STUDY ON FINANCIAL ANALYSIS OF A JUTE INDUSTRY IN WEST BENGAL,INDIA

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ABSTRACT

Profit after tax has been increasing from the year 2014-15 to 2018-19. Sales have been increasing in the year 2018-19 compare to 2017-18. Debt and Debt-Equity ratio has been increasing last six years due to installation of new machineries, building construction activities and other infrastructure development for productivity improvement of the unit. Current ratio is increasing trend indicates company is able to pay its current obligation. For further improvement enhancement of productivity, increasing revenue, improved efficiency, focus on top selling products and cost reduction process are now urgent.

***Key Words**: Profit, Sales, Debt, Productivity, Efficiency*.

INTRODUCTION :

Bally jute company Ltd. Is a pioneer Jute industry in West Bengal, India. Around four thousand peoples are directly employed in this unit. Financial position of the unit is analysed in this paper. Financial statement and analysis is now urgent for finding out the present position of the organization. This analysis is identifying the present financial position and suggestive measures for financial resources utilization in future. Annual report of the organization is studied, analysed. This will help the top management for finding out suitable measures in future.

Research Methodology:

Bally Jute Company Ltd . Bally, Howrah ,is a pioneer jute industry in West Bengal. This Company is selected for observation of annual report of a few years for financial position of this jute industry. BJCL (Bally Jute Company Ltd.). is ISO 9001: 2015 certified organizations .Data of a few years' annual report of Balance sheet and Profit and loss account are collected and taken for analysis. Financial ratios are calculated from the Balance sheet and profit and Loss account table. Different data are collected from Balance Sheet for financial position analysis of the unit.

Literature Review:

Ravinder D [1] et.al., explained in their research study that Financial Analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between items of financial statements. A financial statement is an organized collection of data according to logical and conceptual framework. Consistent accounting procedure. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment of time as time, as in the case of an income statement. Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectivities being or has been accomplished. It is the process of measuring the results of firm's policies and operations in monetary terms. It is used to measure firms over all financial health over a given period of time.

Pavithra J [2] et.al., explained in their research findings that the past four years, in 3 years BSNL recorded a decrease in profit and in 2 years a decrease in income, but the expenditure has continuously increased. These are the years where telecom sector emerge as a fastest growing sector of economy. And in the same years BSNL fail to gain more income. Although the income figure is continuously falling but there is no impact shown on expenditure side, it is continuously increasing over the years. This is the main cause of reduction in profits.In the year 2009-10 BSNL current assets fell with a huge margin due to this year poor performance. After this year company has shown a growth in current assets but not sufficient to fulfil the short-term requirements.In the year 2009-10 fixed assets found significant growth with 12.56% which is a good sign for long term prospect. But increase in fixed assets during last two years is not sufficient. I would like to provide the following suggestions for improving the services and thereby revenue of BSNL.

Aluned A M [3] explained in his research findings that there are insignificant relationships between profitability with asset regulated and assets utilization. At the same times, there is a weak relationship between profitability and liquidity.

Results and Discussion:

From table 01 and figure 01, it is found that Profit after tax in the period of 2018 -19 has been increased compare to 2017-18.It is due to lower tax expenses in the period of 2018-19 compare to last 2017-18 period. It shows that unit has been improved in financial resources. Last financial year 2017-18. Figure of profit before tax and depreciation value is also higher compare to 2018-19. Turn over value in the period 2018-19 is also improved than the previous year.

Figure 01 : Variation of Profit after tax over different financial Year (Figures are in INR)

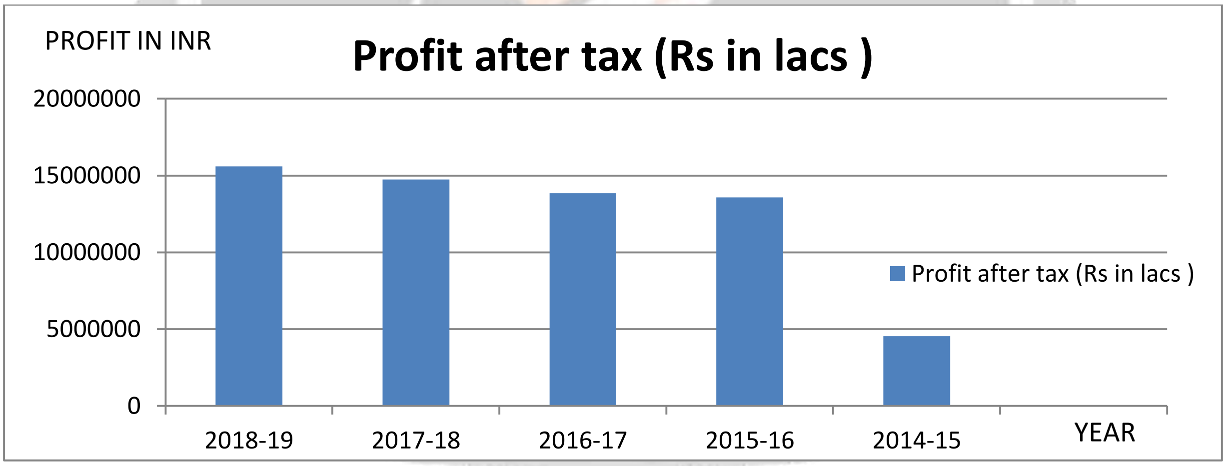
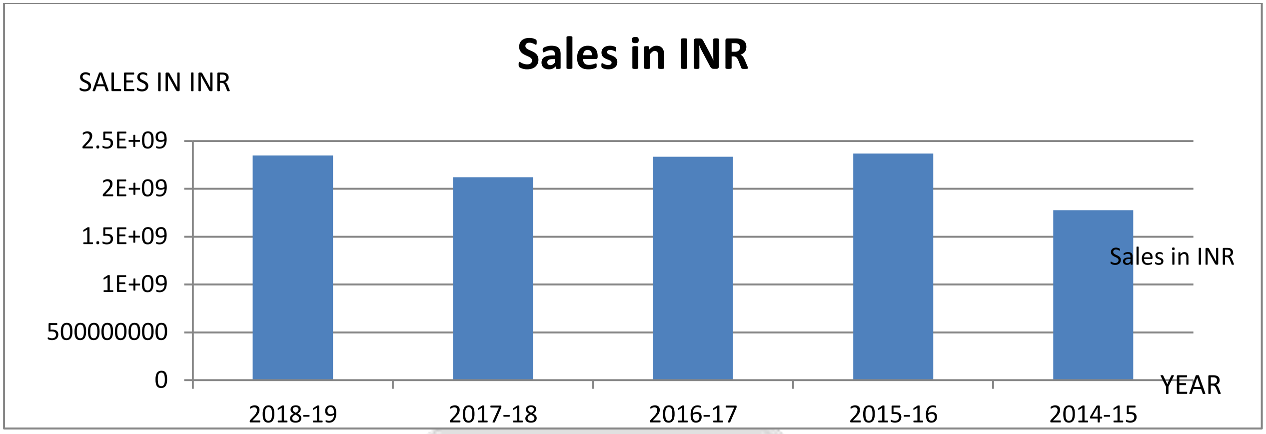


Figure 02 : Variation of Sales over different financial Year (Figures are in INR)



DEBT RATIO

Generally Debt ratio of 0.4-40 % or lower is considered a good debt ratio. A ratio above 0.6 is generally considered to be poor ratio, since there exist a risk that the business will not generate enough cash flow to service its debt. It is very important in determining the financial risk of a company. A ratio greater than 1 indicates that significant portion of asset is funded with debt and that the company may be facing default risk. Lower the ratio , safer the company . From the table 01, it is found that the ratio is increasing from March 2014 to March 2019.It is due to enhancement of infrastructure development of the company. Installation of machineries, building new construction etc. .As a result company's liabilities have been increasing.

Table 1: Variation of Financial Ratios over Different Years

Ratios	31st March 2019	31st March 2018	31st March 2017	31st March 2016	31ast March 2015	31st March 2014
DEBT RATIO						
Debt Ratio	0.522	0.424	0.438	0.498	0.42	0.331
Debt equity Ratio	1.09	0.736	0.78	0.993	0.725	0.495
Times Interest Earned Ratio	3.53	2.96	3.03	3.01	2	3.63
LIQUIDITY ATIO						
Current Ratio	1.34	1.34	1.34	1.33	1.16	1.39
Quick Ratio	0.367	0.427	0.51	0.376	0.331	0.421
Cash Ratio	0.0304	0.0414	0.0421	0.00948	0.0101	0.0125
Working Capital	274000000	203000000	197000000	223,000,000	84,000,000	130000000
OPERATIONS RATIOS						
Inventory Turnover	3	3.91	4.86	3.61	4.07	5.43
Total Asset Turnover	1.23	1.37	1.48	1.36	1.21	1.31
Average Collection Period	34.7	28.5	30.3	27.2	24.6	14.6
Equity Multiplier	2.09	1.74	1.78	1.99	1.73	1.49
PROFITABILITY RATIO						
Return on Assets	0.00819	0.00949	0.00884	0.00786	0.00309	0.00902
Return on Equity	0.0171	0.0165	0.0157	0.0157	0.00533	0.0135
Gross Profit Margin	0.00925	0.0105	0.00894	0.00867	0.00381	0.00948
Net Profit Margin	0.00663	0.00694	0.00599	0.00578	0.00256	0.00687

Source : Annual Report of BJCL

Debt to Equity ratio has been increasing from March 2014 to March 2019.A higher debt –equity ratio indicates a levered firm , which is quite preferable for a company that is stable with significant cast flow generation. Conversely, a lower ratio indicates a firm less levered and closer to being fully equity financed. Increasing ratio of BJCL indicates that the firm can easily service its debt obligation through cash flow and is using the leverage to increasing equity returns.

Times Interest Earned ratio increases from 2 to 3.53 from the year March 2015 to March 2019.It indicates that BJCL has enhanced ability to pay its debts. The company has enough cash after paying its debt to continue invest in the business. The ratio 3.53 indicates that BJCL is 3.53 times could cover its interest charges with its pretax earnings.

LIQUIDITY RATIO:

Current ratio has been increasing from the year 2015 of 1.16 to 1.34 in the year 2017 and thereafter remained constant of the next two years. Increasing trend of current ratio indicates more liquid of the firm's ability to pay its current obligation in time. Increasing current ratio reflects that BJCL has ability to generate enough cash to pay off all its debts once they became due. Financial health of the company enhancing and good utilization of financial resources. BJCL has current ratio higher than 1, indicates no liquidity problem. The company is using its current assets efficiently and is managing its working capital efficiently.

Quick ratio has been increasing from the year 2014 of 0.421 to 0.51 in the year 2017,thereafter decreases to 0.367 in the year 2019, The company's quick assets (cash and cash equivalents , marketable securities and short term receivables etc, decreasing this may create problem for its current liabilities. Quick ratio is less than 1, indicates the problem may come to fully pay off its current liabilities in the short term.

Cash ratio is less has been increasing from 0.0125 of the year 2014 to 0.0421 in the year 2017, thereafter decreases to 0.0304 in the year 2019.The cash ratio is a measurement of a company's liquidity, specially the ratio of a company's total cash and cash equivalent to its current liabilities. Cash ratio of 0.304 in the year 2019, indicates that,, BJCL possesses cash and cash equivalents to pay off 3.04% of its current liabilities.

Working Capital has been increasing from the year 2014 to 2019 by 110.7%. Working capital represents a company's ability to pay its current liabilities with its current assets. Increasing working capital indicates overall health of a firm in meeting its short term commitments has been increasing. This is a good sign of the company.

OPERATIONS RATIO:

Inventory turnover has been decreasing 5.43 to 3 from the year 2014 to 2019. Lower inventory turnover indicates weaker inventory has been increasing, though sales has been increased accordingly. Top management is trying to improve such ratio. This ratio is important to both the company and the investors as it clearly reflects the company's effectiveness in converting the inventory purchases to final sales. Generally, a lower ratio will signed bad sales or surplus inventory.

Total asset turnover ratio enhances as 1.31to 1.48 from the year 2013-14 to 2016-17, thereafter decreased to 1.23.It is indicating that efficiency of BJCL for using assets to produce sales has increased from the year 2013-14 to 2016-17.A higher ratio is favorable ,as it indicates more efficient use of assets. The ratio decreased thereafter from the year 2016-17 to wo18-19 .This is due to the infrastructure development of the industry. Top management is trying to improve the asset turnover ratio because the ratio measures the efficiency of a company in managing its resources to generate its sales. It is very obvious that higher turnover ratios are preferred to reflect better state of affairs of the company. Higher ratio is preferred as it reflects more efficient assets utilization. A low asset turnover ratio reflects the bad management of asset of the company.

Average collection period has been increased from 14.6 to 34.7 from the year 2013-14 to 2018-09. The average collection period measures the quality of debtors since it indicates the speed of their collection. The shortage of average collection period, the better will be the quality of debtors, as short collection period implies the quick payment by the debtors. Top management is trying for a short period because the firm obtains cash more quickly for reimbursement or for paying its own bills.

Equity multiplier has been increasing from 1.49 to 2.09 of the year 2013-14 to 2018-19.It indicates lots of assets and very little equity. BJCL has taken on substantially debt merely to remain its business. A lower ratio is considered more favorable because company will less dependent on debt financing. Due to infrastructure development, ratio has been increasing.

PROFITABILITY RATIO:

Return on assets has been increasing from the year 2014-15 to 2017-18, thereafter decreased to 0.00819 in the year 2018-19. Return on asset (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a message to investor or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. From table 1 , it is found that ,BJCL assets sole purpose was to generate revenues and produce profits. BJCL effectively can earn a return on its investment in assets. Due to infrastructure development, enhancement of expenses, ROA value has been decreased in the year 2018-19 compare to 2017-18. We know higher the return, the more productive and efficient management is in utilizing economic resources. Management of BJCL efficiently utilizing the financial resources and produced profits from the year 2014-15 to 2017-18.

Return on Equity of BJCL has been increasing 0.0135 in the year 2013-14 to 0.0171 in the year 2018-19.ROE is a measure of profit. It is a measure of efficiency. A rising ROE of BJCL suggests that the company is increasing its ability to generate profit without needing any such capital. Return on equity measures profitability using resources provided by investors and company earnings. Increasing trend of ROE of BJCL shows that the business was able to successfully utilize the resources provided by the equity investors and the company's accumulated profits in generating income.

Gross profit margin has been increasing 0.00381 in the year 2014-15 to 2017-18 of the value 0.0105, thereafter decreasing to 0.00925 in the year 2018-19 of the value 0.00925.Higher the gross profit margin, the better is the image of the company. Higher gross profit margin of BJCL indicates that the company did well in managing its cost of sales. For BJCL, it is found that both net profit and sales has been increasing trend from the figure 1 and 2. Due to enhancement of cost of sales, gross profit margin has been decreased in the year 2018-19 compare to 2017-18.

Net profit margin has been increasing from the year 2014-15 of the value 0.00256 to 0.00694 of the year 2017-18, thereafter decreased to 0.00663.in the year 2018-19. Net profit margin ratio indicates the proportion of sales revenue that translates into net profit.. Increasing ratio indicates that efficient management of affairs of business. BJCL is constantly improving its profitability.

Suggestive Measures:

The company may decrease its inventory turnover on basis of the order for sales and market potential. The company may reduce the variable expenses raw material consumed, power and fuel, employee expenses, administration, and selling expenses it will lead to more operating profit. In order to increase the profitability of the companies, it is suggested to control the cost of goods sold and operating expenses. The company may continuously maintain its proper planning and control techniques in order to regulate and optimize the use of cash balance. The company may be maintained in the current assets properly so that it will lead to a better position of working capital. The company may reduce the creditor's position by repaying the loans in short-period for in better position in future. The management should try to utilize their production capacity fully in order to reduce factory overheads and to utilize their fixed assets properly. The management should try to adopt cost reduction techniques in their companies to get over this critical situation. In the same way, to reduce power and fuel Cost Company should find out other alternatives for this. The company should try to match the amount of working with the sales trends. Where there is a deficit of working capital, they should try to build on an adequate amount of working capital. Where there is an excessive working capital, it should be invested either in trade securities or should be used to repay borrowings. For a regular supply of raw materials and the final product infrastructure facilities are required further improvement, improper planning and delays in implementation of projects lead to a rising in their cost. Following points are important for better future of the company .

- Increasing Revenue.
- Liquidate Assets.
- Accelerate assets receivable.
- Improve Efficiency.
- Better Inventory Management.
- Better Forecast.
- Improve sales.
- Reduces the prices.
- Better inventory pricing.
- Focus on top selling products.
- Better order management.
- Reduce purchase quantity.

Conclusion:

From the above discussion it is found that financial performance is basic instruments, which provides all information about the financial position and operational efficiency of the company. The company has to take appropriate steps to control the cost, increase the volume of sales, profit in the future years. So properly planning should be made. The company should try to use properly their financial, Human resources and should try to minimize their expenses.

Acknowledgement:

We are extremely thankful to the Senior Officers of Bally Jute Company Ltd. for carrying out such research work at their organization.

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