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RATIO ANALYSIS IN ANCILLARY UNITS OF BHEL - TIRUCHIRAPPALLI

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ABSTRACT

Financial ratios highlight the importance of effective management of an organization. Short-term maturing obligations or not that can be easily known by applying liquidity ratios. At the same time, long-term solvency position can also be measured by the application of leverage or profitability ratios. It is an established practice for buyers to expect credit from sellers. This practice is forced upon the small industrialists by the large ones. A situation has developed in which buyers do not pay for fairly long and get away with it. Problems in ancillaries may arise when an attempt is made to compare the ratio of one business with those of other organization, and these could arise as a result of different accounting basis and the aftermath result could not be relied upon. Management policies and action could lead to high profit readings; comparison of such company with another could be misleading.

KEYWORDS: *Ratio Analysis, Ancillary Units, Financial Ratios.*

INTRODUCTION

'Small Enterprises' means an industrial unit which employed less than 50 workers producing with electricity and then 100 workers without using electricity and had assets not exceeding Rs 5 lakhs. In 1960, and even now the definition delimits the size of industries in terms of capital investment alone. Later on in 1966, some modification was made but that reduced the items to be included in evaluating the capital investment. In 1966, the small scale enterprises were defined as undertakings with a fixed capital investment of less than Rs. 7.5 lakh and ancillaries with a fixed capital investment of Rs 10 lakh. Investment will imply investment in fixed assets in plant and machinery, whether held in ownership term or by lease or by hire purchase. In 1973, this limit was revised to Rs. 10 lakh for small scale enterprises and Rs. 20 lakh in case of ancillaries. One more category of small units known as tiny sector whose investment was fixed at less than 1 lakh.

Under the Industrial Policy statement of 1980, the limit was further raised to 20 lakhs in case of small- scale units and Rs. 25 lakhs in case of ancillary units. On account of minor units, the point of confinement of venture had been raised from Rs. 1 lakh to Rs. 2 lakh. In March 1985, the government has again revised the investment limit of small-scale to Rs. 35 lakhs and for ancillary units to Rs. 45 lakh. Again, the Industrial Policy Statement of May 1991, increased the investment ceiling for small scale industries from Rs. 35 lakhs to Rs. 60 lakhs ; ancillary units from Rs. 45 lakhs to Rs. 75 lakhs and for tiny units from Rs. 2 lakhs to Rs. 5 lakhs.

CLASSIFICATION OF SSI

SSI is commonly classified under two heads:

Traditional Small Industries: Traditional small industries are Khadi and handloom, village industries, handicrafts, sericulture, etc. The traditional small industries are highly labour intensive. Conventional town ventures can't give all day work to specialists, yet rather can give just auxiliary or low maintenance work to agrarian workers and craftsmans. A traditional small industry in the total output of this sector is less than the modern small industries. Little ventures are to a great extent carried on by workers and craftsmans living underneath the destitution line.

Current Small Industries: Modern little scale businesses create an extensive variety of merchandise from nearly straightforward things to advanced items, for example, TVs; gadgets control framework, different building items, especially as ancillaries to substantial enterprises. The advanced little scale units make utilization of profoundly modern apparatus and gear. These can provide good source of livelihood.

Ancillary industries have their own problems, like:

- Delayed payments by parent units,
- Inadequacy of technological support extended and/or supply of critical raw materials by parent units,
- Non-adherence to quality and delivery schedules, thus disturbing the programme of the parent units,
- Frequent changes in fiscal levies, and
- Absence of a well-defined pricing system and regulatory agency.

RATIO ANALYSIS

Ratio analysis has served as actual means of monitoring, measuring and improving performance of an organization. Hence, for measuring organization’s performance ratio analysis is used as tool in this study. It also ascertains the relevance of internal and external financial reports during ratio analysis for the purpose of establishing key relationships and results in order to appraise financial performance. The study confirmed that there is significant relationship between ratio analysis and organizational performances as well as financial ratios highlight the importance of effective management of an organization. Based on the findings of this study, it was recommended that financial ratios should be computed periodically to reveal areas of strengths and weaknesses, as well as, ratio analysis should be used to measure performance in terms of profitability. Financial ratios allow for comparisons:

- Between companies
- Between industries
- Between different time periods for one company
- Between a single company and its industry average

IMPORTANCE

- Analysis and Scrutiny of the Past Result - It helps to analyze the probable causal relation among different items after analyzing and scrutinizing the past result.
- Preparation of Budgets - The ratios that are derived after analyzing and scrutinizing the past result helps the management to prepare budgets and estimates, to formulate policy, and to prepare the

future plan of action and, thus, helps as a guide to harmonies among different items for preparing budgets.

- Time Dimension by Trend Analysis - It helps to take time dimension into account by trend analysis, i.e. whether the firm is improving or deteriorating over a number of years that can easily be studied by the trend analysis.
- Measurement of Degree of Efficiency - It throws light on the degree of efficiency of the management and utilization of the assets and that is why it is called surveyor of efficiency.
- Inter-Firm Comparison - It helps to make an inter-firm comparison, either between the different departments of a firm or between two firms employed in the identical types of business, or between the same firms on two different dates.
- Testing Short-term Liquidity - Short-term liquidity position, i.e. whether the firm is able to maintain its short-term maturing obligations or not that can be easily known by applying liquidity ratios.
- Communication - With the help of ratio analysis, meaningful information can be communicated to the users of accounting information and as a result the analyst can draw right decisions.
- *Formulating Govt. Polices - Since ratios are the tools to measure industrial efficiency and performance the Governments takes various financial policy on the basis of the results of various related ratio analysis.*
- *Measuring Corporate Sickness - Undoubtedly, ratio analysis helps us to measure the corporate sickness well in advance so that the management, shareholders and other interested parties may take proper steps to avoid such a situation.*
- *Testing Long-Term Solvency Position - Long-term solvency position can be tested with the help of ratio analysis e.g. Debt-Equity ratio, Capital Gearing Ratio etc. These ratios help the analyst to assess the long-term debt paying capacity of the firm.*

Sickness and other problems in the Small Sector

- Faulty planning and inadequate appraisal of projects. Majority of the SSI units are started without feasibility studies or detailed project reports.
- Problem of recoveries. It is an established practice for buyers to expect credit from sellers. This practice is forced upon the small industrialists by the large ones. A situation has developed in which buyers do not pay for fairly long and get away with it.
- Small sector does not have the advantage of latest technology which alone can ensure quality and a high rate of productivity.
- There is a lack of interest on the part of financial and banking institutions in the revival of sick units.
- Small industries lack resources for modernization which is essential in many cases for rehabilitating them.
- In view of the difficulty in achieving rationalization of operations, small industries find it difficult to improve quality standards and productivity.
- Both for rehabilitation and modernization the small industrialists require a first rate consultancy service which is not available.
- The full potential of ancillary production which affords a certain measure of market security to small firms has not been exploited.

OBJECTIVES OF THE STUDY

- To assess the performance of the business concern.
- The financial strength and weakness of the business concern.
- To know variations or deviations by comparing the actual with the standards.
- To offer suggestion from the findings for their financial perfection.

STATEMENT OF THE PROBLEM

Managerial decision is one of the keys to success in an organization. And as such, management of a given organization makes decision based on financial performances prevailing in such establishment. In arriving at such decisions, the management tries to focus their attention on two basics of comparison on the Current performances with the records of the past five years in the organization Current performances are compared with that attested performances in other similar organizations. As a result of this exercise, in-estimable short comings may arise which could force management to take drastic steps/decisions that could make or mutilate the organization. Also, problems may arise when an attempt is made to compare the ratio of one business with those of other organization, and these could arise as a result of different accounting basis and the aftermath result could not be relied upon.

REVIEW OF LITERATURE

Eljelly, 2004 illustrated that productive liquidity administration includes arranging and controlling current resources and liabilities in such a way, to the point that takes out the danger of powerlessness to meet due here and now commitments and stays away from unnecessary interest in these advantages. The investigation discovered that the money transformation cycle was of more significance as a proportion of liquidity than the present proportion that influences productivity. The size variable was found to have huge impact on productivity at the business level .The outcome was steady and had imperative ramifications for liquidity administration. L.C.Gupta in an extensive study done with Indian data attempt to distinguish sick and non- sick companies on the basis of financial ratios, he employed the criterion of 'percentage classification error' to judge the predictive power of financial ratios.

DATA ANALYSIS AND INTERPRETATION

TABLE - 1
CORRELATION BETWEEN SALES AND NET PROFIT

YEAR	SALES	NET PROFIT	Correlation
2008-2009	36186617.92	318408.00	r = 0.66
2009-2010	42871809.71	1483888.00	
2010-2011	38535099.49	785171.00	
2011-2012	45000000.00	2408888.00	
2012-2013	42174216.00	3424836.00	

Data Sources: Annual Report

The correlation between the sales and net profit of the firm shows relation of 66% of net profit during the study period. This shows firm has maintain their conversion expenses more effectively.

TABLE - 2
T- TEST FOR LIQUIDITY OF THE FIRM

YEAR	CA	QUICK	CASH	Test of significant
2015-16	0.03	0.69	0.64	Test of sign 5% level @ d.f. is 0.20086 table value is 1.860. H_o is accepted
2014-15	0.26	0.67	0.60	
2013-14	0.04	0.67	0.66	
2012-13	0.28	0.66	0.56	
2011-12	0.29	0.72	0.06	

Data Sources: Annual Report

The test of significant is accepted due to the calculated value is lesser than the table value for the degree of freedom for 8 @ 0.05 level of significant. Hence $H_0 \leq 1.860$, H_1 is rejected.

FINDINGS

- Inventory turnover ratio clearly shows that ratio is inconsistent and continuous decreasing. It shows inefficiency in managing the inventories.
- The inventory holding period shows the firms position in maintaining inventory holding for less than 50 days
- When comparing working capital with inventory it shows efficiency of the concern and which is more useful.
- The debtor to current asset ratio shows that firm utilized the funds from the debtors towards the current asset.
- The ratio shows that the company is in unstable to utilize the asset compared to inventory during the period.
- The inventory to total asset ratio shows that the company is in unstable to utilize the asset compared to inventory during the period.
- The firm is instability to use the amount against their debtor regarding total asset.
- The straight line trend shows increase in value of inventory during the study period.

CONCLUSION

The connection among productivity and liquidity was inspected, as estimated by current proportion and money hole (money change cycle) on an example of business entities utilizing relationship and relapse examination. The investigation discovered that the money change cycle was of more significance as a proportion of liquidity than the present proportion that influences gainfulness. The size variable was found to have noteworthy impact on benefit at the business level the organizations' execution is broke down by the proportion examination for a time of five years. The firm has effective solvency position during the period. In the liquidity position the firm has to maintain their cash for the day to day expenses. Overall the firm receivable and payable terms is good. So the firm has maintained level for competing with private the competitors. They have to raise fund other than bank due to the terms and conditions followed by them.

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RECOMMENDATIONS

- Financial indicators should be used wisely after complete check of the past history of the company, and through auditing check of the financial cycle.
- Other tools than financial indicators has significant effect on decision making which should be taken into consideration.
- Financial indicators will not say why something is going wrong and what to do about a particular situation; they only pinpoint where the problem is.
- Management policies and action could lead to high profit readings; comparison of such company with another could be misleading.

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