CHAPTER II

REVIEW OF LITRETURE

A through review of previous studies that have contributed significantly and have immensely enriched this study is presented in this chapter. The studies have been presented commensurate with the specific objectives of the study.

2.1 To study the working capital performance of the Akshay seed tech co.

Bhatia and Barwal (2015) studied on efficiency of working capital management practices and the effect on the profitability of real estate sector of India. Six listed real estate firms and five years were selected for the study purpose. Working capital ratios were used for study. They concluded that the working capital practices of the firms in the real estate sector were not very efficient as there is a very heavy dependency on only one component of current assets.

Jethy et al (2015) studied on financial performance of selected industrial units in paper industry. Two industries and five years were selected for the study purpose. Ratios were used for the study. It was concluded that the liquidity position of BILT Company was better than JKPM but none of them has satisfactory standard. JKPM management was more efficient in terms of inventory turnover than BILT Company.

Kavitha and Shanmugam (2015) studied on the performance of working capital management of large and small pharmaceutical companies in India. The data was collected for 21 large and 17 small pharmaceutical firms in India due to the availability of data for a period of 10 years. From the ratio analysis it was inferred that small firm’s liquidity position was better than the large firms. However, large firms exhibit better position in inventory turnover, debtor’s turnover, overall working capital and current asset turnover ratios relative to small firms. There was a fluctuation in the efficiency and liquidity position of firms.

Panigrahi and Chaudhury (2015) studied about the negative working capital of Hindustan Uniliver limited. The researcher has used secondary methods of data collection over ten years for ratio analysis. The net working capital was negative throughout the study period. In any normal situation, a negative net working capital was a sign of company’s probable bankruptcy or serious financial trouble. But the Return on Capital Employed
(ROCE) shows good figures for all the years claiming that company has earned excellent returns even with negative working capital. This was possible only because of managerial efficiency of the organization.

Rajput (2015) studied on working capital trend in public sector telecom companies in India. Study was done using secondary data for the year 2004-05 to 2012-13. The study concluded that the working capital trend of public sector telecom company in India was not satisfactory during last few years, hence there was need to improve the management of working for both the public-sector company.

Arunachala (2016) studied the working capital management for Madras rubber factory. Ratio analysis was used of five years. The study points out that the overall position of the working capital of MRF was satisfactory, but there was a need for improvement in certain factors. The companies should also try to maintain adequate quantum of liquidity all the times by keeping considerable proportion of various components of the working capital in relation to the overall current assets.

Muthukumar and Sakeerthi (2016) studied on working capital management based on the study at Sakthi sugars, Tamilnadu. Five years data were used in calculation of ratios. It was concluded that the better a company manages its working capital, the less the company needs to borrow. Even companies with cash surpluses need to manage working capital to ensure that those surpluses were invested in ways that will generate suitable returns for the investors. The management of working capital in Sakthi Sugars Limited was satisfactory during the period of study.

Venkatachalam (2016) studied on working capital management on Mahindra and Mahindra Pvt. Ltd. Ratio analysis for the five years were used for the study. Based on analysis of financial statements of Mahindra and Mahindra Private Limited, it was concluded that the overall working stability-soundness has improved over the years and expected to improve the overall financial performance in the forthcoming years.

2.2 To analyze the capital structure of the company

Moorthi et al (2012) analyzed long term solvency of selected steel companies in India. The researchers have selected 5 companies for the study and data has been collected from the official NSE website and financial reports. For the study they used ratios and statistical tools. It was concluded that debt equity ratio of Bhushan and Visa was more than 2:1 ratio, it showed the restriction in borrowing funds, and Bhushan was having highest
total debt ratio from others, they need to decrease their total debt position. SAIL has been in sound position in proprietary ratio from other companies. Bhushan, JSW and VISA was below the average of 60 per cent, so they need to increase their position. From the ANOVA result it can be concluded that companies belong to the same industry follows a different debt equity position.

Palanivel and Muthukumar (2013) examine the solvency position of Dharmapuri District Central Co-operative Bank Ltd. Ratio for five years were used for data analysis with some graphical chart. It was concluded that the overall solvency position of the bank was good, trend value shows that future value will have strong solvency position. The long-term proprietary ratio shows that the bank has soundness of fund to repay the creditor of the bank.

Reddy and Reddy (2013) studied about the capital structure (debt-equity) of Indian real-estate industry (IREI). The study contains 6 Indian real-estate companies which were listed in the Bombay Stock Exchange were considered as universe for the study through the application of ratio analysis, trend analysis and statistical test has been undertaken. From the study, it was found that Indian Real-Estate Industry depended on equity financing. The debt-equity mix of IREI tended to be pro-equity. The degree of financial leverage did not alter the earnings of the shareholders unfavorably in IREI. The interest coverage has been sufficient in IREI and therefore, justification for the use of debt was valid.

Tiwari and Parray (2014) examine the long-term solvency of Reliance Industries Ltd. The study contained 5 years secondary data for ratio analysis. It was concluded that the solvency analysis was one of the useful as well effective tool for identifying the long run functioning of the company and suggested that the company should increase the proportion of outsider’s equity in order gain the benefits of low cost debt.

Williams (2014) studied about short-term and long-term solvency of Nestle Pvt. Ltd. The period of study was 5 years from 2008 to 2013. To analyze the data, financial tool, ratio analysis has been used. It was concluded that the company’s short-term liquidity position was not satisfactory and the long-term solvency position and the operational efficiency of the firm were quite good. Steps need to be taken to stabilize the overall financial position of the company.
Review of Literature

Ramana et al (2015) analyzed liquidity, solvency and profitability of selected cement companies in Andhra Pradesh. The study covered 7 cement companies over a period of 10 years. Correlation analysis was used in study. The results suggested that the solvency position was not good and there was no impact of liquidity and solvency on profitability.

Singh (2015) analyzed long term solvency of Tata motors and Maruti Suzuki. The study was mainly based on secondary data. The analysis was carried out through various statistical tools like percentage, average, t test etc. The study indicated that both companies were maintaining good solvency from long-term point of view and both will be able to meet their long-term commitments without any problem. In addition, it also revealed that there was no significance different between debt equity ratio of both the companies.

2.3 To examine the profitability position of the company

Patel et al (2015) studied about profitability of selected District Co-operative Milk Producers’ Unions Limited of north Gujarat. The data was collected from secondary source of 7 years. Ratios were used for the study. The gross profit ratio of the Dudhsagar Dairy was more than the Sabar Dairy. Moreover, it reflects that the gross profit ratio of the Dudhsagar dairy was consistently increasing while gross profit ratio line of the SABAR dairy was decreasing year by year. The Sabar Dairy has adequate return to the owners to withstand adverse economic conditions. However, a firm with a low profit margin can earn a high rate of return on investments if it has a higher inventory turnover.

Reddy (2015) carried the profitability analysis of Kesoram Industries Ltd. The study was based on secondary data of last 5 years. The important statistical techniques such as arithmetic mean, standard deviation, compound annual growth rate (CAGR), correlation and t-test were used for the study. The study concluded that the gross margin of Kesoram Industries Ltd. was good whereas net profit margin was negative. As per the company financial results it was observed that operating profit was less than the interest expenses and depreciation summed up together due to which the net profits seemed to be negative during the study period. The same has been affected in EPS and RONW. The ROCE has fluctuated during the study period, however, its trends were positive.

Thambignanadhayalan and Rajanbabu (2015) analyzed the financial performance of select private sector banks. The study selected three leading private sector banks namely Axis Bank, HDFC bank and ICICI bank using 10 years secondary data. Different ratios and
correlation coefficient were used for the study. The study evidenced that growth rate of net profit, total income, working fund and total assets were found high in case of Axis bank and growth rate was high for total deposits for HDFC bank. HDFC bank performed well in terms of net profit to working fund and return on assets, Axis bank performed better in terms of net profit to total income and ICICI bank performed well in terms of net profit to total deposits. It was also evidenced that all variables such as total income, total deposits, working fund and total assets had positive and significant relationship with net profit for all selected banks over the study period.

Anand and D'Souza (2016) assessed the profitability position of selected automobile companies in India. The study was drawn a sample of five companies whose securities were listed in Indian stock exchange. The various ratios were calculated based on annual reports of the companies for the period of 5 years 2012 to 2016. The study concluded that the profitability position of Bajaj Auto was satisfactory when compare to other companies.

Gang (2016) carried out profitability analysis of Indian cement industry. The study was based on 5 listed cement manufacturing firms in India. The study covers a period of 5 years i.e. from 2010 to 2015 and different ratios were used for the study. It was found that the industry was somewhat doing well as far as profitability ratios were concerned. It has second highest profitability position based on ultimate rank. The other major performer was UltraTech cement which ranks third position during the study period, whereas ACC enjoying fourth position. However, the profitability performance of India cement was less satisfactory in comparison with the other players in the industry.

Pan and Mal (2016) studied about the profitability of selected cement companies in India. 12 companies in Indian cement industry for the period 2001 to 2010 were used in this study. The data was collected from secondary sources for ratio analysis. Based on the combined score considering both the average and consistency parameters, Ambuja captured the top most position in respect of earning capability. Overall profitability was good of Ambuja cement followed by Birla cement.

Jain et al (2017) studied about liquidity and profitability of selected steel companies. Data has been composed for a period of last five years mainly to analyze potency and profitability of Tata Steel, SAIL, JSW Steel companies. It can be concluded from the ratios that the performance of TATA STEL in terms of operating profit ratio, net
profit ratio and gross profit ratio showed a very good performance. Return on net worth and return on long term funds of SAIL was not satisfactory whereas in case of JSW STEEL, it was good. JSW STEEL showed an average performance during the study period.

2.4 To measure the risk of the company

Dhanabhakyam and Balasubramanian (2012) studied about business risk and financial risk of Indian corporate sector. 3 groups of industries from BSE were selected for the study. Statistical tools used were ratio analysis, standard deviation, mean, co-variance, simple correlation and rank correlation. 10 years financial data was used for the study. It was concluded that when a financial risk increases there was a corresponding increase in business risk, it indicates that if financial risk was controlled it will give a positive impact on business risk. A ‘high-low’ combination of business risk and financial risk was theoretically desirable, but the study shows it was wrong.

Bogawa et al (2016) studied about impact of business risk, growth, and liquidity on the capital structures of agro-based companies in Indonesia. 22 companies consist of the food crops, plantations, fisheries, forestry, wood and its processing, pulp & paper, and animal feed sub-sectors were selected for the study. The study was based on secondary data of last 5 years. The analysis showed that the highest business risk was in fishery sub-sector and the lowest was in pulp and paper sub-sector.

Ghosh (2016) analyzed profitability and risk of MRF Ltd. The study was concerned with 12 years data on MRF Ltd. for a period of (2003-2014). The data was of secondary in nature and was obtained from various published reports. Ratio analysis and rank correlation were used for the study. The study revealed that the index value of risk factor was not satisfactory over the study period. However, the highest risk was recorded during the year 2003. It was practical that there was a low degree of negative association between profitability and risk. Further, the profitability and risk of the firm are also negatively correlated.

Vani and Vandana (2017) examine the profitability and Risk of SME. The study was concerned with the 6 years data on SME for a period of (2010-2016). Ratio analysis and t-test were used for the study. It was concluded that the index value of risk factor was not satisfactory over the study period. The value of risk was neither closed to 0 nor closed to 1. Hence the parameter clearly reveals a high level of risk policy and it indicates the standard profitability situation.
2.5 To develop a model for sustainable growth of the company

Zygadło and Slonski (2010) studied about sustainable growth rate of brewery industry. The study was based on 5 years’ secondary data. They compared the sustainable growth rate with achieved sales growth rates. The highest growth rates of sales in the analyzed period, and their brand portfolios were very popular in Poland. Both companies had constant growth rates of sales on similar level.

Gardner et al. (2011) examine accounting information for financial planning and forecasting using Coca-Cola and used 9 years secondary data for the study. Sustainable growth model was used for forecasting. The study concluded that the sustainable growth was lowest in 2000 at 5.17 per cent and highest in 2001 at 23.38 per cent and after 2001 it was in average 13.43 per cent.

Pandit and Tejani (2011) studied about sustainable growth rate of textile and apparel segment of the Indian retail sector. The study was based on secondary data of 5 years. It was indicated that for the firms to maintain an orderly growth, they must work on keeping a consistent level in profit margins, assets turnover, leverage and retained earnings, only then they can manage to grow their sales at the rate of SGR.

Seens (2013) studied about small and medium-sized enterprises growth. The data was collected of 12 years for the study. Sustainable growth model was used for the study. It concluded that the actual SME growth rates were statistically significantly lower than sustainable growth rates for small and medium-sized businesses, but not for large businesses. While certain businesses or sub-categories of businesses continue to face tight credit conditions, the analysis shows that the key challenge was for SMEs to identify and capitalize on growth opportunities.