Research Papers

# APPRAISAL OF FINANCIAL PERFORMANCE OF TITAN INDUSTRIES LIMITED

**Naushad M. Mujawar**
Associate Professor and Head, Dept. of Business Management,
Shri Venkatesh Mahavidyalaya, Ichalkaranji, Kolhapur District

**ABSTRACT:**

The comprehensive understanding of business operations and their impact on the financial health of the company is of immense use to managers and investors. Irrespective of production and distribution activities, every business enterprise is primarily concerned with raising money and using money for making money. It is an economic picture of the enterprise. Further, it is a matter of fact that the progress of an enterprise is ultimately measured in terms of financial parameters, such as how efficiently is the working capital management of the enterprise, how strong is its short-term and long-term solvency, how is its profitability, how effective is its cash management and so on and so forth. In short, the in-depth analytical study of financial performance of an enterprise throws a flood of lights on its liquidity/solvency position, profitability, wealth appreciation, receivables management, working capital management and operating efficiency. The enchanting financial performance helps increase the confidence and increased support of equity buyers, creditworthiness in the eyes of financial agencies, market capitalization or wealth appreciation etc.

**KEY WORDS:** *Short-term solvency, Long-term solvency, Working capital management, Profitability*

## (I) INTRODUCTION AND RESEARCH METHODOLOGY

### 1.1: Introduction

Appraisal of financial performance is a process of identifying the financial strengths and weaknesses of a company by establishing proper relationship between various financial facts and figures as given in financial statements. It refers to the critical examination of the financial information contained in the company's financial statements in order to understand three basic financial statements namely balance sheet, profit and loss account and cash flow statement, which are of great importance to promoters, management and investors. Analysis of financial performance is effectively used to predict, compare and evaluate the firm's earning ability. It is also required to aid in economic investment and financial decision-making. The information provided in the financial statements cannot be of much use unless the meaningful conclusions are drawn from these statements about the financial performance of the enterprise. But due to this the importance of financial statements can not be overlooked as they provide the first hand and the ground level information about the financial exercise of the enterprise.

**1.2: Titan Industries Limited**

Titan Industries Ltd. is the fashion of Lifestyle industry on stock exchanges, which is engaged in 'time keeping', business. Titan has nearly 24 years standing in Indian market and celebrating year 2009-2010 as 'Silver Jubilee' year. Titan Industries Limited, a Tata Group Company, incorporated on 26th July 1984 at Chennai has been manufacturing analog electronic watches with a choice of over 150 designs. Titan, Sonata, Raga, Spectra, Aqura, Tanishq, Insignia, Classique, are some of the popular brands of watches produced in steel and gold plated forms. The company has expanded its operations throughout India and abroad particularly in North and South Asian countries. Apart from time-keeping business, Titan has stretched its legs in life-style and fashion industry as well. It has succeeded in jewellery and sun goggles business. Tanishq (In Hindi 'Tan' means the body and 'Ishq' means the love) is its world famous brand of jewellery and Fastracks is of sun-goggles. The company has been producing a wide range of jewellery and sungoggles (Fatrack), which is changing the looks and lifestyles of Indian youth. The product range of Titan is targeted at the consumers belonging to all income brackets and as such becoming the home brands. Presently, the company is operating with the fully paid up capital of Rs.82.28 crores and turnover of Rs.3098.20 crores as on 31st March 2008. The book value of its equity shares stands Rs.98.26 as on 31 March 2008. It has subsidiaries and affiliates spread up in and out of India. As on 31st March 2008 the company had 3171 employees on its roll, of which 2449 were in the factories, 241 in the corporate office and 481 in the regional offices. The company has 180 stores across 106 cities named as 'The World of Titan' The company has got 1SO: 14001; 2004 certification for environmental management standards. Apparently the financial performance of Titan Industries Limited seems to be very impressive.

**1.3: Statement of the Problem**

The managers of the enterprise, its investors and creditors have genuine interest in knowing how the company is performing and what financial results it is producing. The financial statements, though certified by the qualified authorities, fail to disclose by themselves certain significant facts about the financial performance of a firm. However the financial data can be scrutinized with the help of financial ratios to know insights of its financial performance. It is on this background the researcher has undertaken the study entitled as "Appraisal of Financial Performance of Titan Industries Ltd."

**1.4: Scope of the Study**

The topical scope of the study is extended to focus on the financial performance of Titan Industries Ltd. with special reference to its long-term and short-term funds management and profitability. The historical scope of the present study has been kept limited to a period of seven years ranging from 2002 to 2008. Analytical scope covers the fulfillment of the objectives of the study. The functional scope is confined to offering certain meaningful suggestions based on the inferences drawn after analyzing the financial data of Titan Industries Ltd.

**1.5: Hypothesis**

The study aims at testing the following hypothesis

$H_0$: There exists no significant correlation between liquidity and profitability of Titan Industries Ltd.

$H_1$: There exists a significant correlation between liquidity and profitability of Titan Industries Ltd.

**1.6: Objectives of the Study**

In view of the statement of problem the following objectives are set out

(1) To examine the financial performance of Titan Industries Ltd. with special reference to its short-term and long-term funds management.

(2) To study the position of working capital management and profitability of Titan Industries Ltd.

(3) To trace the significant relationship among various financial indicators of short-term and long-term solvency and profitability

**1.7: Data Collection**

The present study being expost *facto* is based on secondary data which were collected from audited and published annual reports of the company and its website. In addition to the above, various journals, periodicals, newspapers particularly Economic Times, Financial Express and reference books relating to the area of study have also been referred.

**1.8: Methodology of the Study**

For ascertainment of the financial performance of Titan Industries, the specific ratios are grouped and put to test its different financial aspects namely long-term funds management, short-term funds management and profitability. Relevant financial data from have been tabulated, computed and compared with one another over a period of seven years to get exact meaning with a view to arriving at certain conclusions The presentation and computation of relevant financial data had been grouped under four major heads as follows:

a) Long-term funds management of Titan Industries Ltd. along with its Correlation Matrix

b) Short-term funds management of Titan Industries Ltd. along with its Correlation Matrix

c) Profitability analysis of Titan Industries Ltd. along with its Correlation Matrix

Appropriate statistical tools, such as mean, standard deviation, coefficient of variation, Karl Pearson's coefficient of correlation and 't' statistic have been used.

**(II) REVIEW OF LITERATURE**

Appraisal of financial performance of an enterprise has remained the most interested area of study for many researchers and as such it has been widely investigated. A good number of studies have been conducted from different angles such as analysis and interpretation of financial statements, liquidity management, profitability, working capital management, cash flow analysis, funds flow analysis, solvency position and so on and so forth. A brief review of some important studies relevant to the theme of the present research paper is presented below.

**Vijaya (1977)**[1] conducted the study on working capital management in six co-operatives and seven private sector companies in the sugar industry of Tamil Nadu found that the growth in current assets had registered more than that of sales indicating poor working capital management. The application of correlation analysis revealed that there was negative correlation between return on investment and working capital. The study revealed that majority of the investment was in inventory (63.16%) followed by receivables (22.53%). On basis the working capital management in private sector was found to be better than that of public sector.

**Banerjee (1979)**[2] in his study established the relationship between liquid ratio, debtors' turnover ratio, creditors' turnover ratio and the movement of overdraft. The study found out that when the liquid ratio was below the norm, debtors' turnover ratio and creditors' turnover ratios were high while the movement of overdraft showed declining trend. Banerjee demonstrated how turnover ratios would affect the financial performance of a given company. The study concluded that the management of working capital was not satisfactory.

**Gangadhar (1981)**[3] in his study examined the statistical trends in working capital position among medium, large and small public-private limited companies in the Indian corporate sector during 1961-76. The application of second parabola revealed that the current assets formed relatively higher proportion of total net assets in private limited companies than that of public limited companies- The study also revealed that in the case of medium and large public limited companies there appeared to be a lead-lag relationship between gross fixed assets and current assets over the study period.

**Rajeswara (1985)**[4] in his study among a few selected public enterprises in India tried to examine the working capital policies adopted by the sample units. He attempted to assess the degree of effective management of working capital components with a special emphasis on inventories. The study revealed that no sample company clearly defined working capital policies and hence majority of them could not achieve efficiency in working capital management. It was further found out that majority of such investment was made in finished goods inventory which indicated that the units did not manage the working capital in a planned way. **(22)**

**Chintarao, N.,(1993)**[5] in his Doctoral Dissertation entitled "Working Capital Management – A study of selected state Enterprises of Karnataka.", found that probe into the adequacy of working capital with help of different criteria like the ratio tests, operating cycle, Tandon Committee norms and statistical tools showed the excess amount of working capital maintained by the selected enterprises. The application of ratio tests to identify the adequacy of inventory revealed the significant extent of money locked up in inventories in the selected enterprises.

Further he observed that, an analysis on the financing pattern among the selected enterprises revealed the dominance of short-term sources compared to long-term sources. The computation of the borrowing potential of the selected enterprises based on Smith's approach has also showed the dominant role of short-term sources, particularly the bank credit and trade credit. On the basis of above findings Chintarao N., in the dissertation recommended that the organization's cash management of the units studied be streamlined and the scope of the functioning and the prestige of the cash sections should be enhanced by entrusting to them all the crucial functions of cash management like cash budgeting, controlling of cash and investment of idle funds. Secondly, there is also an urgent necessity in case of many enterprises to generate more and more internal sources and long-term funds for meeting working capital requirements. Lastly, the enterprises should adopt efficient techniques of cash-flow analysis so that they may know well in advance the periods of time, if any, when working capital may be short as well as the amounts by which it may be short of requirements. This facilitates a timely search for funds under non-panic conditions.

**Siddharth and Das, (1994)**[6] in his study on "Working Capital Turnover in Pharmaceutical Companies" attempted to ascertain efficient or otherwise use of working capital in selected pharmaceutical firms in India. Having studied the data of 10 years he concluded that the working capital turnover ratio was 9.03 times. The analysis of the data indicated that the selected companies did very well in terms of employment of working capital.

**Rao D. Subba (1997)**[7] who studied six paper mills operating in Andra Pradesh, in his Doctorial Dissertation entitled, "Financial analysis of small paper mills in Andra Pradesh" revealed the fact that, By and large, the profit performance in terms of Return on Investment (ROI) of the small paper industry was totally uncomfortable and it belied the hopes and expectations of all groups of people associated with the industry. For improvement of the financial performance of sample paper mills he made following suggestions. (i**) Adoption of sound cash planning methods:** Insufficiency of cash balances noticed in the sample mills should be eliminated completely as it would lead to over-trading. Cash should be maintained adequately in the sample mills by an effective system of cash planning, forecasting and controlling. **(ii) Strengthening of liquidity:** Besides having an effective management of cash balances, it is necessary for these mills to strengthen the quality and quantity of current assets so as to maintain reasonable liquidity and solvency. In order to strengthen the liquidity position of the small paper mills, core current assets should be financed through long-term funds.(iii) **Non-diversion of short-term funds for long- term purposes:** The practice of diverting short -term funds in some of the mills for financing fixed assets should be avoided. This goes a long way towards improving the working capital condition of the enterprises. In fact, the generation of internal funds through fair profit performance and their diversion for current assets financing ensures strong liquidity of the sample mills. (iv) **Resurrection of profitability performance:** The financial health of the sample mills could be restored provided their profitability is improved. The generation of adequate profits in sample mills undoubtedly is a Herculean task in the present state of their financial distress. But it should happen for the healthy progress of the small paper industry. Profitability of the sample mills may be improved through price rise, innovative marketing in cost reduction and minimization.

**Sarma and Chary's (1999)**[8] study on VST Industries Ltd. revealed that working capital management in the sample unit was inefficient. A disproportionate investment in current asset in relation to sales resulted in declining working capital turnover ratio. The company did not follow any consistent policy with respect to investment and financing of working capital. Though there existed many opportunities to make use of trading on equity and hedging for appropriate management of working capital, the company never made use of the same. Having analyzed working capital in terms of current ratio, quick ratio, working capital turnover ratio, inventory turnover ratio, debtor's turnover ratio and average collection period, the study revealed that the company failed to manage inventory efficiently which in turn has resulted in lower profitability.

**Sathyamoorthi (2002)**[9] in his work attempted to ascertain how the current assets were financed and also attempted to discover the relative importance of various current asset components. The study covered four years data of selected co-operative organizations in Botswana. The study revealed that the liquidity ratios played a vital role to evaluate the short-term efficiency of the organization. The study showed that the co-operatives had low liquidity, resulting their weak position to pay short-term debts.

**Santanu Kumar Ghosh (2004)**[10] has made a study of the Indian Cement Industry and its working capital management efficiency. He found that the industry as a whole did not perform remarkably well during the period from 1992-93 to 2001-02.

**Singh (2004)**[11] who made an in-depth study on Working Capital in Lupin Laboratories Ltd. attempted to assess the significance of management of working capital through working capital ratios and operating cycle. Having analyzed seven years data (1995-2002), he concluded that the liquidity position of the company was good, mean percentage of current assets was very high when compared to the percentage of net fixed assets and the operating cycle showed declining trend. The element-wise analysis of working capital also revealed that trade debtors constituted the highest percentage of current assets followed by loans and advances, inventories and cash and bank balances. The study brought out the need for efficient management of debtors, the percentage of which was the highest.

**Toby, Adolphus J (2008)**[12] in his study on 'Liquidity performance relationship in Nigerian Manufacturing Companies (1990-2002) found that the regression results showed statistically significant relationship between measures of liquidity and selected measures of profitability, efficiency and indebtedness in Nigerian quoted manufacturing companies. The impact of a 1% increase in average liquidity measures produced a more significant increase in average profitability (21.9%), efficiency (16.1%) and indebtedness (16.6%) **(7)**

**Das P. K. (2008)**[13] concluded in his study on "Liquidity management in Ranbaxy Laboratories Ltd;" that from the view point of conventional standards of current ratio and acid-test ratio, the short-term liquidity position of the company might be said to be satisfactory. From the viewpoint of industry norms also, the position was satisfactory. Although the level of cash maintained by the concern was not sufficient for meeting its current liabilities, it might be the policy of the company to maintain a two level of cash and bank balance and more utilization of cash resources. Further he stated that the debtors' turnover ratio or the position of debtors as compared to the sales in the selected company was much lower than the standard set by the CMIE. Taking it as standard, the mean age of debtors with sales in the company was 4.50 which was not a satisfactory sign from the liquidity point of view. He argued that the rank correlation between liquidity and profitability showed that these two were mildly or lightly related to each other. In other words, it reflected a lower degree of positive association between the liquidity and profitability of the company.

**Dinesh M., (2008)**[14] in his article entitled, "Working Capital Management: Challenges and Strategies" providing an insight into concept of working capital, the different challenges being faced by the business firms in managing working capital and the strategies to be adopted for its prudent management, concluded that most of the businesses fail not for want of profit but for lack of cash. The fast growth in production and sales may cause the business to utilize all the financial resources seeking growth and making the working capital works for you. Preserving the optimal cash balance, investment of surplus funds in marketable securities that give the best possible return, proper management of accounts receivables, better inventory management system, maintaining desired level of short-term financing in the cheaper and flexible manner are the characteristics of prudent working capital management. The working capital management is not an end itself but it is part of the firm's management. The needs of it must be considered with regard to the aspects of financial and non-financial performance of the business. Efficient working capital management is the key to the success of any business and the way to prevent the failure**."**

**(III) DATA ANALYSIS**

Following tables present the results of analysis of financial data of Titan industries Ltd. Using the statistical tools.

**Table-1**
**Long-Term Liquidity Position of Titan Industries Ltd.**

| Year | Debt Equity Ratio | Dividend Cover Ratio | Interest Cover Ratio | Fixed Assets to Long Term Ratio | Share Holders Equity Ratio | Debt to Net Worth Ratio | Solvency Ratio |
|---|---|---|---|---|---|---|---|
| 2002 | 2.69 | 1.33 | 1.79 | 0.53 | 0.27 | 1.28 | 0.73 |
| 2003 | 2.87 | 0.79 | 1.61 | 0.63 | 0.26 | 0.78 | 0.74 |
| 2004 | 2.46 | 1.48 | 1.88 | 0.47 | 0.29 | 1.23 | 0.74 |
| 2005 | 1.79 | 2.21 | 2.92 | 0.45 | 0.36 | 1.09 | 0.64 |
| 2006 | 1.15 | 4.59 | 4.36 | 0.46 | 0.46 | 0.64 | 0.54 |
| 2007 | 0.75 | 4.18 | 5.75 | 0.5 | 0.57 | 0.53 | 0.43 |
| 2008 | 0.59 | 4.23 | 6.61 | 0.44 | 0.63 | 0.43 | 0.37 |
| **Mean** | **1.76** | **2.69** | **3.56** | **0.5** | **0.41** | **0.85** | **0.59** |
| **S.D.** | **0.85** | **1.75** | **2.04** | **0.07** | **0.15** | **0.35** | **0.15** |
| **C.V. (%)** | **48.3** | **65.06** | **57.3** | **14** | **36.59** | **41.18** | **25.42** |

***Source:*** *Annual Reports of Titan Industries Ltd.*

**Table-1.1**
**Correlation Matrix of Long-Term Liquidity Position of Titan Industries Ltd.**

| | DER | DCR | ICR | FALTR | SHER | DTNWR |
|---|---|---|---|---|---|---|
| **DER** | 1 | | | | | |
| **DCR** | -0.96 (.0006) Sig. | 1 | | | | |
| **ICR** | -0.977 (.0002) Sig. | 0.917 (.0036) Sig. | 1 | | | |
| **FALTR** | 0.651 (.1133) Not Sig. | -0.623 (.1350) Not Sig. | -0.542 (.2088) Not Sig. | 1 | | |
| **SHER** | -0.977 (.0002) Sig. | 0.913 (.0041) Sig. | 1 (.0000) Sig. | -0.551 (.1999) Not Sig. | 1 | |
| **DTNWR** | 0.787 (.0357) Sig. | -0.77 (.0429) Sig. | -0.845 (.01679) Sig. | 0.103 (.8261) Not Sig. | -0.84 (0.180) Sig. | 1 |

***Source:*** *Values computed by Researcher*

**Table-2**
**Short-Term Liquidity Position of Titan Industries Ltd.**

| Year | Working Capital to Sales | Inventory Turnover | Current Asset Turnover | Current Ratio | Liquid Ratio | Current Assets to Total Net Assets | Debtor Turnover (Days) | Average Collection Period (Days) |
|---|---|---|---|---|---|---|---|---|
| 2002 | 1.78 | 5.36 | 1.91 | 3.19 | 2.46 | 1.74 | 3.22 | 113.37 |
| 2003 | 2.08 | 5.2 | 2.1 | 2.65 | 1.99 | 1.79 | 3.96 | 92.11 |
| 2004 | 2.69 | 5.47 | 2.73 | 2.65 | 1.84 | 1.74 | 6.06 | 60.26 |
| 2005 | 4.08 | 4.04 | 2.82 | 1.89 | 0.99 | 1.27 | 14.22 | 25.67 |
| 2006 | 5.58 | 3.92 | 2.92 | 1.67 | 0.72 | 1 | 16.3 | 22.4 |
| 2007 | 7.73 | 3.15 | 2.6 | 1.38 | 0.45 | 0.7 | 23.2 | 15.74 |
| 2008 | 8.38 | 2.99 | 2.61 | 1.4 | 0.28 | 0.59 | 31.63 | 11.54 |
| **Mean** | **4.62** | **4.3** | **2.58** | **2.12** | **1.25** | **1.26** | **14.08** | **48.73** |
| **S.D.** | **2.69** | **1.05** | **0.38** | **0.71** | **0.86** | **0.51** | **10.65** | **40.6** |
| **C.V. (%)** | **58.23** | **24.42** | **14.73** | **33.5** | **68.8** | **40.48** | **75.64** | **8.33** |

***Source:*** *Annual Reports of Titan Industries Ltd.*

**Table-2.1**
**Correlation Matrix of Short-Term Liquidity Position of Titan Industries Ltd.**

| | WCSR | ITR | CATR | CR | LR | CATNAR | DTR |
|---|---|---|---|---|---|---|---|
| **WCSR** | 1 | | | | | | |
| **ITR** | -0.967 (.0180) Sig. | 1 | | | | | |
| **CATR** | 0.526 (.2552) Not Sig. | -0.514 (.2380) Not Sig. | 1 | | | | |
| **CR** | -0.937 (.0018) Sig. | 0.956 (.0008) Sig. | -0.706 (.0762) Not Sig. | 1 | | | |
| **LR** | -0.951 (.0009) Sig. | 0.962 (.0005) Sig. | -0.713 (.0721) Not Sig. | 0.996 (.0000) Sig. | 1 | | |
| **CATNAR** | -0.988 (.0001) Sig. | 0.986 (.0001) Sig. | -0.535 (.2159) Not Sig. | 0.944 (.0014) Sig. | 0.959 (.0006 ) Sig. | 1 | |
| **DTR** | 0.981 (.0001) Sig. | -0.964 (.0005) Sig. | 0.515 (.2369) Not Sig. | -0.917 (.0036) Sig. | -0.942 (.0015 ) Sig. | -0.974 (.0002) Sig. | 1 |

***Source:*** *Values computed by Researcher*

**Table-3**
**Profitability Position of Titan industries Ltd.**

| Year | ROCE | GPM | OPM | NPM | EPS | CEPS | RONW | ROTA |
|---|---|---|---|---|---|---|---|---|
| 2002 | 12.14 | 28.96 | 12.78 | 10.58 | 2.26 | 8.6 | 7.95 | 1.69 |
| 2003 | 10.38 | 28.14 | 8.38 | 8.19 | 0.6 | 6.47 | 3.82 | 0.78 |
| 2004 | 11.68 | 27.03 | 10.6 | 6.59 | 1.86 | 7.72 | 6.77 | 1.51 |
| 2005 | 15.94 | 29.61 | 9.16 | 6.4 | 5.24 | 10.54 | 14.08 | 3.25 |
| 2006 | 26.13 | 29.74 | 10.07 | 8.08 | 16.77 | 22.06 | 31.65 | 8.46 |
| 2007 | 30.99 | 27.46 | 8.7 | 7.71 | 21.16 | 27.02 | 28.81 | 7.29 |
| 2008 | 36.31 | 23.19 | 8.7 | 7.58 | 33.85 | 40.55 | 34.45 | 9.27 |
| **Mean** | **20.51** | **27.73** | **9.77** | **7.88** | **11.68** | **17.57** | **18.22** | **4.61** |
| **S.D.** | **10.51** | **2.25** | **1.55** | **1.38** | **12.63** | **12.83** | **13.02** | **3.61** |
| **C.V. (%)** | **51.24** | **8.12** | **15.86** | **17.51** | **108.13** | **73.02** | **71.46** | **78.31** |

***Source:*** *Annual Reports of Titan Industries Ltd.*

**Table-3.1**
**Correlation Matrix of Profitability Position of Titan industries Ltd.**

| | ROCE | GPM | OPM | NPM | EPS | CEPS |
|---|---|---|---|---|---|---|
| **ROCE** | 1 | | | | | |
| **GPM** | -0.564 (.1872) Not Sig. | 1 | | | | |
| **OPM** | -0.43 (.3356) Not Sig. | 0.341 (.4541) Not Sig. | 1 | | | |
| **NPM** | -0.149 (7498) Not Sig. | 0.181 (.6977) Not Sig. | 0.631 (.1286) Not Sig. | 1 | | |
| **EPS** | 0.987 (.0001) Sig. | -0.67 (.0996) Not Sig. | -0.421 (.3469) Not Sig. | -0.133 (.7762) Not Sig. | 1 | |
| **CEPS** | 0.981 (.0001) Sig. | -0.691 (.0856) Not Sig. | -0.409 (.3622) Not Sig. | -0.115 (.8061) Not Sig. | 0.999 (.0000) Sig. | 1 |

***Source:*** *Values computed by Researcher*

**TESTING OF HYPOTHESIS**

Using the Karl Pearson's Correlation of Coefficient, the relationship between liquidity and profitability of Titan Industries Ltd. has been tested. For this purpose, the ratio of ' current assets to total assets' has been applied as 'liquidity ' indicator as liquidity is ultimately reflected in the management of current assets and fixed assets. Likewise the ratio of 'return on capital employed' (ROCE) has been taken as 'profitability ' parameter as among others, the ROCE is the most sensitive variable of profitability, which encompasses almost all the movements in profitability

**Table: 4**
**Correlation between Liquidity and Profitability of Titan Industries Ltd.**

| Year | Liquidity Indicator | Profitability Indicator |
|---|---|---|
| | Current Assets to Total Assets | Return on the Capital Employed |
| 2002 | 110.92 | 12.14 |
| 2003 | 110.47 | 10.38 |
| 2004 | 106.74 | 11.68 |
| 2005 | 86.77 | 15.94 |
| 2006 | 78.72 | 26.13 |
| 2007 | 57.48 | 30.99 |
| 2008 | 54.19 | 36.31 |
| | ***'r'*** | ***-0.97*** |
| | ***'t'*** | ***13.82*** |
| | ***P-value*** | ***.0003*** |

***Source:*** *Values computed by Researcher*

As the computed value of '*t*' (13.82) is more than the critical value of '*t*' (2.571) at 5 % level of significance, the null hypothesis cannot be accepted, which is validated by P-value of .0003 at 0.05 level of significance. Therefore, it is concluded that there is significant correlation between Liquidity and profitability of Titan Industries Ltd.

**(IV) FINDINGS, CONCLUSIONS AND SUGGESIONS**

The findings and conclusions of the study have been presented hereunder.

**4.1: FINDINGS & CONCLUSIONS**

(1) It was found that the short-term liquidity of Titan is more consistent than long-term liquidity and also that profitability is more consistent than its overall liquidity.

(2) Efficient long-term funds management is important for attaining maximum returns of capital employed.

Regarding long-term funds management it was found that;

(a) The debt-equity ratio of Titan has fluctuated during the study period. Further it indicated that Titan's cash accruals have improved and its debt repayment has prompted. It may, therefore, be concluded that the debt-equity position of Titan is sound. This reflected that the proportionate claim of equity shareholders' over company's assets are much higher than outsiders. Further, the company has scope to increase the debt proportion in its capital structure if needed.

(b) Its dividend cover ratio revealed that Titan's net profit position could now sustain increased payment of dividend to its shareholders. Further, the increasing trend in Titan's interest cover ratio is indeed a good assurance to debenture holders and bankers/financial institutions. It may further be concluded that Titan's profit are sufficiently large to cover the interest on its debentures and loans.

(c) Titan's fixed assets to long-term funds ratio showed the fluctuating trend and it was found that Titan has invested substantial portion of its long-term funds in fixed assets. Further it may be inferred that Titan is in a sound position to realize the sufficient funds by disposing off its assets to pay off its debts, in the time of liquidation. Truly speaking, Titan has achieved nice parity between investment in fixed assets and current assets as regards deployment of its long-term funds.

(d) Shareholders' Equity Ratio, which helps to understand the relationship between shareholders funds to total assets of the firm and accordingly the degree to which unsecured creditors are protected against loss in the event of liquidation. Based on the findings tt may be concluded that the shareholders' equity ratio position of Titan Industries Ltd. is satisfactory. It is indeed indicative of Titan's sound position of realizing substantial funds by disposing off its tangible assets in the event of liquidation. The larger proportion of equity share capital in total assets of the company assures the unsecured creditors about their repayment.

(e) It was observed that debt to net worth ratio of Titan Industries has widely ranged from 0.43 (2008) to 1.28 (2002). It may be concluded that the net worth position of Titan Industries Ltd. has improved year after year, indicating its ability to pay of its long-term liabilities.

f) As regards solvency ratio it may be concluded that shareholders' claim over Titan's total assets have increased It may be concluded that creditors are secured as total assets position of Titan being very strong.

The long-term liquidity of Titan was found improving during the period of study.

(3) The expansion of business operations are based on successful short-term funds management. It determines its competitiveness. Working capital management is the crux of short-term funds management. For judging the short-term funds management of Titan Industries Ltd. eight important ratios were computed.

**(**a) To know Titan's ability in meeting its current obligations it was imperative to analyze its working capital management. To understand how Titan Industries Ltd. manages its working capital, selected ratios duly arranged under three different groups namely efficiently ratios, liquidity ratio and structural health ratios, were computed. The findings and conclusions thereof have been presented under each of these ratios.

Working capital to sales ratio, inventory turnover ratio and current assets turnover ratios were computed for testing the efficiency of Titan Industries Ltd. in managing its working capital. And it was found that the inventory turnover ratio showed the declining trend, while rest of the two increased during the period of the study. It may, therefore, be concluded that Titan has succeeded in increasing the rotation of its current assets in achieving its sales and efficiently using its current assets on one hand, and succeeded in keeping the stock level as low as possible and avoidance of overtrading

(b) Liquidity is an attribute signifying the capacity of the firm to meet its current financial obligations as and when required. Oxford Advanced Learner's defines the liquidity as 'the state of owning thing of value that can easily be exchanged for cash. In the light of above connotation of the term liquidity, it is important for every company to hold current assets to be exchanged for cash to meet its immediate financial obligations / dues. The liquidity position of Titan Industries Ltd. has been studied with the help of two widely used and trusted ratios namely current ratio and liquid ratio, and the major findings are given in the following paragraphs

It was found that the current assets of Titan Industries Ltd. have been reduced in recent four years compared to its current liabilities. It may therefore be concluded that the short-term solvency position of Titan has been deteriorating. It is a danger signal to its short-term solvency. And as regards liquid ratio position of Titan was very strong in beginning three years. However since fourth year of study (2005) the liquid ratio has been deteriorating and finally in the year 2008, it has touched 0.28.

On the basis of the above findings, it may be conducted that the short-term liquidity position of Titan Industries Ltd. has been worsening as its liquid assets have been falling short of its standard requirement of being equal to its liquid liabilities. This can certainly put the short-term creditors in difficulty.

**(c)** In order to study the structural health of Titan Industries Ltd. following three important ratios were computed namely current assets to total net assets ratio, debtors' turnover ratio and average collection period.

It was found that the Titan has gradually expanded investment in current assets or say shrinked the investment in fixed assets. On the basis of the findings, it may be concluded that Titan has been expanding as its business operations. The focus of the company on earning assets (current assets) than on block assets (fixed assets) is a good attempt towards growing its core business activities. Further it was found that the debtors of Titan have rotated at a larger speed through the years under review. And moreover it has shortened its average collection period. On the basis of the findings, It maybe concluded that Titan has efficiently converted it debtors into cash during fiscal years and has efficient collection management. However as the average collection period stood around 49 days it was discouraging. But the year-by-year good improvement in collection period is worth appreciating

(4) Ability to generate substantial profit is important for every firm. The profitability of a firm can be tested from various dimesions. A set of eight important ratios, was applied with a view to project the overall picture of profitability of Titan Industries Ltd. The facts found and the conclusions reached to have been presented under each of these ratios in following paragraphs

**(a) Return on Capital Employed (ROCE)**

It was found that ROCE of Titan Industries Ltd. has fluctuated from 10.38 percent (2003) to 36.31 percent (2008) and shown increasing trend throughout the period under review. In the light of the above findings, it can be concluded that Titan has improved the return as its total capital employed. It, further, indicates the growing of profit margin.

**(b) Gross Profit Margin (GPM)**

To know how effectively Titan controls the factory cost and implements its marketing policies to increase the gross profit margin, this ratio was computed. GPM ratio has fluctuated between 23.19 percent (2008) to 29.74 percent (2006). It was found that in all the years covered by the study Titan's GPM has remained above 23 percent and it was found to be 27.73 percent on an average. On the basis of above findings, it may be concluded that Titan's GPM is satisfactory. Further it may be said that Titan has managed its production and trading operations

**(c) Operating Profit Margin (OPM)**

Wide fluctuations were found in Titan's operating profit margin, ranging from 12.78 percent (2002) to 10.60 percent (2004) to 8.70 percent (2007 and 2008). The average OPM was found to be 9.77 percent that is around 10 percent, which is hypothetically expected to be normal.

Taking into account the vibrating trend of OPM, it may be concluded that Titan's control over its operating expenses was somewhat questionable. Loosing the consistency and stability in OPM points out some discrepancies in management's policy regarding operating its business.

**(d) Net Profit Margin (NPM)**

In order to know how much rupees were exactly left behind every hundred rupees of sales of shareholders, the NPM ratio was computed. NPM ratio of Titan has recorded the fluctuating and declining trend over the period under review. It was found that Titan's NPM has not touched the expected level of NPM in the beginning year of 2002. It has constantly rolled down and ultimately reached to 7.58 percent in 2008. It may, therefore, be concluded that Titan's NPM is not much comfortable.

**(e) Earning Per Share (EPS)**

Computation of EPS throws light on how much the firm has earned behind one equity share. The lowest EPS of Titan of just Re. 0.60 was found in 2003, which is dramatically dropped from 2.26 in earlier year (2002). However since the year 2004 Titan's EPS has constantly increased till the last year of study. It was found that Titan's EPS has jumped from 1.86 percent in 2004 to 33.85 percent in 2008. On the basis above findings, it can be said that Titan's earning power as expressed in terms of EPS has tremendously increased during the study period. It is indeed the matter of satisfaction for shareholders. The company has earned sufficiently behind per equity share held by its shareholders.

**(f) Cash Earning Per Share (CEPS)**

As a more reliable yardstick for measuring the earning power of Titan Industries Ltd., the CEPS ratio was applied. The CEPS ratio of Titan is found to have fluctuated from 6.47 percent (2003) to 40.55 percent (2008). On the whole, Titan's CEPS has shown the increasing trend. During the period of the study its CEPS has increased approximately five times.

On the basis of above findings it can be concluded that CEPS of Titan is satisfactory. The company has good ability to earn sufficient cash profits behind each equity share.

**(g) Return on Net Worth (RONW)**

To ascertain whether Titan Industries has sufficiently large RONW; this ratio is applied which revealed that the RONW of Titan was at the lowest level of 3.82 percent in 2003. But ultimately it reached to 34.45 percent in 2008. During the period under review, RONW of the company has fluctuated. The average RONW of Titan was found to be 18.22 percent.

It may be concluded that Titan's rate of return as a percentage of the book value of shareholders' equity has been reaching to the level of satisfaction. The increasing RONW would motivate the investors to invest their funds in Titan's scrip.

**(h) Return on Total Assets (ROTA)**

It was found that Titan's return on total assets has increased during the period under review. Titan's ROTA ratio is found to have fluctuated from 0.78 (2003) to 9.27 (2008) Particularly from the year 2004, ROTA increased for three years but slightly dropped in 2007.However, again in 2008 ROTA grew to 9.27 percent. The seven-year average ROTA of

Titan was found to be 4.61 percent. On the basis of above findings, it may be concluded that Titan's ability to utilize its total assets in generating revenue has been increasing.
(5) Financial Strengths and Weaknesses of Titan Industries Ltd.

In the line of stated objectives, the study has revealed the following strengths and weaknesses regarding its financial performance.

**(a) Strengths**

Extension of equity-base, prompt payment of long-term debts, reduction of debts, increasing trend in reserves, total assets, shareholders' equity, return on net worth, debtors' turnover, inventory turnover could be identified as the financial strengths of Titan Industries Ltd.Further, shortening age of debtors ( i.e. Average Collection Period), marching towards optimal utilization of firm's assets, good control over factory costs, may be counted as company's financial strengths. The increasing trend in earning per share (EPS) and cash earning per share (CEPS) has become helpful in retaining the interest of investors to stay invested in company's scrip.

**(b) Weaknesses**

The unhealthy practice of using reserves for payment of dividend and corporate dividend tax, conservative credit policy, unsatisfactory operating and net profit margins, uncomfortable short-term liquidity as reflected in falling current and liquid ratios and average debt service ratio have remained the gray areas in the financial performance of Titan Industries Ltd.

**4.2: SUGGESTIONS**

Based on the above findings and conclusions, the following suggestions are offered.

(1) In a view of the wide fluctuations found in most of the key areas of financial management such as net profit margin, operating profit margin, current and liquid ratio, earning per share and return on total assets, it is suggested that Titan Industries should attempt towards having consistency and stability in them to possible extent.

(2) In view of the constant decline in debt-equity ratio, it is understood that Titan has good opportunity to trade on equity. It is suggested that the company may possibly use this opportunity so that its shareholders would enjoy more benefits in the form of dividend and increasing reserves.

(3) There is a negative cash flow in investing and financing activities. This has eroded its cash generating power. Therefore, the company should revitalize the policies regarding its investing and financing activities. This would hopefully support its short-term liquidity position.

(4) Further, the company should adopt the efficient techniques of cash flow analysis so that it may be known well in advance the a period of time, if any, when working capital may be short as well as the amounts by which it may be short of requirements. This would facilitate a timely search for funds under non-panic conditions.

(5) The short-term liquidity position of titan is deteriorating. Its current and liquid ratio position is poor. It is therefore are suggested that the company should to take immediate steps to strengthen its immediate payment position. The company should understand the relative importance of various current asset components.

Today as the company has been managing its inventories efficiently with a continuous fail ability that is why the company seems to be prospering and pay its current obligations in time, despite even though its liquid ratio position is declining.

However, fashion and life-style industry is the most sensitive industry, Titan may face problems of short-term liquidity crunch in future, if the market situation becomes adverse.

(6) Maintaining liquid ratio position at the edge may not only be sufficient as it reveals just required margin of safety at current price level at current situation. In view of this, it is essential to have current ratio position to 2:1 level. It is indeed based on the logic that in the worst situation, even if, the value of current assets becomes half, the firm would be able to meet its obligations. This would leave the greater margin of safety and help the company to maintain comfortable short-term liquidity.

(7) Increasing divided cover help in building good image of the company. However higher dividend leads to less reserves and further reduced capacity of internal financing. It is therefore suggested that Titan should evolve the balanced dividend policy. This would increase the chances for the company of emerging as a bonus candidate on one hand and help avoid the prospective difficulties in expanding its business.

(8) The management of Titan Industries Ltd. should avoid the unhealthy financial practical, which it resorted to in the year 2003. It was in that year, that the company picked up Rs.2.23 cr. from its reserve to pay dividends and corporate dividend tax. It is feared that the persistent use of this unhealthy practice would lead to reserve and capital erosion.

(9) In view of Titan's declining operating profit margin and particularly net profit margin, it is suggested that the company should take proper steps to further minimize the cost of goods sold and/or corresponding increase in sales. This would leave larger margin to meet interest and dividend. Further higher net profit margin would be advantageous to survive in the face of falling sale price or rising cost of production or declining demand for the product. Furthermore it would improve the over all profitability of the firm as reflected in return on capital employed.

(10) It seems that Titan has made abrupt change in its credit-collection policy. It was reflected in speeded-up debtor’s turnover and shortened age of debtors (i.e. average collection period). Undoubtedly it supports strengthening short-term liquidity. But it hampers the sales. It is, therefore, suggested that the management should alter the conservative policy as regards allowing credit to its customers. Otherwise it might lead to loosing the potential business and thereby additional profits.

(11) Titan has gradually increased the investment in fixed assets compared to current assets. Though this ensures safety in the event of liquidation it hampers growth of business and thereby profitability. It is, therefore, suggested that the company should interest more in current assets, which are really earning assets.

(12) It is further suggested that the management of the company should take care that the major portion of its current assets should not be financed through external sources. It would take away the major portion of company's profits to external channels.

**REFERENCES**

**(A) Books:**

1) Prasanna Chandra, “ Fundamentals of Financial Management” Tata McGraw Hill ublishing Co. Ltd, New Delhi 1998

2) Pandey , I,M, " Cases in Financial Management", , Tata McGraw Hill Publishing Co. Ltd, New Delhi 1991
3) Reddy, R. N. and Appannaiah, H.R., " Essentials of Management Accounting", Himalaya Publishing House, Bombay, 1993
4) Ravi M. Kishore , Tamann's "Financial Management", Taxmann Allied Services Pvt. Ltd, 2002.
5) S. Manikantan Nair and Manjual Garg, " Statistical Analysis, Graphs and Diagrams", Spectrum India, New Delhi, 1994.

**(B) Articles:**
1) Vijaya, Kumar A., (1977), "A Comparative Study of Working Capital Management in Co-operative and Private Sector Companies in the Sugar Industry of Tamil Nadu, "Unpublished thesis, Bharathiar University, Coimbatore, 1977.
2) Banerjee, Bhabathosh, (1979), "Working Capital and Turnover Ratios and Cash Management", The Management Accountant, January 1979, pp. 21-22.
3) Gangadhar, V., (1981), "Trends in Working Capital in India", The Management Accountant, March 1981, pp. 111-112.
4) Rajeswara, Rao K., (1985), " Working Capital Planning and Control in Public Enterprises in India, " Ajantha Publications, Jaipur , 1985.
5) Chintarao, N -Abstracts of Doctoral Dissertation, Finance India. Vol. Vll. No 4 Dec 1993,pp. 946, 947, 948.
6) Siddharth, l M R and Das G., (1994), "Working Capital Turnover in Pharmaceutical Companies", The Management Accountant, March 1994, pp. 151-153.
7) Subba, Rao O, (1997) , "Financial Analysis of Small Paper Mills in Andhra Pradesh , " Finance India , Vol. XI , No.3, September 1997 , pp.. 689- 696.
8) Subramanya Sarma M and Thiruvengala Chary, (1999), "Working Capital Management in VST-An Appraisal", Finance India, Vol. XIII No. 1, March 1999, pp. 71-79.
9) Sathayamurthi, C. R., (2002), "Management of Working Capital in Selected Co-operatives in Botswana, "Finance India, New Delhi, September 2002. Vol. 16, No. 3, pp. 105-125.
10) Ghosh, Santanu Kumar and Santi Gopal Maji (2004) "Working Capital Management Efficiency: A study on the Indian Cement Industry", The Management Accountant, May, pp 363-374.
11) Singh, P. K., (2004) "Working Capital Management in Lupin Laboratories Ltd.- A Case Study", The Management Accountant, July 2004, pp. 534-539.
12) Toby, Adolphus J. "Liquidity Performance Relationship on Nigerian Manufacturing Companies" (1990-2002) pp.-128.
13) Das P. K. Article on " A study on liquidity management in Ranbaxy Laboratories Ltd." The Journal of Accounting and Finance, Vol.22, Number-1 October-March 2008, pp 148-149.
14) Dinesh, M. "Working Capital Management: Challenges and Strategies"-The ICFAI University Press April 2008-pp-38

**(C) Reports:**
1) Annual reports of Titan Industries Limited (2001-02 to 2007-08)

**(D) Websites:**
1) www.titanindustriesltd.com
2) www.moneycontrol.com