CHAPTER V
SUMMARY AND CONCLUSION

The financial crisis has already thrown many financially strong companies out of business all over the world. All these have happened because companies were not able to positively react to the challenges and the unexpected change the economy posed. Financial distress for a company is the ultimate declaration of a company’s inability to sustain current operations given its current debt obligations. Basically, all firms must have some debt loads to expand operation or just to survive. Good economic planning often requires a firm to finance some of its operation with debt.

Financial management is very crucial in any business firm. Finance is regarded as the blood of any business firm and its effective as well as efficient management contributes in part, to the success of the company or organization. In this era of core competence and globalization, the survival and growth of every business firm hinges on how well the company can utilize its funds. Although finance is required in every business, excessive as well as inadequate finance positions are dangerous too. In other words, the same at minimal cost is the task of every company to achieve one of the important objectives of shareholder wealth maximization.

5.1 Major Findings of the study

The project work as earlier mentioned was undertaken to assess the financial health of Akshay Seed using different ratios. Specifically, the study was done to achieve with the following objectives:

1. To study the working capital performance of the Akshay seed tech co.
2. To analyze the capital structure of the company
3. To examine the profitability position of the company
4. To measure the risk of the company
5. To develop a model for sustainable growth of the company
1 The efficiency of the company in the matter of management of working capital is satisfactory.

The debtors turnover of Akshay Seed shows fluctuation during the study period. In the year 2014-15 the ratio was highest which was 70.54 times followed by 69.44 and 41.31 times in 2013-14 and 2016-17 respectively. The overall average of company stands at 28.08 times. The ratio shows 113.30 per cent variation with 15.43 per-cent growth rate. The results show that the company was efficiently manage its credit.

The highest inventory ratio was between 2.53 times to -0.06 times. The ratio shows 48.44 per cent variation and -21.17 per cent growth. The annual average of inventory turnover was 1.87 times. The company was efficiently managed the inventory therefore, its annual turnover was good.

In 2011-12 turnover of working capital was highest which was 1.71 times followed by 1.63 and 1.38 times in 2010-11 and 2016-17 respectively. The average working capital was 1.17 times and the variation was 49.59 per cent with -25.75 negative growth rates. The working capital turnover was good because, this was agri-based company which have two or three seasons. Therefore, the company has efficiently use its working capital.

The cash turnover ratio was highest (16.56 times) in the year 2010-11 followed by 15.32 times and 12.86 times in the year 2016-17 and 2011-12 respectively. The average cash turnover of Akshay Seed was 8.35 times and ratio was highly instable (89.77 per cent) along with negative growth rate (-6.71 per cent). Here the company has low cash turnover which indicates that the company was going through its cash cycle slowly.

The current ratio was highest than other financial years which was 2.33 in 2014-15 and lowest in 2011-12 which was 1.81. The average current ratio of Akshay Seed was 2.10. The current ratio of Akshay Seed was more than 2:1 except 2010-11 and 2011-12 financial years, it shows that the company was able to meet its current obligations.

The investment in current assets was highest, (1.72) in 2013-14 and 2014-15 and lowest (1.21) in 2011-12. The current assets constitute a major portion of the total assets whereas the corresponding current liabilities are not proportionate. Overall the liquid ratio was higher than standard 1:1. The average liquid ratio was 1.52 and the variation was 12.70 per cent with 2.10 per cent negligible growth rate.
The highest cash ratio (0.29 per cent) was in 2013-14 followed by 0.22 and 0.18 per cent in the year 2014-15 and 2012-13 respectively. The average cash ratio was 0.14 per cent and there was high variation (167.50 per cent) in cash ratio with high growth rate (86.09 per cent). There was nothing to be worried about lack of cash if the company has reserve borrowing power.

2 The owned capital of the Akshay Seed was less than borrowed capital.

The debt-equity ratio of Akshay Seed was between 0.03 to 2.21 per cent. The average ratio was 0.60 per cent and there was instability in ratio about 167 per cent with higher growth rate 126.28 per cent. Akshay Seed’s lenders have contributed less funds than owners up to 2014-15 and then lenders have contributed more funds than owners.

The highest debt-equity ratio was 2.21 per cent in 2015-16 and lowest 0.1 per cent in the year 2012-13, 2013-14 and 2014-15. The Akshay Seed has 0.20 per cent average of total debt ratio which was less than 1, it indicates that the company has more assets than debt. The variation of debt-equity ratio was 48.44 per cent with negative growth rate (-21.17 per cent).

The proprietary ratio was 0.63 per cent followed by 0.60 and 0.58 per cent in the year 2014-15 and 2012-13 respectively. The average ratio was 0.47 per cent and the variation was 159.84 per cent with high growth rate (86.10 per cent). It shows that, in last 2 years the company has more assets than shareholder’s fund.

In 2010-11 the company has 54.12 times interest coverage ratio followed by 28.49 and 19.60 times in the year 2016-17 and 2014-15 respectively. The average of interest coverage ratio was 15.97 times which shows that the company can covered about 16 times interest charges from funds. The variation was 130.87 per cent and growth was 18.66 per cent.

3 The profitability of Akshay Seed was satisfactory except in the year 2015-16.

The highest GPR was observed for the year 2012-13 (23.57 per cent) and lowest GPR was observed for the year 2011-12 (18.33 per cent). The average GPR was 20.4 per cent and 12.41 per cent variation was noticed and the ratio shows negative growth (-2.40 per cent) during the study period.

The Operating Profit Ratio (OPR) of Akshay Seed showed a fluctuating trend during the study period. The highest OPR (43.47 per cent) was observed in the year 2012-
and the lowest OPR (28.23 per cent) was noticed in the year 2013-14. The average was 37.16 per cent during the study period. There was minor variation in OPR (13.89 per cent) with negative growth rate (-1.56 per cent). In 2015-16, the OPR of the company increased even though there was a decline in the volume of net sales. In all, the ratio shows a degree of stability in the operating profit during the study period.

The positive trends of Net profit ratio (NPR) shows during the entire study period. The highest NPR was observed in the year 2015-16 (7.98 per cent) and lowest NPR (2.95 per cent) was noticed in the year 2013-14. The ratio shows 35.52 per cent variance and 9.57 per cent growth rate. In all, the ratio indicates the effective performance of the company during the study period.

The return on capital employed was positive except in 2015-16. The highest ROCE (87.32 per cent) was noticed in the year 2010-11 and lowest was -1.16 per cent. The average value was Rs. 16.38 and co-efficient of variation was 192.38 per cent. The ROCE that indicates the overall profitability of the company was almost fluctuated during the study period. The highest RONW was 89.72 per cent in 2010-11 year and lowest RONW was -3.74 per cent in 2015-16. As per the table 4.3, the average was 17.49 per cent and co-efficient of variation was 184.60 per cent.

4 The company was used the moderate risk policy.

The risk analysis indicates that the \( R_k \) values were found neither close to 0 nor close to 1; hence this parameter clearly reveals a moderate level of risk policy. The lowest \( R_k \) value (0.49) was in the year 2011-12, hence rank first followed by second (0.52), third (0.55), fourth (0.57), fifth (0.58), sixth (0.73) and seventh (0.82). Average \( R_k \) value was more than 61 per cent which shows that more than 60 per cent current assets were financed through long-term sources of fund. It indicates standard profitability situation.

5 The relation between risk and profitability was positive.

Calculated ‘t’ value of ‘r’ at 0.05 level of significance and (n - 2) degree of freedom (df) is 0.41 whereas the table value of t is 2.57. As the calculated value is greater than the critical value, it can be said that the profitability and risk are positively correlated.

6 The sustainable growth of the company.

The average Sustainable Growth Rate (SGR) of Akshay Seed was 5.50 per cent, highest was 23 per cent in 2010-11 year and lowest was 1 per cent in 2014-15. In 2010-11
the company had growth 23 per cent without any external leverage and borrowing the funds. The company can achieve 5 per cent growth rate by changing its investment policy; increasing 5.4 per cent RONA. The company can achieve desired growth rate either by decreasing its NA or by increasing EBIT. The company has to change its financing policy if it desires to grow more than 5 per cent rate. The company has to change its financing policy for achieving growth rate more than 5 per cent. This can be possible either by decreasing its debt capital or increasing owned capital.

5.2 Conclusion

The overall financial performance of the Akshay Seed was good. The liquidity position of the company was sound but, the working capital and inventory management of the company was not sound. The company has three times more debt capital than owned capital, which shows that the company has high burden of payment of interest. The profitability of the company was good during the study period except in the year 2015-16. The company has moderate risk policy and the profitability and risk were positively correlated. The sustainable growth of the company was about 4 per cent and company have to change its investment policy for achieving 5 per cent growth. The company have to change its financing policy for achieving more than 5 per cent growth.