

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 4, Issue 6, June 2015

Financial Performance of Nilgiris Monarch Tea Ltd., Ooty

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ABSTRACT: There exists an inseparable relationship between finance on one hand and production, marketing and other function on the other. Almost all kinds of business activities directly or indirectly involve the acquisition and use of funds. It draws heavily on “Economics” for its theoretical concepts. In the early half of the 20th century the job of financial management was largely confined to the acquisition of funds. But as business firms continued to expand their markets and became larger and more diversified, greater control of financial operation became highly essential. Thus the scope of financial management is very wide and it is not merely restricted to rising of capital. It also covers other aspects of financing such as assessing the needs of capital, raising sufficient amount of funds, cost of financing, budgeting, maintaining liquidity, lending and borrowing policies, dividend policy, and so on.

KEYWORDS: Acquisitions, Financial management, Capital, budgeting, dividend.

I. INTRODUCTION

There exists an inseparable relationship between finance on one hand and production, marketing and other function on the other. Almost all kinds of business activities directly or indirectly involve the acquisition and use of funds. It draws heavily on “Economics” for its theoretical concepts. In the early half of the 20th century the job of financial management was largely confined to the acquisition of funds. But as business firms continued to expand their markets and became larger and more diversified, greater control of financial operation became highly essential. Thus the scope of financial management is very wide and it is not merely restricted to rising of capital. It also covers other aspects of financing such as assessing the needs of capital, raising sufficient amount of funds, cost of financing, budgeting, maintaining liquidity, lending and borrowing policies, dividend policy, and so on.

The financial manager has to take important decision regarding finance. He must estimate the financial needs of business obtain the necessary finance from different sources and allocate the funds to different departments according to their needs. Financial planning helps management to avoid wastes by formulating various kinds of policies and procedures. It also ensures closer co-ordination between various function of the business. The basics for financial planning and analysis are the financial information as contained in the financial statement it is essential to know the earning ability of the firm. Hence the first logical step towards financial analysis is the interpretation of financial statement.

II. INDUSTRY PROFILE

Tea is globally one of the most popular and cheapest beverages with major production centers in India, China, and Sri Lanka. Tea Industry is one of the oldest organized industries in India with a large network of tea producers, retailers, distributors, auctioneers, exporters and packers. Total tea production in the world has exceeded 4 billion kgs with India producing 1 billion kg of tea. Every business needs funds for two purposes for its establishment and to carry out its day- to-day operations. Long terms funds are required to create production facilities through purchase of fixed assets such as land, building, furniture, etc. Funds are also needed for short-term purposes for the purchase of raw material, payment of wages and other day – to- day expenses etc. By doing this project, we can find how the working capital is utilized effectively and efficiently in this tea factory.

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III. INTRODUCTION TO THE ORGANIZATION

Founded	: 1995
Name	: NILGIRIS MONARCH TEA LIMITED
Registration	: Under the companies Act1956 private Ownership company.
Managing Director	: Mr.Bala
Products	: Tea Powder
Location	: Ooty
Departments	: Purchase, Production, Financial and accounts

IV. OBJECTIVES OF THE STUDY

1. PRIMARY OBJECTIVE:

The primary objective of the study is to evaluate the working capital management in nirgiris monarch tea limited company

2. SECONDARY OBJECTIVE:

To study the working capital management of the nirgiris monarch tea limited company

- To study the liquidity and profitability position through various working capital related ratios.
- To identify the trend in working capital.

V. SCOPE OF THE STUDY

- Solvency of the business: Adequate working capital helps in maintaining the solvency i.e., the ability of a company to meet its long-term financial obligations.
- Good will: Sufficient amount of working capital enables a firm to make prompt payments and maintain the goodwill.
- Quick and Regular return on Investments: Sufficient working capital enables a concern to pay quick and regular of dividends to its investors and gain confidence of the investors and can raise more funds in future.
- Easy Loans: Adequate working capital leads to high solvency and credit standing can arrange loans from bank and other on easy and favorable terms.
- Regular supply of raw materials: sufficient working capital ensures supply of raw material and continuous production.

V. LIMITATION OF THE STUDY

- The study is based on financial statements prepared by the company. The limitations of financial statements are also applicable to the company.
- The data is secondary in nature being the financial statements and the annual reports experience its own limitations in preparation.
- Analysis and interpretations are purely based on the figures represented in financial reports.
- The time of the study is only 45 days, so this time limitation also affects the results of this study.

VI. STATEMENT OF THE PROBLEM

The financial statement, taken together, gives the accounting feature of the firms operations and financial position. The problem involves the evaluation of the effectiveness of the financial performance which involves decision making in the organization with the help of various analytical tools to recognise the profitability position to check whether the organization is in a position to meet their obligations in properly and timely manner. Here is the subject of the study

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Vol. 4, Issue 6, June 2015

about the financial performance of the company. Profit of the company is decreased year after year due to lack of working capital

VII. SIGNIFICANCE OF THE STUDY

The study helps to gain practical knowledge about working capital management and its impact on its financial performance of the organisation.

VIII. METHODES OF DATA COLLECTION

The data collection methods adopted by me for the study are:

Secondary data

- Company documents reports
- Internet
- Company's website

IX. TOOLS OF DATA ANALYSIS

The major tools used to data analysis are:

- Ratio analysis(Liquidity, Activity, Profitability)

Current Ratio = Current Assets / Current Liabilities

TABLE NO 4.1

a)

CURRENT RATIO:

Year	CA(₹ In Lakhs)	CL(₹ In Lakhs)	Ratio (times)
2006-07	245.91	137.20	1.79
2007-08	266.77	138.65	1.92
2008-09	232.64	152.52	1.52
2009-10	313.55	158.36	1.98
2010-11	446.15	360.86	1.23

Current Assets Vs Current Liabilities

INTERPRETATION:

From the above, it can be evidenced that the Current ratio has not meet the industry standard of 2:1 in any of the years. However, the year 2007-08 in which the current ratio was more or less equivalent to the industry standard. This is mainly due to the grant received from the government in 2006 and 2008 which eased the working capital position of the company in 2006-2007 and 2007-08.

b) QUICK RATIO

This is the ratio of liquid assets to liquid liabilities. It shows a firm's ability to meet current liabilities with its most liquid (quick) assets.

Liquid Ratio = Liquid Assets / Current (or liquid) Liabilities

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(An ISO 3297: 2007 Certified Organization)

Vol. 4, Issue 6, June 2015

**TABLE NO: 4. 2
QUICK RATIO**

YEAR	QUICK ASSET (₹ in lakhs)	CURRENT LIABILITY (₹ in lakhs)	RATIO (in times)
2006-2007	126.68	137.20	0.92
2007-2008	154.07	138.65	1.11
2008-2009	96.47	152.52	0.63
2009-2010	182.59	158.36	1.15
2010-2011	116.34	360.86	0.32

Liquid Assets Vs Current Liabilities

Source: Secondary data

INFERENCE

The quick ratio of the company is increasing during the period of study. This is due to increase in quick assets. A high ratio of 1.15 has been recorded in the year 2009-2010. A low ratio of 0.32 was recorded in the year 2010-2011. The average quick ratio of the firm is 0.82 which is above the standard norm 1:1.

c) ABSOLUTE LIQUID RATIO

Absolute liquidity is represented by cash or near cash item. Hence, in the computation of this ratio, only the absolute liquid assets are compared with liquid liabilities. The standard norm is 0.5:1 (or 1:2). It's also known as cash position ratio or overdue liability ratio.

Absolute Liquid Ratio =	$\frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}$
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**TABLE NO 4.3
ABSOLUTE LIQUID RATIO**

Year	Absolute Liquid asset (₹ in lakhs)	Current liability (₹ in lakhs)	Ratio (times)
2006-2007	58.61	137.20	0.42
2007-2008	35.44	131.47	0.27
2008-2009	3.46	203.19	0.02
2009-2010	6.80	158.36	0.04
2010-2011	1.49	360.86	0.04

Absolute Liquid Assets Vs Current Liabilities

INTERPRETATION

It is clear from the above table that the absolute liquidity ratio is not satisfactory in any of the years. The ideal ratio is 0.07. This shows the company did not maintain enough cash in its hand to meet its short-term obligation.

d) Inventory Turnover Ratio (or) Stock Turnover Ratio

Every firm has to maintain a certain level of inventory of finished goods so as to be able to meet the requirements of the business. But the level of inventory should neither be too high nor too low.

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(An ISO 3297: 2007 Certified Organization)

Vol. 4, Issue 6, June 2015

**TABLE NO 4.4
INVENTORY TURNOVER RATIO**

Inventory Turnover Ratio = $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory at Cost}}$			
Year	Sales (₹ in lakhs)	Average inventory (₹ in lakhs)	Ratio (times)
2006-2007	232.70	128.80	1.81
2007-2008	302.33	116.12	2.60
2008-2009	270.83	124.43	2.18
2009-2010	500.28	133.56	3.75
2010-2011	333.80	230.38	1.45

Cost of Goods Sold Vs Average Inventory Cost

INTERPRETATION

From the above table, it can be seen that the inventory ratio is comparatively low in all the years except 2009-2010 in which the ratio is 3.75. This is mainly due to the increase in sales in 2009-2010. In 2010-2011, however due to excess inventory, the company has a low ratio of 1.45 in 2010-2011.

WORKING CAPITAL TURNOVER RATIO

Working capital turnover ratio indicates the velocity of the utilization of net working capital. This ratio indicates the number of times the working capital is turned over in the course of a year.

Working Capital Turnover Ratio = $\frac{\text{Cost of Goods Sold}}{\text{Net Working Capital}}$	
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**TABLE NO 4.7
WORKING CAPITAL TURNOVER RATIO**

Year	Sales (₹ in lakhs)	Working capital(CA-CL) (₹ in lakhs)	Ratio Times
2006-2007	232.70	108.71	2.14
2007-2008	302.33	128.12	2.36
2008-2009	270.83	80.12	3.38
2009-2010	500.28	155.18	3.22
2010-2011	333.80	855.28	0.39

Cost of Goods Sold Vs Net Working Capital

INTERPRETATION

From the above table, it is observed that the working capital turnover ratio is satisfactory in 2009-2010 and 2010-2011 years. The working capital ratio in the study period shows the company's ability to maintain adequate current assets to meet its short term obligations.

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(An ISO 3297: 2007 Certified Organization)

Vol. 4, Issue 6, June 2015

CURRENT ASSETS TURNOVER RATIO

This ratio measures the efficiency of current assets in supporting the sales. Lower current assets to sales ratio imply, by and large a more efficient use of funds.

$$\text{current assets turnover ratio} = \frac{\text{sales}}{\text{current assets}}$$

Table No 4.8
CURRENT ASSETS TURNOVER RATIO

Year	<i>sales</i> (₹ in lakhs)	Current assets (₹ in lakhs)	Ratio In times
2006-2007	292.08	691.80	0.42
2007-2008	302.33	75.35	4.01
2008-2009	270.83	46.52	5.82
2009-2010	500.28	62.71	7.98
2010-2011	333.80	74.35	4.53

Sales Vs Current Assets

Source: Annual Report of the company

Interpretation:

From the table, it could be observed that the current assets turnover ratio is satisfactory due to considerable increase in sales.

PROFITABILITY RATIOS

Gross Profit (Loss) Ratio

The gross profit should be adequate to cover fixed expenses, dividends and building up of reserves. An important factor which will affect the ratio of gross profit to sales is that of the practice of increasing or reducing the sale price of goods sold by “mark-ups” and ” mark-downs” .

$\text{Gross Profit (Loss) Ratio} = \frac{\text{Gross loss}}{\text{Net Sales}} * 100$

TABLE NO 4.9
GROSS PROFIT (LOSS) RATIO

Year	Gross Profit (Loss) (₹ in lakhs)	Net Sales (₹ in lakhs)	Gross Profit (Loss) Ratio
2006-2007	(56.43)	232.70	(24.25)
2007-2008	(37.42)	302.33	(12.33)
2008-2009	(44.09)	270.83	(16.27)
2009-2010	(42.85)	500.28	(8.57)
2010-2011	(76.57)	333.80	(23)

Gross Loss Vs Net Sales

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 4, Issue 6, June 2015

INTERPRETATION

The above table clearly indicates the company's critical position. During the study period, the company has incurred gross loss for all the years. Despite of considerable increase in sales, the company has declared loss in 2009-10 and 2010-11 which indicates that the manufacturing cost of the firm is very high during the study period.

a) NET PROFIT (LOSS) RATIO

This is the ratio of net profit after taxes to net sales and is calculated below:

$$\text{Net Profit (Loss) Ratio} = \frac{\text{Net Loss After Tax}}{\text{Net Sales}} * 100$$

TABLE- 4.10

Year	Net Loss after tax (₹ in lakhs)	Net Sales (₹ in lakhs)	Ratio Times
2006-2007	-(52.62)	232.70	(22.03)
2007-2008	-(28.96)	302.33	(9.57)
2008-2009	-(47.62)	270.83	(17.53)
2009-2010	-(13.50)	500.28	(2.35)
2010-2011	-(78.51)	333.80	(23.32)

Net Loss after Tax Vs Net Sales

Source: Secondary data

INTERPRETATION

During the study period, the company has incurred net loss for all the years. Despite of considerable increase in sales, the company has declared net loss in 2009-10 and 2010-11 which indicates that the operating and non-operating cost of the firm is very high during the study period.

X. FINDINGS

- The current ratio of the company is very high in the year 2009-2010 at 1.98.
- The quick ratio of the company is very high in the year 2009-2010 at 1.15.
- The absolute Liquid ratio of the company is very high in the year 2006-2007 at 0.42 times.
- The inventory turnover ratio or stock turnover ratio of the company is very high in the year 2009-2010 at 3.75.
- Debtors or receivables turnover ratio of the company is very high in the year 2009-2010 at 6.11.
- Average collection period of the company is very high in the year 2006-2007 at 128.
- The working capital turnover ratio of the company is very high in the year 2008-2009 at 3.38.
- The current asset turnover ratio of the company is very high in the year 2009-2010 at 7.98.
- The gross profit or loss ratio of the company is very low in the year 2006-2007 at 24.25.
- Net profit or loss of the company is very low in the year 2010-2011 at 23.32.

XII. SUGGESTIONS

- The company's expenses are found to be increasing every year which there by reduces the profit. Hence the company should take efforts to reduce their expenses.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 4, Issue 6, June 2015

- There is more fluctuation in current ratio flow the concern should try to regulate it.
- Current assets are to be properly utilized to improve the sales position
- The company has to improve its operational efficiency further.
- The sales policy was good so the concern can continue it.
- The funds must be properly allocated to various departments

XIII. CONCLUSION

It could be observed that the company has declared a huge loss during the study period despite of increase in sales. This was mainly due to the increase in operating expenses. It was also seen that the company's liquidity position is not satisfactory during the study period. However, the company has done considerable attempt to improve its operating efficiency by utilizing the available current assets. It can be concluded that the company has to take all the measures to reduce its cost of operations and improve its liquidity position to strengthen its overall financial performance.

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