FINANCIAL PERFOMANCE (RATIOU ANALYSIS) IN PREMIER MILLS PVT LTD, HOSUR

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INTRODUCTION

Accounting process involves recording classifying and summarizing various business transactions. The Day to today transaction of a business are recorded in the different subsidiary books .the transaction are posted in to various ledger accounts and the balance are taken out at the end of financial period the aim of maintaining various records is to determine the profit ability of the enterprise from operations of the business and also to find out it financial position

DEFINITION

Hampton J.J "The statement disclosing status of investment is known as balance sheet and the statement showing the result is known as profit and loss account"

The definition for financial statement says that " the financial statement provide a summary of the accounts of a business enterprise the balance sheet reflecting the assets & liabilities and capital as on certain date and the income statement showing the result s of operation during a certain period.

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COMPANY PROFILE

The Premier Group has an international reputations for quality built over the past 60 years of innovation in the textile industry. Established in 1949, Premier Mills is a member of the Premier Group and a manufacturer and exporter of fine combed cotton yarn, producing over 18 million kilograms a year. With export revenues of over USD 150 million, Premier Mills is a dominant player in the global textile market today, utilizing cutting edge technology, high-grade raw materials and stringent quality control to deliver only the finest products to its customers. The company is headquartered in Coimbatore, India with a dedicated workforce of over 5000 employees.

Premier Mills uses the finest raw cotton chosen from Egypt, USA and India. Premier is also a Supima licensee and its products carry the Oeko-Tex certification.

Import Products

The textile manufacturing industry is a small but significant sector of the economy. Premier mills is the India's largest producer and exporter of crossbred wool and enjoys a reputation for producing some of the finest quality wool in the world. It is not surprising then that much of Premier Mills' export success in this sector is with high quality pure wool carpets and carpet yarns, pure wool and woolen blended textiles. The Premier Mills' textile industry originally developed to supply India's domestic needs, but the removal of import tariffs during the last decade had a major import on the sector. Today the textile and carpet sector employs 400 people, an 18.1 percent decline 2001, and a 34.6 percent decline 1996.

However, several Indian companies have managed to thrive in this sector, both supplying the Indian domestic market and recognizing the need to find niche export markets for their products to ensure ongoing viability.

Their success has been due to their use of Indian wool to produce high quality textiles, innovative Indian and Pacific-inspired designs, and developing niche products and successfully marketing them internationally. These companies have made considerable investment in machinery, plant personnel and research to produce high quality textiles. Indian-made carpets and textiles are renowned for their strong colors. New Zealanders use bold colors in their homes, and premier mills produce years in a wide color palette for yarn to satisfy this demand. The Premier Mills sunlight means considerable research and investment is made to produce colorfast and fade-resistant textiles. India Trade and Enterprise prepared this information.

Major markets

Textiles from Export are exported to south nations, the all the States, Karnataka and Andhra. South countries are becoming an increasingly important market. Premier Mills is the major destination for premier mills textile exports.

Using materials

- Premier Mill's wool and woolen blend textiles, both knit and waver for apparel, and both domestic and commercial interior furnishings.
- Premier Mill's textiles using imported raw materials such as cotton and man-made fibers for apparel and interior furnishings, including impregnated text fabrics, artificial fur and manmade filament fabric.
- Safety fabric for specialized use.
- Industrial textiles such as cloth for crop protection and the automotive industry.
- Shade cloth – for horticulture and for domestic use – for infants' pushchairs and prams.

The cotton industry is dominated by Cavalier Bremworth and Godfrey Hirst.

Textiles

Textiles industry maximizes its potential and grows export and domestic sales. Its work includes facilitating ways for individual companies in the textile, Cotton, and cloth sectors to co-operate internationally.

The organization also works with companies and groups to overcome sector-specific challenges and to deal with issues common across the industry, such as creating a sustainable business, keeping skills and attracting new talent, expanding into new international markets, contemplating an international approach to servicing customers, maintaining science skills, and leveraging off the premier brand.

Industry structure

As with the apparel industry, the textile-manufacturing sector was hard hit by PREMIER MIILLS' restructuring during the 1980s and 1990s. Following the reductions in protective tariffs many businesses left the industry. Of those that remain, the majority are small and medium-sized enterprises successfully marketing premier products.

1. Balance sheet
2. Profit loss a/c
3. Working capital
4. Ratio analysis
5. Trend analysis

BALANCE SHEET

Balance sheet is most significance financial statement it indicates the financial condition or the statement of affairs of a business at a particular moment the time. More specially, balance sheet contains information about resources and obligation of a business entity and about its owner interest in the business at particular point of the time. Thus the balance sheet of a firm prepared on the 31st December at every year the firm financial position on the specific date .in the language of the accounting, balance sheet communicates information about assets and liabilities and owners equity for business firm as on a specific date it provides a snapshot of the financial position of the firm close of the firm accounting period

COMMON SIZE BALANCE SHEET

Common size balance sheet statement indicates the relationship of various items with common items (Expressed as percentage of the common item) in the income statement the sales figure is taken as basis and all other figure are expressed as percentage of sales. Similarly in the balance sheet the total assets & liabilities are taken as base and all other figure are expressed as percentage of this total.

PROFIT AND LOSS ACCOUNTS

Balance sheet is consider as a very significant statement by bankers and others lenders because it indicates the firm's financial solvency and liquidity ,as measured by it's resources and obligation .however ,creditors ,particularly bankers and financial analyst in India have recently started paying more attention to the firm's earning capacity as a measure of it's financial strength. The earning capacity and potential of a firm are reflected by it's performance during a period of time .the generally accepted convention is to show one year's events in the in the profit and loss account.

Since the profit and loss accounts reflect the result of operation for a period of time, it is flow statement .in contrast, the balance. Sheet Is a stock, or status statement as it shows assets, liabilities and owners equity at a point of time.

Profit and loss account present the summary of the revenues, expenses and net income (or net loss) of a firm. It serves as a measure of the firm's profitability revenues are amounts which the customers pay to the firm for providing them goods and services to customers. The cost of the economic resources used to earn revenues during a period of time is called expenses.

Thus, to determine net income (or net los), the accounting system matches expenses incurred during the accounting period against revenues earned during that period. This matching of expenses with revenues is called matching concept. The time period for which matching is done is called the accounting period .Normally, the accounting period for the business firm's is of one year's duration.

WORKING CAPITAL

There are two types working capital

1. Gross working capital
2. Net working capital

I. GROSS WORKING CAPITAL

Gross working capital refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year (or operating cycle) and include cash , short term securities ,debtors ,(accounts receivable or book debts) bill receivable and stock (inventory).

II. NET WORKING CAPITAL

Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors (accounts payable), bills payable, and outstanding expenses.

TREND ANALYSIS

In financial analysis the direction of changes over a period of years is of crucial importance. Time series or trend analysis of ratio indicates the direction of changes. This kind of analysis is particularly applicable to the items of profit and loss account. It is advisable that trend of sales and net income may be studied in the light of two factors: The rate of fixed expansion or secular trend in the growth. Of the business and the general price level. It might be found in practice that a number of firms would show a persistent growth over a period of years.

For trend analysis, the use of index number is generally advocated. The procedure followed is to assign the number 100 items of the year and to calculated percentage changes in each item of other years in relation to the base year. This procedure may be called as "Trend – Percentage Method ".

RATIO ANALYSIS

Analysis and interpretation of financial statement with the help of 'Ratio' is termed as 'Ratio Analysis'. Ratio analysis involves the process of computing determining and presenting the relationship of items or groups of items of financial statement.

MEANING OF RATIO

A ratio can be defined as " Relationship expressed in quantitative term's between figures which have cause and effect relationship or which are connected with each other in some manner or the other "

1. Time
2. Percentage

CURRENT RATIO

The ratio of current assets to current liabilities is called current ratio. In order to measure the short – term liquidity or solvency of a concern, comparison of current assets and current liabilities is invisible. Current ratio indicates the ability of a concern to meet its current obligation as and when they are due for payment.

An ideal current ratio 2:1 the ratio of 2 considered as a safe margin off solvency due to the fact that if the current assets is reduced to halftime. 1 instead of 2 then also the creditors will be able to get their payments in full.

Current Ratio = Current Assets / Current Liabilities

QUICK RATIO

Quick ratio is calculated by comparing the quick assets which current liabilities. Quick assets refer to assets which are quickly convertible into cash current assets, other than stock and prepaid expenses are considered as quick assets. The ideal liquid ratio is 1:1. The ratio is also an indication of short –term solvency of the company. A comparison of quick ratio with current ratio shall indicate the inventory holdups.

Quick Ratio = Quick Assets / Current Liabilities

NET PROFIT RATIO

This ratio also called as net profit sales ratio. It is a measure of management efficiency in operating the business successfully from the owner's point of view. It indicates the return on shareholders' investments. Higher the ratio better is the operational efficiency of the business concern.

The net profit ratio margin is indicates of " Managements ability to operate the business with sufficient success not to recover from revenues of the period. ,the cost of merchandise, the expenses of operating the business and the cost of the borrowed funds, but also to leave a margin of reasonable compensation to the owners for providing their capital at risk ".

Net Profit Ratio = Net Profit / Sales X 100

DEBTORS COLLECTION PERIOD

The average collection period measure the quality of debtors since it indicates the speed of their collection. The shorter the average collection, the better the quality of debtors, since a short collection period implies the prompt payment by debtors.

Debtors Collection Period = Total Receivables / Credit Sales X 365

CURRENT ASSETS TURN OVER RATIO

Assets are used to generate sales. Therefore, a firm should manage its assets efficiently to maximize sales. Therefore, a firm should manage its assets is called assets turnover

Current Assets Turn Over Ratio = Sales / Current Ratio

OPERATING RATIO

This ratio indicates the relationship between total operating expenses and sales. The operating expenses here include cost of goods sold administrative expenses and selling and distribution expenses. Generally finance expenses like interest are not included under operating expense.

Net sales mean total sales minus sales return. Operating ratio measure the amount of expenditure in production sales and distribution of output. It indicates operational efficiency of the concern lower the ratio more is the efficiency. The ratio should be low enough to provide fair return to the share holder are and other investors.

Operating Ratio = Cost of Sales + Operating Expenses / Net Sales X 100

RATIO ANALYSIS

CURRENT RATIO

CURRENT RATIO = CURRENT ASSETS / CURRENT LIABILITIES

Table No: 1

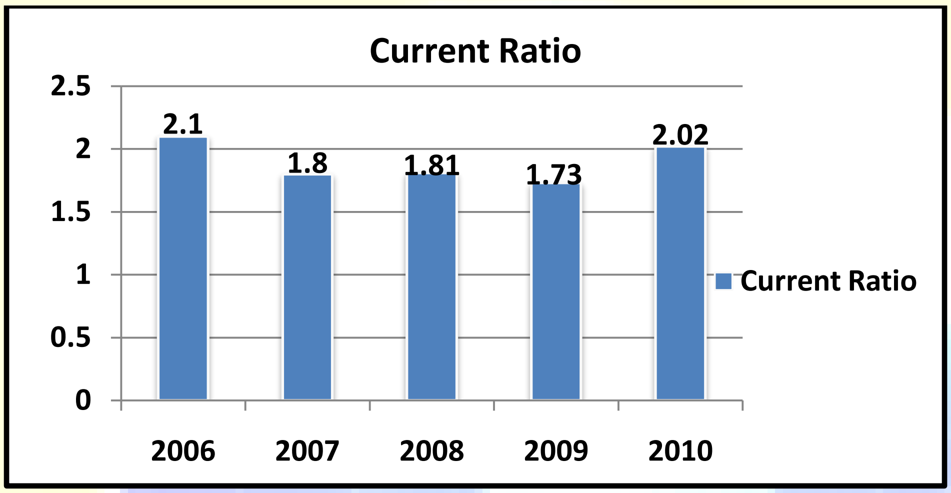
Particular	2006	2007	2008	2009	2010
Current assets	715.58	750.29	845.38	921	1063.82
Current liabilities	340.14	414.76	464.9	529.51	526.36

Current Ratio	2.1	1.8	1.81	1.73	2.02

Sources: projected Balance sheet of the company

The current assets ratio is increasing and decreasing gradually. The company is good in Position .A high current ratio is an assurance that the firm will have adequate fund to pay current liabilities to make other current payments.

Chart No: 1



Sources: projected Balance sheet of the company

LIQUID RATIO

LIQUID RATIO =LIQUID ASSETS / LIQUID LIABILITIES

Table No: 2

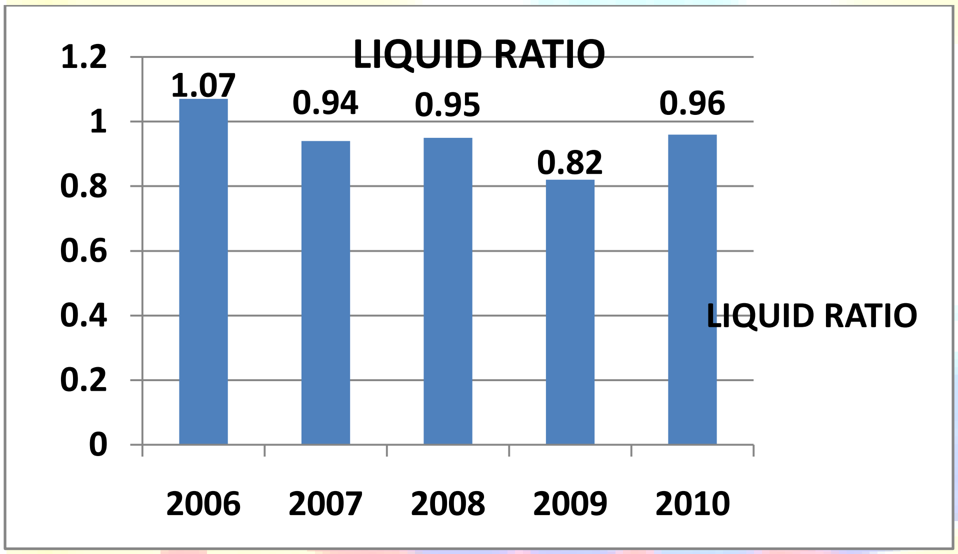
(In crores)

Particular	2006	2007	2008	2009	2010
Liquid as sets	366.39	392.29	442.2	435.3	510.26
Liquid liabilities	340.14	414.76	464.9	529.51	526.36
Current Ratio	1.07	0.94	0.95	0.82	0.96

Sources: projected Balance sheet of the company

The liquid ratio is decreasing gradually from 1.07 to 0.96 from 2002 to 2006.Tis is not a good sign. The ratio should be more then 1:1 the financial position is sound and good. In this company, the liquid ratio of Premier Mills PVT LTD has gone for below the standard norms from 2006 to 2010. Otherwise the company has to face the problem in future.

Chart No:2



Sources: projected Balance sheet of the company

DEBTORS COLLECTION PERIOD

DEBTORS COLLECTION PERIOD = TOTAL RECEIVABLE / CREDIT SALES x 365

Table No: 3

(In Crores)

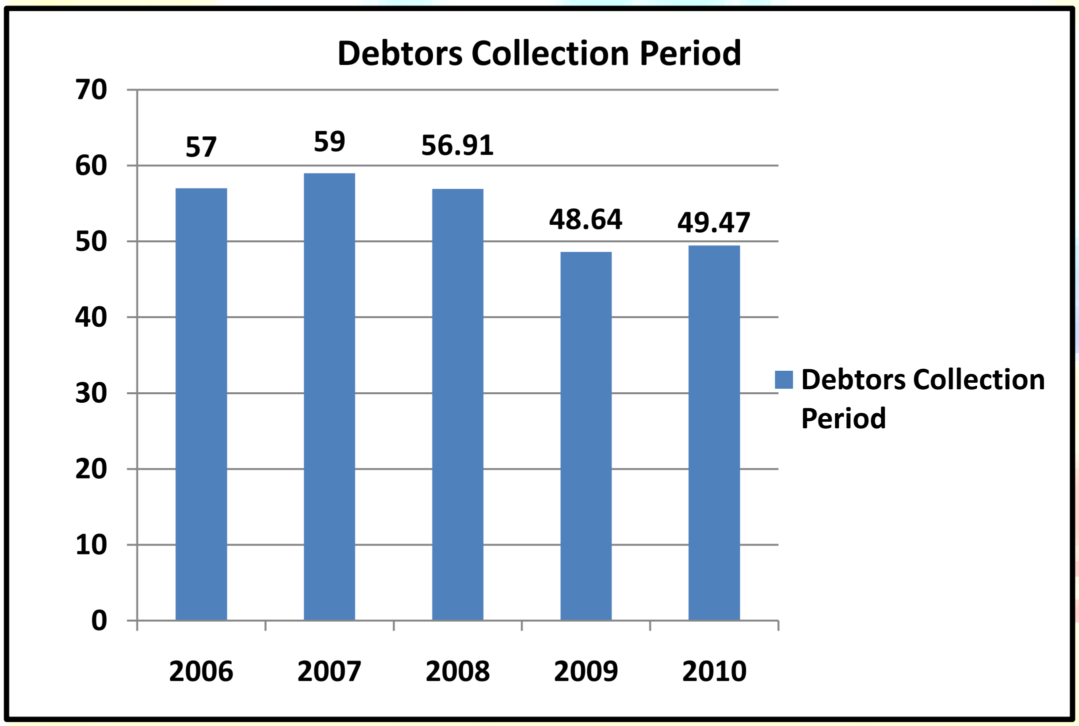
Particular	2006	2007	2008	2009	2010
Debtors	331.43	357.81	396.32	398.36	462.34

Credit Sales	2090.5	2195.62	2541.97	2989.43	3410.94
Debtors Collection Period (days)	57	59	56.91	48.64	49.47

Sources: projected Balance sheet of the company

The debtors' collection period should be less. Company should take minimum days to collect the due amount but in 2007, it takes 59 days .so, this is not a good sign of Premier Mills Pvt Ltd. It is suggested that the company should take steps to reduce the debtors' collection period.

Chart No: 3



Sources: projected Balance sheet of the company

CURRENT ASSETS TURN OVER RATIO

CURRENT ASSETS TURN OVER RATIO = SALES / CURRENT ASSETS

Table No: 4

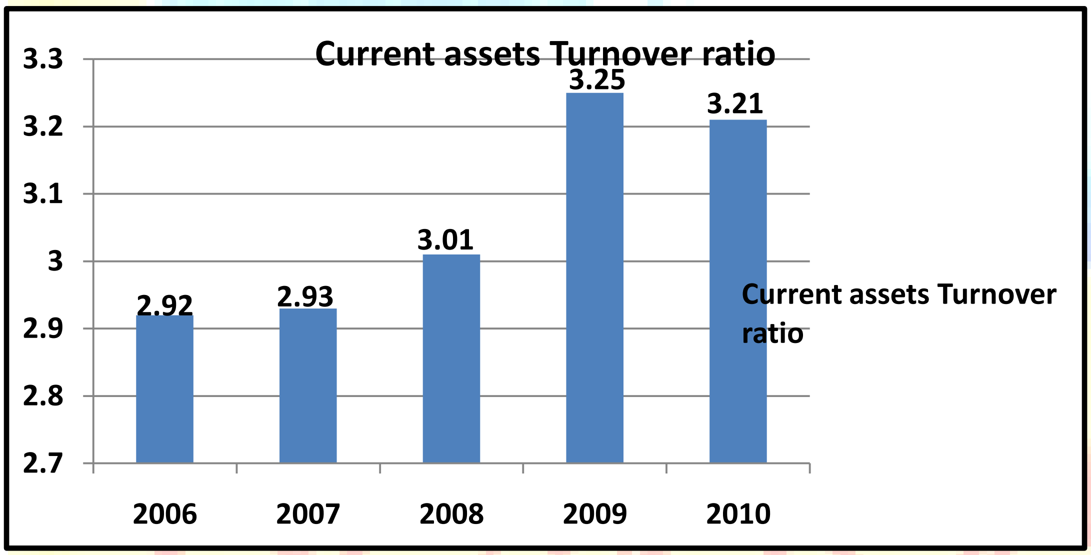
(In Crores)

Particular	2006	2007	2008	2009	2010
Sales	2090.5	2195.62	2541.97	2989.43	3410.94
Current assets	715.58	750.29	845.38	921	1063.82
Current assets Turnover ratio	2.92	2.93	3.01	3.25	3.21

Sources: projected Balance sheet of the company

The current assets turnover ratio is approximately 2.93 times during the year 2007. From 2008, it started increasing .so, the current assets turnover ratio is good.

Chart No:4



Sources: projected Balance sheet of the company

NET PROFIT RATIO

NET PROFIT RATIO = NET PROFIT /NET SALES x 100

Table No: 5

(In crores)

Particular	2006	2007	2008	2009	2010

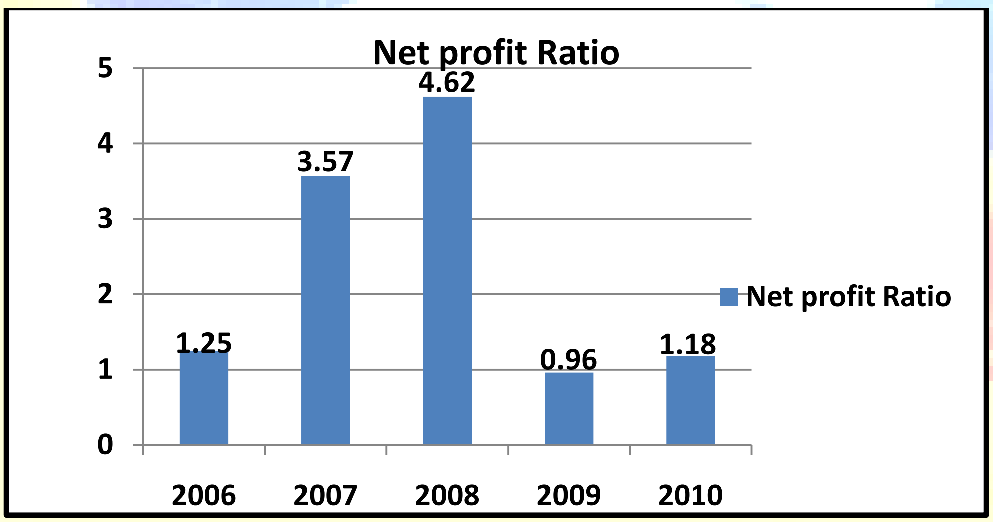
Net profit	26.24	78.46	117.38	28.8	40.31
Net Sales	2090.5	2195.62	2541.97	2989.43	3410.94
Net profit Ratio	1.25	3.57	4.62	0.96	1.18

Sources: projected Balance sheet of the company

The above table obviously shows that the profitability position of the company is satisfactory. The proportion of net profit to the net sales is comparatively very low in 2006, 2009 and2010 it represent that the operating expenses of the company are more

A low percentage of net profit would indicate that the company is unable to meet its financial requirement effectively.

Chart No: 5



Sources: projected Balance sheet of the company

STOCK TO CURRENT ASSETS RATIO

STOCK TO CURRENT ASSETS RATIO = STOCK / CURRENT ASSEST

Table No: 6

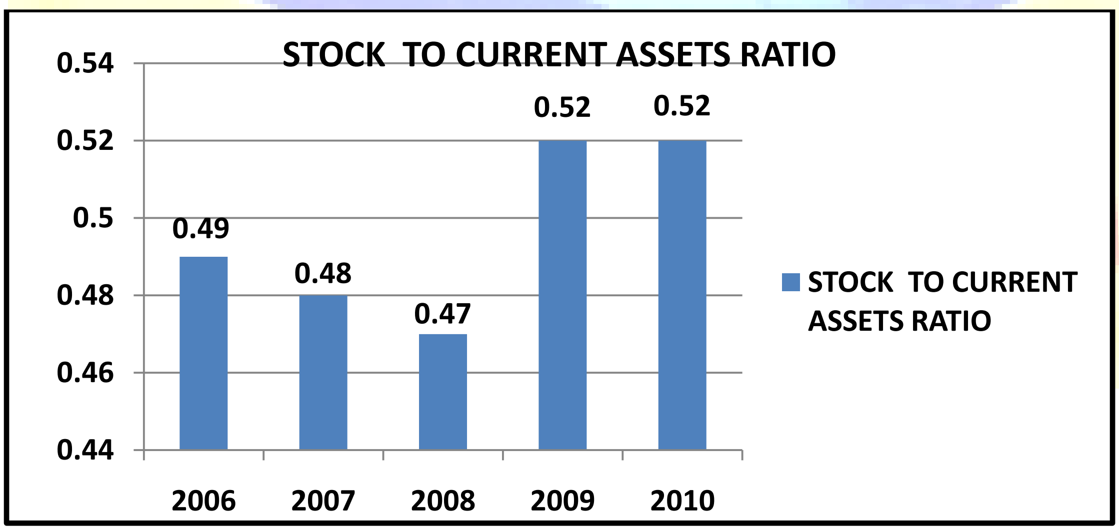
(In crores)

Particular	2006	2007	2008	2009	2010
Stock	349.19	358	403.18	482.04	553.56
Current assets	715.58	750.29	845.38	921	1063.82
Stock to current assets ratio	0.49	0.48	0.47	0.52	0.52

Sources: projected Balance sheet of the company

The above table infers that stock position of the company gradually decrease from 2006 to 2008. The proportion of stock to current assets is more for the year 2009 and 2010 it indicates that the stock are not fully converted into cash effectively in the last two years when compared to first three years .

Chart No: 6



Sources: projected Balance sheet of the company

DEBTORS TO CURRENT ASSETS RATIO

DEBTORS TO CURRENT ASSETS RATIO = TOTAL DEBTORS / TOTAL ASSETS

Table No: 7

(in crores)

Particular	2006	2007	2008	2009	2010
Sundry debtors	331.43	357.81	396.32	398.36	462.34
Total Assets	1099.45	1135.08	1243.85	1340.22	1600.63
Debtors to Current Assets Ratio	0.3	0.32	0.31	0.29	0.28

Sources: projected Balance sheet of the company

It is inferred from the above table debtors to current assets ratio is gradually increasing .And decreasing from 2006 – 2010. It clearly indicates that the cash is not properly collected from the debtors. In the year of 2007 -2010 the debtors to current assets ratio has started decreasing.

CASH TO CURRENT ASSETS RATIO

CASH TO CURRENT ASSETS RATIO = CASH / CURRENT ASSETS RATIO

Table No: 8

(in crores)

Particular	2006	2007	2008	2009	2010
Cash	34.88	34.39	40.26	36.72	46.02
Current assets	715.88	750.29	845.38	921	1063.82
Cash to Current Assets Ratio	0.04	0.05	0.05	0.04	0.04

Sources: projected Balance sheet of the company

There is no change in cash to current assets ratio has been observed from 2006 to 2010 .This is a good sign because the company has not spent larger amount for current assets.

OPERATING RATIO

OPERATING RATIO = OPERATING EXPENSES / NET SALES

Table No: 9

(In crores)

Particular	2006	2007	2008	2009	2010
Operating expenses	671.31	691.91	748.7	797.53	859.77
Net sales	2090.5	2195.65	2541.97	2989.43	3410.94
Operating Ratio	0.32	0.31	0.29	0.26	0.25

Sources: projected Balance sheet of the company

The table above shows that operating expenses has started from 2006 and the net sale has been increased. it clearly indicates that the company is in good position and the overall profit has been maintained.

SUGGESTION

1. PREMIER MILLS PVT LTD companies showed decline trend for last 3 year. This profit is not sufficient to cover up administrative expenses of the company. Company has to increase its profit. The companies try to control its expenses. So, the company can earn a minimum profit.

2. The company showed a decrease in liquid ratio. The ratio should be more than 1:1 or equal to 1:1. But, during the year of 2007, 2008, 2009 and 2010 the liquid ratio is less than 1:1. This is not a good sign.

3. Company should maintain minimum bank balance to meet the future liabilities

4. The company's growth rate was very less during the study period. This shown the profit was very less. So, the company should control the expenses for earning the more profit.

5. Company can makes use of reserve for the purchase of properties.

CONCLUSION

It clearly observed that the company's profit has decline. But, it earns profit at marginal rate. The recommendation and suggestion may help the company to improve its earning Capacity through the company can achieve optional profitability and its goodwill also. Company should try to control its expenses. By controlling expenses the company can earn maximum profit.

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