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DEBT EQUITY RATIO & LONG TERM SOLVENCY: A CASE STUDY OF ANDREW YULE LIMITED

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ABSTRACT:

Debt Equity Ratio is one of the most important ratios to examine long term solvency of an enterprise. In order to establish a business concern funds can be raised from two streams i.e. Debt (which means long-term loans) and Equity (which means owners fund). A proper combination of these two funds is extremely necessary for a firm in order to maintain solvency in the long run. In the light of above facts this paper aims to analyze debt-equity position of Andrew Yule Limited. Business of this company started in 1863 when a young entrepreneur 'Andrew Yule' from Scotland arrived in Calcutta.

KEYWORDS: Andrew Yule, Debt Equity Ratio.

INTRODUCTION:

The business of Andrew Yule Limited was started in 1863 in Calcutta by an entrepreneur named 'Andrew Yule' of Scotland. By 1875 an extensive business interest was developed by the company in the fields of tea, coal, insurance, jute and cotton. By 1902 more than 30 businesses were managed by the company which incorporated Railway Company, printing press, jute mills, tea companies, cotton mills, coal companies etc. The company is also engaged in promoting forestry, roads, schools, dispensaries, hospitals, agriculture and fishing in Midnapur District of West Bengal. In 1919 the business of Andrew Yule was sold to "Andrew Yule Company Pvt. Ltd." and in 1946 the company was converted into a Public Limited Company. In 2007 the company received SCOPE Excellence Award. Today the company employs about 16500 people.

Debt-equity ratio signifies the section of funds which are acquired by long-term loans in comparison to shareholders fund and is calculated to estimate the long term solvency of a business concern. In other words, it expresses the relationship between long-term debts and shareholders fund of a business entity. In order to compute shareholders fund the sum total of fictitious assets and accumulated losses such as underwriting commission, share issue expenses and preliminary expenses are to be subtracted from the sum total of equity share capital, preference share capital, capital reserve, general reserve, share premium, credit balance of profit and loss account and other reserves. On the other hand Long-term funds can be acquired by a business concern through bank loan, financial institutions, mortgaged loan, debentures, etc.

Thus formula for calculating Debt-Equity Ratio is:

Debt Equity Ratio = Debt ÷ Equity or;

Debt Equity Ratio = Long Term Loans ÷ Shareholder's Fund.

Ideal Debt Equity Ratio is assumed as 2:1 which reflects that debts are twice the equity and is considered to be safe from long term point of view. The purpose behind calculating debt-equity ratio is to gauge the capability of a business enterprise to meet its long term liabilities. In other words Debt-equity ratio judges the soundness of long-term financial strategy of the firm. Debt-equity ratio of more than 2:1 reveals a risky financial position of a business concern from long-term point of view because it signifies that a business firm may find it difficult to meet its long term obligations in time.

OBJECTIVES OF THE STUDY

- To discover the amount of debt and equity in Andrew Yule Ltd. from 2005-06 to 2014-15.
- To calculate debt equity ratio of Andrew Yule Ltd. from 2005-06 to 2014-15.
- To calculate average figures of debt, equity and debt equity ratio of the company during the study period.

RESEARCH METHODOLOGY

Present study is chiefly based on secondary data and relevant information in this regard has been collected from various sources like books, websites, magazines, journals, articles, textbooks, websites and annual reports of Andrew Yule Limited etc. The analysis is carried out through various statistical tools like percentage, average etc.

ANALYSIS AND INTREPRETATION

In order to examine long-term solvency of Andrew Yule Limited debt equity ratio has been calculated and is explained with the help of table and graphical representation:

Table 1: Debt Equity Ratio (Andrew Yule Ltd.)

Years	Debt/Long Term Loans (Rs. in lakh)	Equity/Net Worth (Rs. in lakh)	Debt Equity Ratio
2005-06	22587.21	26965.92	0.84
2006-07	31652.37	27593.62	1.15
2007-08	30630.13	16698.38	1.83
2008-09	28580.24	17541.38	1.63
2009-10	18089.74	17719.57	1.02
2010-11	15111.41	17609.51	0.86
2011-12	8018.86	13617.53	0.59
2012-13	7180.23	14970.73	0.48
2013-14	6125.98	21140.35	0.29
2014-15	4259.78	21847.27	0.19
Average	**17223.6**	**19570.43**	**0.89**

Figure 1: Debt & Equity (Andrew Yule Ltd.)

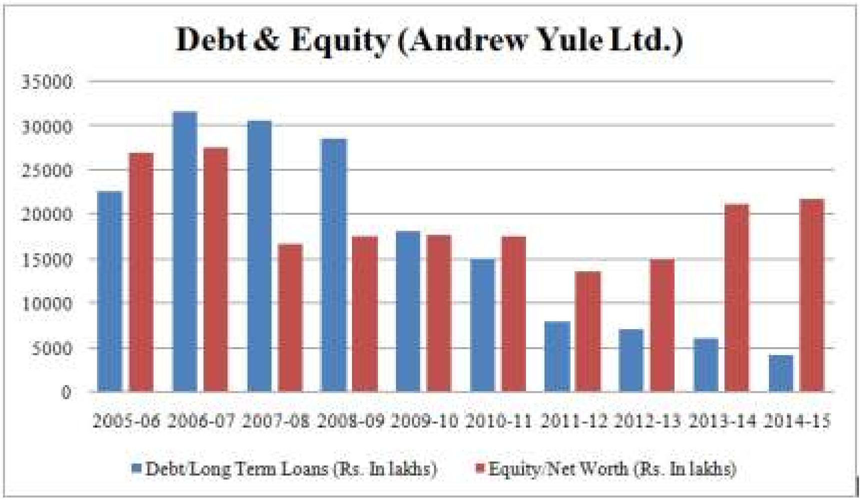
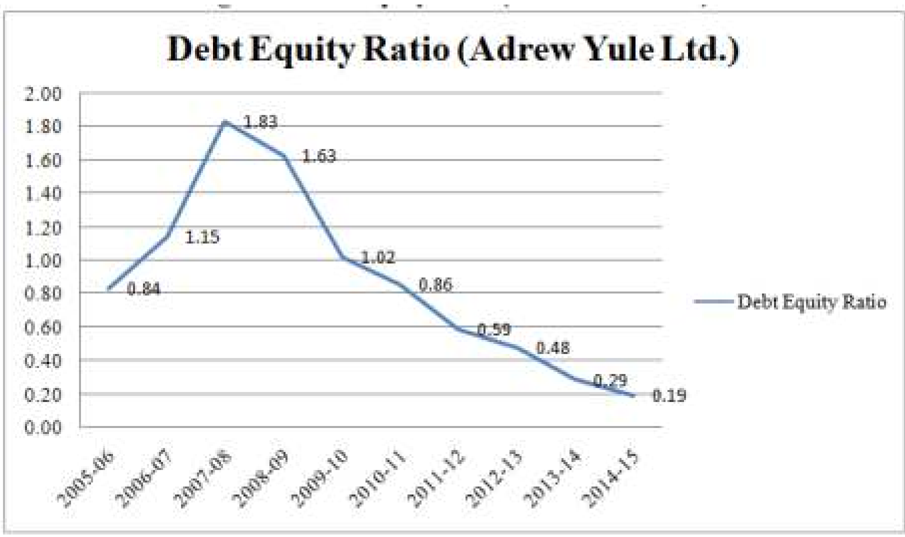


Figure 2: Debt Equity Ratio (Andrew Yule Ltd.)



The above table and figures reveals the debt and equity position of Andrew Yule Ltd. from 2005-06 to 2014-15. In addition the above table and figures also portrays debt equity ratio of the company and average figures of debt, equity and debt equity ratio of the concern during the study period. The debt equity ratio of Andrew Yule Ltd. fluctuates in between 0.19:1 to 1.83:1 and stood at an average of 0.89:1 during the study period. Debts of the company during the study period stood at an average of Rs. 17223.6 lakhs whereas equities of the company stood at an average of Rs. 19570.43 lakhs.

CONCLUSION

On the basis of above study it can be easily concluded that Andrew Yule Ltd. is having a very strong balance sheet since, it is lesser dependent on long term debts. The company's debt equity ratio is never more than 2:1 and moreover in many years during the study period its debt equity ratio is even less than 1. The above analysis clearly reveals that the company will not face any difficulty to meet its long term obligations in time.

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