RATIO ANALYSIS IN KOTHARI SUGARS AND CHEMICALS LTD, SATHAMANGALAM- A STUDY

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ABSTRACT

This paper is aiming at analyzing the cost of capital assessment performance of the company for the period of 5 years from 2014-2015 to 2018 -2020. The tools are used in this study for the Profitability ratio, Activity/ turnover ratio, Liquidity ratio, Capital structure ratio, such as, a personal talk with the Finance and Accounting Department has been made. The discussion has helped a lot in the analysis of cost include in Financial Management and Ratio Analysis is general.

Key words: *Capital structure, Ratio analysis, Profitability*

INTRODUCTION

Kothari Sugars And Chemicals Limited is one of the earliest sugar factories to be set up in the state of Tamil Nadu. The company was established in 1961 and its foundation stone was laid by the then Chief Minister of Tamil Nadu ‘Mr. Perunthalaivar Kamarajar’ and was inaugurated by the then Union Minister for Food and Agriculture ‘Mr. SK Patel’. Our Kattur unit, located in Kattur Village is about 30 km from Trichy and 6 km from Lalgudi railway station. In addition to sugar mill, this unit also has facilities for Co-generation of power from bagasse, Distillery unit to produce Anhydrous Alcohol, Extra Neutral Alcohol & Rectified Spirit from Molasses and Bio-compost (Organic Manure) with press-mud and distillery effluent. Their second unit is located in Sathamangalam Village of Ariyalur District which is about 50 km from Trichy and also near to Ariyalur and Thanjavur Railway stations. This unit was commissioned in 2007 with sugar and co-generation plants. Being agro-based, KSCL has been playing a significant role in rural development. The company’s contribution to the welfare of villages and the social obligations it has taken upon itself are many and varied. Assistance to cane growers in various ways is a mark of the understanding and goodwill which has always been in evidence. Since 1973, the HCK group has been running a primary school in the premises of its Kattur Sugar factory.

STATEMENT OF THE PROBLEM

Financial ratios provide useful analysis and can help drive management toward making better decision if they are interpreted correctly.

OBJECTIVE OF THE STUDY

- To measure short and long term financing position and profitability of the Kothari sugars and chemicals Ltd.
- To indicate the efficiency of the Kothari sugars and chemicals Ltd.
- To know the operational efficiency of the management in Kothari sugars and chemicals Ltd.

SCOPE OF THE STUDY

The scope of the present study on composes within its fold a theoretical frame work of ratio analysis. In general, analysis of ratio trends shows relationship between current assets and current liabilities, inventory turnover period, capital turnover, debtor turnover period, return on capital employed. In addition to the study contains the analysis of financial soundness and growth of the firm in the term of liquidity solvency. To make the study as reliable in nature to the organization.

RESEARCH DESIGN

The published accounts of the company are the secondary source of data for the study. The duly audited annual report from 2014-2015to 2018-2019 provide the financial information of the company.

REVIEW OF LITERATURE

SANNAMALAM, EMILIE ROSSLUND (2013) in this study we are investing whether the bond-to-total debt ratio impacts firm’s performance. We are also asking if this relationship might differ during economic states of recession, due to the impacts of the latest financial crisis. Indicates that inventory does not remain in warehouse or on the shelves but rather turns over rapidly from the time of acquisition to sale.

SYED RAZA, SUNDASNAVEED (2014) Ageing population’s increasing ratio is alarming and the needs of elder person are increasing day by day. Fast increase in ageing population means the growing of chronic diseases as well. Diabetes type two is a chronic disease which commonly found in elder person.

KASPARSRINKEVICS (2015) Prioritization is essential part of requirements engineering, software release planning and may others software engineering disciplines. Cumulative Voting (CV) is known as relatively simple method for prioritizing requirements on a ratio scale.

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ANALYSIS AND DISCUSSION

GROSS PROFIT RATIO

This ratio expresses the relationship between gross profit and net sales of the firm. This ratio indicates the degree to which the selling price of goods per unit may decline without resulting in losses from operations to the firm.

TABLE: 1

Year	Gross profit (Gross Loss)	Net sales	Gross profit ratio %
2014-2015	225.31	824.57	27.32
2015-2016	227.81	880.85	25.86
2016-2017	833.84	493.03	169.1
2017-2018	146.37	268.44	54.52
2018-2019	339.30	341.44	99.37

Source: Secondary data

The table 1 dealt with the gross profit ratio from the year 2015 to 2019. In the year 2015 it decreased to (5.40) % again in 2015-2019 it decreased to 9.93%. Hence, the company has not earned profit, the company has to take necessary steps to increase its sales or reduce it cost (expenses).

NET PROFIT RATIO:

Net profit ratio indicates net margin earned on sales. Net profit Ratio expressed the relationships between the net profit and net sales. This ratio helps in determining the efficiency with which affairs of the business are being.

TABLE: 2

Year	Net profit after tax (Net Loss)	Net sales	Net profit ratio %
2014-2015	267.84	824.57	32.48
2015-2016	288.23	880.85	32.72
2016-2017	277.14	493.03	56.21
2017-2018	457.04	268.44	170.25
2018-2019	153.40	341.44	44.92

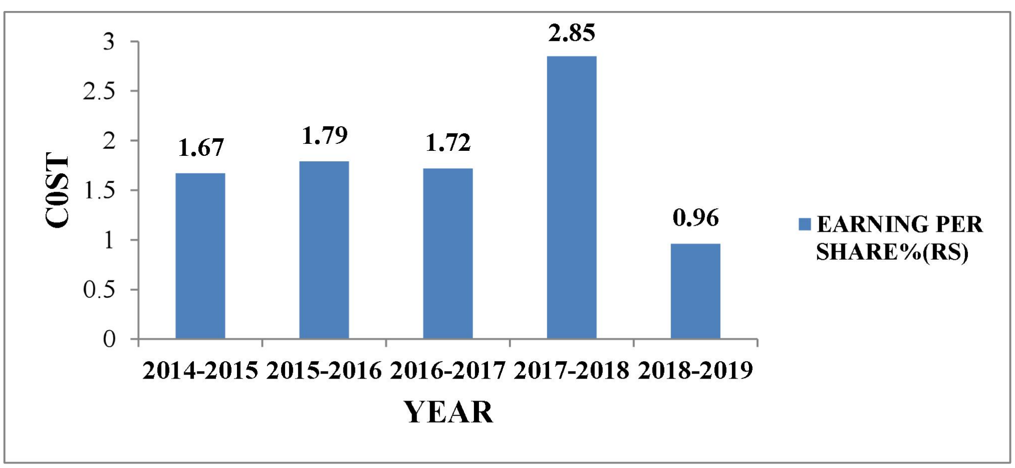
Source: Secondary data

The company has not earned profit for the five years; it indicates the poor administration capability of the concern. This ratio also indicates that firm's capacity to face adverse economic conditions such as price competition, lower demand etc. If the profit of the firm is not sufficient or the firm incurred loss, the firm shall not be able to achieve a satisfactory return on its investment.

EARNING PER SHARE:

Earnings Per Share highlights the overall success of the concern from owners point of view and it is helpful in determining market price of equity share.

CHART 1



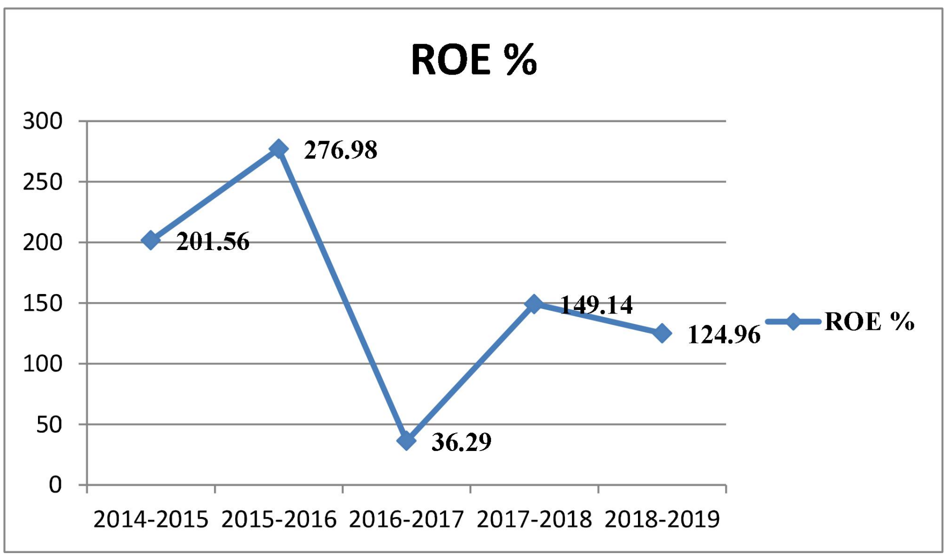
Source : Secondary data

This chart 1 reflects the capacity of the concern to pay dividend to its equity shareholders. The earnings per share of the firm is negative from the year 2015-2019. Comparatively it has heavy loss in the year 2015-19. Hence it degrades the reputation of the firm as well as interest of the shareholders of the company.

RETURN ON EQUITY:

In real sense, equity shareholders are the real owners of the company. They assume the highest risk in the company. Equity shareholders are getting residual claim after paying interest and performance dividend. Return on equity capital, which is the relationship between profits of a company and its equity capital, can be calculated as:

CHART -2



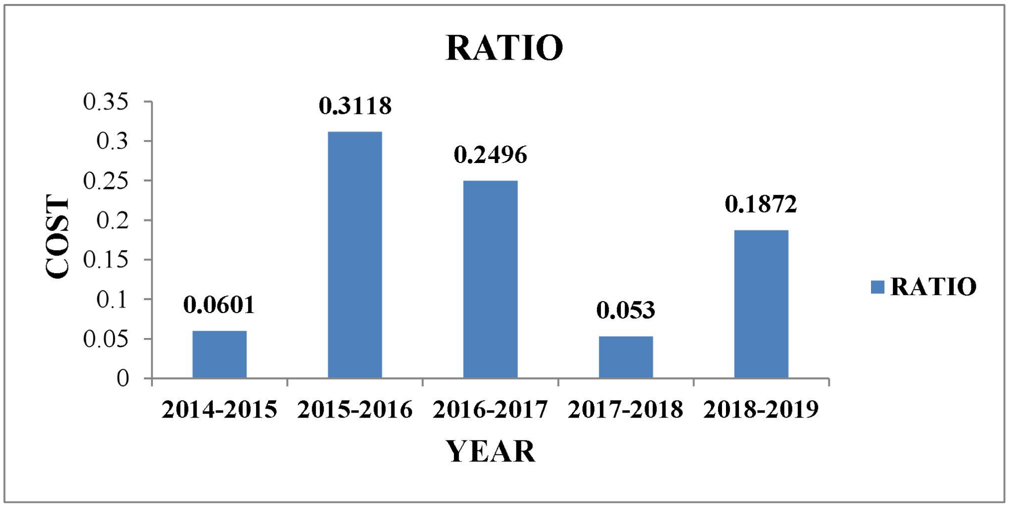
Source : secondary data

Here, the company has not earned profit, hence, the net loss erode the shareholders net worth year after year. The return on equity ratio has also showed increasing trend negative. The company's profitability position was not good.

RETURN ON INVESTMENT:

The Conventional approach of calculating return on investment is to divide PAT by investment. Investment represent pool of funds supplied by shareholders ad lenders, while PAT represent reside income of shareholders therefore it is conceptually unsound to use PAT in the calculation of ROI.

CHART 3



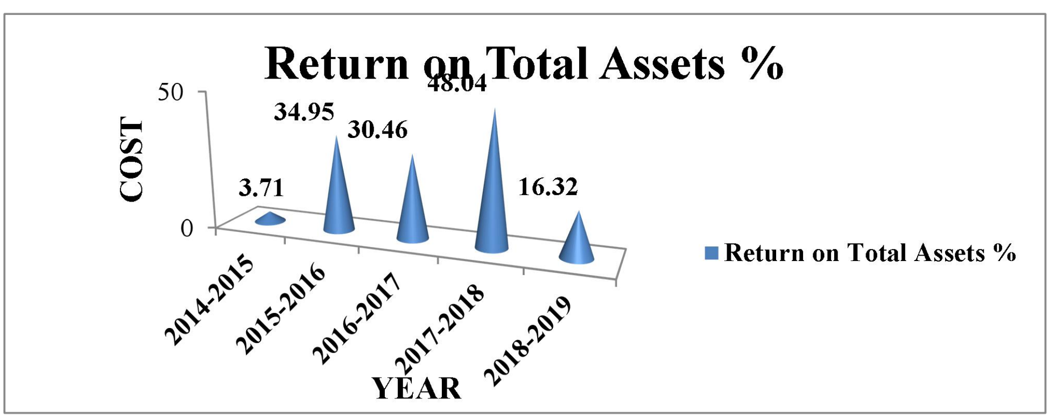
Source: Secondary data

In the year 2015-2019 the company has incurred operational loss. Even though the company employed huge amount of capital but due to its inefficient operation, its operating profit turned into loss.

RETURN ON TOTAL ASSETS:

The ROTA may also be called "profit to asset Ratio". There are various approaches possible to define net profits and assets, according to the purpose and intent of the calculation of the ratio. The ROTA based on this ratio would be an under estimate as the interest paid to the creditors is excluded from the net profits

CHART-4



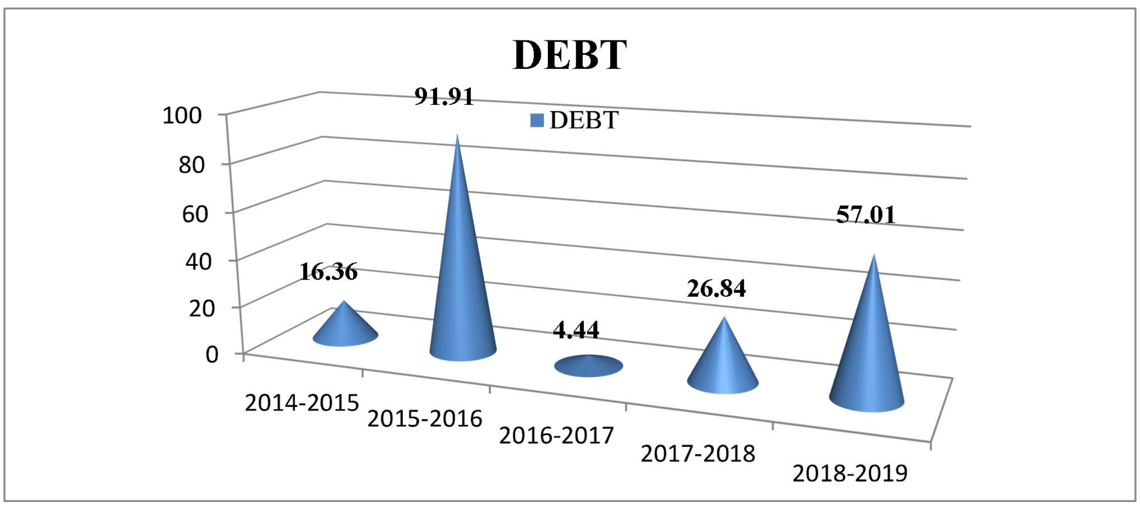
Source: Primary data

In the year 2015-2019 the company incurred net loss. The return on total assets showed negative (loss) balance in all the 5 years. It was not good indication to conduct the business in forthcoming years.

TURNOVER RATIOS: DEBTORS TURNOVER RATIO

Debtors turnover is found out by dividing credit sales for average debtors. Debtors turnover indicates the number of times debtors turnover each year. The higher the value of debtors turnover, the more efficient is the management of credit. The average number of days for which debtors remain outstanding is called the average collection period.

CHART-5



Source: Secondary data

INTERPREATION:

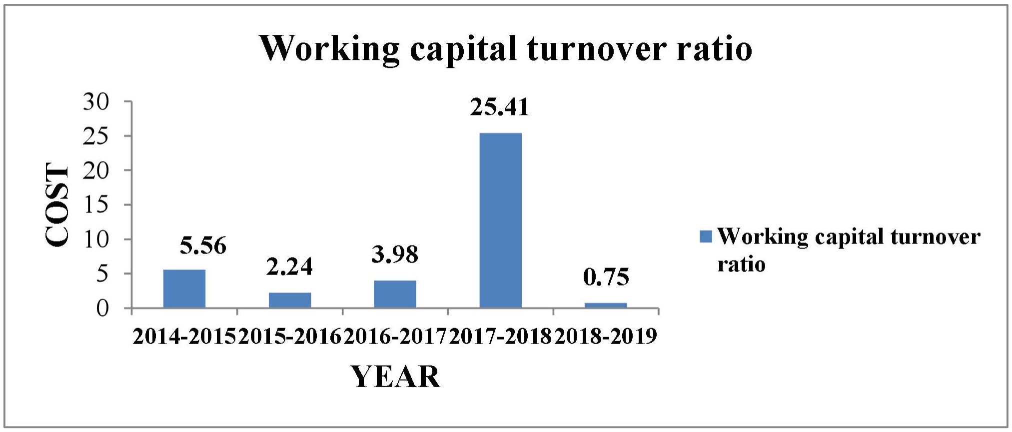
Debtors velocity indicates the number of times the debtors are turned over during a year. Generally higher the value of debtors turnover more efficient in the management of debtors. Similarly, lower debtor turnover implies inefficient management of debtor.

since the table the ratio for the year 2015-2019 was very low, when compare with past years.

WORKING CAPITAL TURNOVER RATIO:

A firm may also like to relate net current assets (or net working capital gap) to sales. It may thus compute net working capital turnover by dividing sales by net working capital.

CHART -6



Source: Secondary data

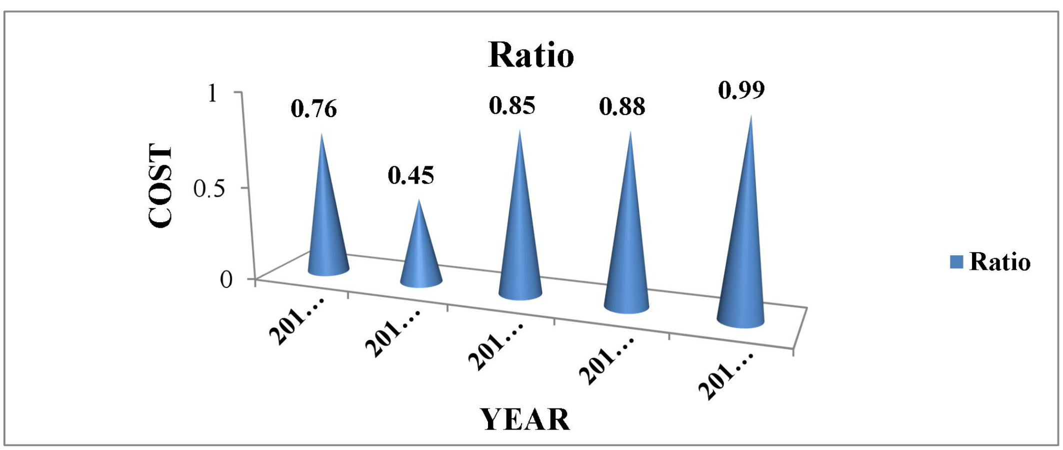
The chart 6 deal with working capital turnover ratio. Current liabilities of the concern, exceeds the current assets, then net working capital was negative A higher ratio indicates efficient utilization of working capital and a low ratio indicates otherwise.

LIQUIDITY RATIOS: Current ratio, Quick ratio, Net working capital ratio and Cash ratio

CURRENT RATIO:

Current ratio is a widely used indicator of company's ability to pay its debts in the short-term. It is the relationships between current assets and current liabilities.

CHART -7



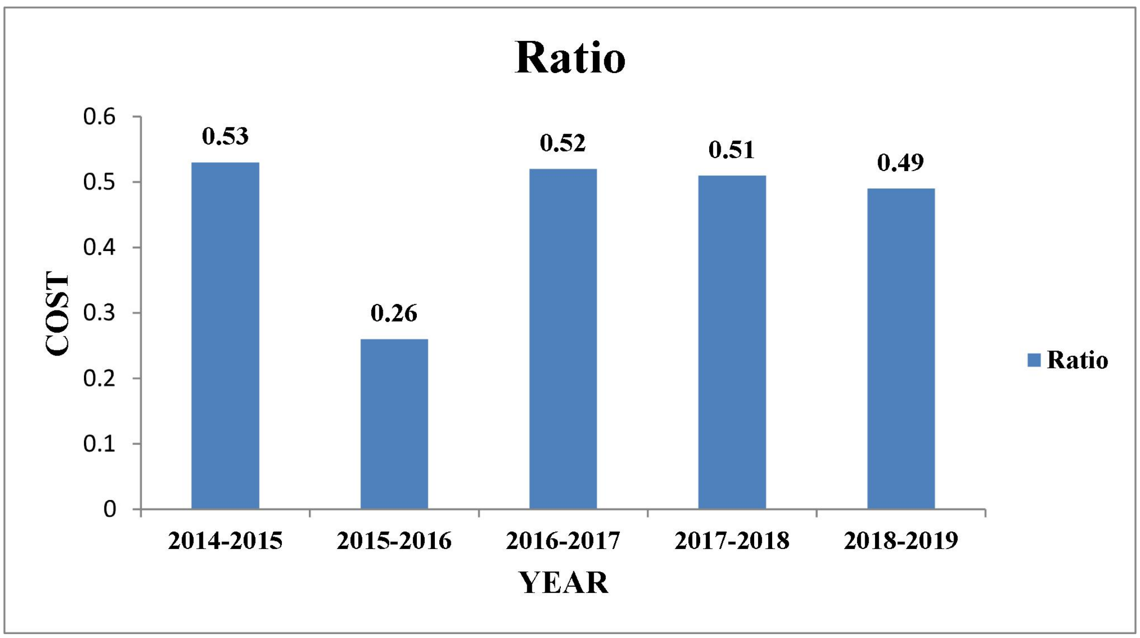
Source: Secondary data

From the chart 7, it reveals with the current ratio from the year 2017-2019. Internationally accepted current ratio is 2:1 i.e., current assets shall be 2 times of current liabilities. The ability of the concern also depends on current asset position. Here, current assets are not sufficient to meet its current liabilities. Hence the company's solvency position is not good for all the years indicated above.

QUICK RATIO:

This ratio is also termed as "Asset Ratios" and Liquidity Ratio". This ratio is ascertained by comparing the liquid assets to current liabilities. Prepaid expenses and stock are not taken as quick assets. Bank overdraft is not taken as quick liability.

CHART – 8



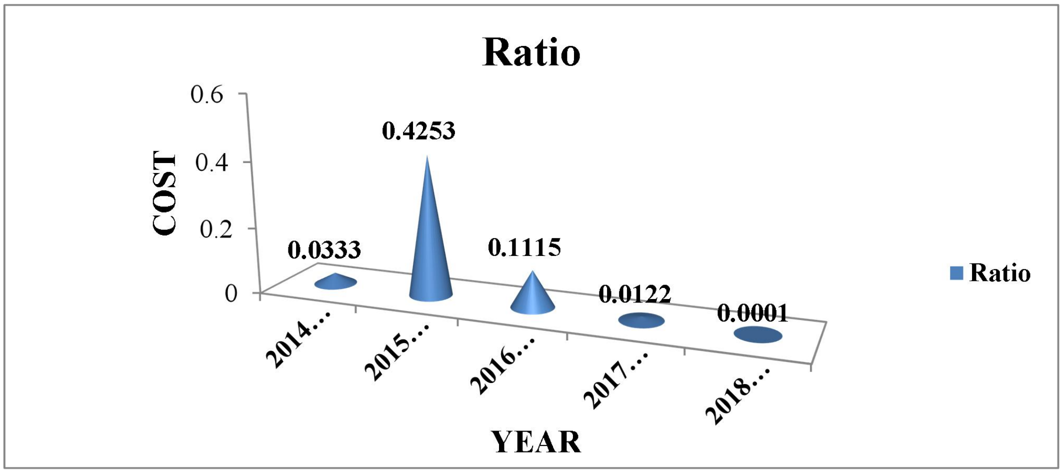
Source: Secondary data

The exceeding table in 2015-2019 the ratio is less than the ideal ratio 1. Here, quick liabilities are twice when compared with quick assets. Hence, this position is not healthy for the soundness of the business.

NET WORKING CAPITAL RATIO:

Net working capital represents the excess of current assets over current liabilities. Net working capital measures the firm's potential reservoir of funds. Net working capital is a measures of liquidity

CHART 9



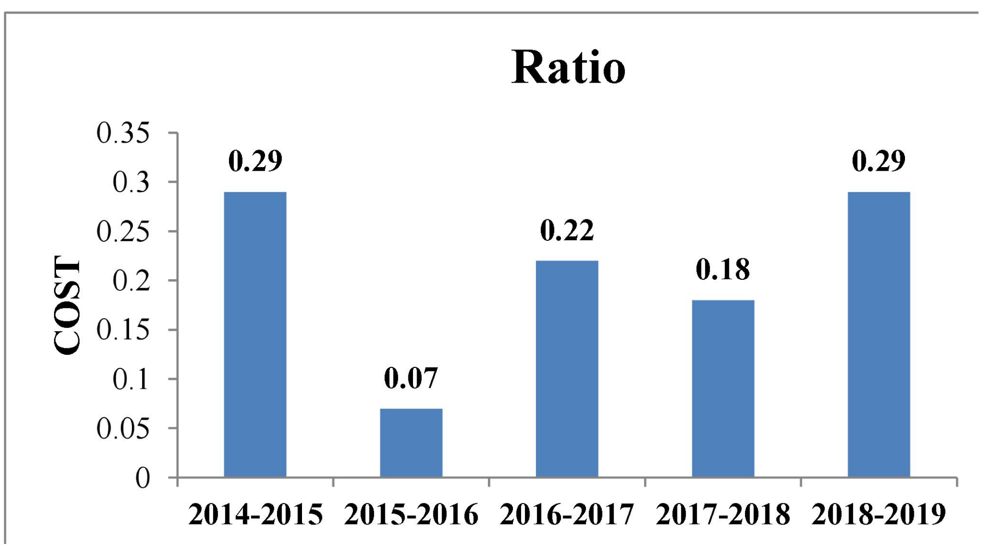
Source: Secondary data

The chart 9 shown the networking capital ratio from the year 2015 to 2019. The company borrowed loan for its working capital requirements, because current liabilities were higher than that of current assets, in every year. Hence liquidity position is not good.

CASH RATIO

Cash ratio means the availability to meet out the current liabilities. This ratio is also named as "Absolute Liquid Ratio". It is the Relationship between the Absolute liquid assets include cash in hand, cash at bank and marketable securities or temporary investments.

CHART 10



Source: Secondary data

An ideal cash ratio is 0.75:1. This ratio is more rigorous measure of a firm's liquidity position. The table indicates from the year 2015 to 2019. For the 5 years the company's cash position is not sufficient to meet its obligations. Because the five years its position is lower than ideal ratio.

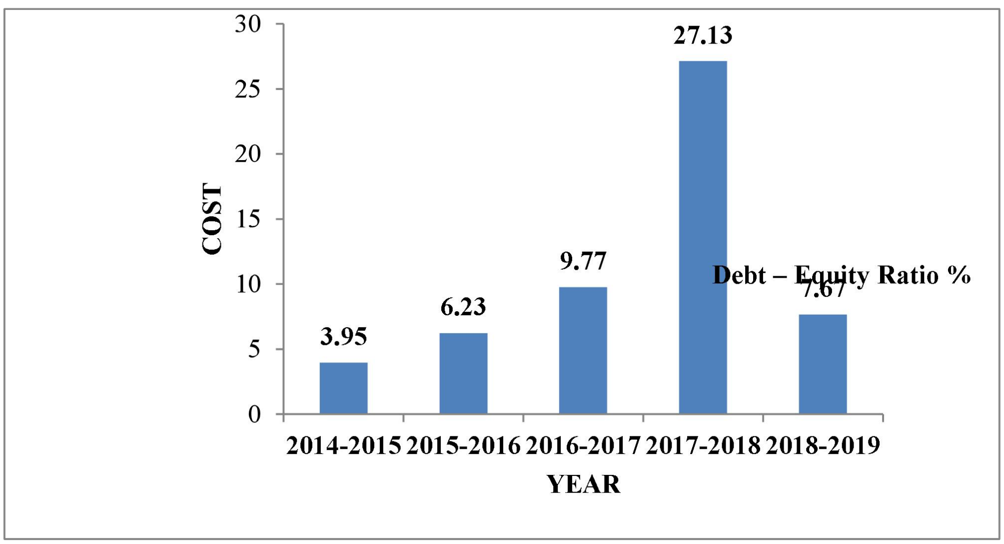
CAPITAL STRUCTURE RATIOS:

Capital structure ratios are also called as "Leverage Ratios' and "Solvency Ratios". It includes. Debt-Equity ratio, Proprietary ratio, Debt ratio

DEBT – EQUITY RATIO:

The debt-equity ratio is calculated to ascertain the soundness of the long-term financial policies of the company. It is also known as external - Internal equity ratio. The relationship between borrowed funds and owners capital is popular measure of the long-term financial solvency of the firm. The relationship is shown by the debt-equity ratio.

CHART -11



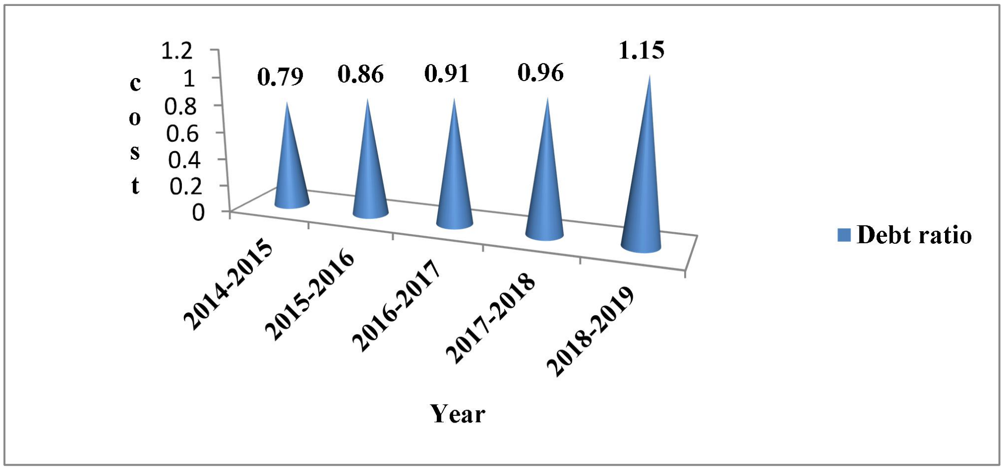
Source: Secondary data

The chart 11 dealt with debt equity ratio from the year 2015 to 2019. The standard norm is 1:1. The company has borrowed more long-term debt for its operation. It is not healthy for the soundness of the firm. A high debt-equity ratio indicates that the claim of outsiders greater than those of owners. Hence, this position affects the financial position of the concern.

DEBT RATIO:

Debt ratios may be used to analyse the long-term solvency of a firm. The firm may be interested in knowing the proportion of the interest bearing debt in the capital structure. It may therefore, compute debt ratio by dividing total debt by capital employed or net assets.

CHART-12



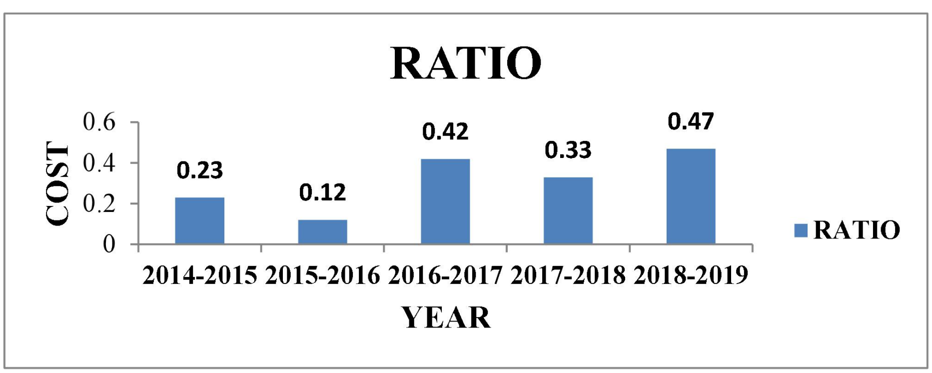
Source: Secondary data

The debt ratio for the year 2015 is 0.79% and it is has increased subsequently to 1.15 in the year 2019. This position was not good to conduct business in future. Hence, the company has to take necessary step to avoid borrowing loan from bank or others. Huge debts carries huge amount of interest, it affects the profitability of the concern.

CAPITAL TURNOVER RATIO:

The ratio shows the efficiency of capital employed in the business by computing how many times capital is turned over in a started period.

CHART -13



since the slab 13 depicts the level of capital turnover ratio can be measured by using. Sales and capital employed. Capital turnover ratio during the year 2015-2016 was 0.12 and is slightly increase in the 0.47 at 2018-2019. So the company is favourable position. This is because of increase and decrease in sales and capital employed.

FINDINGS

- The gross profit has been decreased again and again. The company has not earned any profit during past five years.
- The net profit ratio is indicating that the company has not earned profit for the past five years.
- The return of equity ratio on 2018 has increased, while compared with 2015 to 2017.
- The company has incurred operational loss because of the depreciation written off heavily during that year.
- The fixed assets turnover ratio was picked up in the year 2015 and 2016. But in the year 2019 it did not show the hike.
- Current ratio is indicating that the company's current assets are not sufficient to meet its current liabilities. So, the company's liquidity position is not good.
- The cash ratio is indicating that the company's cash position is not sufficient to meet its obligations. Because, past five years position was deteriorated gradually.
- The quick ratio is indicating that the company's quick liabilities are twice when compared with quick assets. This position is not healthy for the sound business.
- The company's rate of interest was high and also cost of production was high. So the company could not earn profit during past five years.
- The statement was indicating that the equity share capital and reserves & surplus in the year 2015-2018 have decreased. In the year 2019 it has increased due to new issue of shares.
- The percentage analysis was indicating that Earning before Tax in the year 2019 has decreased that the growth in sales. Total assets have grown faster that net worth.

SUGGESTIONS

Because of the cost of production and heavy interest rate the company has incurred heavy loss also because of the high depreciation written off the company's profitability position has been pull down. So the company can try to minimize the cost of production and redeem the debt finance in order to improve the profitability finance of the company.
Additional suggestions from the study are:

1. Company shall improve short term solvency of the company it needs to improve current ratio and quick ratio. To improve this it must increase current assets and control the current liabilities.
2. Company shall improve the operating ratio company should try to control the operating costs.
3. Company shall improve the net profit ratio company needs to products on the operating costs and try to increase the sales.

CONCLUSION

When the researcher analyzed overall performance through ratio analysis about the financial position of the Kothari Sugars And Chemicals Limited, the company's liquidity positions is not fully secured to meet its current obligations but in the respect of solvency of firm has a long term solvency position and with regard to profit it is struggling to earn operating profits due to high operating expenses and also the resources have not been properly utilized by the firm.

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