Particulars	2011	2012	Absolute Change	%
ASSETS				
CURRENT ASSETS				
Inventories	20426077.19	63491546.3	43065469.11	210.83
Cash and bank	6871145.01	4856140.63	-2015004.38	-29.2
Trade receivables	9013327.12	4999367.17	-4013959.95	-44.53
Other current assets	7058151.64	4660902	-2397249.64	-33.96
Short term loans	3917430.67	2349048.35	-1568382.32	-40.03
Other units current A/C	48336563.14	55247239.06	6910675.92	14.29
TOTAL CURRENT ASSETS	95622694.77	135604243.5	39981548.74	41.81
FIXED ASSETS	151201666.7	172598304.5	2139667.81	14.15
TOTAL	246824361.4	308202548	61378186.55	24.86
LIABILITIES & CAPITAL				
Current liabilities	19184056.85	52326091.99	33142035.14	172.75
Share capital	11446000	11446000	0	0
Reserve & surplus	-308757181.1	-435707366	-126950184.9	41.11
Non-current liabilities	524951485.7	680137858	155186372.3	29.56
TOTAL	246824361.4	308202584	61378222.55	24.86

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Table 5.2.2 Comparative Balance Sheet as on 2012-2013

PARTICULARS	2012	2013	ABSOLUTE CHANGE	%
ASSETS				
CURRENT ASSETS				
Inventories	63491546.3	73067640.23	9618074.07	15.15
Cash and bank	4856140.63	141791.01	-4714349.62	97.08
Trade receivables	4999367.17	1408991.17	9090024	181.82
Other current assets	4660902	4847368.98	186466.98	4.00
Short term loans	2349048.35	2043211.1	-305837.25	13.09
Other units current A/C	55247239.06	0	-55247239.06	
Inter unit current A/C	0	13872163.31	13872163.31	100
TOTAL CURRENT ASSETS	135604243.5	108061565.80	27542677.7	34.53
FIXED ASSETS	172598304.5	164478449.1	-7455238.67	4.33
TOTAL	308202548	272540014.9	-5662533.1	8.03
LIABILITIES & CAPITAL				
Current liabilities	52326091.99	54254414.23	1928322.24	3.68
Share capital	11446000	11446000	0	
Reserve & surplus	-435707366	-494413561.3	-57999598.44	13.29
Non-current liabilities	680137858	70125161.9	-610012696.1	12.21
TOTAL	308202584	272540014.9	-35662569.09	8.03

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Table 5.2.3 Comparative Balance Sheet as on 2013-2014

PARTICULARS	2013	2014	ABSOLUTE CHANGE	%
ASSETS				
CURRENT ASSETS				
Inventories	73067640.23	166752569.7	93684929.47	128.21
Cash and bank	141791.01	245397.01	103606	73.06
Trade receivables	14089391.17	22709572.01	8620180.84	61.18
Other current assets	4847368.98	1490639.98	-3356729	-69.24
Short term loans	2043211.1	2397265.25	354054.15	17.32
Other units current A/C	0			
Inter unit current A/C	13872163.31		-13872163.3	-100
TOTAL CURRENT ASSETS	108061565.80	193595444	85533878.2	79
FIXED ASSETS	164478449.1	177651103.8	13172654.7	8
TOTAL	272540014.9	371246547.8	9870652.9	3.62
LIABILITIES & CAPITAL				
Current liabilities	54254414.23	152999270.8	98744856.57	182.00
Share capital	11446000	11446000	-	
Reserve & surplus	-494413561.3	-579880096.6	-85466534.7	17.28
Non-current liabilities	70125161.9	786681373.6	71655621.1	12.18
TOTAL	272540014.9	371246547.8	98706532.9	36.21

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Table 5.2.4 Comparative Balance Sheet as on 2014-2015

PARTICULARS	2014	2015	ABSOLUTE CHANGE	%
ASSETS				
CURRENT ASSETS				
Inventories	166752569.7	119815879.8	-46936689.97	-28.14
Cash and bank	245397.01	86,27,312.06	8381915.05	97.15
Trade receivables	22709572.01	17650965.01	-5058607	-22.27
Other current assets	1490639.98	1854237.98	363598	24.39
Short term loans	2397265.25	2249848.57	-147416.68	-6.14
Other units current A/C				
Inter unit current A/C				
TOTAL CURRENT ASSETS	193595444	1501,98,243.38	-43397200.6	-22.70
FIXED ASSETS	177651103.8	85773750.49	-32867216.35	-27.70
TOTAL	371246547.8	2359,71,993.87	-76264416.95	-24.42
LIABILITIES & CAPITAL				
Current liabilities	152999270.8	890529427.7	29259909.32	3.39
Share capital	11446000		-11446000	-100
Reserve & surplus	-579880096.6	-684917917.9	-10507821.3	18.11
Non-current liabilities	786681373.6	30360484	-486505	-1.5
TOTAL	371246547.8	235971993.9	-76264416.95	- 24.42

Table 5.2.5 Comparative Balance Sheet as on 2015-2016

PARTICULARS	2015	2016	ABSOLUTE CHANGE	%
ASSETS				
CURRENT ASSETS				
Inventories	119815879.8	86545308.35	-33270571.41	-27.76
Cash and bank	86,27,312.06	8188880.01	-438432.05	-5.08
Trade receivables	17650965.01	17503233.5	-147731.51	-0.83
Other current assets	1854237.98	1901532.98	47295	2.55
Short term loans	2249848.57	3290933.73	1041085.16	46.27
Other units current A/C				
Inter unit current A/C				
TOTAL CURRENT ASSETS	1501,98,243.3	117429888.6	-32768354.81	-21.81
FIXED ASSETS	85773750.49	70125273.61	-15648476.88	-18.24
TOTAL	2359,71,993.8	187555162.2	-48416831.69	-20.51
LIABILITIES & CAPITAL				
Current liabilities	890529427.7	1051278562	160749134.7	18.05
Share capital				
Reserve & surplus	-684917917.9	-902408161.3	-217490243.4	31.75
Non-current liabilities	30360484	38684761	8324277	27.41
TOTAL	235971993.9	187555162.2	-48416831.69	- 20.51

Interpretation

An analysis of comparative balance sheet showed the negative trend in shareholder's funds, which has affected the company's financial position during the last five years. This was reflected in the profitability of the company. And increase in firm's current liabilities indicates that the firm's funds utilisation was not in a good manner.

5.3 Trend analysis

Trend Analysis is a horizontal analysis. It is an aspect of technical analysis that tries to predict the future movement of a stock based on past data. It is based on the idea that what has happened in the past gives traders an idea of what will happen in the future. A glimpse of the table depicting the trend analysis of balance sheet for the years 2012 – 2016 gives the following interpretations.

Interpretation

1. Shareholders fund showed a decreasing trend.
2. In the last two years' non-current liabilities trend was very low. It was a good sign for the company. In the remaining years it was very high which was beneficial for the company.
3. Current liabilities were showing an increasing trend, which was not good for the company.
4. Current assets show decreasing trend. So it will adversely affect the financial position of the company.

5.3 Trend analysis

Table 5.3.1 Trend analysis of balance sheet for the years 2012-2016

Particulars	2012		2013		2014		2015		2016	
	(Amount)	(%)	(Amount)	(%)	(Amount)	(%)	(Amount)	(%)	(Amount)	(%)
Shareholders' funds	-424,261,366	100	-482,967,561	-114	-568,434,096	-134	-68,41,88,095	-161	-90,24,08,16	-213
Non-current assets	680,137,858	100	701,253,162	103	786,681,374	116	3,03,60,484	4	3,86,84,761	6
Current liabilities	52,326,092	100	54,254,414	104	152,999,270	292	88,97,99,605	1700	1,05,12,78,562	2009
Total Liabilities	308,202,584	100	272,540,015	88	371,246,548	120	23,59,71,994	77	18,75,55,162	61
Non-current assets	172,598,304	100	164,478,449	95	177,651,104	103	8,57,73,750	50	7,01,25,274	41
Current assets	135,604,279	100	108,061,565	80	193,595,443	143	15,01,98,243	111	11,74,29,888	87
Total Assets	308,202,583	100	272,540,015	88	371,246,547	120	23,59,71,993	77	18,75,55,162	61

***VI. SUMMARY OF FINDINGS, SUGGESTION,
& CONCLUSION***

Chapter 6

Summary of Findings, Suggestions and Conclusion

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis.

This study was conducted to know whether the financial performance of the Lakshmi Cotton Mill, Pullazhy, Thrissur is satisfactory or not with the help of balance sheet, and profit and loss account from 2011 to 2016 by using ratio analysis and comparative income statements. The study highlights on various aspects such as the firm's efficiency in mobilization of funds, and operational efficiency.

The present study examines the financial statement and analyses the overall performance of the firm by understanding the solvency and liquidity position, which will give a vivid picture about the financial status of the company taken for the study. The findings of the study would help the company to improve its financial position by plugging the loopholes that lead to financial losses.

The study was based on the following objectives

1. To analyse the financial statements of the company by using financial tools
2. To analyse the financial trend over a period of 5 years from 2011 to 2016
3. To evaluate the financial position of the company in terms of solvency, profitability, activity and earnings ratios.
4. To suggest measures in the existing system of the company for improving the financial performance

The major findings and suggestions have been comprised in this chapter.

6.1 Findings

1. The standard of current ratio is 2:1. The current ratio of the company during the first year was above the standard ratio. This indicates that the company was in a good position to meet its short-term debts, but in 2013-14 it showed a decreasing trend due to the increase in the current liability. In 2015-16, the financial position of the company was in a very poor situation.
2. The company had better efficiency in sales in the years 2012 and 2013. But from 2014 to 2016, the ratio was less than 5; which means the company was inefficient in either sales or keeping too much finished goods in stock.
3. The standard liquid ratio is 1:1. This ratio measures the debt paying ability of the business enterprise. If the ratio is more than 1:1, the financial position is said to be good. If the ratio is less than the standard form, then the financial position is unsound. The ratio was less than 1:1 for the last five years which indicates that the liquidity position of the company was in a decline trend. This means that the firm will not be able to pay off its current liabilities when they become due.
4. The standard norm of the absolute liquid ratio is 0.5:1. The ratio was less than the standard norm in the last four years due to the effect of current liability. This indicates that the company's liquidity position was not good.
5. The standard debt equity ratio is 2:1. The year 2012-2016 shareholders' funds showed a negative trend and borrowed fund was in increasing trend. So, the ratio became negative in all years. It is a very risky situation adversely affecting the firm.
6. The standard proprietary ratio is generally 0.5:1. A high ratio indicates better safety to creditors since the firm is largely depending on shareholder's funds. Here, ratio showed negative trend due to negative value in shareholder's fund during the last five years (1.27, 1.77, 1.55, 3.08, and 4.81 respectively).
7. Total assets turnover ratio indicated better efficiency of management in utilizing the assets. In 2012, the ratio was too low (0.93) and from 2013 to 2016, it was satisfactory showing an increasing trend (1.72, 1.33, 2.46, and 2.55 respectively).

8. The profitability ratio showed a decreasing trend due to the high level of increase in operating expenses. It affects gross profit, net profits, operating profits of the company.
9. Working capital ratios showed that the company was not using it efficiently.
10. Trend analysis is a horizontal analysis. It is based on the idea that what has happened in the past and gives the trader an idea of what will happen in the future. Here shareholders' fund showed a decreasing trend. Current liabilities are increasing in a high proportion which is not good for the company. Current assets show decreasing trend. So, it will adversely affect the financial position of the company.

6.2 Suggestions

1. Maintain current assets and liabilities in a balanced manner.
2. Reduce selling and manufacturing expense; it helps to enhance the profitability.
3. Increase the price of yarn according to the market price. Maintain the price higher than the cost of production.
4. Minimize the employee expense according to the productivity.
5. Enhance marketing of products; it helps to increase the sale of products and it will lead to profitability of the firm.
6. Reduce the operating expenses.
7. The company should give more focus in cost area.
8. They should give more attention for the following items
 - Machine capacity
 - Material cost
 - Production schedules
 - Wage system
 - Budgeting

6.3 Conclusion

Cotton textile industry plays an important role in the economy of our country. It provides income and employment to larger number of people. Large scale industries in India deserve active support of the government because of the urban nature of the country. The Kerala Lakshmi Mill Ltd. at Pullazhy, Thrissur unit has been working not satisfactory. The financial performance of the firm is not good. Based on the financial analysis and subsequent findings, we can conclude that the liquidity, solvency and profitability positions of the firm are very weak. The study helps to find what are the reasons behind the losses and how we can manage it.

It is concluded that the performance of Kerala Lakshmi Mill is not well. The way to make more profit in future is to concentrate on the high-volume sale and also providing good services to their customers.

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APPENDIX

Income Statement of Kerala Lakshmi Mills, Thrissur

Particulars	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Net Sales	90291141.03	103845835.70	112477134.40	136105827.70	157252323.80
Less: Cost of Goods Sold					
Material Consumed	407524230.8	434017638.85	503641007.82	585376606.48	68003622.96
Changes In Inventories of Finished Goods And WIP	5 (893306.80)	(435692.71)	(4842558.83)	1449636.19	1763891.20
Direct Expenses					
Firewood	5041547.00	5690640.16	5975330.00	5546468.61	5849630.70
Carriage Inward	22093.00	48791.00	43570.00	59036.00	67948.50
Factory Lighting	776510.00	1145656.00	1553491.86	802938.06	1045718.76
Freight Charges	84248.00	96647.00	151891.00	337065.00	396549.00
Manufacturing Expenses	868384.00	975628.00	1109301.00	1188064.00	1216348.75
Total	46651899.05	50923433.30	54355125.85	67920814.34	78343709.87
Gross profit/ loss	(130815262)	(55689400)	(83395336)	(10236548)	(217123180)
Less: Office & Administrative Expenses					
Salary & Allowances	11219480.00	13433116.00	158 47192.00	20423991.00	24359960.16
Stipend	1627500.00	1135950.00	70425.00	146950.00	1376900.00
Staff Welfare Expenses	479275.00	692812.05	1206006.39	2215574.60	2541690.00
Overtime & Casual					
Wages	228723.00	208369.00	493242.00	389878.00	456298.00
Deposit Linked					
Insurance	54386.00	45262.00	51389.00	76292.00	85482.00
Honorarium	1472750.00	1593240.00	1592980.00	1662000.00	1783253.68
Gratuity	96895.00	2025797.00	2043835.00	2229172.00	2387492.36
Bonus & Benefits	3008145.00	4082731.00	5022929.00	4909869.00	5176377.50
Total Man Power Cost:	18187154.00	23217277.50	26327998.39	32053726.60	38167453.70
Vehicle Expenses	455533.00	596317.00	705882.62	838027.72	896387.71
Travelling Expenses	1173270.00	1536917.00	2005184.00	2190570.48	2114862.75
Printing & Stationary	309690.00	533882.00	582536.00	787984.00	868775.00
Repair & Maintenance	1687422.00	2286202.00	1575337.00	2466928.00	2474694.00
Auditors Fee	65000.00	75000.00	85000.00	100000.00	125000.00
Postage & Telephone	510133.00	631981.00	828820.35	497644.05	686371.00
Taxes & Licenses	171768.00	139918.00	243169.00	231449.00	220487.00
Rent, Light & Water	262634.00	279289.00	362308.00	326380.00	387707.00
VAT Expenses	1798.98	100127.16	72106.09	2912.06	50387.50
Professional Fee	16030.00	77600.00	70250.00	41100.00	75630.00
Courier Charges	338613.00	429682.00	403812.00	173283.00	342560.00
Fire Insurance	43073.00	43855.00	118955.00	118841.00	119372.00

Bad Debts Written Off	3672.00	91110.93	32774.00	7641.30	6357.45
Depreciation & Amortization Expenses	1987870.00	2046753.00	2017236.00	2144946.80	2245378.90
Depot Expenses	1226780.62	1339009.20	1557129.37	1997262.75	2145876.75
Total:	26440441.60	33424920.79	36988497.82	43978696.76	50927300.76
Less: selling expenses					
Carriage outwards	1018459.00	1291097.00	1400731.00	2009730.00	2110389.00
Advertisement expenses	1404912.00	1063113.00	1283689.00	1012047.00	1183417.00
Sales promotion	924115.30	257590.00	429033.00	290268.00	395768.00
Discount & commission	199532.00	1976633.50	3562779.00	4835084.29	4978850.00
Total:	3547018.30	4588433.50	6676232.00	8147129.29	8668424.00
Total expenses :	29987459.90	38013354.29	43664729.82	52125826.05	59595724.76
Net operating profit	(282820626. 2)	(254407501)	(303542581)	(33429291)	(468824720.9)
Less : finance cost	1990198.85	1263039.86	514116.87	435796.59	956138.20
Net profit before tax	11661583.23	13646008.25	13943161.86	15623390.72	18356750.97
Less: tax expenses	3438297.78	4186484.22	4189688.99	4861033.63	5628817.26
Net profit	(126950184)	(57999598.4)	(85466535.2)	(103567244.5)	(217490243)

Summarized Balance Sheet of Kerala Lakshmi Mills, Thrissur

Particulars	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Current Assets:					
Closing Stock	6349154.30	73067640.23	166752569.7	119815879.7	86545308.35
Trade Receivables	4999367.17	14089391.17	22709572	17650965.01	175032333
Cash & Cash Equivalence	4856140.63	141,791.01	254397.01	8627312.06	8188880
Short Term Loans & Advances	2349084.35	2043211.10	2397265.25	2249848.57	3290933
Other current assets	59908141.06	487368.98	1490639.98	1854237.98	1901532.98
Non-Current Assets					
Fixed Assets	122990451.2	108274320	71416151	102478310.1	52605154.3
Tangible assets	1504405.06	11306240.54	4679885	1645997	1808067
Capital work in progress	48006697	47342080.42	9677714	4838945.33	6034338.24
deferred tax assets (net)				9677714.00	9677714
Other Current Assets	96751.00				
Other Non-Current Assets					
Total Assets	308202583.9	246824361.4	312236410.8	235971993.8	187555162
Current Liabilities:					
Short Term Borrowings	5491173.79		3671805.14	5799714	3494840
Trade Payables	23454353.54	33885568.55	65251314.8	39172451	62669708
Other Current Liability	13659746.9	16368900.4	8330234.34	9764497	11187992
Sundry Provisions	11649140	2071625	6477021.0	6365577	573442
Non-Current Liability					
Long Term Borrowings	670108841.9	588359807.9	30846989.00	30360484	38684761
Tax Liability					
Other Liability	31144320	36540875			
Equity:					
Share Capital	11446000	11446000			
Reserves & Surplus	[497413516.]	[426413962]	[579880096.]	[684188095]	[902408161.]
Total Liabilities	308202583.9	246824361.4	312236410.8	235971993.8	187555162

